States of Jersey

DRAFT BUDGET STATEMENT 2013

Embargoed until 00:01 17 October 2012

Proposition

Draft Budget Statement 2013

The States are asked to decide whether they are of opinion:

a. to approve, in accordance with the provisions of Article 10(3)(a) of the Public Finances (Jersey) Law 2005, the estimate of income from taxation during 2013 of £614,829,000 as set out in Summary Table A on page 51 of the Budget Statement, with the sum to be raised through existing taxation measures and the proposed changes to income tax, Goods and Services Tax, impôts duty, stamp duty and Land Transaction Tax for 2013 as set out in the Budget Statement;

b. to approve, in accordance with the provisions of Article 10(3)(d) of the Public Finances (Jersey) Law 2005, a capital head of expenditure for each of the capital projects for States funded bodies to be started or continued in 2013 (other than States trading operations) as set out in the recommended programme of capital projects in Summary Table C on page 53 totalling £56,127,000, that require £12,566,000 to be withdrawn from the consolidated fund;

c. to approve, in accordance with the provisions of Article 10(3)(e) of the Public Finances (Jersey) Law 2005, each of the capital projects that are scheduled to start during 2013 in the recommended programme of capital for each States trading operation, as set out in Summary Table D, on page 54 that require funds to be drawn from the trading funds in 2013.

Minister For Treasury And Resources

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PART A – INTRODUCTION

1. Foreword

This draft Budget for 2013 presents a positive and constructive series of measures designed to safeguard revenues and to ensure that Jersey's tax regime supports economic growth. It is a Budget that responds to the global economic environment, the very latest forecasts from the International Monetary Fund, the prevailing climate in the UK and the local situation here in Jersey. Last week the International Monetary Fund further downgraded the forecast for worldwide economic growth to 3.3% for 2012 and 3.6% for 2013, with one of the biggest downgrades being to the UK economy. The global economy has also seen the slowest rate of growth since the end of 2009 when the recovery from a significant recession in the wake of the financial crisis was getting underway. It remains below the level seen immediately prior to the global financial crisis although largely in line with the longer run average.

Uncertainty and austerity seem to be deepening Europe's economic plight with signs that the Eurozone is in a double dip recession. Unemployment is at a record high. Surveys of consumer and business activity are less than encouraging. The UK unemployment rate rose to 8.1% in the three months to July.

However, there are signs of recovery. In the UK the number of people in work has risen to its highest level since May 2008, almost to its pre-crisis peak. Industrial production in the UK is going up and stock markets have risen in the first half of this year.

The situation for Jersey is not dissimilar but is much less acute. The gross value added ('GVA') for the Jersey economy fell by 1% in 2011. The non-finance sector declined by 2%, but the finance sector has stabilised with GVA in real terms remaining flat over the course of the year. The overall economic position for Jersey is set out in some detail in the Annual Report of the Fiscal Policy Panel published on 1st October. This draft Budget for the States of Jersey directly addresses the issue of economic uncertainty as a brake on growth. The Budget aims to provide as much certainty and stability as possible in order to release the potential for economic growth.

Jersey's financial position remains strong

It is worth remembering that Jersey's financial position remains strong. We have taken some very difficult decisions in recent years to ensure that we have a balanced budget and can maintain a strong balance sheet. The Council of Ministers is determined to keep it that way.

The introduction of zero/ten combined with the introduction of GST, 20-means-20 and ITIS were not easy decisions to take. The effect of the global economic downturn on our revenues required even more difficult decisions with an increase in GST and social security. These have proved to be the right decisions. If the States had not taken them, Jersey's financial position would be closer to some of its neighbours who are struggling with substantial debt and budget deficits.

Advice of the Fiscal Policy Panel Report

The Fiscal Policy Panel ('FPP') provides an important independent safeguard for the planning of our finances and has commented on the States' Medium Term Financial Plan (MTFP). The detailed economic analysis set out by the FPP does, for the fifth year in succession, provide a valuable context against which we can test our plans.

The FPP have set out considered and well-argued recommendations in their Annual Report for 2012. It is reassuring that the issues rightly raised by the FPP are the very same issues that we have identified and grappled with in the development of the MTFP. Whilst their report was new , the issues are not.

The FPP report states that the economic outlook and GVA level for Jersey's economy has been slightly downgraded for 2012 and 2013. The recommendations of the FPP in response to this downgrading include:

- *To accelerate fiscal support for the economy through increased short-term capital expenditure in 2012 and 2013.*
- *To plan for extra flexibility to enable changes in spending in 2014 and 2015, depending on economic growth.*
- *To leave the Stabilisation Fund and Strategic Reserves as they are for the next two years, but developing a plan to rebuild the Stabilisation Fund when the economy begins to recover.*
- *To undertake a more detailed review of the impact of the planned capital expenditure.*
- *To adopt certain reporting adjustments of forecasting in future MTFPs or Budgets.*

The Council of Ministers will now consider how these recommendations might affect the proposals in the MTFP. The FPP's observations of the fiscal position in 2014 and 2015 are noted and understood. The FPP has further recommended that action is taken in 2013, specifically to bring forward capital spend from 2014 and 2015. Careful consideration has been given to this but, since the funding sources for 2014 and 2015 spend arise in those years, it would be necessary to use funding from the consolidated fund to achieve that acceleration. Based on current forecasts there is insufficient funding in 2013 to achieve that. Should the funding situation change, the timing of some projects can be reconsidered.

The FPP report has helpfully illustrated the difficult balancing act between allocating resources to meet clearly identified spending needs in essential areas, (such as health, social care and job creation) supporting the economy in the short-term, and protecting the competitive system of taxation upon which our Island depends.

It is against this difficult and challenging economic backdrop, both globally and locally, that this draft Budget Statement for 2013 is presented.

Progress made in Tax Policy and Administration over the year

The facility to allow companies to file their annual tax returns on- line was released at the beginning of 2012. Many tax agents have filed their corporate clients' returns on-line for the first time. Others are being encouraged to do so as the Taxes Office raises the profile of the benefits of online filing.

The scanning of over 50,000 personal tax returns into the IT system has facilitated streamlining of the personal tax assessment system. The IT programs that have been developed to create these 'workflows' are part of the larger infrastructure that is being developed which will allow individual tax payers to file their tax returns on-line in the future.

Throughout 2012, the Investigation Officers within the Taxes Office have implemented changes to their working practices. These changes have meant that the Officers are now able to focus more resources on examining higher risk cases. This should produce better results in recovering more tax on income which taxpayers have failed to declare.

A significant amount of progress has been made regarding the practicalities and administration of dealing with requests under the Tax Information Exchange Agreements. The development of a standard template request form together with the creation of various standard letters has meant that the Taxes Office is now able to process the requests much more effectively and efficiently. In addition, a facility has been created which now allows the Taxes Office to exchange encrypted information electronically.

More Tax Information Exchange Agreements and Double Tax Agreements (DTA) have been signed during 2012, including DTAs with Hong Kong, China and Qatar. A number of other DTAs are due to be signed later this year.

Jersey continues to engage in and contribute to the global standard on transparency and exchange of information on tax matters as a Vice-Chair of the Global Forum.

The review into ways of raising additional revenues from non-financial services companies has been completed, a report and recommendations is planned to be presented to the States on 23 October 2012.

Further information on a number of ongoing tax policy and administration reviews is included in section 7 of this Budget Statement.

Consultations launched

A Green Paper will be launched on the International Services Entity (ISE) regime together with a White Paper on collecting important data from companies.

Last year we carried out a review of how the International Services Entity (ISE) regime was working. We received helpful feedback which resulted in an increase in some of the fees paid for ISE status, raising an extra £600,000 in fees this year. Businesses also told us that in general the ISE regime works well but that some businesses, particularly those in the trust and company administration sectors, considered that the level of the fees they pay could better reflect the size of their individual businesses.

In response to that feedback, we are issuing a Green Paper which looks at ways of improving the transparency and fairness of the fees charged to businesses in the trust and company administration sector and their clients. We will listen to all responses and make any necessary changes in the 2014 Budget.

A White Paper will be published on collecting data that sets out to improve the way we collect and analyse information on the profits of Jersey companies. The purpose of this is to ensure that we have sufficient information to support future policy changes and in particular that we can continue to protect our company tax regime.

At the same time, we do not want to impose an unduly onerous burden on companies, so we are proposing that improved information should be collected by the States of Jersey Statistics Unit, through the surveys they issue throughout the year.

