

Corporate Services GST Sub-Panel

THURSDAY, 20th JULY 2006

Review of GST

Panel

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Connétable D.J. Murphy of Grouville

Connétable J. Gallichan of Trinity

Connétable M.K. Jackson of St. Brelade

Mr. M. Haden (Scrutiny Officer)

Witnesses

Karen Huchet, Family Nursing and Homecare Services

Annette Jouault, Family Nursing and Homecare Services

Dr. G. Ince, Jersey Medical Society

Claire Morvan, Jersey Dental Association

Graham Atkins, Jersey Dental Association

Senator S. Syvret

Deputy A. Breckon of St. Saviour

Dr. G. Llewellyn, Jersey Cheshire Home

Senator S. Syvret

Deputy A. Breckon

Deputy P.J.D. Ryan:

Good morning, Deputy Alan Breckon, Senator Syvret. I think that you have our terms of reference somewhere, if you have not they are available easily to you, on the review that we are carrying out. I think we can take the standard witness thing as read because you are covered by parliamentary privilege anyway so I do not intend to do that one. I would like to start with talking specifically, Stuart, if you would not mind, about healthcare because obviously it is your specialist subject, and we have had, as I mentioned to you, the Family Nursing and Homecare people, doctors and dentists, to see us morning and there are one or 2 things that before we get on to specifically other thing, that we would like to just run past you and get your view on very quickly while it is fresh in my minds because we have just seen it earlier.

Senator S. Syvret:

Sure.

Deputy P.J.D. Ryan:

Changes to primary healthcare provision - could we ask you to tell us what is happening here, if there changes to primary health care, particularly in the vein of preventative medicine as opposed to treating ill people? Can we start with that one?

Senator S. Syvret:

Sure. Yes, there are going to be changes in primary care and secondary and tertiary care too. These changes, while not precisely settled upon yet as to what they will be or how far they will go, there has to be some kind of change in the way primary care is organised and indeed how it interfaces with secondary care. There are a number of reasons for that. For example, clinical governance standards in the United Kingdom post-Shipman are now going to get dramatically tougher. Now, in order to remain respectable and have a good clinical environment Jersey has to at least match those same standards in the UK, especially given that most of our clinical people come from the UK. The consequences of those clinical governance changes are going to be that it is unlikely to be feasible for the present modus operandi of GP practices in the Island to continue.

Deputy P.J.D. Ryan:

The smaller ones?

Senator S. Syvret:

The smaller ones, but I just think even the larger ones I think will have to be part of what is termed a managed clinical environment. They will have to be in some kind of structure within which they are accountable for their clinical practice and standards.

Deputy P.J.D. Ryan:

Even the medium sized ones?

Senator S. Syvret:

Even the medium sized ones will have to be part of some, kind of, hierarchy of accountability.

Deputy P.J.D. Ryan:

Without wishing to disrupt your flow there, we will come on to secondary and tertiary in a minute, in the context of GST that means that they are all going to be above £300,000 threshold minimum for registration. They are all going to have to be registered for GST purposes basically.

Senator S. Syvret:

I would imagine so, yes.

Deputy P.J.D. Ryan:

That is assuming that [**Interruption**] there are no zero ratings and exemptions and all those kind of things. Under the current proposals for GST they are all going to be very definitely well above that level.

The Connétable of St. Brelade:

This would intend to apply to dentists as well I would imagine.

Senator S. Syvret:

I would have thought so, yes. I could imagine that there is going to be a great clinical governance requirement for dentists too. Indeed, the whole sphere of medical regulation in Jersey is somewhat obsolete at the moment, even notwithstanding the post-Shipman environment. One of the other reasons why these care structures are having to change is that it is becoming increasingly difficult for GP practices to recruit new GPs into their practices in the Island. But that is because the remuneration of some Jersey GPs, because I am generalising here, can earn in Jersey is now less and in some cases very significantly less than GPs will earn in the UK from a GP contract and therefore, living in Jersey is losing its attractiveness to our clinical professionals especially when they take into account things like housing, property costs and education costs. So, a likely outcome is that the way GPs are remunerated is going to have to change to some extent. Quite what the solution might be, we do not know yet. We are devising and we are working up an overall health strategy which will have these ideas in it, but we are doing that in cooperation with GPs and others. What it will mean quite possibly, for example, is that the current fee per item of service by which GPs are paid might change to a flat payment; almost a de facto, kind of, salary paid to them from the States or something of that nature. That is one of the possibilities. We have not made any definite decisions yet. But I think whatever the way GPs are paid changes, I think it is probably fair to say that the co-payment system for primary care will remain. That means that patients go and see their GP, you pay a portion of the cost in cash when you go to see them.

Deputy P.J.D. Ryan:

This is different dramatically to the UK.

Senator S. Syvret:

It differs dramatically from the UK. Now, this is where of course the GST comes in because the GST will be on that co-payment portion and that is going to be problematic. One of the reasons why we have to be very, very careful about taxing healthcare is because it is already the case and the evidence is there - if you want to ask the Medical Officer of Health - that the poorer social groups have worse health and poorer standards of health care and this is a sociological feature to be found throughout the United Kingdom and most jurisdictions. The poorer people are the less care they take of their health [**Interruption**] and the more chronic health problems they will tend to suffer, so it is already difficult

from a preventative point of view on encouraging good health care and healthy lifestyles in people from a poorer background. To add a tax on to their healthcare would be utterly disastrous and quite counter-productive in terms of preventative healthcare; and probably an utterly false economy on the part of the States because the bill for dealing with chronic long term conditions is huge now and it could get astronomical into the future. We may be 10 or 15 years behind the USA for example in the epidemic of diabetes that is sweeping modern societies because of poor lifestyle, diet and things of that nature, but we are on that curve and we are heading in that direction. Likewise, obesity is going to be a huge problem. The cost for the taxpayer, the costs of the States of dealing with these conditions post-fact is going to be astronomical. So, any costs there might be to the States in terms of reducing these kinds of conditions is going to be money well spent. It is going to be a good investment.

Deputy P.J.D. Ryan:

Preventative.

Senator S. Syvret:

Yes, preventative. It is going to be a very good investment.

Deputy P.J.D. Ryan:

Can you provide us with the statistics to back that up? Can we get that from your department?

