

STATES OF JERSEY



DRAFT BUDGET 2012 (P.159/2011): AMENDMENT (P.159/2011 Amd.) – COMMENTS

**Presented to the States on 7th November 2011
by the Minister for Treasury and Resources**

STATES GREFFE

COMMENTS

Deputy Southern is proposing that the annual company return fee be increased from its current level of £150 to £265 from 1st January 2012, and personal income tax exemptions are increased by an additional 2.35% over the 4.5% proposed in the draft Budget.

The Minister for Treasury and Resources opposes this amendment for the following reasons –

- Consultation on increasing the annual company return fee was undertaken in the autumn of 2010.
- The overwhelming response was that increasing costs for local companies was not desirable in the current economic climate.
- In response, the basic ISE fee was increased instead of the annual company return fee.
- This allowed increased revenues to be raised from foreign-owned companies while protecting locally-owned companies.
- The Minister for Treasury and Resources continues to believe that the time is not right to increase costs for local companies.
- Following the doubling of the basic ISE fee from 2011, Jersey-registered customers of the finance industry now pay a minimum of £350 in Jersey. This is at a similar level or above the fees charged in our nearest competitors.
- Increasing fees as proposed would make Jersey more expensive than most of our key competitors including the British Virgin Islands and the Isle of Man.
- The potential damage that could be done to Jersey's struggling businesses and to the Island's international competitiveness would likely outweigh the additional benefit proposed in this amendment.

Comment

The annual company return fee is payable by every company that is incorporated and registered in Jersey. There are currently approximately 30,000 such companies. These companies are used for a variety of purposes, including –

- Holding property via share transfer and “(j)” category property arrangements;
- Carrying on business in Jersey;
- As trading vehicles for charities;
- As vehicles for the clients of the financial services industry.

An extensive review into the level of fees charged to companies was undertaken in 2010. This was in response to calls from the States to consider whether there was any scope to increase revenues from these fees. The level of fees charged in Jersey was compared with the annual company fees chargeable in our main competitors. This exercise identified that there was some scope to increase fees without making the Island uncompetitive. A Green Paper was issued in June 2010 which proposed increasing the annual company return fee from £150 to £250.

The overwhelming response to the consultation exercise was that locally-owned businesses were strongly resistant to increases in their cost base in the prevailing economic climate.

It was therefore decided to increase the basic ISE fee, which is mostly payable by the clients of the financial services industry, instead of the annual company return fee.

As a result, the fee payable by Jersey companies remained at £150, while fees payable by clients of the financial services industry rose to £350. This increase made Jersey £100 more expensive than Guernsey and £10 less than the Isle of Man for this type of company. See below for a comparison of fees chargeable in Jersey against its key competitors –

	Annual return fee	Other fees	Total
	£	£	£
Bermuda	1,325		1,325
Cayman	485		485
British Virgin Islands	400		400
Isle of Man	360		360
Jersey	150	200	350
Panama	65	195	260
Guernsey	250		250
Hong Kong	195		195
Luxembourg	135		135
Gibraltar	45		45
Ireland	35		35
Singapore	10		10
Switzerland	0		0

(Figures have been translated into sterling at May 2010 values, except where fees have changed since that date. Fees for Luxembourg and Panama are at May 2010 levels.)

Increasing the annual return fee by the margin proposed by the Deputy would make total fees payable by local companies £265 and £465 for clients of the financial services industry. This represents a 43% increase for local companies and an 86% increase for international companies over a 2 year period. Jersey would become even more expensive than most of its key competitors, while also damaging its reputation for stability by increasing fees twice in 2 years.

The effect of this proposition would be to increase costs for local businesses at a time when trading conditions are already very difficult, and would damage the competitiveness of Jersey's financial services industry. There is no evidence that the harm done would be justified by the marginal improvement for Jersey residents.

Financial implications

The Deputy suggests that increasing the annual company return fee by £115 to £265 would raise an additional £3.7 million in revenues. This ignores the reality that many of the companies registered in Jersey are clients of the financial services industry and, as such, have many choices about where to locate.

While it is less likely that a significant number of the companies currently registered here would leave as a result of the increase in fees, it could have a negative impact on the approximately 2,500 companies a year which choose to incorporate in the Island. With approximately 2,800 companies de-registering in 2010, Jersey is already facing a reduction in the net number of companies registered in the Island, and therefore a fall in revenues. This net reduction is not significant as yet, but could become so as increases in fees reduces competitiveness.

The Minister for Treasury and Resources urges Members to reject this amendment.

Statement under Standing Order 37A [Presentation of comment relating to a proposition]

These comments were late in distribution due to the Minister for Treasury and Resources having had limited opportunities to consider his response and to consult with the Council of Ministers, following the States' decision to sit in the week commencing 31st October 2011.