Specific Budget Measures for 2013

The priority at this time is to maintain certainty and stability within the economy. This Budget seeks to help drive growth in the economy by encouraging business development, inward investment and protecting tax revenues. It also, importantly, ensures that the most vulnerable remain protected.

The 2013 Budget is centred around three key themes:

1. safeguarding tax revenues,
2. consolidation, and
3. simplification

within Jersey's existing stable tax regime.

The emphasis is on sustaining our current system of taxation and tightening compliance on tax collection and reducing tax avoidance forms a fundamental element of this.

It is with these objectives in mind that no significant tax measures in the 2013 Budget are proposed.

The measures proposed in this Budget for 2013 are summarised below.

Income tax

In this year's Budget it is proposed to increase the income tax exemption thresholds in line with inflation. At 3%, this is higher than the average increase in earnings and will benefit taxpayers by over £5 million. It is a measure that seeks to protect those households on lower incomes and it will reduce the number of people who are subject to income tax. This is entirely in keeping with the Council of Ministers' commitment to promote family and community values.

There will not be any changes to the income tax allowances. The 2012 rates will be maintained.

Anti-avoidance measures

Earlier last year, the States agreed to the withdrawal of the 'Deemed Distribution' arrangements to ensure compliance of 0/10. There was no alternative to this and whilst the Treasury regretted the need to withdraw the measure, which was an anti-avoidance mechanism, the Treasury stated a firm intention to protect revenues by introducing targeted anti avoidance measures to ensure that Islanders would pay the tax that is properly due within the bounds of our 20% rate. Securing tax revenues enables the Council of Ministers to stimulate growth and continue to provide and improve services. The amendments to the Income Tax Law are designed to ensure that when taxpayers extract income profits from a company, by whatever means, those profits are subject to income tax.

A further anti-avoidance measure is proposed which is designed to ensure individuals who are employed through a 'personal services company' pay tax on their income, in the same way as an employee who does not use this arrangement.

Withdrawal of Insurance Premium Relief for higher earners

Last year a commitment was made to review the opportunities to go further with '20-means-20' for those on higher incomes. As a result it is proposed to withdraw the current availability of income tax relief on premiums paid for life insurance cover.

Administrative changes

The final element of the income tax measures introduces some administrative changes so as to ensure that the law works as it is intended to work. These measures include changes in respect of exemptions for non-residents, benefits-in-kind for directors, the penalty regime for non-resident landlords, the additional persons allowance, the ITIS regime, and private medical insurance paid by employers. There is also some consolidation and simplification to ensure the tax rules can be easily understood by taxpayers.

For example, it is proposed to embed in law some long-standing concessional practices. Accordingly, certain transactions will not be regarded as taxable income: dividends paid by the Channel Islands Co-operative Society Ltd, War Widows' pensions and War Disability pensions regardless of which government they are paid by. Legislating for these measures will provide clarity and certainty, thereby facilitating tax payer compliance.

Goods and Services Tax

There is no change in the rate of GST, it remains at 5%. Some minor administrative changes are proposed to deal with anomalies in the current system. These relate to the current practice of 'bad debt' relief provisions and aligning the tax treatment on share transfers for domestic property with that for directly owned domestic property.

Impôts Duty

Turning now to Impôts Duty. Having consulted with colleagues in Health and Social Services, Economic Development and Home Affairs the following measures are proposed:

- *Increase the duty on alcohol with:*
  - 10% on spirits and wines;
  - 8% on strong beer and cider; and
  - 5% increase on weaker beer and cider (not exceeding 4.9% abv)
- *Increase the rate of duty on all tobacco products by 10%.*
- *Increase the rate of duty on all fuels by 3p per litre.*
- *Increase all Vehicle Emission Duty bands by 5%.*

These measures support the Health Minister's drive to reduce the adverse effects on health of excessive alcohol consumption and smoking. It is proposed that the increases in duty will take effect from midnight on 31st December 2012. These measures will raise an additional revenue of about £19,000 from alcohol duties, £1,217,000 from tobacco duties, £1,349,000 from fuel duties and £50,000 from vehicle emissions duties and will contribute significantly to meeting the target of £7.6 million in 2013 for budget measures, tightening compliance on tax collection and reducing avoidance.

Stamp Duty and Land Transaction Tax

For Stamp Duty and Land Transaction Tax, this Budget proposes an extension of the relief on stamp duty for first time buyers which was brought in last year. This will help provide some encouragement to prospective purchasers and further stimulus to the local housing market at a time when it is most needed.

It is proposed to reintroduce a cap on probate duty so as to ensure that Jersey is not at a competitive disadvantage in attracting business to the island, compared to similar jurisdictions.

Finally it is proposed to introduce a fee for contested Petty Debt Court hearings for claims in excess of £3,000.

Capital Programme

The Budget Statement also sets out a detailed schedule of capital projects for 2013 which can be funded from within the spending envelope described in the MTFP for 2013-2015. Over the term of the MTFP, we are planning to spend £222m.

Proposals for spending in the Capital Programme include:

Chief Minister's Department (£1,503,000 for 2013)

Further development to the gov.je website is planned to enable people to do more online, from filling in forms to paying bills.

The current desktop software will be replaced as it is no longer supported by Microsoft and will be retired in July 2014.

A replacement is planned for the 5 year old Human Resources Information Services system. A review indicated a new system would overcome many of the operational difficulties associated with the current system.

Education Sport and Culture (£8,732,000 for 2013)

ICT changes are planned to ensure that the Island is equipped for future digital developments.

St Martin's school will be replaced. The plan submitted is considered to be the most cost effective option to replace the existing school which falls well below recommended standards, including DfEE guidelines.

Heath and Social Services (£10,600,000 for 2013)

The main theatres, 1, 3 and 4 will be upgraded and storage space available to the main theatres centralised and expanded.

The air handling plant will be replaced in accordance with current guidance.

The reception area for patients for surgery will also be replaced.

The Limes care home will be upgraded including complete redecoration.

Feasibility studies of the replacement of the General Hospital, Overdale Mental Health Facility and relocation of Ambulance and Fire Station will be carried out.

There will be an installation of new facilities for Adult Care Homes as follows:

- *Purpose-built homes for life for people with significant and complex needs.*
- *Appropriate day services for people with learning disabilities integrated into the community.*
- *Development of suitable day services for people with Autistic Spectrum Disorder.*
- *Appropriate residential setting for specialist assessment and treatment.*

The proposed spending also includes the potential acquisition and development of a new children's home alongside provision of suitable accommodation for two children with complex challenging behavior, and development of short break facilities.

Home Affairs (£1,000,000 for 2013)

This represents the continuation of funding for the Police station relocation.

Transport and Technical Services (£11,706,000 for 2013)

Appropriate funds will be allocated towards improvements in traffic, street lighting and highways, drainage infrastructure maintenance and other infrastructure assets.

The Clinical Waste Incinerator will be refurbished to extend its useful life beyond its original replacement date.

Completion of the Ash Cells & La Collette Headland is planned, for aesthetic, environmental and financial purposes.

Other Capital (£3,785,000 for 2013)

Vehicle replacement funding is required to support the work of Jersey Fleet Management prior to anticipated self funding in 2015. Replacement assets for the above categories have been taken into account and prioritized.

Social Housing Programme (£18,801,000 for 2013)

A budget has been set out for each new build site, but the amounts are not included in this plan as they will be subject to competitive tender.

A Budget to support economic growth through stability and certainty

Much has been achieved over the last 12 months in modernising and improving the administration of tax resulting in a direct improvement in collection. Further substantial improvements are planned and this will be further supported by the measures taken in this Budget to strengthen the law. We will continue to take action to ensure that tax that is rightly and properly due is collected.

We have made tough decisions in recent years. Now is a time for stability and certainty as that is critical to support economic growth through increased business activity.

Jersey's fiscal position remains strong as a result of the action taken and the Council of Ministers is determined to keep it that way. For that reason no significant tax raising measures are proposed in this Budget. In increasing income tax exemption thresholds in line with inflation, this Budget continues to protect those on the lowest incomes.

This is a Budget that reflects Jersey's continued stability during the economic downturn. It also supports the strategic priority of the Council of Ministers, to stimulate the economy and create jobs through investment in infrastructure.