Senator S. Syvret:

Yes, I can see that you get that certainly. The evidence is clear from a variety of a sociological surveys [Interruption] that poorer people have worse health and they take worse care of their health. That is a rock solid fact that study after study has demonstrated.

Deputy P.J.D. Ryan:

Well, we need that and we would like to include that in our study.

Senator S. Syvret:

Sure.

Deputy P.J.D. Ryan:

Going back to what I was saying before, you would agree with Dr. Ince when he represents the GPs generally, when he is saying that it is much more difficult to get people into preventative primary healthcare locally because there is a cost involved? I am assuming you would agree with that?

Senator S. Syvret:

Absolutely. I mean, people go to see their GPs now, generally speaking in the main, when they have an illness, when they have got some kind of health problem. Very few people and people rarely ever go to

their GPs when they are well, saying, you know: **[Interruption]** “Can you just give me, you know, 20 minutes talk about, you know, what I should be doing for my lifestyle and preventative care and things of that nature?” If you start taxing as well, making more expense of that kind of visit to the GPs then, you know, the consequences can only be bad.

Deputy P.J.D. Ryan:

False economies basically.

Senator S. Syvret:

Absolutely, a false economy.

Deputy P.J.D. Ryan:

Thank you for that. Any more questions on this area? **[Interruption]** Sorry, you were talking about secondary care. Yes, please carry on. I did not want to stop you.

Senator S. Syvret:

The point I was going to make briefly is simply that it is increasingly difficult as I have already said to recruit GPs to Jersey and sometimes it is difficult to recruit senior doctors and consultants within the hospital to Jersey. Now, it varies from post to post; sometimes we are lucky with a good range of applicants, sometimes it is difficult to get a good field of applicants for certain posts. Now, consultants, again in Jersey, the salary they get paid by the States and their general remuneration package including, kind of, retirement sums and pension, is worse than it is in the UK. Many of the consultants are able, however, in Jersey to make up a significant portion of that income through private practice because of the prevalence of wealthy people and medical health insurance in Jersey. If we start putting a tax on health care services which is not in place in the UK, they are exempt in VAT, then it could be that a lot of people, and indeed the medical insurance companies who might otherwise have sought private care within Jersey, will no longer take their private care here and will take it in the UK. Now, if that were to evolve the consequences for recruitment which is already difficult in some cases for the Jersey health service could be disastrous.

Deputy P.J.D. Ryan:

So, you are saying that if local consultants are forced to charge GST it makes their competitive position even worse and you are likely to get private patients then going to France or the UK **[Interruption]** for their private health care which would then undermine the whole reason for getting consultants to come to Jersey.

Senator S. Syvret:

It would. I do not know that it would undermine the entire prospect of recruiting consultants in Jersey, but it would certainly worsen the position.

Deputy P.J.D. Ryan:

Fine. Any further comments on secondary healthcare? I stopped your flow. I did not mean too, but I wanted to just try and establish something about GST.

Senator S. Syvret:

Well, I think I have made the kind of points one needs to make about healthcare. I mean I would make in respect of healthcare a point that applies more broadly to GST in any event which I would like to go on to say which is that the Treasury so far has always insisted that GST should remain a low flat tax of a low rate and applying across virtually every goods and services. As somebody once remarked, it is an idea that is simple and attractive but wrong, because you have to think about the long term consequences. When you look at the other sales tax regimes, those particularly which the Treasury cited in their comments on my last proposition, virtually all of them have a variety of different rates of sales tax of whatever type it might be on different services and products; and one of the arguments that the Treasury has always put forward is that it is easier and simpler simply to have no exemptions at all. They say that this is the approach in most other jurisdictions, but when you look at most other jurisdictions there are a variety of different rates applying. So, if you are going to have different rates then you have de facto, any complexity and additional administrative burden that there might be in any event, in simply zero rating these particular goods and services. In order to be persuaded that the GST in Jersey would never be a significant burden on peoples healthcare costs, basic food stuffs and so on, medicines, you would have to be persuaded that the rate is going to remain at 3 per cent for ever. Now, I would make the point that it is virtually a certainty that that will not be the case. You can pretty much guarantee politically that the States at some point in the future will raise the rate of GST, possibly significantly. I would suggest that the economic evidence of that likelihood is there in the experience the Islanders had in recent years in terms of its off shore finance industry, our principal source of income. Clearly, there is growing national and international hostility via the UK and European Union and whatever to many of the services Jersey relies upon for its economic success at the moment, hence we have already been driven down the path of Zero 10 for example. Whether that was a wise move, whether appeasement ever works, whether it was wise to give into that pressure, I am still not convinced. But the fact is politically you would have to say if required to make an estimate that the likelihood is that such national and international pressure will only get worse in the future especially when you look at the very aging populations most European countries have, it is a feature of the western world. Governments in these countries are going to have larger and larger healthcare social service bills, you know, for care for these people. The likelihood, therefore, is that governments are going to increasingly look more and more to shut down possible avenues of tax avoidance, tax loss, to their economies. So, it is therefore a pretty robust assumption that the international environment in which the Island operates is going to get much harsher in the future. If that happens, therefore, and our income from the off shore finance industry is to reduce yet further which may well be the case, what is the States going to do to look to replace that lost revenue? One of the easiest and simplest things to do will

be to increase the rate of the GST and as I said it is virtually a certainty that the rate will be increased after a few years, and it is fairly easy for the States to do once the initial hostility to its introduction is overcome and the rate is raised, you know, people are used to it, then the rate can be raised for, you know, some years into the future. Who knows how much it will go up to - 5 per cent, 8 per cent, 10 per cent? Who knows where it will stop. It is interesting to note that most of the flat sales tax, regimes that the Treasury cite in their documentation have higher rates than the 3 per cent that is currently postulated in Jersey. So, if we then go forward on the assumption, and I think it is the only responsible assumption to make that the GST will be raised by a States assembly at some point in the future, possibly considerably, what then is our attitude to having a sales tax of say, 10 per cent or 15 per cent on basic food stuffs, on medicine, on healthcare, on education fees? Because that might be what we are looking at, 10 years or 12 years down the road. We might be looking at a flat tax. If we stick with the unwise flat tax approach we will quite possibly in 10 years time end up with a flat tax of 10 or 15 per cent with no exemptions so people will be paying that amount of tax on essential and unavoidable purchases such as medicine and food care. If we get into that territory then the argument could be introduced that we can do what these countries do and have lower rates for healthcare, but as I have already said if you go into the sphere of lower rates then you have got the deferential requirement anyway, so you may as well frankly have exempted them in the first place.

