STATES OF JERSEY

GOODS AND SERVICES TAX: EXEMPTION OR ZERO-RATING FOR FOODSTUFFS, DOMESTIC ENERGY AND FUEL

Lodged au Greffe on 10th March 2011
by Senator A. Breckon

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion –

(a) to agree that the following items should be exempted or zero-rated for the purposes of Goods and Services Tax from 1st January 2012 –

(i) foodstuffs in line with United Kingdom Value Added Tax arrangements; and

(ii) domestic energy and fuel;

(b) to request the Minister for Treasury and Resources to bring forward for approval the necessary legislation to give effect to the decision as part of the Budget 2012 proposals, together with appropriate taxation measures for approval to restore the revenue foregone under paragraph (a).

SENATOR A. BRECKON

REPORT

While I was working on this Report and Proposition and waiting for the 3 months to elapse before it could be lodged for a States debate, 2 significant pieces of evidence appeared on the scene.

One was the publication of a "Review of the Fiscal Strategy Review" (S.R.2/2011) from the Corporate Services Scrutiny Panel – which on first glance does not look very exciting – a Review of a Review – broken down to basics it shows that the Minister for Treasury and Resources does not have a "fiscal strategy"; instead he has been targeting individuals through: 20 means 20, collection of ITIS, Impôts and GST, and now with proposed increases in Social Security contributions; and we have not got either a policy on business taxation or a clue what to do about it – in the meantime, the ordinary people and pensioners can pay – I think NOT.

Below is an extract from the Executive Summary of S.R.2/2011 –

2.1 ***The Fiscal Strategy Review was undertaken in 2010 and led to the inclusion of proposals in the 2011 Budget; namely, that GST should be increased by 2% and that Social Security contributions above the ceiling should be increased by 2% for both employers and employees. Other proposals that the Minister of Treasury and Resources had considered were not pursued and the States ultimately adopted both measures.***

2.2 ***We have found that the precise implications of those proposals remain uncertain as the details have yet to be finalised. We have also found that some measures, such as non-domestic property rates, were not initially considered to the extent that they could have been. More significantly, our Review showed that, notwithstanding the 'Fiscal Strategy Review' undertaken in 2010, the Island does not yet have a 'Fiscal Strategy'.***

2.3 ***The Island's Fiscal Strategy should be long-term and wide-ranging. It should incorporate both personal and business taxation and aim towards a tax structure that is simple and fair. The work undertaken by the Minister in 2010 was merely a review of personal taxation although (confusingly) elements of business taxation were involved. Furthermore, it appeared to us to be narrow in scope and short-term in its focus (notwithstanding that the proposals would have long-lasting effects). The Minister's Business Tax Review was undertaken separately and, indeed, has yet to be completed. The Fiscal Strategy as a whole will therefore need to be revised in due course.***

This looks to me as if the easy targets have been selected; however the results of this policy – of targeting individuals – is causing many difficulties for ordinary people on a daily basis and is affecting the local economy.

The CSSP also has some other uncomfortable observations which the Minister for Treasury and Resources apparently welcomes!

Also on Tuesday 1st March 2011, Deputy G.P. Southern of St. Helier provided Members with a hand-out to accompany one of the Questions he was asking of the Minister for Treasury and Resources.

This shows in some detail the transfer of the burden of tax to individuals and probably does not reflect planned Social Security increases.

I have asked the Comptroller of Income Tax to verify and expand on these figures produced below.

Company Tax versus Personal Tax 2000 – 2011

Year	Total general revenue income £m*	Company Tax £m	%	Personal tax (IT + impots + GST)	%
2000	398	208	52%	166	42%
2001	415	227	55%	181	44%
2002	436	215	49%	198	45%
2003	444	216	49%	218	49%
2004	445	212	48%	212	48%
2005	467	202	43%	242	52%
2006	524	217	41%	257	49%
2007	559	238	42%	290	52%
2008	660	233	35%	352	53%
2009	674	214	32%	391	58%
2010	496 (E)	79 (E)	15%	362 (E)	73%
2011	521 (E)	65 (E)	12%	436 (E)	84%

*2000 – 2006 – Treasurer's Report: p.xi. Financial Report & Accounts, 2006
2007 – 2008 – Treasurer's Report: Table 2, p.7. Financial Report & Accounts, 2008
2009 – Treasurer's Report: Table 4, p.8. Financial Report & Accounts, 2009
(E) Estimates Draft Budget Statement 2011: Summary Table B, p.74

In my opinion the above figures show clearly why many local residents and businesses serving the community, especially those looking for "consumer spend", are struggling.