By maintaining our tax system and rates of taxation, we are sustaining Jersey's competitive benefits, while at the same time taking measures to ensure that everyone pays what is due. Through this improved efficiency in tax collection, we are able to keep money in the economy.

This is also a Budget that invests substantially in the future with measures that support the long-term aims outlined in the MTFP.

Philip Ozouf

Senator Philip Ozouf
Minister for Treasury and Resources
October 2012

2. Executive Summary

Introduction

This Budget focuses on safeguarding revenues and ensuring Jersey's tax regime supports economic growth.

The MTFP assumes there will be no tax policy changes within the next 3 years. These proposals are consistent with that approach.

Income Tax proposals

The proposals in the 2013 Budget are as follows:

- *Increase income tax exemptions by 3%.*
- *Retain income tax allowances at their current level.*
- *Introduce targeted anti-avoidance legislation to define taxable distributions from corporate vehicles, introduce personal service company legislation and amend the availability of 'group relief' for companies.*
- *Remove income tax relief on contributions to life insurance policies for those paying tax under '20-means-20'.*
- *Introduce administrative changes in respect of exemptions for non-residents, benefits-in-kind for directors, the penalty regime for non-resident landlords, the additional persons allowance, the ITIS regime and private medical insurance paid by employers.*
- *Introduce legislation for some longstanding concessions and practice.*

Goods and Services Tax proposals

The proposals in the 2013 Budget are as follows:

- *Amend the 'bad debt' relief provisions to reflect the intended application of the law.*
- *Align the GST treatment on share transfers for domestic property with that for directly owned domestic property.*

Impôts Duty proposals

The proposals in the 2013 Budget are as follows:

- *Increase the duty on alcohol as follows:*
  - *10% increase on spirits and wines.*
  - *8% increase on strong beer and cider (exceeding 4.9% abv).*
  - *5% increase on weaker beer and cider (not exceeding 4.9% abv).*
- *Increase the rate of duty on all tobacco products by 10%.*
- *Increase the rate of duty on all fuels by 3p per litre.*
- *Increase all VED bands by 5%.*

Stamp Duty and Land Transaction Tax proposals

The proposals in the 2013 Budget are as follows:

- *Extend the relief for first time buyers for a further period to 31 December 2013.*
- *Reintroduce a cap on probate duty.*
- *Introduce Stamp Duty court fees for contested Petty Debt Court hearings subject to a de minimis threshold.*

Capital Programme 2013

This report also sets out the proposed capital programme for 2013. The proposed scheme can be funded within the spending envelope set out in the MTFP. The proposed schemes for 2013 are set out in the report and include a range of projects for Education, Sport and Culture, Health and Home affairs, Housing and Transport and technical Services.

PART B – BUDGET STATEMENT 2013

3. Income Tax Proposals

Background

The Minister for Treasury and Resources considers annual Budget measures so as to ensure the States revenues are sufficient to meet spending proposals which this year are set out for three years ahead in the MTFP. This Plan also sets out the States other sources of income including the social security charges that meet the cost of pensions and other benefits for Islanders.

Jersey's taxation system operates on a wide base of sources – personal income tax, company tax, consumption tax and duties – to provide stability and sustainability for the future.

2012 has been a year of stability following the confirmation received from the EU Code of Conduct Group in late 2011 that zero/ten is compliant with the Code following the removal of the shareholder taxation provisions. The proposals in this Budget maintain that position of certainty and stability.

In order to ensure that Jersey continues to be seen as "open for business", it is important in a competitive environment to continue to provide stability and certainty for businesses. For this reason, income taxes and GST will not be increased within the period of the MTFP in order to allow businesses to focus on economic recovery.

Taxes must remain low, broad and simple to allow the economy to flourish to the benefit of all Islanders. The cornerstones of the Jersey tax regime are zero/ten, a standard rate of income tax of 20% and 5% GST.

Whilst not proposing any major changes to the current system of taxation, it is crucial that this system operates correctly so as to ensure taxpayer compliance. It is also important that some of the tax legislation is consolidated and simplified.

The central themes of:

- *safeguarding tax revenues,*
- *consolidation, and*
- *simplification*

are key elements of the ongoing development of domestic and international tax policy that the Tax Policy Unit and Taxes Office are progressing and are reflected in this Budget.

Exemptions and Allowances

Income tax exemption thresholds

The Minister proposes to increase the income tax exemption thresholds for the 2013 tax year by 3%. This is in line with the increase in inflation for the year to June 2012.

This will reduce the number of taxpayers who are subject to income tax, thereby protecting those on lower incomes. The effect of the increase is outlined in Figure 3.1. Figure 3.2 illustrates the impact of this on sample households.

Figure 3.1 Exemption thresholds for 2012 and 2013:

	2012	2013
Single Person	£13,370	£13,780
Single Person (aged 63+)	£14,920	£15,370
Married Couple	£21,440	£22,090
Married Couple (aged 63+)	£24,540	£25,280

Figure 3.2 Impact on sample households:

	Income	2012 liability	2013 liability	Saving
Single, no children	£20,000	£1,790	£1,679	£111
Married, 2 children, wife not working	£35,000	£2,041	£1,865	£176
Married, 2 children, £240k mortgage (at 5% interest), wife working	£60,000	£4,336	£4,160	£176
Married, 1 child at university, wife not working	£70,000	£11,491	£11,316	£175
Single pensioner	£20,000	£1,371	£1,250	£121
Married pensioner	£25,000	£124	£Nil	£124

Income tax allowances

The Minister proposes the 2012 income tax allowances are unchanged for 2013. This is in line with the '20-means-20' proposals for which 2011 was the first year that they had full effect. These rates are shown in Figure 3.3.

Figure 3.3 Income tax allowances:

	2012	2013
Child Allowance	£3,000	£3,000
Child Allowance (higher education)	£6,000	£6,000
Additional Allowance*	£4,500	£4,500
Wife's Earned Income Allowance**	£4,500	£4,500

* For people with single-handed responsibility for children
** For those taxpayers in the marginal band

Tax facts

The following tax facts provide an illustration of the existing personal tax structure, and also provide relative comparisons against other jurisdictions.

The tax threshold (i.e. the point above which an individual starts to pay income tax) is determined by the individual's personal circumstances. For example, a married couple, who are both working and have two children (one at university), paying mortgage interest of £7,500, do not become liable to income tax in 2012 until their income exceeds £42,440. For 2013 this would increase to £43,090 under the current proposals. Figure 3.4 refers.

Figure 3.4 Income tax thresholds:

	2012	2013
Married Couple Exemption	£21,440	£22,090
Wife's Earned Income (max)	£4,500	£4,500
Child Allowance	£3,000	£3,000
Child Allowance (higher)	£6,000	£6,000
Mortgage Interest	£7,500	£7,500
Total	**£42,440**	**£43,090**

Comparisons

The generous income tax thresholds in Jersey mean that many Islanders still pay less tax than in neighbouring territories. Figure 3.5 refers.

Figure 3.5 Comparisons of tax payable:

The income tax payable by a married couple in 2012 with a joint income of £40,000, without children or a mortgage, is as follows:

Jersey	£3,796
Isle of Man	£2,180
Guernsey	£4,320
UK (based on one person having an income of £40k)	£6,379
UK (based on each person having an income of £20k)	£2,379 each

The income tax payable by married pensioners in 2012 (aged 63+) with an income of £25,000, without a mortgage, is as follows:

Jersey (wife not working)	£124
Isle of Man	£438
Guernsey	£640
UK (based on one person having an income of £25k) (age 65-74)	£2,900
UK (based on each person having an income of £12.5k) (age 65-74)	£400 each

Detailed Proposals for 2013

The Minister proposes amendments to the Income Tax (Jersey) Law 1961 (“Income Tax Law”) in respect of the following:

Measures to safeguard tax revenues

The following measures are intended to protect tax revenues through targeted anti avoidance and strengthening existing legislation. For this reason, the measures are expected to be broadly tax neutral although some may result in the ability to collect revenues which might have been difficult to collect otherwise.

Taxable distributions

It is proposed to redefine, and extend, the definition of what constitutes a taxable distribution from a Jersey resident company. The purpose of this measure is to ensure that when taxpayers operating via a company receive a distribution from that company, the proportion of that distribution that represents taxable profits arising in the company is subject to income tax.

