Government of JERSEY

Income Forecasting Group

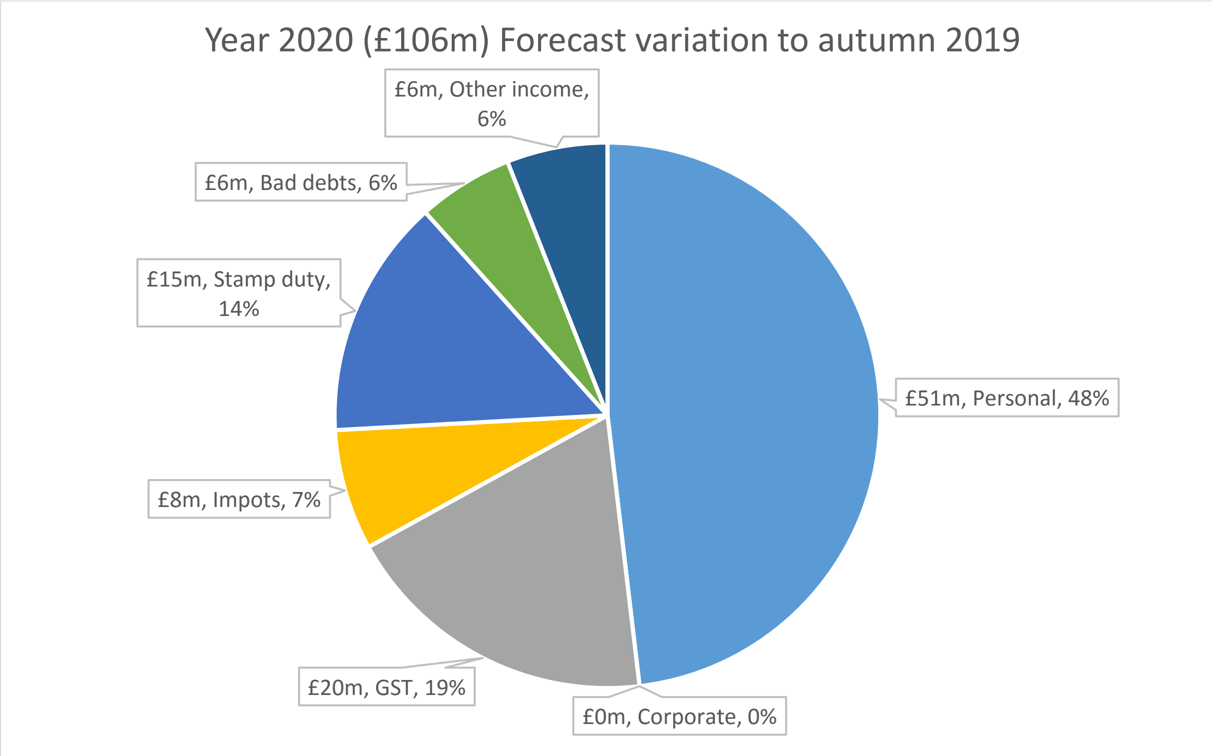
Report on the revised forecast of States income for spring 2020

R.52/2020

1. Executive Summary

1.1. The COVID-19 pandemic has had an immediate and significant impact on Jersey's economy and therefore its public finances. The Income Forecasting Group (IFG) has consequently reduced its spring forecast for total States income in 2020 by £106m (12.1%), when compared to the forecast made to inform the addendum to the Government Plan 2020-23 (P.71-2019 Addendum). Around half of this reduction (£51m) is due to downgrades to the forecast for income tax, with £20m from lower GST, £15m from stamp duty, £8m from reduced impôts, £6m from 'other income' and £6m from an increase to the forecast for bad debts.