The Council of Ministers supported the removal of GST on food: in their comments on P.103/2008 they said –

> ***"The Council of Ministers has always opposed the zero-GST rating of food because Ministers wanted a low, flat rate of tax that was as simple as possible to administer. That aim remains as relevant today as it has always been.***
>
> ***However, the economic climate has changed. In common with people throughout the world, Islanders have been hit by unprecedented global increases in food prices. Ministers now believe that a response is required and that removing GST on food is the appropriate response in the current circumstances.***
>
> ***It has also now been possible to update the estimate of GST income based on the receipt of the first returns. The initial estimate is that the annual yield from GST could be about £50 million, which is £5 million more than the original target. Ministers have always maintained that they will only raise the taxes that are required, and it is clear that GST could be removed on food without having to increase the rate of 3%.***
>
> ***Ministers are also proposing to maintain the current rates if income support, including the allowance for GST on food, and the scheme for people who do not receive income support but are below the tax threshold. This means that the full benefit of GST reductions on food will be passed on***

to people on lower incomes who have already received support to cover those costs."

Similarly, the Minister for Treasury and Resources said this in his comments on P.19/2008 –

> ***"Furthermore, members should be reminded our 3% GST rate will be the lowest in the world and that a reduction to 2% or less would reduce the yield in proportion to the administrative cost.***
>
> ***The aim of the States should be to keep the rate of GST fixed at 3% indefinitely and avoid either increasing or decreasing the rate in response to short-term fluctuations in the economy. We have a new Stabilisation Fund in place that allows us the flexibility to alter policy in the face of and economic downturn and to put money away in the good times. The Fiscal Policy Panel has been appointed, and will report this year on what tax and spending policies are right in the response to the economic conditions facing the Island. We should not be making knee-jerk policy decisions in the meantime.***
>
> ***Accordingly it is strongly recommended that the States rejects this proposal and confirms its commitment to maintain the rate of GST at 3% for the foreseeable future."***

So much for that then – but that was then and this is now.

Whilst there is nothing original in this proposition – there is in the circumstances in which many people find themselves in 2011 – they have less money to spend and this is having a general knock-on effect on the economy.

It is worth repeating what the Minister said –

> ***However, the economic climate has changed. In common with people throughout the world, Islanders have been hit by unprecedented global increases in food prices. Ministers now believe that a response is required and that removing GST on food is the appropriate response in the current circumstances.***

Visible and measurable evidence is available to draw together to show that people are finding basic living costs very challenging.

This is shown firstly in their discretionary spending money – people are being more careful.

Retailers, restaurants and pubs, for example, are finding life and trading difficult as people go out to eat and drink less often. This is confirmed in retail analysis which shows that general spending is down; however, the supermarket spend is resilient because people are buying in and eating and drinking at home and inviting other people to visit their home to wine and dine. Coupled with this is that corporate customers have, in the main, disappeared off the radar, which has caused some restaurants to close and put others under pressure – this trend will continue. Most pubs only survive because of pub grub; increasing Impôts, GST and prices will make more people vote with their feet and stay away or go less often.

Retailers are struggling and have had a difficult Christmas. Snow and cold weather, combined with less spending money available to consumers are evident – more shops are under pressure because of this, and a difficult first quarter of 2011 and some retailers are locked into what now appears to be unsustainable commercial rentals – which will lead to closure. The burden of an increase in GST will be the end for some retailers as increasingly consumers are turning to the Internet, or shopping when off-Island.

Why less spending power?

What are the indicators?

Average Earnings

The Index of Average Earnings measures changes in average earnings (gross wages and salaries) that have been paid to workers in Jersey. The principal use of the Index is to measure the average *rate of change* of earnings in order to up-rate old age pensions. The Index is compiled using data from a matched-pair sample of employers who provide data on the monthly or weekly earnings paid and the number of full-time employees covered by those earnings.

In June 2010 the average weekly earnings of workers in Jersey was 1.1% higher than in June 2009. This is the lowest annual increase since the Index of Average Earnings was introduced in 1990.

The latest increase is 1.9 percentage points less than that of the previous twelve-month period (3.0% to June 2009)

The rate of growth of average earnings in the private sector overall in Jersey has seen a downward trend over the last decade. The latest increase of 1.1% is the lowest recorded since private sector earnings were first reported separately in 1995.

In the twelve months to June 2010, public sector earnings rose by 1.1%.

This translated to a weekly increase to Jersey's pensioners of less than £2 per week – many have expressed their concern about this and how they will manage.