Deputy P.J.D. Ryan:

What do you say to the argument - I mean this is along the lines of what you are talking about very quickly but I do want to get on to specifics in a minute - that the switch away from direct taxation towards more indirect taxation is in any case an easier and more robust way to get tax revenue because you do not have the issues of avoidance that you do with direct taxation, which is a slightly separate issue but along the same lines as you were talking about in terms of increasing the rates?

Senator S. Syvret:

It is a valid point. I mean some people oppose sales taxes in principle. I do not. That has never been my stance. I can see and accept, you know, the evidence is there quite clearly from other jurisdictions that sales taxes form an important and significant part of the contribution to States tax revenue in other jurisdictions and therefore sales tax, I think, is a perfectly legitimate revenue raising mechanism. What I do not think is acceptable in an environment as high cost as Jersey is for us to load that cost on to the shoulders of the poor by taxing unavoidable purchases such as basic food stuffs, healthcare, and so on.

Deputy P.J.D. Ryan:

I was mentioning it in the context of rates going up. In other words, that there is a very strong economic case the tax economists would say, apart from any of the other reasons, because it is less costly to collect GST than it is to have all sorts of legislation and people employed trying to block the gaps that you will get inevitably if you raise direct taxation.

Senator S. Syvret:

Yes, I think that is the case. You know you can make a very robust case once you have a sales tax in place for raising it and looking to get **[Interruption]**.

Deputy P.J.D. Ryan:

Raising direct tax possibly?

Senator S. Syvret:

Yes, possibly. But then again once we get into that territory where you reduce direct taxation and you increase sales tax if there are no zero ratings then you are looking at a far, far worse regressiveness in the taxation structure, because if you reduce direct taxation then you are reducing the tax burden on those who are earning enough to pay tax, and you are increasing the burden on those who are not earning enough to pay tax because you are increasing the rate on what they have to spend on their food they purchase and their healthcare.

Deputy P.J.D. Ryan:

Can I return to health for a minute and just talk about for a second Family Nursing and Homecare. We heard this morning from Karen Huchet about the documentation you are working on with them so that there is accountability for services they provide. I think one of the points that was being made was that Family Nursing and Homecare provided a very, very competitive costs. The kinds of healthcare provisions, and again separately and different from the UK system in that a lot of what they do would be very firmly in the public sector in the UK and therefore would not be involved in GST. First of all, do you agree that they provide a service on a very sound basis locally? That is the first point and the second point is, how do you think that GST would impact upon them in any way?

Senator S. Syvret:

It is certainly true that as part of the development of the service level agreement that we are going to strike with Family Nursing and Homecare, we are looking at appropriate split of activity and services and until that exercise is completed we will not know precisely what could be more effectively done by the States and what could be more effectively done by FNHC (Family Nursing and Homecare). That remains to be devised. But I think the general point is that as long people have to make co-payments towards these kind of services, if there was GST upon them then that is going to increase the cost and increase the unattractiveness of taking up these services, therefore people who might need care may not be able to afford it or be less able to afford it.

Deputy P.J.D. Ryan:

I think you are probably aware but one of the other things, of course, is that they do provide services on behalf of other charities **[Interruption]** and if they then have to charge GST to other charities **[Interruption]** it is a big problem.

Senator S. Syvret:

Yes, I think it is.

The Connétable of St. Brelade:

Moving on to the residential care, we have got a bit of a mix I suppose in that maybe 50 per cent of the Island people in residential care are being supported by the State and 50 per cent are paying for their own. How do you see that in terms of fairness and GST charge?

Senator S. Syvret:

Well, I think the situation is that many people, perhaps rightly, already resent the fact that those who have saved and who have brought their own home and things of that nature and therefore have some kind of asset, have to use that to pay for their long term residential care, whereas if you have got no asset and no money, you do not. So, that is already a controversial area that we are going to be addressing with the health and social care strategy. Possibly what we will be looking to introduce is some form of social insurance. But the point is those people who are paying for their residential care and their nursing home care will have to pay a higher rate when the GST is put on to that care and some people struggle to meet this cost in any event and I think the consequences of putting a GST on nursing home care, residential care, are extremely serious and bad.

The Connétable of St. Brelade:

The effect is that it could tip more people probably into the State ward system than would have previously (...inaudible).

Senator S. Syvret:

Yes, indeed. That is very much a possibility, yes.

The Connétable of Trinity:

But would you not also have say on the people you are hoping to move out and maybe to the private sector [**Interruption**] it would also have a knock on effect on your health bill because you would have to pay GST on those (...several inaudible words) private sector bed.

Senator S. Syvret:

That is absolutely correct. Residential care, nursing home care, we already contract some to extent and we are probably looking to do more of it with the private sector and indeed we buy, you know, a variety of different services from the private sector and you are absolutely correct. If we have to pay GST on those services that will be a significant bill and an increase on the Health and Social Services Department's budget.

Deputy P.J.D. Ryan:

Can I switch to Alan yourself for a second. We spoke to Stuart if he could provide us with as much factual evidence as possible to illustrate and to back up the question of GST on various health and what effects they have. We would like to ask you a similar sort of question. You have an amendment to Senator Syvret's proposition on energy and fuel and we would like to ask you to expand on that a little bit and also perhaps ask you if you have some evidence that we could draw on as to why you feel that should be the case?