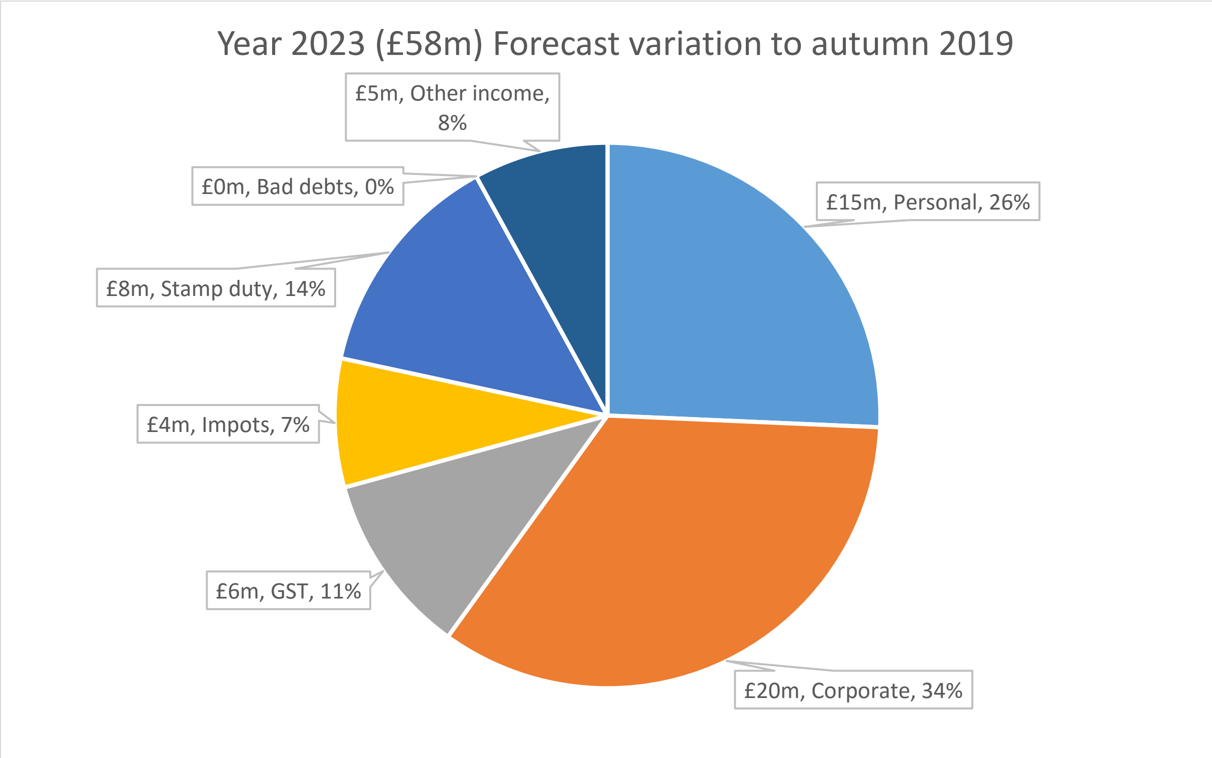
Figure 1 – The variation in forecast States income in 2020



1.2. The COVID-19 pandemic has caused significant disruption to the economy, as necessary restrictions have been put in place to reduce its spread, which in turn affects the tax base. The duration and extent of the outbreak and of the restrictions are highly uncertain, as therefore is the consequent size and duration of the impact on the economy. The IFG's forecast has been informed by the independent economic forecast produced by the Fiscal Policy Panel (FPP).

1.3. The IFG forecast is considered consistent with a three-month period of restrictions on economic activity (put in place to reduce the spread of the disease), and with a three-month phased return to a full level of economic activity. This has a very significant impact on revenues in 2020, but is also forecast to result in a lower level of tax revenues in the future. The new IFG forecast for 2023 is around £58m (5.9%) lower than the previous forecast, primarily due to a reduction of £35m in the income tax forecast with stamp duty £8m lower, GST £6m lower, 'other income' £5m lower and impôts £4m lower. This is consistent with the FPP forecast for the economy to be around 5% smaller than previously forecast, in the medium term.

Figure 2 – The variation in forecast States income in 2023



1.4. The forecast is highly uncertain, with a number of potential risks relating to the COVID-19 outbreak:

- The medical situation may require a longer period for significant parts of the economy to be shut down, or a second phase of restrictions.
- A larger impact on financial services, through a contagion effect either from the global or local economies. This is a particular risk to corporate tax, as banks pay a significant proportion of corporate tax and may see reduced profits in the event of suffering significant loan impairments.

- Long-term structural impacts, for example due to the failure of some key businesses.
- A reduction in travel to and from the Island in the medium term, which would delay the recovery in the visitor economy and could hinder the development of new business for exporting sectors.
- A prolonged reduction in domestic demand due to a strain on household finances and reduced consumer confidence.
- A prolonged reduction in business investment due to a strain on corporate finances and reduced business confidence.
- Changes to consumer behaviour, for example an acceleration in the shift to online retail.
- In addition to downside economic risks, there is a further layer of downside risks to income tax:
  - The potential that bad debts will increase more than in the base case forecast.
  - A potential trend for greater retention of profits in locally-owned firms, resulting in lower distributions.
  - A potential reduction in relocations on the high-value residency tax regime.

