STATES OF JERSEY

ANNUAL BUSINESS PLAN 2009 (P.113/2008): FOURTH AMENDMENT (P.113/2008 Amd.(4)) – AMENDMENT (P.113/2008 Amd.(4)Amd.) – COMMENTS

Presented to the States on 12th September 2008
by the Council of Ministers

STATES GREFFE

COMMENTS

Background

Members will recall that on 15th July 2008 the Annual Business Plan for 2009 was lodged. Subsequently, the Council of Ministers has lodged amendments to the 2009 Business Plan (fourth amendment). On 2nd September 2008 Senator Cohen, supported by the Deputy of Trinity, the Assistant Minister for Planning and Environment, lodged an amendment to the fourth amendment to the Business Plan. Senator Cohen has sought to avoid the introduction of a new Vehicle Emission Duty, instead favouring the funding of the environmental initiatives of £2 million through an increase in cash limits.

Comments

The report supporting the amendment to the amendment argues that the recently introduced GST on new motor vehicles will raise approximately £2 million per year, which is a similar sum to the proposed environmental initiatives expenditure. It goes on to suggest that the proposed environmental initiatives should be funded through increasing cash limits and £2 million of GST raised from the sale of new cars. The Council of Ministers, however, reminds Members that the £45 million from GST is already being used to meet the loss of revenues from the move to 0/10%. This money can not be spent twice as this proposal would appear to suggest, and the Council of Ministers contends that this will simply increase deficits by a further £2 million. The Council of Ministers' proposition would raise an additional £2 million to be added to the JEC's agreed £500,000 contribution to the environment fund, making a total fund of £2.5 million for the year.

The report argues that the introduction of the proposed new tax, in addition to the recently introduced GST, would effectively double tax the purchase of new and imported used vehicles. The Council of Ministers reminds Members that until very recently there was a Vehicle Registration Duty (VRD) on cars. By removing Vehicle Registration Duty whilst adding GST to all other items, the price of most commodities in Jersey has increased with the *exception* of motor cars.

The Council of Ministers concurs with the contention within the report that any well-designed environmental tax must satisfy 2 criteria; the first that it taxes a genuinely environmentally negative action, and the second that all the funds raised are applied to environmentally positive initiatives. The report argues that the purchase of a new car is not in itself an environmentally negative action and by increasing the price of new cars this encourages the retention of older, less efficient motor vehicles. The Council of Ministers believes that, its own proposal meets both the above criteria through taxing the purchase of high fuel consumption motor vehicles, thereby providing an incentive to purchase more environmentally friendly cars, and earmarking the tax for environmentally positive initiatives.

The report also argues that the current proposal compounds the potentially negative environmental impact of the new tax as it discounts by up to 60% the importation of second-hand cars. It states that this will provide an incentive to import older, less efficient motor vehicles likely to have a more damaging environmental impact. The Council of Ministers contends that there were similar arrangements under Vehicle Registration Duty and there is no evidence to suggest that it led to an increase in second-hand imports.

The Council of Ministers recognises that, during 2007, the public was consulted on the concept of introducing an annual Vehicle Emissions Duty and the response was that, should an environmental tax be introduced, there was a preference for levying a small duty on road fuel. The Council of Ministers would wish to point out that first, the public were consulted on an *annual* tax, not a one-off tax, and secondly, if this is the preferred alternative, the report should propose an immediate increase in fuel duty.

The report also argues that, as GST has only just been introduced, it is not an appropriate time to introduce any new taxation and that consultation should take place on the concept of further duty on road fuel in 2009. The Council of Ministers believes that, unless the new tax is implemented immediately, the public will be unwilling to agree to the implementation of any new fuel taxes in the future.

The report asserts that, as the burning of fossil fuels constitutes the negative environmental impact of using a motor vehicle, if an environmental tax were to be introduced, the most logical such taxation would be a small duty on motor fuel. In this way, it is argued, the tax paid would be directly related to the negative impact that burning hydrocarbon fuel has on the environment. The Council of Ministers believes that once a high fuel consumption motor vehicle has been purchased, the running costs, including fuel consumption, are unavoidable. A more effective way to reduce fuel consumption would be to provide a disincentive to buy a high fuel consumption motor vehicle in the first place, as would occur under the proposed Vehicle Emission Duty.

This amendment aims to fund environmental benefits by raising cash limits without initially imposing new taxes. It claims that this will enable the public to see the delivery of environmental benefits and allow for a public debate in the future on whether to implement an environmental fuel duty. The Council of Ministers opposes this proposal on the grounds that it will create a £2 million ongoing deficit, through spending GST receipts that are already allocated, that the Council of Ministers' proposal will provide an incentive to the purchase of environmentally friendly cars and that, if no new taxes are imposed initially, the public are likely to be unwilling to agree to the implementation of any fuel taxes in the future.

For these reasons the Council of Ministers recommends that Members reject this amendment.