Tax collected from individuals and consumption

Because of changes to the tax system with 20 means 20, ITIS and Impôts and GST, individuals have less monthly disposable income, as taxes are being deducted monthly from salaries through ITIS and ramped-up by 20 means 20 when allowances are being reduced and therefore tax increasing.

Also consumption taxes on fuel, alcohol and tobacco are passed on with a significant added premium in some instances – especially with drink and tobacco.

Retail sales

The Statistics Unit launched the Jersey Retail Sales Survey in April 2007 to collect information on the performance of the Island's retail sector. Each sampled business is asked to report total retail turnover for a given quarter. The main measures are total value and total volume estimates in seasonally adjusted form. Value estimates reflect the total turnover that businesses have recorded in a given quarter, whilst volume estimates remove the effect of price changes.

Value of retail sales

The marked seasonality is apparent, with retail turnover tending to be largest in the fourth quarter of each calendar year.

Comparing the same quarter in any given year with that of a year earlier, the period from the start of 2007 to mid-2008 saw growth rates in the total value of retail sales of generally around 6% to 7%. In contrast, the last 3 quarters of 2009 saw total value decline on an annual basis.

The first 3 quarters of 2010 have seen annual increases in total value of 1 to 3%.

Volume of retail sales

The volume series is derived from the value series by use of deflators which removes the effect of price changes.

Comparing the same quarter with that of a year earlier, the period from early 2007 to mid-2008 saw annual growth rates in the volume of retail sales around 6%. From Q3 2008 to Q2 2010 the total volume of retail sales decreased on an annual basis, with Q2 2009 recording the largest decrease (-4%); subsequent quarters saw annual decreases of progressively smaller magnitudes. In the latest quarter, Q3 2010, the total volume of retail sales was 1% higher than in the same quarter a year earlier; this represents the first annual increase in volume for 2 years.

Analysis by sector

The "Predominantly food" sector is comprised of supermarkets, convenience stores and other small food stores. The "Predominantly non-food" sector is comprised of 3 sub-categories: Household goods; Textiles, clothing and footwear; and Non-food specialised stores.

For predominantly food stores, the total volume of retail sales saw small increases on an annual basis throughout 2009. The latest quarter, Q3 2010, was up 4% on an annual basis.

For predominantly non-food stores, the period from early 2007 to mid-2008 saw annual growth in the volume of retail sales of around 10%. Each quarter from Q4 2008 to Q2 2010 recorded decreases in volume on an annual basis, although the rate of decline slowed from an annual rate of -8% in Q2 2009 to -3% in Q2 2010.

Basic living costs

Gas prices in Jersey have increased by over 29% since January 2010 to add more to this in June 2011 with and increase of 2% in GST is stupid and will penalise many already struggling to meet bills. Similarly central heating oil, petrol and diesel are near all-time highs to add to this is both inflationary and damaging to people's well-being.

Similarly for a loaf of bread, Jersey prices are on another planet, some sliced loaves costing over £2, compared in the main with prices between 50p and £1 in the U.K.

Prices for fruit and vegetables are far higher in the Island, as is meat. Also, of course we don't have that much choice – to add tax and then more tax – to such basics is moral bankruptcy.

I am aware from monitoring supermarket and convenience store prices on a regular basis that prices in Jersey overall are considerably more expensive than U.K. comparisons for many basic foodstuffs.

Two measures

I should say that in general terms there are 2 issues –

(1) Price movement
(2) Actual prices.

The Statistics Unit compile an Annual Report on the comparison of consumer price between Jersey and the U.K. – the latest one was published on 1st September 2010 and it shows the following –

(1) Price movement

Overall RPI analysis

The rate of inflation as measured by the Retail Prices Index (RPI) has increased at a greater rate, overall, in the Channel Islands than the U.K. since 2000. The Jersey RPI increased by 42% between June 2000 and June 2010, whilst the Guernsey RPI rose by 39% and the U.K. RPI increased by just under a third (31%) over the 10 year period.

However, there have been 2 distinct periods in the last 10 years: from 2000 to 2005 prices increased at a considerably faster rate in Jersey (23%) and Guernsey (21%) than in the U.K. (12%); whereas from 2005 to date the rate of increase has been similar for all 3 jurisdictions, 16% in Jersey, 15% in Guernsey and 17% in the U.K.

So the above does NOT measure the actual prices – it measures the MOVEMENT – how much they have changed.

In food prices something could be common, e.g. extremes of weather effecting crops and harvest of say, wheat – which would filter into the supply and price chain and effect prices in Jersey and the U.K. Other matters like duties and taxes should NOT. The price movements are monitored by grouping, e.g. "fuel and light", "clothing and footwear".