Deputy A. Breckon of St. Saviour:

Yes, I have some copies of things which I can leave. There are 2 things that I am going to refer to. As you know the Consumer Council did a newsletter and published some of this information quite recently had delivered at considerable expense as you know. In there it mentions in Jersey the typical duty on unleaded petrol. It is 38 pence per litre and diesel is 38 pence a litre. So, in effect that means we already tax some fuels. So, we are taxing the tax. I know it is done in the UK; you have duty and you have VAT. Not on everything but on some things. So, there is a method for taxing some fuels already and indeed we do that, so I would contend if you want to do that then we put it on the impots. We do not have a double taxation; we just put a percentage on the impots and see what happens. So, that was some of the logic behind the fuel element. The other thing is the consequences of increase fuel is it filters through the economy with deliveries with taxis, where everybody jumps on the bandwagon and conveniently blames, you know, the increase in that. But there is some evidence certainly over the 18 months of this filtering through the economy because of external factors and the latest is - and I will leave one of these. That is the latest retail pricing index which covers the June 2006 quarter. What this document is saying is: "... that higher energy costs was the key driver contributing not only within the fuel and light group but also to motoring fares and other travel groups." So, that is a, sort of, base cost that filters through that affects us all in one way or another and in my opinion it is an own goal for us to be doing something that will add to that plus the external factors, interest rates being one thing and world fuel and energy prices being another, and something that we can do nothing about, but we can do something about the domestic end of that. Again I have highlighted the contribution about the fuel and light and the motoring to the movement in the index and again that is in there; and again here in fuel costs listed in the narrative of this report it says: "Fuel costs increased by 14 per cent compared with June 2005 contributing half a percentage point to the overall increase in the retail price index. Prices were up across this group reflecting global increases in energy prices as well as local increases including electricity in January 2006." I will come back to this in just a moment. Also under the same thing another bullet point: "Fares and other travel costs increased by 14 per cent over a 12 month period to June 2006 and accounted for 0.4 per cent of percentage points of the overall annual increase in the retail price index. Increases occurred particularly in air and ferry fares with fuel surcharges a factor." It goes on to mention motoring: "Motoring costs increased by 4 per cent over the 12 months to June 2006 accounting for 0.4 percent of percentage points of the overall annual change in the retail price index. Higher global oil costs fed through the price of petrol locally which was up by around 7 pence per litre

on June 2005.” These are shown again in the charts here - 14 per cent, 3.7 and 13. My main reason for referring to that, and that is the latest one but I knew that was there anyway, is it is a bit of an own goal, I feel, if we are going to add to everybody’s basic costs. I have had some serious discussions with the Jersey Electricity Company, that last one about a fortnight ago, about their situation. It is fairly bad news. They are going to try and limit that with some basic household bills for electricity and we do not know anyone who has gas or steam, televisions or videos. We do all need electricity so we have to pay and again, I think it is an unfair tax and will filter through because it will add to business costs and other costs. It will come through. Also gas prices have gone up as well and domestic central heating oil. These are things have all happened. We are in a market where it is a limited market and there is limited competition. I think, in my opinion and also just as an aside to that, there was some significant prices in coal and there are a lot of pensioners, I did not quite realise how many, who still rely on coal to an extent. So, again, I think because a lot of these things are unavoidable for the general population I think it is unfair. I tagged it onto Stuart’s because I was not sure exactly what Stuart was doing. When I saw that I saw it was not there so I put it in as an amendment. I had not discussed it with Stuart but I did know he was proposing to have some zero-rated exemptions. I have not done a comprehensive report because if I do a 30-page report somebody will say: “I do not like what is on page 28” and if I do not say very much they will say: “Go and get us the details.” So, I know from experience that whichever way you do it, it will be criticised so I have delivered it and we will be prepared to argue the principle.

Senator S. Syvret:

Can I just make a brief point? As I was explaining to Alan earlier, I think what I am going to do is I am going to put an amendment to his amendment because at the moment I think to zero-rate or exempt energy and fuel period is far too broad. You might well say that it would be perfectly reasonable and legitimate to raise this kind of tax on, say, industrial uses of energy and fuel, and on, say, motoring fuel. What I was thinking I would do would be to put an amendment to Alan’s amendment to the effect that it said “domestic” energy and fuel because the real target you are trying to hit here is for households, especially households that struggle, and pensioners or families with young children and single-parent families. You do not want to be taxing their basic household fuel like their cooking and heating fuel. So it is domestic energy consumption that you really want to protect people from having to pay a lot of tax on. So I am going to try and add the word “domestic.”

The Connétable of St. Brelade:

How would you analyse the difference, in practice, between domestic and commercial?

Senator S. Syvret:

Well, simply on the basis of residence.

The Connétable of St. Brelade:

Given that the Constables are starting to get experienced at this with the rating system having changed

for domestic and non-domestic, I have a perception which is not quantified or quantifiable at the moment, that a lot of businesses are being run from people's homes on computers making vast amounts of money and it is impossible to identify, whereas some traditional commercial firms using office space but getting (...inaudible) rated for it. One feels with a change of commerce it may be a solution which is possibly not as achievable as it might have been 5 years ago.

Senator S. Syvret:

Is it not the case though, at the moment, that people who are running a business from their home will claim a proportion of that household expenditure as a business cost, like a nominal rent for their office area, a proportion of the electricity and heating, telephone bills and so on?

The Connétable of Trinity:

As a tax?

Senator S. Syvret:

Yes, as a tax.

Connétable D.J. Murphy of Grouville:

The rating comes under a different scheme of things there. They tie in as much as they can as domestic rather than the other.

Senator S. Syvret:

Yes, but the point that I am making is that if it is domestic then you would tax them on a proportion of that.

The Connétable of St. Brelade:

Is there a correlation between income tax and the GST collection side of the case?

Senator S. Syvret:

Well, I do not know. It would be complex to do. This is one of the reasons why we are simply making it domestic energy and fuel. You might say: "Well, why not seek to some how target the poorer households?" but once you get into that the complexity becomes immense. The bureaucracy and so on would be very, very onerous. So I think it is easier simply to say we will exempt domestic energy consumption.

The Connétable of Grouville:

I am of the view that what we should be doing is looking at the planning use on a property and just taking that as the agenda, because the planning use is either offices or domestic, or half and half, and then you have a very simple plan laid out straight away and it is simple and easy.

Deputy P.J.D. Ryan:

Rather than getting into general discussion on this, and we can if we are not careful just go off on a general discussion, I would rather try and avoid that if we can. Can I bring you to the question of the household survey that has just come out? Have you had a chance to have a look at it in any detail and if so, do you feel that there are pointers of evidence in there to support the case?

Senator S. Syvret:

Yes and no. For example, if you look at page 46, table 4.4: "Average Weekly Household Spending by Tenure" and you can see that Food and Non-alcoholic drinks by lodgers is 51.50.

Deputy P.J.D. Ryan:

Sorry, page 46?