This amendment has three strands to it:

- *amending the definition of what is a taxable distribution;*
- *reducing the risk of deferring a tax liability; and*
- *ensuring that these rules apply to the distribution of cash and non-cash assets.*

Intermediate Service Vehicle (personal services company)

The Minister proposes to introduce specific legislation to deter taxpayers from using a corporate vehicle through which to provide their personal services.

In the absence of specific provisions on this issue, there may be an opportunity for a taxpayer to defer their income tax liability by effectively disguising what would ordinarily be employment income. Employment income received directly would be subject to income tax via the ITIS system. Although the general anti avoidance rule can be invoked in many circumstances, it is considered appropriate to introduce specific, targeted legislation to provide certainty.

This proposal will ensure that individuals who are effectively employees are not able to obtain beneficial tax treatment, compared to an employee who is not in position to operate via a "personal service company".

Amending the "group relief" rules for certain companies

The Income Tax Law allows certain companies to shelter profits from tax by utilising losses that arose in another company within that corporate 'group'.

Under the current law, it is possible for losses arising in a 0% company to be offset against certain profits in another company subject to tax at 20%. This was not the intention of the law following the introduction of zero/ten. It is proposed to amend the law to prevent this from being possible.

Benefit-in-kind exemption for directors

The Minister proposes to amend a specific exemption from income tax that exists for controlling shareholders.

Under the existing rules, taxpayers are not subject to a benefit-in-kind income tax charge provided no deduction is sought in relation to the provision of the benefit within the employing company's tax computation. In the case of companies that are subject to tax at 0%, and following the removal of the shareholder tax rules, this rule is ineffective.

This measure will ensure the benefit-in-kind rules cannot be abused by controlling shareholders.

Exemptions for non-residents

The Minister proposes an amendment in respect of dividends paid to non-residents. This will ensure that non-residents are only exempt from income tax on dividends if those dividends have been paid out of profits that have been taxed at 0% on the company.

The amendment will be effective from 17 October 2012.

The Minister emphasises that any claims made before the 17 October 2012 for the repayment of income tax due under the Income Tax Law will be determined, and permitted, in accordance with the Income Tax Law as it existed prior to that date. Any claims made on or after the 17 October 2012 will be dealt with under the Income Tax Law, as amended.

Repeal of income tax relief on life insurance premiums

The Minister proposes to withdraw the current availability of income tax relief on premiums paid for life insurance cover.

The majority of income tax reliefs for higher earners were withdrawn as part of the '20-means-20' measures. Most of these measures took full effect from 2011. Tax relief continued to be available for certain life insurance policies in place in 2007, but only for higher earners. The Minister proposes to remove the availability of income tax relief.

This measure is the final step in removing the availability of the relief.

Rental income of non-resident landlords – penalty regime

The Minister proposes to clarify the Comptroller's ability to apply penalties on non-resident landlords in cases where tax has not been withheld when it should have been.

Under the existing rules, an agent who receives rent in respect of a property in Jersey on behalf of a non-resident landlord is required to deduct tax at rate of 20%, in cases where the non-resident landlord does not have a 'certificate of good compliance'. If that agent does not deduct and remit the income tax within a specified period, they will be subject to a financial penalty.

This measure amends a technicality within the existing law to ensure this penalty provision is effective, thereby encouraging agents to ensure the correct amount of income tax is paid on time.

Additional personal allowance

An amendment is proposed to rectify the law following the move to '20-means-20' to ensure that a married taxpayer who is entitled to claim child allowance, cannot also claim the additional personal allowance, save for in certain limited circumstances.

Enhanced ITIS measures

One of the cornerstone elements of the ITIS system is that employers are obliged to withhold income tax from their employees' salaries and remit those funds to the Taxes Office within a specified period. There are some persistent offenders who do not comply with this requirement.

This measure will enable the Comptroller to issue estimated assessments to those non compliant employers followed by legal proceedings if the estimated tax is unpaid.

This proposal is to improve taxpayer compliance.

Measures to promote consolidation and simplification within the tax regime

Long standing ‘concessions and practice’

The Minister proposes to enshrine into law some long-standing concessional practices.

These are as follows:

- *Dividends paid by the Channel Islands Co-operative Society Ltd will not be regarded as taxable income.*
- *War widows’ pensions and war disability pensions, regardless of which government they are paid by, will not be regarded as taxable income.*
- *Allow a loss arising from non Jersey possessions to be offset against other taxable income from non Jersey possessions in the same tax year.*

Legislating for these measures will provide clarity and certainty thereby facilitating taxpayer compliance.

Exemptions for private medical insurance

Under the existing rules employee private medical premiums paid by their employer are exempt from the charge to income tax unless the employee has claimed income tax relief themselves. Since the implementation of ‘20-means-20’, tax relief is not available to the employee.

This measure is to remove an ineffective piece of legislation because individuals are no longer able to claim relief.

4. Goods and Services Tax Proposals

Background

The changes proposed are intended to protect revenue and to bring consistency of treatment to domestic properties.

The Minister proposes amendments to the Goods and Services Tax (Jersey) Law 2007 in respect of the following:

Measures to safeguard tax revenues

Bad debt relief

The Minister proposes an administrative amendment to bring into law the practice which is set out in the Public Information Leaflet "Relief on Bad Debts" issued in August 2008, to prevent double relief for GST in the case of unpaid invoices.

This measure will amend an anomaly in the existing legislation.

Measures to promote consolidation and simplification within the tax regime

Share transfers on domestic property

The Minister proposes an amendment to align the GST treatment of transactions in residential properties which are sold directly, with those properties sold by way of share transfer.
At present domestic property sold directly is zero rated, whereas that sold by share transfer is exempt. This causes administrative difficulties to both the Taxes Office and taxpayers.
This amendment makes share transfer transactions of domestic property and related parking facilities zero rated, in line with the general policy for domestic property.

5. Impôts Duty Proposals

Background

Each year, in advance of the Budget, the proposals for impôts duties are reviewed against the prevailing economic conditions, the Island's financial position and the States strategies on alcohol and tobacco.

The Minister's proposals for 2013 are consistent with these strategies.

To help inform his decision the Minister has considered the following:
- *The most recent rate of inflation.*
- *Current tobacco and alcohol strategies.*
- *Informed consultation with Health and Social Services, Home Affairs and Economic Development and the Economics Unit in the Chief Minister's Department.*

It is proposed that the increases in duty will take effect at midnight on 31 December 2012.

The MTFP assumptions were for impôts duties to increase at the rate of inflation.

The Budget proposals, following consultation with the Council of Ministers, are set out in detail below and will raise additional revenues of approximately:
- *Alcohol duties – £19,000*
- *Tobacco duties – £1,217,000*
- *Fuel duties – £1,349,000*
- *Vehicle Emissions duty – £50,000*

These additional amounts will help meet the target of £7.6m in 2013 for Budget measures and tightening compliance on tax collection and reducing avoidance.

The Minister proposes amendments to the Customs and Excise (Jersey) Law 1999 in respect of the following:

Alcohol

Following consultation with the Council of Ministers, it is proposed to increase alcohol duty rates above the most recent rate of inflation.

Accordingly, the Minister proposes the following:
- *A 10% increase on all spirits and wines.*
- *An 8% increase on strong beer and cider (exceeding 4.9% abv).*
- *A 5% increase on weaker beer and cider (not exceeding 4.9% abv).*

The Budget proposals for alcohol duty rates are forecast to raise £18,195,000, which would contribute an additional £19,000.

Tobacco

Following consultation with the Council of Ministers, it is proposed that the policy of increasing duty on tobacco at a level above the cost of living is continued.

The Health and Social Services Department considers that the Island's Tobacco Control Strategy has been very successful to date and source data indicates that between 2005 and 2010 the number of cigarettes smoked per day by male daily smokers reduced by 38%. The reduction figure for females for the same period was 33%. In addition between 2000 and 2010 smoking prevalence for 14-15 year olds reduced from 35% to 17%.

As a result the Minister is proposing to increase the rate of duty on all tobacco products by 10%.

The increase in tobacco duty is intended to discourage consumption whilst maintaining revenue yield and economic models show that a 10% increase in price leads to a 2% drop in smoking prevalence across the population.

The high cost of tobacco in the Island plays an important part in reducing consumption, but there is evidence to show that both locals and tourists are increasingly turning to duty free sources for their tobacco supplies.