At page 11 the 2010 Report on comparative Jersey/U.K. consumer prices had this to say about **"<u>food</u>"** –

> **Over the last five years Food prices increased by 30% in Jersey, by 25% in the U.K. and by 21% in Guernsey (Figure 9). The effect on the introduction of GST in May 2008 in Jersey is clearly apparent.**
>
> **The Food group saw annual percentage changes peak in 2008, with both Jersey and the U.K. recording annual percentages changes of more than 10% annual increases of this magnitude had not been seen by the Food group since the 1990's. both jurisdictions subsequently saw lower rates of increase; over the twelve months to June 2010 Food prices rose by 3% in Jersey (and also in Guernsey) and by 2% in the U.K."**

Similarly on page 12 –

> **<u>Bread Section of RPI</u>**
>
> **"Over the last five years, the prices of cereals and biscuits and cakes have risen by more in Jersey than in the U.K. Cereals have seen an overall increase of 38% in prices in Jersey and 25% in the U.K, whilst biscuits and cakes have seen an overall of 42% in Jersey and 27% in the U.K. During the twelve months to June 2010 cereal prices remained essentially unchanged in the U.K. but fell by 2% in Jersey, whilst the price of biscuits and cakes increased by 2% in Jersey and by 3% in the U.K."**

Similarly for meat prices –

> **"Jersey saw meat prices rise by 5% over the past year (to June 2010) whereas the price of meat remained essentially stable in the U.K.**
>
> **Within the meat sections, Jersey has seen greater overall increased since 2005 than the U.K. for beef, pork lamb and poultry. The average price of beef rose by 42% in Jersey compared to 29% in the U.K, whilst the average price of pork rose more than twice as fast in Jersey (61%) than in the U.K. (25%) over the five year period. The average cost of lamb prices increased by 29% in Jersey and by 25% in the U.K. whilst the mean price of poultry rose by about a quarter (24%) in Jersey compared to 16% in the U.K."**

<u>Fresh fruit</u>

Since June 2005 fresh fruit prices have risen by almost a third (31%) in Jersey compared to about a sixth (17%) in the U.K.

So the above gives some idea about some of the price **<u>movements</u>,** so now I wish to turn to **<u>actual</u>** prices.

Meat and fish

Whilst there have been some fluctuations in prices, on average, meat prices (items for which prices were available) were about a quarter (24%) higher in Jersey than in the U.K. in June 2010. The only meat product (for which price quotes were available) cheaper in Jersey was gammon, which was 10% below the average price in the U.K.

The overall price difference of meat (24% more expensive in Jersey, for those items compared) was greater than the average seen over the preceding 5 years (15%).

Fresh fish was, on average, 4% more expensive in Jersey, a lower overall price difference than the preceding 5 year average (23%). White fish was 19% more expensive in Jersey, but salmon was 21% cheaper to purchase locally.

Fruit and vegetables

Table 3: Average prices of matched vegetables in Jersey and U.K.: June 2010.

Item	Mean price (in pence)		Percentage difference
	Jersey	U.K.	
Fresh vegetables			
Potatoes: old whites, loose, per kg.	90	66	37
Potatoes: new, loose, per kg.	179	198	-9
Tomatoes, per kg.	208	196	6
Cauliflower, each	113	85	32
Carrots, per kg.	127	78	63
Onions, per kg.	127	77	65
Mushrooms, per kg.	408	300	36
Cucumber, each	97	81	20
Lettuce: iceberg, each	113	88	29
Weighted average – fresh vegetables			31

Table 4: Average retail prices of matched fruit in Jersey and the U.K.: June 2010.

Item	Mean price (in pence)		Percentage difference
	Jersey	U.K.	
Fresh fruit			
Apples: cooking, per kg.	175	151	16
Apples: dessert, per kg.	202	165	23
Pears: dessert, per kg.	227	195	16
Oranges: all sizes, each	51	36	42
Bananas, per kg.	156	109	43
Grapes, per kg.	512	396	29
Avocado, each	97	83	17
Weighted average – fresh fruit			31

Bread and other foods and drinks

In general, the other foods for which comparable prices are available were more expensive to purchase in Jersey than in the U.K., with the exception being sugar.

Table 9: Average retail prices matched other food items in Jersey and the U.K.: June 2010.