Senator S. Syvret:

Page 46, table 4.4. Food and Non-alcoholic drinks spend by lodgers is 51.50. Now, people will be paying GST on that, if the Treasury get their way, but lodgers are often the poorest people in the Island and are often the most economically exploited in any event. So do we really want to be ladling sales tax on people in that position? Likewise if you go down to Health, you see it is 11.70. Again, should we be taxing that kind of expenditure, expenditure that is unavoidable and being carried out by the poorest and most economically vulnerable group of people in the Island? I do not think it is ethical and I do not think it is intellectually justifiable.

The Connétable of Grouville:

Sorry, I have got to take a point here with you because you say that lodgers are the poorest and most exploitable people in the Island. To some extent that is true. However, my experience of lodgers, and I have some lodgers, is that they are pretty well younger. They are working guys and they are paying what you would consider high rents, but they are not; they are well within certain limits. Most of them are single people earning a lot of money. I am talking about an average income, I think, for the lodgers I have of £500 or £600 a week, perhaps even more if they are painters and decorators, or builders. So I really do think you are grossing them up too much there. There is a split in the lodging fraternity where you obviously do have people are exploitable but you also have a very large percentage of young working-class people who are earning good money.

Senator S. Syvret:

I am not sure to what extent though that negates the argument. Most of the people in the category you have just described probably tend to be people from the United Kingdom working in those professions, trades, where they can earn fairly high incomes. People who are lodging, people who are working in agriculture or the hospitality industry, or retail, will often be from Portuguese or Madeiran or Polish

backgrounds and those kinds of professions will not be paying them the significant kinds of income. But in any event, if we are worried about non-residentially qualified people in Jersey who might be earning a lot and not paying appropriately, which I grant you certainly has been a problem in the past, the ITIS (Income Tax Instalment System) is supposedly there to address that and make sure people are paying on their earnings. Just to move to a couple of the other tables in this survey, on page 18, for example, chart 2.2, the income distribution of households. You can see there is a very large bulge; the vast majority of people are in fact in probably what is the first 2 quintiles of income, i.e. the lower quintiles. One of the points that is being made by the Treasury in respect of the possibility of zero-rating items and services in GST is that the resultant lost tax revenue and any additional administrative expense will have to be made back from other sources and their preferred avenue, I think, is to have a higher rate of GST. If we take, for argument's sake, that as the way forward and say that the rate of GST has to be 4.5 per cent or 5 percent instead of 3 per cent, if we are going to have these zero-ratings, then I personally would prefer that. I think a lot of people would as well. It would be fairer because if you look at the table on page 21, table 2.3, I think this is part of the clinching evidence for the justification for having zero-ratings, but a higher rate of general GST on other goods and services. If you look at the 2 highest quintiles there, the fourth and the fifth which are the highest, and look at their Furnishings, Household Equipment and Services, these 2 highest quintiles are spending more and in the case of the very highest, significantly more on Furnishings, Household Equipment and Services. Moving down to Transport, again, 85.10 and 180.9; Recreation and Culture, 106.7 and 204.8. If you go down to Restaurants and Hotels, 57.6 and 62.6; other Goods and Services, 81.70 and 153.80. A total expenditure of 770.7 in the fourth quintile and 1,327.50 in the highest quintile. So the point is that if the rate of GST was higher, 4.5 or 5 per cent say for argument's sake, on all the other goods and services but we had these basic zero-ratings then people who have higher rates of disposable income and are spending more on these other non-essential purchases would pay more tax proportionately. It would, therefore, be a fairer distribution of the tax burden.

Deputy P.J.D. Ryan:

Yes, that is true. I suppose it could also be, looking to you, Alan, for a second, true to say that when you look at housing, water, electricity, gas and other fuels, there are similarly high amounts for the fourth and fifth quintiles there as well.

The Connétable of Grouville:

Just to comment really, and that is that from the Treasury Minister's comments over the last few days he is determined there is a certain amount of money he will achieve from GST and it does not matter how he is going to get it. All he will do is adjust the rate of GST to suit the figure that he needs so whatever exemptions we give will be made up for in a higher rate. There does not seem to be any doubt about that now.

Senator S. Syvret:

That is their preferred approach. There are other ways of raising tax. It could be (...several inaudible words) windfall taxes, tax on property speculations, commercial property speculations. There are a variety of other approaches to taxation. For example, the Treasury has always resisted this but the Island could introduce a capital gain tax and it would be justifiable and attractive for 2 reasons. Firstly, whereas in the UK capital gain tax is complex and does not raise a lot of money and that is true, in Jersey it does not need to be like the one in the UK. It could be simpler and better. Secondly, and this is a very important point which the Treasury do not appear to be willing to engage with, is given that the international pressure the Island is under there is an attractiveness in having a capital gain tax in that other countries, all countries, quite legitimately apply a different treatment to capital gains made within their domestic economy to capital gains made outside of their economy. So, Jersey could raise a capital gains tax on capital gains made indigenously within the Island and not capital gains made by our offshore clients. No country could criticise such an approach because that is the situation now; that is what they all do. Therefore, you could have a capital gain tax that was effectively ring-fenced because it is in other jurisdictions, as it is in the UK. Another reason why capital gain tax, I think, has been grossly and unreasonably neglected in the whole fiscal debate is that we all know that the absence of a capital gain tax, and therefore engineering your wealth screen so that it becomes capital gain, is one of the prime mechanisms used by people in Jersey to avoid tax. It is legal but it is a very large loophole. It is true that there is a general anti-avoidance provision in the income tax law, which is pretty tough and the Controller of Income Tax can use it, but he has to be satisfied and he ultimately possibly has to be able to satisfy the Court that the principle, or one of the main purposes of a business structure, was to avoid tax. If he cannot satisfy that test, if people are clever enough and their advisors are clever enough to make the arrangements appear a legitimate business arrangement, then people will not be able to be caught by the general anti-avoidance provision. Take, for example, 2 very large entities in Jersey which were sold in recent years. De Gruchy sold to a company outside of the Island; Guiton Group sold into the UK. Now, the owners of those 2 companies will have made very, very large amounts of capital and we are talking many, many millions of pounds. They will have paid precisely zero tax on that if it was a capital gain in Jersey. Now, I think before we start taxing people's bread and fruit, and doctors' bills, we really have to look a bit harder at those kinds of options.