The Customs and Immigration Service has reported a significant increase in passengers attempting to import cigarettes in excess of their statutory allowance. The Service continues to monitor this activity to assess the risk to the revenue. At this time there is neither evidence nor intelligence to suggest that commercial quantities of cigarettes are being smuggled into the Island.

The Budget proposals for tobacco duty rates are forecast to raise £13,609,000, which would contribute an additional £1,217,000.

Fuel

The Minister continues to consider all issues regarding the duty for fuel including both the current worldwide price of hydrocarbon oil and the high margins which appear to exist on the retail price of fuel in Jersey.

In 2011 the JCRA conducted a review of the local road fuels market and found that once taxes and duties were removed from the pump price, Jersey prices are approximately 13ppl more for unleaded petrol than in the UK.

The review also found that the road fuels market could be more competitive and that margins in both the retail and wholesale markets are higher than might be expected.

As a result of increases in the cost of fuel in 2011, and in order to encourage competition the Minister made a decision to defer an increase in the rate of duty on fuel for 2012. For 2013, however, the Minister proposes to increase the rate of duty on all fuels by 3p per litre. This represents a 6.9% increase.

The Budget proposals for fuel duty rates are forecast to raise £22,234,000, which would contribute an additional £1,349,000.

Vehicle Emissions Duty

A low level Vehicle Emissions Duty (VED) was introduced in September 2010 with an estimated annual revenue yield of £2 million.

The number and type of new vehicle registered has not proved consistent with the original modelling used to formulate the duty banding and in 2011 the total yield for VED was just below £1 million. It is estimated that the yield will be similar in 2012.

It is not known to what extent the introduction of VED has influenced consumers' decisions on vehicle purchases, but the current economic situation must have also been a factor. In addition it is apparent that new vehicles are being manufactured with reduced carbon dioxide (CO_2) emission figures. As a result these vehicles are falling into the lower revenue VED band or the band where the revenue collection is zero.

The Minister has previously examined various options to increase the revenue yield from VED, but, to minimise the effect on the motor trade, considers it only appropriate to propose modest percentage increases to the duty rates.

For 2013 the Minister proposes an increase of 5% to all VED bands.

The Budget proposals for VED rates are forecast to raise over £1,000,000 which would contribute an additional £50,000.

Detailed Duty Increases for 2013

Figure 5.1 Duty increases proposed for 2013:

	Current duty	Proposed duty	Increase
Litre of Whisky @ 40%	£10.45	£11.50	1.05p (+10%)
Bottle of Table Wine	£1.25	£1.38	13p (+10%)
Pint of beer <4.9% abv	£0.32	£0.34	2p (+5%)
Pint of beer >4.9% abv	£0.47	£0.51	4p (+8%)
20 King Size cigarettes	£3.79	£4.17	38p (+10%)

Figure 5.2 Proposed rates of Vehicle Emissions Duty based on CO_2 mass emission figure:

CO_2 mass emission figure	LPV 1st registered in Jersey	LPV 1st registered outside Jersey 1 year or less ago	LPV 1st registered outside Jersey more than 1 but 2 years or less ago	LPV 1st registered outside Jersey more than 2 years ago
120g or less	£0	£0	£0	£0
More than 120g but not more than 150g	£44	£44	£27	£22
More than 150g but not more than 165g	£132	£132	£88	£66
More than 165g but not more than 185g	£198	£198	£127	£100
More than 185g but not more than 225g	£331	£331	£215	£166
More than 225g but not more than 250g	£662	£662	£431	£331
More than 250g but not more than 300g	£1,103	£1,103	£717	£551
More than 300g	£1,379	£1,379	£899	£689

Note: LPV means a light passenger vehicle, being a motor vehicle designed and constructed for the carriage of passengers and comprising no more than 8 seats in addition to the driver's seat.

Figure 5.3 Proposed rates of Vehicle Emissions Duty based on cylinder capacity of engine:

Cylinder capacity of engine	Vehicle 1st registered in Jersey	Vehicle 1st registered outside Jersey 1 year or less ago	Vehicle 1st registered outside Jersey more than 1 but 2 years or less ago	Vehicle 1st registered outside Jersey more than 2 years ago
1000cc or less	£0	£0	£0	£0
More than 1000cc but not more than 1400cc	£166	£166	£110	£83
More than 1400cc but not more than 1800cc	£276	£276	£182	£138
More than 1800cc but not more than 2000cc	£419	£419	£270	£210
More than 2000cc but not more than 2500cc	£551	£551	£358	£276
More than 2500cc but not more than 3000cc	£827	£827	£541	£414
More than 3000cc but not more than 3500cc	£1,103	£1,103	£717	£551
More than 3500cc	£1,379	£1,379	£899	£689

Comparisons with neighbouring jurisdictions

Figure 5.4 2012 Retail price margins – comparisons with the UK (June 2012):

	Jersey Retail Price	Jersey Duty	GST	Price net of duty & GST	Duty & GST as % of price	UK Retail Price	UK Duty	UK VAT	Price net of duty & VAT	Duty & VAT as % of price
Litreof whisky	£18.99	£10.45	£0.90	£7.64	60%	£16.00	£10.72	£2.67	£2.61	84%
Pint of standard beer	£3.40	£0.32	£0.16	£2.92	14%	£3.50	£0.50	£0.58	£2.42	31%
20 King Size cigarettes	£6.44	£3.79	£0.31	£2.34	64%	£7.30	£4.50	£1.22	£1.58	78%
Litre of Unleaded Petrol	£1.24	£0.43	£0.06	£0.75	39%	£1.33	£0.58	£0.22	£0.53	60%

Note: These figures are before the impact of the Budget proposals and the prices shown are based on a narrow range of sources but are for equivalent products. There will be considerable price variations in each jurisdiction, especially for wine and beer. Fuel prices are also subject to rapid change.

Figure 5.5 illustrates that in all of the above examples of dutiable products the proportion of price made up by duty and tax is significantly lower in Jersey than the UK. Even allowing for other cost factors in Jersey there would still appear to be a much greater margin in the retail price of products in Jersey than exists in the UK.

Figure 5.5 A comparison of typical 2012 tax and duty levels for a range of commodities:

	Jersey Duty	Jersey GST @ 5%	Guernsey Duty	UK Duty	UK VAT @ 20%	France Duty	France TVA @ 19.6%
Litre of Whisky @ 40%	£10.45	£0.90	£10.31	£10.72	£2.67	£5.31	£2.89
Bottle of table wine	£1.25	£0.30	£1.43	£1.90	£1.13	£0.02	£1.12
Pint of beer/lager @ 4.5% abv	£0.31	£0.16	£0.16	£0.50	£0.57	£0.06	£0.74
Pint of beer/lager @ 5.5% abv	£0.47	£0.19	£0.36	£0.61	£0.60	£0.07	£0.83
20 King Size cigarettes	£3.79	£0.31	£3.29	£4.50	£1.17	£3.12	£0.74
Litre of Unleaded Petrol	£0.43	£0.06	£0.45	£0.58	£0.24	£0.49	£0.18
Litre of Diesel	£0.43	£0.06	£0.45	£0.58	£0.25	£0.34	£0.18

Figure 5.6: Summary of duty revenues:

	MTFP Forecast 2012 £'000	MTFP Forecast 2013 £'000	Budget Proposals 2013 £'000	Contribution to Budget measures 2013 £'000
Impôts on Spirits	4,066	4,157	4,335	178
Impôts on Wine	6,809	7,248	7,350	102
Impôts on Cider	948	1,039	1,043	4
Impôts on Beer	5,549	5,732	5,467	(265)
Impôts on Tobacco	12,642	12,392	13,609	1,217
Impôts on Motor Fuel	20,014	20,885	22,234	1,349
Removal of fuel duty rebate (bus contract)	0	336	336	0
Impôts on Goods Imported	150	150	150	0
Vehicle Emissions Duty	939	1,000	1,050	50
Total Impôts Duty	**51,117**	**52,939**	**55,574**	**2,635**

6. Stamp Duty and Land Transaction Tax Proposals

The Minister proposes amendments to the Stamp Duties and Fees (Jersey) Law 1998 in respect of the following:

First time buyers

The Minister proposes to extend the reduced rate of Stamp Duty and Land Transaction Tax charged to first-time buyers of properties which was introduced in Budget 2012. This amendment will retain the extension, from £400,000 to £450,000, to the property ceiling up to which first time buyers are eligible for relief from Stamp Duty and Land Transaction Tax.