1.5. In addition to risks from the COVID-19 outbreak, the longer-term risks remain:

- The uncertainty regarding the UK's future trading relationship with the European Union. While the Coronavirus pandemic may result in slow progress in negotiations, the British Government has so far ruled out any extension to the end of the transition period beyond the end of 2020. The IFG forecast assumes that the UK moves in an orderly fashion to a new trading relationship, at the end of the transition period – whether or not this is extended beyond the end of 2020.
- Risks to financial services, including the risk of external regulatory challenges. The pressure the current crisis has put on public finances around the world may result in an intensification of regulatory interventions, which may have unintended negative consequences for Jersey's financial services sector. In addition, the risk to the Jersey financial services sector posed by the possible behavioural responses of multinational companies to changing international tax rules and, in particular, the OECD work on the Taxation of the Digitalised Economy.
- Longer-term challenges including low productivity growth and the impacts of an ageing demographic.

1.6. The IFG has also developed a forecast for a downside scenario. This scenario assumes both a prolonged period of restriction on economic activity, and a more severe impact on the economy – including more significant structural impacts that reduce the forecast in the medium term.

1.7. Under the downside scenario, the forecast for total States income in 2020 is £163m (18.6%) lower than the previous IFG forecast. The majority of this reduction (£100m) is due to downgrades to the forecast for income tax, with £24m from lower GST, £16m from stamp duty, £10m from reduced impôts, £6m from 'other income' and £6m from a forecast increase in bad debts.

1.8. However, the base case scenario is considered by the IFG as the most likely outcome, with the downside scenario for information only. In future, several indicators will be closely watched to consider the extent to which the outcome may diverge from the IFG's base case forecast.

1.9. Key indicators include:

- The latest data and forecasts for the global economy
- Sentiment in Jersey's key sectors – informed by both discussions with key business leaders and the results of the Business Tendency Survey
- Local survey evidence on the impact of the COVID-19 outbreak
- Finance sector profit and employment projections
- Revenue Jersey intelligence on corporate tax projections
- Data on employment and on the number of Social Security contributors
- Number of people registered as Actively Seeking Work
- Inflation
- Average earnings
- Residential property prices and transactions
- Vacancies data from gov.je and other sources
- Data from GST returns
- Employer returns from the Income Tax Instalment System (ITIS)
- Aggregated data on credit card spending
- Data from the support schemes that the Government of Jersey has put in place:
    - The Co-Funded Payroll Scheme
    - The Business Loan Disruption Guarantee Scheme

1.10. In the first instance the Fiscal Policy Panel will be asked to update its forecast for the economy, using any new information that is available, plus the latest expectations for the extent and duration of any restrictions that remain in place. The income forecast will then be revised based on the updated FPP forecast and data from Revenue Jersey.

2. Purpose

2.1. The purpose of the Income Forecasting Group's report is to provide the revised forecast of total States income as at spring 2020. The forecast reflects:

- the Fiscal Policy Panel's (FPP) economic assumptions of March 2020[1] and other related economic data for Jersey
- general revenues outturn for 2019
- initial information on general revenues for Quarter One 2020
- forecasts from Treasury for 'other income'
- latest available outturn data from Revenue Jersey, and
- intelligence from the IFG affecting future forecasts.

3. Background

3.1. The Terms of Reference (Appendix F) for the Income Forecasting Group requires that at least two forecasts are produced each year. This forecast will provide important background to the development of the Government Plan 2021-24.

3.2. The forecast period covers the years 2020-24 in order to cover the whole of the Government Plan period.

3.3. The next scheduled revision of income forecasts by the IFG will be an update carried out in autumn 2020. Additionally, internal consideration will be given to the forecast as the COVID-19 pandemic develops.

3.4. The IFG forecasts cover a large proportion of States income, including other States income from the Island Wide Rate, dividends and returns from States Investments, and other fees. The forecast for these income sources has been included in Appendix E.

[1] See: https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/FPP%20economic%20assumptions%2023%20March%202020.pdf

3.5. A 'base case' forecast has been developed, to represent the IFG's view of the most likely outcome, alongside a downside scenario, which considers a more severe reduction in revenues due to COVID-19 (Figure 7).

4. Economic assumptions

4.1. The economic assumptions have been updated by the Fiscal Policy panel (FPP) based on the latest local and international developments to March 2020.