Item	Mean price (in pence)		Percentage difference
	Jersey	U.K.	
Other foods and soft drinks			
Bread: white loaf, sliced, 800g.	143	119	20
Bread: wholemeal loaf, sliced, 800g.	172	120	43
Flour, self-raising, per 1.5kg.	140	92	52
Sugar, granulated, per kg.	96	97	-1
Tea bags, per 250g.	226	200	13
Coffee, pure, instant, per 100g.	271	217	25

Fuel and light

Price collection covers fuel used at home – electricity, oil, gas and coal. In the 12 months to June 2010, overall energy prices increased in Jersey by 10%, whereas they fell in the U.K. by 2%.

Although Jersey recorded a greater decrease in electricity prices (-5% in Jersey compared to 0-5% in the U.K.), gas prices increased over the year but fell in the U.K., and domestic heating oil increased at a notably higher rate in Jersey (47% compared with 21% in the U.K.); in September 2010 gas prices increased in Jersey by 15%.

Summary

I have targeted for exemption from GST essentials that people need from day to day and can not import or buy off the Internet. Already many people are struggling to meet basic living costs, and these proposals recognise that these necessary items required for everyday living are not extravagances but necessities for everyday life and need. While there is a cost to the States in implementing these proposals, there is also a very real benefit for those on low incomes but also on "middle Jersey".

P.37/2007 Amd.(3) – Draft Goods and Services Tax (Jersey) Law 200- (P.37/2007): third amendments.

I have attached this for information at the **Appendix** to this Report, as I do not believe that the Financial Services sector are paying their fair share of GST, and the treatment under Articles 57, 60 and 61 should be re-examined.

Financial and manpower implications

I do not have exact figures to hand, but based on similar proposals in 2008, the GST lost on foodstuffs could be £4 million and on domestic energy and fuel could be £1.5 million; however, I believe this is recoverable in other areas of the tax system.

There will be some additional administrative costs; however, a Scrutiny Report has demonstrated that this will not be excessive.

APPENDIX

STATES OF JERSEY

DRAFT GOODS AND SERVICES TAX (JERSEY) LAW 200- (P.37/2007): THIRD AMENDMENTS

Lodged au Greffe on 3rd April 2007
by the Minister for Treasury and Resources

STATES GREFFE

2007	Price code: A	P.37 Amd.(3)

DRAFT GOODS AND SERVICES TAX (JERSEY) LAW 200- (P.37/2007): THIRD AMENDMENTS

PAGE 74, SCHEDULE 1, PARAGRAPH 1 –

After sub-paragraph (1) insert the following sub-paragraph and renumber the remaining sub-paragraphs and internal cross-references accordingly –

"(2) Sub-paragraph (1) shall not apply to –

(a) a finance vehicle, within the meaning of Article 60, in respect of which the conditions in paragraphs (3) and (4) of Article 57 are satisfied;

(b) a person whose name is included on a list for the purposes of Article 61."

MINISTER FOR TREASURY AND RESOURCES

REPORT

1. Background

The States Assembly agreed on 13th May 2005 (P.44/2005) to introduce a broad-based, 3% Goods and Services Tax (GST) as from 2008.

2. Comments

In the light of this decision, and following extensive consultation during 2006 with the business community and the wider public, law drafting on the above law has now concluded and the final draft of the Law was lodged au Greffe for debate by the Assembly on 17th April 2007.

3. Amendments

Following subsequent representations from Jersey Finance Limited, the Minister has decided to lodge the attached amendments for the purpose of removing any uncertainty regarding the treatment of finance vehicle under Part 12. (They are not within the definition of 'taxable person').

4. Reasons for the Amendments

As a result of recent detailed analysis of the Law, it has become apparent that the current approach will result in significant complexity for the finance industry, requiring the need for additional administrative (non value adding) resources for industry, as well as the additional government resources necessary to administer the complexity.

Furthermore, complex law undermines the simplicity of Jersey based structures and client advice and may damage the competitiveness of the finance industry.

The proposed approach will address the first 2 points and allow a more measured first step that can be assessed for effectiveness within a year. In particular the proposed approach will provide greater certainty regarding the ability to raise the targeted £5 million – £10 million, whilst not ruling out the ability to apply greater complexity if found to be necessary in due course.

5. Financial and manpower implications

There are no financial or manpower implications resulting from these amendments.

My Comments

I understand that this amendment referring to Article 57(3) and (4) and removing Article 60 following on from a representation from Jersey Finance has led to the revenue raised from GST in this area being at the bottom end of expectations.

The "Reasons for the Amendment" did say it would –

> "allow a measured first step which can be assessed for effectiveness with a year." and "whilst not ruling out the ability to apply greater complexity if found to be necessary in due course."

I believe that it is time to revisit this because the cosy arrangement made after a representation from Jersey Finance has now gone past its sell-by date.

While many ordinary people are struggling, others are having a laugh at the system.