Deputy A. Breckon:

Can I just say something on that? As individuals it easy to suggest alternative taxes but you would get dismissed. I can give you an example of that. In 1994 I suggested capping mortgage relief and the Finance Committee of the day produced a report which more or less said the economy would collapse if we did such a thing because the Isle of Man did not do it, and Guernsey did not do it. Now, it has come into force. So I would contend, and I said at the time and I told them so, we do not need to do this sort of thing. I went to some difficult meetings with Finance and Economics, with the Controller of Income Tax, and they were totally against it. The same applies now. If you have had, say, a windfall tax on utility profits, what is wrong with that? What is wrong with doing something like that because the figures show in Profit per Employee, the utilities is one of the highest sectors that there is? It is well

below Finance and apart from that, it stands out; it is well above retail and agriculture and tourism-related areas. Nobody has investigated why that is. Now, the Treasurer could hammer them any time he wants on profits, not on their customers, and that is another option. But, again, if Stuart were to suggest that I were to suggest that, it cannot be done. Now, GST has been a fait accompli. There was the road show; it was going to happen because the whole thing was a charade and the publicity. The guy, who was the advisor, is no longer working for us so there you are. This was going to happen, this was the alternative, and this was the big fundraiser for £45 million. Now, if we had done other things over the years, tweaked things here and there. Some of the things that Stuart has suggested, like taxing developers and things like that, some of these (...inaudible) do not go there but people who are now going to be hit on food and clothes and things like that are saying: "What have we done to deserve this? Why do you not tax the people who are making the millions, who can afford it, on some of the other issues?" That is generally how people out there feel about some of the GST issues. Some of these have been investigated but not transparently; they have been dismissed by a group, sometimes I should say with vested interests. Groups have been set up and they say: "We are not going to do that. That does not look too clever." Maybe that is why they are poor.

The Connétable of Grouville:

As you know, I have been a backer of development land tax, a capital gain tax on improvement in planning value, but as I understand it and I only heard it from the radio the other day, it seems that is going to be snatched by the environmental lobby. Those taxes which are going to be raised on that are probably going to be used for environmental affairs.

Deputy P.J.D. Ryan:

Okay. Thanks for that. What I would like to do though, if you would not mind, is bring our focus back to why we are here.

Senator S. Syvret:

Can I just make a brief response to the point that was raised?

Deputy P.J.D. Ryan:

As long as it is brief, Stuart, for no other reason than I want to bring us back to why we are here.

Senator S. Syvret:

Property taxation of one kind or another is certainly something that Jersey should be doing. Whether you tax developments, I am not sure, because that can be counter-productive. If you say you are going to tax a one-off development then that could be advantageous in some respects - on certain land you want to protect and preserve you make it less attractive to develop it. But you could have an unforeseen consequence of discouraging development such as social housing and things of that nature. I think a more appropriate way of raising tax from property would be a land value tax which would be an annual

charge on the rental value of land and you would have different rates depending upon the rental usage of that land. The States, for example, if they had a LVT (Land Value Tax) and there is a lot of work available on the internet on LVT, you could zero-rate agricultural land, social housing and things of nature, and you could have a higher land value tax on land, say, up and down King Street and Queen Street which is obviously very, very valuable.

The Connétable of Grouville:

I thought we already had that. We have already got that; they are called rates.

Deputy P.J.D. Ryan:

Sorry, but as Chairman I am going to curtail that discussion because we must try and keep focused. Anything else on the household expenditure data, for example, chapter 8 comparisons with the UK and the end of chapter 7 is households with one child and one child under 5, or at least one child over 16. Obviously the number of people that live in a household has a great deal of affect on what they spend on anything. Have you drawn any other conclusions yet or is it still early days?

Senator S. Syvret:

I think the general conclusion one draws is that you can see clearly that Jersey is a divided society in terms of income. There are haves and have-nots, and if you are going to adopt a flat tax approach to a sales tax you are going to disproportionately impact on the poor. Table 2.3 of page 21, as I have already referred to, shows that in fact the highest 2 quintiles spend a lot more money on non-essential purchases. So you could, in fact, have a higher rate and that would be a fairer distribution of tax on non-essential purchases.

Deputy P.J.D. Ryan:

Thank you. To some degree you have got onto the second area of questioning that I was going to talk about which was the question of regressivity of the current proposals. You claim that the Crown Agents are simply wrong in their assertion that GST would only be slightly aggressive. We talked about poorer people spending a larger proportion of their income on essentials. The Treasury consultation document though claims that lowest incomes would only benefit by around £80 per year whereas those in high income brackets would benefit most. First of all, I am sure that you probably would disagree with that, but what we need is the evidence to show. Can you point us to where you believe that evidence might be?

Senator S. Syvret:

I think those figures are, simply, Enron accounting, I think initially, because I do not believe they have taken fully the expenditure of the various households that are described and extrapolated from that what the GST would be. I think if you are going to be paying GST on a flat tax basis on pretty much all of your household income the idea that it is only going to be £80 a year I think is simply focusing on the

lowest possible tax burden and putting that forward and saying that is wholly the impact. I think a more serious problem with those calculations and that approach is that it is predicated on the notion that the tax will remain at 3 per cent, and of course it will not. We can be 99 per cent certain that the States in the future will raise the tax. So, then, those kinds of calculations or statements about the regressivity and it only being a fairly low burden simply fall away and they are no longer valid. A further point to bear in mind is that some households will have significantly higher expenditure, for example, if you are paying for yourself or for members of your family to be in residential or nursing home care, some of which can be £1,200 or £1,400 per week. If you are paying GST on that, even at 3 per cent, you are looking at many hundreds of pounds a year in tax which could be the straw that breaks the camel's back in some households - even at 3 per cent. Now, imagine in 10 years time when it is 10 per cent or 12 per cent and the resultant significant sums that people will be spending on those kinds of services in the future. The assertion that the Treasury likes to make that this is only very slightly regressive, I think, just cannot be taken seriously. The fact is, and it is a fact, that poorer people, poor households, generally speaking have to spend all of their income on a week to week basis on food or whatever else it may be. Therefore, the poorer households are being taxed on, effectively, virtually all of their income because they are spending all of their income. There are some exemptions for rent and things like that; everything else they spend they are going to be taxed on. Those on middle and higher incomes who will not spend all of their income will, in fact, have the luxury of being able to save a lot of it, and will not be paying GST on that money that they save. That is the classic test of regressiveness - it is a measure of tax burden on income.