The purpose is to make it cheaper for first time buyers to purchase a property, thereby acting as a stimulus to the housing market.

This is a temporary measure, intended to take effect from 1 December 2012 and will stay in place until 31 December 2013.

Probate Duty

There is a proposed amendment to the Stamp Duties and Fees legislation to reintroduce a cap on the amount of probate duty that is payable on an estate.

Until 2005, there was a cap on the amount of probate duty that was payable on an estate. Probate duty of 0.75% was payable on the majority of the value of an estate up to £13,360,000. The effect of this was that the maximum amount of probate duty payable on an estate was capped at £100,000. Under the existing rules, probate duty is payable on the entire value of an estate.

This has put the Island at a competitive disadvantage and encouraged non-local advisers to adopt non-Jersey based structures in order to avoid the potential liability to probate duty. The potential loss of business is primarily in relation to the establishment and administration or management of companies owned by individuals rather than by trustees or corporations.

It has also had the effect of reducing the amount of cash deposited in Jersey banks. There is evidence of hundreds of millions of pounds not coming to Jersey because of the potential probate duty costs.

The reintroduction of this cap will enhance Jersey's competitiveness and remove a barrier to investment in the Island by non-residents.

Stamp duty court fees

It is proposed to introduce Stamp Duty court fees for contested Petty Debt Court hearings. The proposal is to continue to exempt payment for the applications and trials in cases where the claim is up to £3,000 but to introduce a charge of £300 per day or any part of a day in those cases where the claim exceeds £3,000. In the vast majority of cases the proposed court fee would represent 10% or less of the amount claimed.

7. Ongoing and Future Reviews

Consultations issued

The following consultations have been issued alongside this Budget.

International Services Entities ("ISE")

During 2011 a review was undertaken of the way in which the ISE regime functioned. The feedback from that review was that in general businesses considered that the regime is working well, but that some businesses, in particular those in the trust and company administration sectors, considered that the level of their fees could better represent the size of the businesses in question. A Green Paper has been issued alongside the 2013 Budget which looks at ways of improving the transparency and equity of the fees charged to companies in the trust and company administration sectors and their clients.

The consultation period will run for 14 weeks to Friday 25 January 2013 and interested parties are invited to respond. All responses will be reviewed and any changes arising will be made in the 2014 Budget.

White paper on collecting company information

During the course of the review into non-financial services companies, it has become clear that the States needs to collect more information on the profits earned by Jersey companies, in order to inform future tax policy measures. Scrutiny into the 0/10 regime from the EU Code of Conduct Group, combined with the ongoing pressure on revenues arising from the continuing global economic crisis, means that there is a greater need to ensure that more useful data is collected.

A White Paper is being issued along with the 2013 Budget statement, which proposes that data should be collected through the States of Jersey Statistics Unit.

The ongoing development of tax policy

Taxpayer communications

As part of the ongoing programme of consolidation and simplification within the income tax regime, there will be further guidance issued on matters that have been identified by taxpayers as unclear.

Already, the Taxes Office has sought to clarify the application of the marginal rate of tax by including in all affected tax assessments a detailed calculation of the tax liability. This clearly shows how taxpayers pay less tax under the marginal rate calculation than under '20-means-20'.

There will also be clarification for taxpayers who are assessed as civil partners and guidance for taxpayers coming up to retirement who have their income tax liability withheld on a prior year basis. This will help taxpayers understand their tax liabilities more clearly to ensure they do not find themselves in the position of having an unexpected tax liability. These communications will be available later this year.

Long term tax policy

Appendix 11 of the MTFP sets out the principles of a long term tax policy for Jersey and recommends key tax policy objectives.

The focus of tax policy development over the medium to longer term is also set out in that appendix and this provides more detail on the work which will be undertaken in the next 2-3 years.

Non financial service companies

The Minister will publish a review into ways of increasing revenues from non financial service companies, based on work done by the Tax Policy Unit.

Taxes Transformation Programme (TTP)

The Taxes Transformation Programme started in October 2011 and the three month inception phase was completed as scheduled by the end of last year.

The second phase which started in January 2012 involves implementing a range of major initiatives and recommendations and is likely to span a 2 to 3 year period. The recommendations are aimed mainly at modernising and simplifying our tax systems, the administration involved (including the inter relationship between relevant States departments) and the range and type of services available to all taxpayers (business and individuals).

Early this year it was agreed that the Taxes Office would administer the new Long Term Care (LTC) charge acting as agents on behalf of the Social Security Department. The start date agreed for LTC is now 2014 and as a result the charge component is now the number one priority of the TTP.

This has necessitated some re-scheduling of the major components of the TTP but other discrete components are now running in parallel with LTC such as data and information sharing. In addition the introduction of a risk based approach for all tax types has started and will achieve the CSR expenditure savings required by 2013.

When all recommendations have been fully and successfully implemented the TTP could achieve annual increases in tax revenues of up to £10 million.

Age related income tax exemption

The age at which the higher rates of income tax threshold apply will remain at 63 for 2013. The intention is to increase this in line with the States pension age of 65 with effect from the Year of Assessment 2014. Further details will be provided in Budget 2014 but the broad intention is that any change will not affect those who qualify for the exemption prior to that change coming into effect.

In future, the age related exemption threshold will automatically change in line with the States pension age.

Jersey Enterprise Trust

Work is going on to consider the feasibility of a regime to encourage private investment in local Jersey businesses through the tax system. The feasibility review will be undertaken in early 2013.

International Pensions

The development of a Jersey international pension scheme is ongoing following the withdrawal of Income Tax Amendment No. 41. The ability to attract international pension savings would bring diversification and new employment opportunities. Therefore work will be undertaken in 2013 to explore the options available to allow Jersey to become an attractive and compliant home for international pension savings.

Other areas of focus

Work is ongoing regarding the potential replacement of the marginal tax rate with a simpler regime, whilst retaining the low income tax rates applicable to most taxpayers, although as noted above communication on this already has been improved.

A review of property taxation will start in 2012, initially focussing on interest relief.

A GST 'Visitor Refund Scheme' is being piloted for a twelve month period with the aim of stimulating sales in the retail and travel industry.

Other tax policy issues to be addressed over the next 2-3 years include:

- *the feasibility of introducing independent taxation and current year taxation;*
- *review of tax relief for childcare and education costs;*
- *considering ways of encouraging talented young people to remain in Jersey; and*
- *the development of the alignment of Income Tax and Social Security.*

8. Financial & Manpower Implications

Financial implications

These Budget measures contribute to delivering revenues from tax and duty of £614,829,000 and the tax measures are broadly neutral in order to avoid taking taxes from the local economy at a time of economic downturn. However, the Treasury is keen to collect the taxes that are due under the existing tax regime. This will help deliver a modest increase in income for future years by strengthening compliance without making changes to the tax structure or rates.

The Treasury is keen to support the policy objectives of Health and Social Services in reducing the detrimental health effects of smoking and drinking. Hence there will be a modest amount of additional revenue raised through duty on alcohol and tobacco. There will also be an increase in fuel duty of 3p a litre.

The Budget proposals are listed below:

- *Increase income tax exemptions by 3%.*
- *Freeze income tax allowances.*
- *Introduce targeted anti avoidance legislation to define taxable distributions from corporate vehicles, introduce personal service company legislation and amend the availability of 'group relief' for companies.*
- *Repeal income tax relief on contributions to life insurance policies for those under '20-means-20'.*
- *Introduce administrative changes in respect of exemptions for non-residents, benefits-in-kind for directors, and the penalty regime for non-resident landlords, the additional persons allowance, the ITIS regime, and private medical insurance paid by employers.*
- *Introduce legislation for some longstanding concessions and practice.*
- *Amend the 'bad debt' GST relief provisions.*
- *Align the GST treatment on share transfers for domestic property with that for directly owned domestic property.*
- *Increase the duty on alcohol, tobacco, fuel and VED rates.*
- *Extend Stamp Duty and Land Transaction Tax relief for first time buyers.*
- *Reintroduce a cap on probate duty.*
- *Introduce Stamp Duty court fees for contested petty debt court hearings.*

These measures also support the delivery of the Housing Minister's objective to extend home ownership and stimulate the local housing market through the extension of relief from Stamp Duty and Land Transaction Tax relief for first time buyers.