4.2. Additional consideration has been given to the impact of the COVID-19 pandemic and its probable economic effects.

4.3. The central assumptions on which the spring 2020 forecasts are based are shown in Figure 3.

4.4. The IFG has considered the economic assumptions from the FPP and have agreed that these assumptions should be used as the basis for the income forecast modelling, with any variations described in the relevant reports (appended).

Figure 3 – FPP Revised economic assumptions as at March 2020

% change unless otherwise specified	2017	2018	2019	2020	2021	2022	2023	Trend 2024+
Real GVA	0.8	1.4	0.6	-6.3	4.4	1.0	0.6	0.6
RPI	3.1	3.9	2.9	1.2	2.2	2.5	2.5	2.6
RPIY	3.2	3.6	2.6	1.4	2.2	2.4	2.4	2.5
Nominal GVA	4.1	5.9	3.9	-5.1	6.0	2.7	2.8	3.1
Gross operating surplus (including rental)	-0.3	7.5	4.3	-8.2	7.7	2.2	2.5	3.2
Financial services profits	-6.4	9.6	2.0	-2.0	5.0	2.9	2.9	3.4
Compensation of employees	8.1	4.6	3.6	-2.5	4.6	3.1	3.0	3.1
Employment	2.3	1.4	1.0	-2.9	2.8	0.8	0.5	0.4
Average earnings	2.6	3.5	2.6	-0.6	2.2	2.3	2.5	2.7
Interest rates (%)	0.3	0.6	0.8	0.2	0.2	0.3	0.4	0.6*
House prices	2.9	7.1	7.0	-10.0	5.0	4.0	3.0	2.7
Housing transactions	7.8	5.3	-1.8	-50.0	45.0	15.0	7.0	1.5

* Bank Rate forecast for 2024 only

Figure 4 – Variation in FPP economic assumptions between October 2019 and March 2020

% change unless otherwise specified	2019	2020	2021	2022	2023	Trend
Real GVA	-0.3	-7.3	3.1	0.2	0.0	0.0
RPI	0.1	-1.2	-0.4	-0.2	-0.1	0.0
RPIY	0.0	-0.9	-0.3	-0.2	-0.1	0.0
Nominal GVA	0.4	-8.4	2.2	-0.7	-0.3	0.0
GOS (including rental)	1.0	-11.2	4.2	-1.0	-0.7	0.0
Financial services profits	0.0	-4.0	1.9	-0.4	-0.5	0.0
Compensation of employees	0.0	-6.0	0.6	-0.4	-0.1	0.0
Employment	0.0	-3.1	2.0	0.3	0.1	0.0
Average earnings	0.0	-3.9	-1.0	-0.7	-0.2	0.0
Interest rates (%)	0.1	-0.4	-0.3	-0.2	-0.1	0.1
House prices	0.7	-15.4	0.5	0.4	0.3	0.0
Housing transactions	-8.8	-53.0	41.8	12.7	5.5	0.0

5. Risks and uncertainties

5.1. There are a number of specific risks and uncertainties applicable to each of the forecast components, and these are described in more detail within the appended reports.

5.2. The COVID-19 pandemic has had a significant impact on the forecast, with the Organisation for Economic Cooperation and Development (OECD) identifying the virus as the greatest threat to global growth since the financial crisis of 2007-08.

5.3. Prior to the COVID-19 outbreak, data on the local economy suggested there was a mild slowdown during 2019.

5.4. Uncertainty around the UK's future trading relationship with the EU continues. However, for the purposes of the forecast the IFG assumes that the UK will make an orderly transition to a new trading relationship

5.5. The increase in external regulation, particularly from the OECD, may have long-lasting consequences to Jersey's financial services sector.

5.6. A number of longer-term challenges, including low productivity growth and the impacts of an ageing demographic, will continue to cause uncertainty in the forecast.

6. COVID-19 pandemic

6.1. The base case forecast typically uses the FPP economic assumptions with few adjustments made to them.

6.2. Due to the significant economic disruption caused by the COVID-19 pandemic, a number of temporary adjustments have been made to consider the impact on revenues of a three-month period of restrictions on economic activity (put in place in order to reduce the spread of COVID-19) followed by a three-month phased return to a full level of economic activity.

6.3. With the forecast economic downturn and the fiscal measures being implemented due to COVID-19, the forecast for bad debts has been increased for the years 2020-22.

7. