STATES OF JERSEY

DRAFT BUDGET 2012 (P.159/2011): THIRD AMENDMENT

Lodged au Greffe on 25th October 2011
by Deputy T.A. Vallois of St. Saviour

STATES GREFFE

PAGE 2 –

Number the proposition as (a) and insert new paragraphs as follows –

> “(b) to request the Minister for Treasury and Resources to prepare and present to the Assembly no later than September 2013 a Long-Term Tax Policy to support the simplification of Jersey’s tax regime as described on pages 43, 44 and 45 of the Budget 2012 statement.
>
> (c) to request the Minister for Treasury and Resources not to bring forward for approval by the States any further proposals to increase tax until a fully comprehensive and inclusive Long-Term Tax Policy has been agreed by the States.”.

DEPUTY T.A. VALLOIS OF ST. SAVIOUR

REPORT

Although many would say that this was a very seductive and enduring Budget, I feel it only appropriate to point out 2 areas which I believe have been overlooked by the Minister for Treasury and Resources in producing the Budget for 2012.

During the Fiscal Strategy Review carried out by the Minister in 2010, he warned of uncertain economic times and our responsibility to ensure balanced budgets; therefore, he produced a Budget for 2011 that merely captured the easy option for raising taxes – GST!

Not only did the Fiscal Strategy Review purely focus on revenue-raising measures from individuals, but it also focused on 4 different measures – Social Security Employee and Employer, GST, Domestic Rates and Income Tax. Due to issues surrounding Zero/Ten, the Business Tax Review was put on hold.

We are still in a grey area as to what possible solutions could be put in place by the Treasury to overcome the absurd circumstances of some businesses not contributing to the revenues of the States of Jersey whilst other businesses are subject to our taxation system.

We see for 2012 a dire attempt at alleviating the issues of companies contributing to States of Jersey revenues.

The amendment I therefore propose under part B is to ensure commitment is made to the very words of the Budget Statement on pages 43–45 whereby it identifies specific areas of focus over the next 2–3 years. I would argue that we should recognise this as a priority for the next Minister for Treasury and Resources to ensure appropriate proposals are brought forward to the following Assembly under future Budgets.

The tax system in Jersey, in my view, is becoming far more complex than need be for a small Island. This is due to many years of tinkering around the edges and assumptions by previous Assemblies that individuals will continue to take a back seat whilst they are becoming ever-increasingly burdened with further taxes.

Taxation is never a welcoming burden; however, society recognises that public services require funding. What the public do not accommodate very well is wasting public money on inconspicuous pay-outs, failed transactions, high unaccountable salaries and a total disregard for monies which they have worked tirelessly for, whether it is for a few hundred or thousands of pounds.

Part C has been changed many times to try to reflect an overwhelming opinion of many Islanders as to how we can get to grips with the Minister for Treasury and Resources not utilising the “easy tax option” in order to make up revenue, and instead identify more appropriate ways to collect revenue for public services. Although the Comprehensive Spending Review is underway, it is not enshrined in legislation and is therefore easily eradicated. With many pressures upon the Island in years to come, such as an ageing population, pensions and the cost of living only increasing, a sales tax (such as GST) has to be seen as an absolute final solution to remedy the problems which will be forthcoming.

The implications of a sales tax to the economy has many risks, not only to individuals but also to growth within industries such as Retail and Construction, particularly small – medium businesses which correspond to 75% of our business community.

Whilst doing research on the very subject of GST, I came across a very pertinent extract taken from the OECD Economic Outlook, Volume 2011, Issue 1 paper, whether you agree with them or not it identifies the key area of concern to the Island, and that is one of inflation.

For every 1% GST that is added on, inflation increases by approx. 0.6% for one year and is supposed to fall out.

> "***Macroeconomic and financial policy normalisation is required ……***
>
> ***Policy responses and requirements***
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> ***With the recovery becoming more self-sustained and slowly gaining momentum, key policy priorities are to support the recovery and keep projected inflation close to target whilst implementing growth-friendly medium-term consolidation plans and gradually normalising monetary policies. Policies should also take into account the importance of current uncertainties and remain ready to adjust as necessary. Internationally co-ordinated financial reforms should also be pursued to enhance financial market resilience.***"
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> OECD Economic Outlook, Volume 2011, Issue 1.

We are not economists, we are States Members; however, what you need to ask yourself is how long will this period of uncertainty last for Jersey? Acknowledge the numerous amounts of risks that have been identified by Global Markets affecting in particular our one main player in industry, Finance.

Our anti-inflation strategy has been a mere shelving document which still has action points to be delivered.

The fact of the matter is we need to be careful about what it is we are exactly trying to achieve for the Island and protect those that we are here to represent, Islanders.

An appropriate look at our current taxation system, with a view to identifying a more long-term approach to tax policy, will hopefully produce a system with key risk analyses for changing economic trends.

Although GST is seen to be low at 5%, our cost of living continues to rise and places significant strain on individuals, small-to-medium businesses, and therefore growth within an economy which apparently wants to diversify!

An extract from the Institute of Economic Affairs written by Mr. R. Welling identifies the risks of raising sales taxes (albeit at a higher rate) but without doubt similar repercussions due to our restrictions for high income/low footprint businesses and competition.

Why raising VAT destroys wealth

Richard Wellings

4 January 2011

In the context of Britain's fiscal crisis, today's rise in VAT from 17.5% to 20% may be seen by some as a necessary evil. Moreover, indirect taxes such as VAT are often regarded as less harmful than direct taxes such as income tax. Certainly, the economic effects of rises in VAT are dispersed and difficult to quantify. Nevertheless, it is important to recognise the negative economic impacts of raising VAT. Indeed, there are good reasons to be sceptical that raising the tax will deliver significant additional revenues in the long term.

Increasing VAT prevents mutually beneficial exchanges from taking place – trades that are no longer worthwhile at the higher rate. Thus there is an immediate welfare loss. But the repercussions are far more profound. In particular, raising VAT will have a negative effect on productivity growth. Increasing its rate reduces the economic incentives to trade and therefore hampers the division of labour and the associated productivity gains from increased specialisation, economies of scale and so on. General tax revenues will suffer eventually as lower productivity growth reduces overall output.

Further harmful effects include reduced work incentives, as individuals can buy less with every extra pound they earn, and a greater distortion between vatable and non-vatable goods. Given that most of what people earn is spent, an increase in VAT has much the same effect on incentives as an increase in income tax – it reduces real, take-home pay.

A higher rate of VAT also encourages individuals and firms to conduct business in the informal economy. Accordingly, the "black market" tends to be larger in countries with high rates of VAT, even in cultures where corruption is relatively weak, as in Scandinavia. Yet investment is a problem for informal businesses – they cannot expand like formal businesses and therefore may hinder the creation of wealth in the long-term. Black market businesses also expend resources on avoiding detection, corrupting officials, paying participants a risk premium and so on. Furthermore, an expanding informal economy may encourage draconian and costly countermeasures by tax authorities, which also impose additional costs on legitimate businesses."

Reference:- © 2010 Institute of Economic Affairs
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The most important consideration within all of this research and debate is to ensure that we do not raise our Goods and Services Tax beyond its current level.

The new Assembly will undoubtedly bring forward debate on the possibility of exemptions under the GST regime. This will more than likely be produced as a reason for why you shouldn’t support this amendment; however, I would refer you to the importance of part B whereby long-term fiscal policy needs to be brought forward and addressed in order to ensure a fair and less regressive tax system is identified so that GST is not an easy option in future for failure to meet savings targets or wasteful expenditure of public monies.

Financial and manpower implications

No financial or manpower implications will be required as the long-term strategy should already be underway by the Treasury and Resources Department within current resources.