The financial implications of the 2013 Budget proposals are summarised in Figure 8.1 below:

Figure 8.1 Financial implications of the 2013 Budget proposals:

Measure	Estimated 2013 Taxation Revenue
Impôts – alcohol	£19,000
Impôts – tobacco	£1,217,000
Impôts – fuel	£1,349,000
Vehicle Emission duty	£50,000
Budget measures, tightening tax compliance and reducing avoidance and reduction in bad debts	£4,965,000
Total	**£7,600,000**

Manpower implications

The proposals within the Budget Statement 2013 will be implemented without any increase to current approved staffing levels.

PART C – PROGRAMME OF CAPITAL PROJECTS

9. Capital Programme 2013

Introduction

The MTFP sets out the planned level of spending on the capital programmes for each of the years 2013-2015. This will be considered by the States on 6 November. The capital spending proposed for 2013-2015 was prepared from detailed information supplied by departments and subsequently reviewed at Corporate Management Board and the Council of Ministers. This report sets out a detailed schedule of capital projects for 2013 which can be funded from within the spending envelope set out in the MTFP. To comply with the Public Finances (Jersey) Law 2005 the States is asked to approve the detailed list of capital projects for 2013.

Capital Programme 2013

	£'000
Chief Minister's	
Web Development	100
Microsoft Upgrade	663
HRIS Replacement	740
Chief Minister's total	**1,503**
Education, Sport and Culture	
School ICT	1,000
St Martin School	7,732
Education, Sport and Culture total	**8,732**
Health & Social Services	
Upgrade of Main Theatres	2,100
The Limes Refurbishment	1,700
Replacement General Hospital – feasibility	350
Mental Health Facility at Overdale – feasibility	350
Relocation of Ambulance and Fire Station – feasibility	100
Adult Care Homes	4,000
Children's Homes	2,000
Health & Social Services total	**10,600**
Home Affairs	
Police Station Relocation – Tranche 4	1,000
Home Affairs total	**1,000**

Continued overleaf

Continued...

Transport and Technical Services	
Infrastructure Rolling Vote	9,981
Refurbishment of Clinical Waste Incinerator	700
Ash Cells & La Collette Headland	1,025
Transport and Technical Services total	**11,706**
Vehicle replacement (additional from consolidated fund)	**1,000**
Replacement assets	**2,785**
Total Projects – Capital Allocation	**37,326**
Housing	
Social Housing Programme	18,801
Total Programme	**56,127**

Chief Minister's Department

Web Development (£100,000 for 2013). The new gov.je website was launched in February 2010. Further development and enhancements are planned for 2012 and 2013. £100,000 was approved in 2012 and a further request of £100,000 has been made for 2013 (with an indicative amount of £170,000 for 2014). People will be able to do more online, from filling in forms to paying bills.

Microsoft Update (£663,000 for 2013). The current standard States of Jersey desktop software is now nearing 10 years of age. The desktop software will no longer be supported by Microsoft after July 2011 with the operating system being retired in July 2014. The availability of third party support will reduce from 2012 as new systems are only tested on later versions of the software. It is therefore proposed to replace the existing desktop software with the latest Microsoft products. £752,000 was approved for this project in 2012.

HRIS Replacement (£740,000 for 2013). The current HR Information System (HRIS) is five years old and requires replacement. A review indicated that a new system would overcome many of the operational difficulties associated with the current system.

Education, Sport and Culture

School ICT (£1,000,000 for 2013). There is a requirement for the introduction of an ICT broad strategy across Education to ensure that the Island is equipped for the future. £1,000,000 is shown in the indicative programme for each of the year's 2014 to 2015 making the overall total £3,000,000 for the School ICT project.

St Martins School Replacement (£7,732,000 for 2013). A new school is considered to be the most cost-effective option to replace the existing school, which falls well below recommended standards, including DfEE guidelines. This figure includes £500,000 relating to the Planning Vote.

Health & Social Services

Upgrade of Main Theatres (£2,100,000 for 2013). This phased project will enable Health and Social Services to:

- *Reconfigure existing theatre 1 to allow direct access from the new maternity theatre to the recovery area and use of the new maternity theatre as a decant during the work on main theatres.*
- *Refurbish existing theatres 3 & 4 with an expansion of theatre 4 and installation of laminar flow in theatres 3 & 4.*
- *Replacement of air handling plant in accordance with current guidance in theatres 1-4.*
- *Replace the reception area for patients for surgery.*
- *Centralise and expand the storage space available for main theatres.*

Funds of £1,052,000 were approved for upgrades of Main Theatres in 2012 and there is indicative funding of £1,837,000 for 2014.

The Limes Refurbishment (£1,700,000 for 2013 – with an additional £1,000,000 funded from Charitable Funds). The Limes is a care home built in the 1980s to a very high standard but not refurbished since. This project will:

- *Replace all floor, wall and ceiling finishes in all bedrooms, shower rooms (including new sanitary ware), corridors and communal areas;*
- *Install 3 new assisted bathrooms;*
- *Modernise and increase number of sluice rooms; and*
- *Completely redecorate the building inside and out.*

Replacement General Hospital (£350,000 for 2013). This provides for a feasibility study to review the options for the location of the General Hospital and the correct configuration of services.

Mental Health Facility at Overdale – Feasibility Study (£350,000 for 2013). The facilities at St Saviour's Hospital are reaching the end of their economic life and will shortly not be fit for purpose in respect of the ability to supply the desired service provision. Additionally it has been recognised that the capacity of the existing facilities needs to be doubled in the medium term to meet growing need.

Ambulance and Fire Station relocation feasibility study (£100,000 for 2013). The feasibility study is planned to determine whether to co-locate blue light services on one site.

Adult Care Homes (£4,000,000 for 2013). There are several key issues that require addressing within the Special Needs Service:

- *Fit for purpose homes for life for people with significant and complex needs;*
- *Appropriate day services for people with learning disabilities, integrated in to the community;*
- *Development of appropriate day time services for people on the autistic spectrum;*
- *Appropriate residential setting for specialist assessment and treatment of vulnerable adults.*

Children's Homes (£2,000,000 for 2013). This project is to develop homes for children who require residential care, which may include the acquisition and development of a new home, the provision of suitable accommodation for children with complex and challenging behaviour who might otherwise need to be placed in off Island UK specialist placements, and the development of short break facilities, including day service and residential services.

Home Affairs

Police Station Relocation – Tranche 4 (£1,000,000 for 2013). This is a continuation of funding that was initially identified in the 2012 Business Plan and there is an additional £1,000,000 identified in the indicative programme for 2014.

Transport and Technical Services

Infrastructure Rolling Vote (£9,981,000 for 2013). The infrastructure rolling vote is designed to allow TTS to facilitate the maintenance and further improvement of the Island's infrastructure network. The allocation is split broadly between highways, traffic improvements/street lighting, drainage infrastructure maintenance including pumping stations and other infrastructure assets with an amount included for inflation. The current indicative programme for 2013 is:

	2013 £'000
Infrastructure Capital	£1,760
Highways	£3,602
Traffic	£31
Street Lighting	£124
Drainage Projects	£1,145
Liquid Waste	£1,852
Pumping Stations	£242
Drainage Maintenance	£1,225
Total Capital 2013	**£9,981**

Refurbishment of Clinical Waste Incinerator (£700,000 for 2013). The clinical waste incinerator requires a complete overhaul and refurbishment and was supposed to be replaced in 2012. This funding should provide for temporary maintenance to keep the plant operating until additional funding is available from 2016. This funding should also provide for feasibility studies and site investigations into the new clinical waste incinerator. This project has indicative funding of £300,000 in 2014.

Ash Cells & La Collette Headland (£1,025,000 for 2013). The current ash cell provides a repository for ash that is safe and sustainable in the context of its proximity to the nearby Ramsar site. Ongoing revenue implications include monitoring and leachate extraction. The project brief is that the design of the cell is robust and durable and integrates with the long term La Collette Headland Plan. The La Collette Headland Plan provides an ongoing repository for the ash by-products of the new Energy From Waste (EFW) plant for the design life of the plant. Revenue implications and project brief are the same as for the existing cell but, additionally, the completed headland will enhance the completed La Collette Reclamation aesthetically, environmentally and financially. £1,051,000 is included in the indicative programme for 2014 and £1,077,000 for 2015.