Deputy P.J.D. Ryan:

What we need though, if it is possible and I know this is a difficult area, is the proof of that, the actual evidence.

Senator S. Syvret:

I would rather say that what I have just described is a statement of the obvious; it is a statement of fact. If it is not true that poorer people have to spend often all of their income, then the burden of proof is with the Treasury to show that it is not true because it is a statement of the obvious. You would have to be utterly ignorant of societal conditions to believe anything other than that.

Deputy A. Breckon:

I think there was a social working group, of health and social services and social security, looking at people who were disadvantaged in the community. The other thing with that, of course, is that people do not have buying power so they cannot buy lots of things and get a discounted rate so for people who are vulnerable it is a spiral of the damned because they sometimes do not have the where-with-all to do that. So, they just go and get their bits of shopping every day.

Deputy P.J.D. Ryan:

Thank you. Can we move to what is being portrayed by the Treasury as the answer to the regressivity which is the income support scheme? Can we move to that?

Senator S. Syvret:

Certainly. Income support, as I said in my report, is quoted as the sort of cure-all solution and panacea for all social deprivation. I am far from convinced that it is. Incidentally, I should say that I am going to be asking to delay the debate on the GST for a period and not have it on the date that it is set down for now, maybe a month or so later, because I have been asked to delay it. People want to do more research on it and also I think it is going to be very difficult to have an informed debate about the impact of GST on a flat tax basis across all social groups until we see the precise detail and the evidence of exactly who and to what extent people will be protected by the income support scheme. We just do not know at the moment and we have been repeatedly told not to worry, that income support will sort this out. We have not seen how much it is going to be in various household circumstances, who will get it, what the thresholds are, what the cut-offs are, and I think it is going to be virtually impossible to make an informed decision on the impact of GST on all the people until we see the full details of low income support. Who is going to qualify for it, how, and to what extent? We have to have that information before we can make an informed decision on GST.

Deputy P.J.D. Ryan:

I think you are on record as saying that GST as it currently is designed will have a disproportionate burden on those above the level, immediately above the level, of income support.

Senator S. Syvret:

Well, yes, it would. There is a general issue about a poverty trap which happens now with HIE. People are just above, quite often, the HIE threshold, therefore they are clobbered.

Deputy P.J.D. Ryan:

Yes, in the middle. Would the HIE experience provide suitable evidence because that is retrospective? We have that, presumably. Is this where the evidence might be?

Senator S. Syvret:

I think so. I think that the Employment and Social Security Department would have evidence of the poverty trap issue and certainly I think Health and Social Services would have some evidence of that in terms of healthcare costs and so on. Being in that kind of poverty trap where they are just above qualifying for HIE but therefore not really wealthy enough with enough income to be able to afford easily these kinds of things.

Deputy P.J.D. Ryan:

There would be parallels here, would there not?

Senator S. Syvret:

There are parallels here. I think it is fair to say, or at least I hope, that income support is going to be a little more flexible and sophisticated than the HIE exemption. That is how that is has always been sold us.

Deputy P.J.D. Ryan:

Are there others other than HIE that you are aware of?

Senator S. Syvret:

That is the obvious one but generally speaking, when you are looking at benefits or tax exemptions and things of that nature you do tend to get a proportion of the population group who end up in that kind of poverty trap region.

Deputy A. Breckon:

Can I just say I was on Social Security for a while and I think the area Stuart is talking about there is somewhere between the basic welfare payment and the basic pension. It is in that area and, for example, people on basic pensions who will pay GST will not get any extra money for it. So Stuart is right when he says that income support will do absolutely nothing for those people; GST will tax them.

Senator S. Syvret:

This is why Employment and Social Security really have to be made to produce the goods. They have got to produce the figures. There might be a couple who are working, with one or 2 children or what ever, who are earning between them a salary of £45,000 or £55,000 a year. They might be struggling with mortgage costs and education costs and all the rest of it. They are not going to be anywhere near, I suspect and the evidence might prove me wrong, qualifying for income support. So, generally, ordinary working people do at the moment run the risk of not qualifying for income support and yet having this burden of GST on their essential, unavoidable purchases, placed upon them.

Deputy P.J.D. Ryan:

The link between minimum wage and GST?

Senator S. Syvret:

Indeed, as I state in the report that I have prepared, I think that you could make a good economic case for the need to increase the minimum wage in any event. At the moment the States spends something like in excess £50 million a year in social security supplementation. Now, perhaps not all of that cost is avoidable but nevertheless a very significant chunk of it is simply an artificial market intervention. It is using taxpayers' money, central taxpayers' money, to subsidise businesses to employ cheap labour. That is all it is. If we were interested in real market reality here, market forces, businesses employing

labour would have to pay the true market cost of that labour. At the moment they are not doing so because the States subsidises the social security provision. So I think that in any event, quite aside from GST, that situation cannot continue. The States cannot afford it for one thing besides the fact that it does not make any economic sense to be doing it. Of course, if you have GST on a flat tax basis on all essentials, so it is an impact on the poor, then that will make a much stronger case, a case that is harder to resist, for a significant increase in the minimum wage.

Deputy P.J.D. Ryan:

Do you have any ideas or research, or done any research, on this? Is there any evidence to see if you are right, where you think it should be?

Senator S. Syvret:

Again, I just think it is an obvious facet of an increasing cost in any environment, up and down the United Kingdom. How often do we see union requests or industrial action for higher rates of pay when inflation goes up, when the cost of living increases, when the cost burden is added to them? I think it is not something one has to prove; I just think it is something that can be stated quite confidently that if you add significant new cost onto the shoulders of labour, they are going to look to employers to make up in some way for that cost. Whether they succeed or not, is obviously a matter of employee relations, industrial relations or what ever, but I think we can state with absolute certainty that unions and employees more generally will seek remuneration compensation for this increased cost.

The Connétable of St. Brelade:

You are saying quite clearly that the whole thing will be inflationary?