Other Capital

Vehicle Replacement (£1,000,000 for 2013). This funding is to support the work of Jersey Fleet Management in the purchase of vehicles on behalf of departments. This is a continuation of the funding established in the 2012 Business Plan to enable the initial purchase of additional vehicles. Funding will continue to 2015 when it is anticipated that the overall work of Jersey Fleet Management will be self funding.

Replacement Assets (£2,785,000 for 2013). Departments go through a process of identifying those assets that are due for replacement and then conduct a prioritisation exercise to come to their final request.

	2013 £'000
Replacement Assets	
Health and Social Services	2,484
Home Affairs	200
Transport and Technical Services	101
Total	**£2,785**

Housing Programme

Social Housing Programme (£18,801,000 for 2013). "House our Community" is a key strategic priority for the States and has at its heart the aim that all Island residents should be housed adequately. A detailed plan of new build sites has been prepared by the Housing Department. Individual scheme amounts are still subject to tender and are not disclosed. Included in the £18,801,000 are the following schemes:

Scheme description	Budget 2013 £'000
New Build Projects	
Lesquenade – Phase 2	
Ann Court	
Le Squez – Phase 4	
La Collette – Block B	
Former Le Coin Site	
Major Refurbishments Projects	
Journeaux Street Intensification	
De Quetteville Court High Rise	
Overall Total	**18,801**

Housing has identified a number factors that could affect the delivery of the programme:

- *Having the capacity and access to funding to build new homes.*
- *A key partnership with Jersey Development Company to help deliver developments of a more challenging nature such as the development of La Collette.*
- *The ability to build new homes on existing sites.*
- *A target of 1,000 new social rented homes delivered in the next 12 years.*
- *An additional 100 units built for sale.*

The 2013 programme will be unaffected by the Housing Transformation project but this may have an impact from 2014 in terms of timing, funding and the treatment of these projects within future Budgets.

States Trading Operations

For 2013, States Trading Operations comprise Jersey Harbours and Jersey Airport as part of Economic Development Department and Jersey Car Parking and Jersey Fleet Management in the Transport and Technical Services Department. A summary of the capital expenditure proposals for the States Trading operation is shown below.

	2013 £'000
Minor Capital Assets	517
Jersey Airport	**517**
Replace Pilot vessel 'Le Fret'/New Workboat	922
Minor Capital Assets	374
Jersey Harbours	**1,296**
Concrete Degredation	12
Jersey Car Parks	**12**
Vehicle and Plant Replacement	1,323
Jersey Fleet Management	**1,323**
Total	**3,148**

PART D – SUMMARY TABLES

Summary Table A – States Income 2013

	Budget 2012 £'000	MTFP Forecast 2012 £'000	MTFP Proposal (Budget) 2013 £'000
Income Tax			
Personal Income Tax	344,000	360,000	377,000
Companies	76,000	74,000	77,000
Provision for Bad Debt	(4,000)	(4,000)	(4,000)
	416,000	430,000	450,000
Budget Measures Tightening Compliance on Tax Collection and Reducing Avoidance			7,600
Goods and Services Tax (G ST)	80,047	77,700	79,761
Impôts Duties			
Impôts Duties Spirits	4,162	4,066	4,157
Impôts Duties Wine	6,923	6,809	7,248
Impôts Duties Cider	914	948	1,039
Impôts Duties Beer	5,530	5,549	5,732
Impôts Duties Tobacco	13,609	12,642	12,392
Impôts Duties Fuel	21,952	20,014	20,885
Removal of Impôts Fuel Duty Rebate in Bus Contract	–	–	336
Impôts Duties Goods (Customs)	150	150	150
Vehicle Emissions Duty (VED)	1,260	939	1,000
	54,500	51,117	52,939
Stamp Duty	22,429	21,435	22,978
Stamp Duty on Share Transfer (LTT)	1,600	1,434	1,551
	24,029	22,869	24,529
Total Taxation Revenue	**574,576**	**581,686**	**614,829**
Other States Income			
Net Investment Income	3,960	4,060	3,721
Dividends and Returns	13,417	19,075	8,319
Planned Addition to Shareholder Returns			
Jersey Financial Services Commission Fees	3,700	3,700	3,700
Returns from States Trading Operations	2,511	1,652	1,691
EUSD Retention Tax	1,500	1,500	1,500
Income Tax Penalties	1,000	1,071	1,071
Fines and Other Income	494	527	543
	26,582	31,585	20,545
Island Rate Income from Parishes	11,185	11,330	11,670
Total States Income	**612,343**	**624,601**	**647,044**

Summary Table B – Proposed Capital Programme for 2013 – summary

	£'000
Departmental Capital Programme	**37,326**
Funding Sources	
Consolidated Fund	(12,566)
JPH Asset Disposals Receipts from Business Plan	(3,300)
Additional Limes Funding – Charitable Funds	(1,000)
JPH receipts	(2,632)
Use of Jersey Post Dividend	(1,528)
Repayment of JT Preference Shares	(8,500)
Use of Carry Forwards 2012 to 2013	(7,000)
Funded from the Central Planning Vote	(800)
Funding Available	**(37,326)**
Social Housing Programme	18,801
Housing Funding Sources	(18,801)
Total capital expenditure	**56,127**
Funding from Consolidated Fund (Main allocation)	**12,566**
Funding from Other Sources (Repayments to Consolidated Fund etc)	**24,760**
Housing Funding	**18,801**
Total funding	**56,127**

Summary Table C – Proposed Capital Programme for 2013

	£'000
Chief Minister's	
Web Development	100
Microsoft Upgrade	663
HRIS Replacement	740
Chief Minister's total	**1,503**
Education, Sport and Culture	
School ICT	1,000
St Martin School	7,732
Education, Sport and Culture total	**8,732**
Health & Social Services	
Upgrade of Main Theatres	2,100
The Limes Refurbishment	1,700
Replacement General Hospital – feasibility	350
Mental Health Facility at Overdale – feasibility	350
Relocation of Ambulance and Fire Station – feasibility	100
Adult Care Homes	4,000
Children's Homes	2,000
Health & Social Services total	**10,600**
Home Affairs	
Police Station Relocation – Tranche 4	1,000
Home Affairs total	**1,000**
Transport and Technical Services	
Infrastructure Rolling Vote	9,981
Refurbishment of Clinical Waste Incinerator	700
Ash Cells & La Collette Headland	1,025
Transport and Technical Services total	**11,706**
Vehicle replacement (additional from consolidated fund)	**1,000**
Replacement assets	**2,785**
Total Projects – Capital Allocation	**37,326**
Housing	
Social Housing Programme	18,801
Total Programme	**56,127**

Summary Table D – Proposed Capital Allocation to States Trading Operations for 2013

	£'000
Minor Capital Assets	517
Jersey Airport	**517**
Replace Pilot vessel 'Le Fret'/New Workboat	922
Minor Capital Assets	374
Jersey Harbours	**1,296**
Concrete Degredation	12
Jersey Car Parks	**12**
Vehicle and Plant Replacement	1,323
Jersey Fleet Management	**1,323**
Total	**3,148**

Summary Table E – Consolidated Fund Forecast for 2013

Actual		Original budget	MTFP Forecast	MTFP Forecast
2011 £'000	Consolidated fund	2012 £'000	2012 £'000	2013 £'000
40,625	**Opening balance**	**24,770**	**47,166**	**32,738**
–	Proposed Capital Expenditure Allocation – Housing Schemes	–	27,000	–
–	Repayment of JT Preference Dividends	–	20,000	–
–	Other Fund Adjustments – Allocation to Capital Programme	–	–	(8,500)
–	Other Fund Adjustments – Allocation to Innovation Fund	–	(5,000)	–
–	Other Fund Adjustment – Earmarked Carry Forward from 2012 to Fund Capital	–	7,000	(7,000)
–	Other Fund Adjustment – Earmarked Carry Forward from 2013 to Fund Capital	–	–	3,300
–	Other Fund Adjustment – Jersey Post Special Dividend 2012 to Fund Capital	–	(2,274)	(1,528)
26,835	Other Fund Adjustments	2,032	–	–
(24,838)	Forecast Surplus/Deficit for the year	(19,412)	(7,154)	707
–	Transfer from/(to) the Strategic Reserve	–	–	–
46,000	Transfer from/(to) the Stabilisation Fund	–	–	–
(41,456)	Carry forward expenditure to 2012	–	–	–
	Estimated Consolidated Fund Balance			
47,166	**Central scenario**	**7,390**	**32,738**	**19,717**