Senator S. Syvret:

It will be inflationary, certainly, and as far as public sector employees are concerned, it will make the GST to some extent self-defeating because the income that the States is going to derive from it, a significant chunk of it will be lost in terms of increased wage payments.

The Connétable of St. Brelade:

Do you see any correlation between GST and the ability of government to curb borrowing in that we cannot control the lending rates or borrowing rates here? Is this a way of doing it? Is the imposition of GST a way to control this?

Senator S. Syvret:

Yes, I think it is. Generally, I think it is a recognised facet of monetary and economic policy but if you take money out of the economy you dampen inflation. You dampen demand for goods and services; therefore you combat the inflationary tendencies that an economy might have. I think, and I said this to the IOD (Institute of Directors) and to my astonishment about a third have agreed with me at a

conference the other night, that Jersey is an under-taxed environment. Actually we would be significantly strategically and economically better off today if we had had a more realistic approach to taxation over the past 3 decades. Because we have had so little taxation, significant taxation burden on the Island's economy, we have had very high inflation; we have had dramatically elevated costs of operating and doing business in Jersey which is bad for us internationally in terms of investment, and we have foregone, potentially, many and possibly hundreds of millions of pounds that could be in the rainy-day fund. I think we should have been taking more tax out of the economy during the boom years of the last 2 or 3 decades and reserving it in a strategic reserve for the possible difficulties we may face in the future. The fact that we did not, I think, has been an absolute folly. I quote the figures in my report. I think it is quite clear that Jersey is an under-taxed society and providing additional taxes, higher taxes, are targeted appropriately not only could we raise more tax from the economy but it may in some respects be economically beneficial to do so.

The Connétable of St. Brelade:

So, really your focus is in targeting rather than natural imposition of taxation?

Senator S. Syvret:

I think targeting has got to be the key of the States fiscal strategy. I am not advocating high rates of tax. This is one of the issues we face when trying to get these ideas taken forward. People in the Treasury and others kind of label these ideas as old Labour, 1970s style of tax and spend policies. Now, I do not agree with those kinds of policies and I would never support them or advocate them but the reality is that Jersey is in the opposite extreme, if you like. We have taken too little tax out of our country and as you were saying, precisely because we cannot control interest rates which is the classic government mechanism for taking the heat out of an economy, because we are in monetary union with the UK, we should have been using other fiscal mechanisms at our disposal such as approaches to taxation to do that instead, to take some of the heat, some of the demand, out of the Island's economy.

Deputy P.J.D. Ryan:

Just to be devil's advocate for a minute, the Treasury argue that by having a simple low rate across a wide spectrum with no exemptions, it is to everybody's benefit. It is a sort of seductive argument. Do you want to address that argument?

Senator S. Syvret:

As I said earlier, it is an argument that is attractive and simple and wrong. I refer again to table 2.3. As we can see there, those in the higher quintiles, the higher 2 quintiles, spend significantly more on non-essential purposes. So, the idea that it is going to be better for the poorer people to have a flat tax approach is manifestly nonsense and just does not stack up at all. I think there would be some additional administrative cost in having zero ratings or exemptions. I have to say that I think the likely cost of that has been significantly exaggerated by the Treasury. I think it has been exaggerated because, after all,

they are already exempting rent and they are exempting the financial services industry. We have already had specific taxes on certain goods at the moment and not on others, for example, fuel and booze and cigarettes. So I really do not see that.

Deputy P.J.D. Ryan:

It could be inevitable that it is on charities as well.

Senator S. Syvret:

Yes. I just do not see the argument that: "Oh, it will be immensely complicated and costly to have zero ratings." I think it is a case and an argument that is grossly overstated. I think they overplay their hand badly. I think it is fair to say that there would be some additional administrative costs but nothing like the sort of figures that the Treasury might like to suggest.

Deputy P.J.D. Ryan:

That is the cost on government. What about the cost of business administration? Do you have a feel for that?

Senator S. Syvret:

There may be some cost of business administration but I do not think it will be significant. IT systems, computer programmes, and so on to run sales tax structures with exemptions and differing rates already exist; they are available off the shelf. Because of the UK's approach to VAT they exist in the UK now. So the idea that it would somehow be an impossible immensely difficult thing to do I just do not think stacks up. You can buy the relevant business systems off the shelf now.

Deputy P.J.D. Ryan:

Anybody else? Richard, do you have anything you want to whisper in my left ear? Thank you very much for your time, gentlemen, today.

Senator S. Syvret:

Thank you.

Deputy P.J.D. Ryan:

You have been very helpful, thank you.

Senator S. Syvret:

I think I have said everything I wanted to say.

Deputy P.J.D. Ryan:

If there is anything that you can give us in the way of evidence, it would be most appreciated. As much

as you can give us.

Deputy A. Breckon:

Can I just make a point there? Something which Stuart touched upon about the administration of getting into the detail of it and the cost. If you look at the impôts, it is on there, that you can split the strength of cider and how much is taxed and the strength of beer. So if somebody can get into the detail now with very little cost, I have never heard anybody talk about the cost of gathering impots ...

Deputy P.J.D. Ryan:

You are using that as a parallel.

Senator S. Syvret:

There is another point that I will just make briefly to end. If, in fact, the claims made for low income support got through and it is going to compensate generally the poorer sector of our community for the GST burden on the flat tax basis, how complex and bureaucratic is that going to be? How much sense does it make to take the money off the people on a flat tax GST basis and then have all of the bureaucracy, administrative cost and issues concerned with assessing each individual and each individual household, and then determining on the basis of their income and assets how much, if any, income support they qualify for in order to compensate them for taking the tax off them in the first place? Frankly, I suspect it is probably a simpler, if you are really concerned about protecting the poor, to have a zero rating approach to GST and a less complex approach to low income support.

Deputy P.J.D. Ryan:

Both of you gentlemen have experience of the benefit system generally and the complexity of it. Of course, there is a twin benefit with the low income support of rationalising all of the existing multitudinous ways of benefiting. So there is that and I think probably your evidence might suggest that there are other benefits to low income support. Would I be correct in saying that?

Senator S. Syvret:

I think certainly if low income support works as advertised it will bring a rationalisation and a more targeted approach to the variety of different benefits that exist at the moment. I think that is fair enough.

Deputy P.J.D. Ryan:

But that is a separate argument?

Senator S. Syvret:

That is a separate argument entirely.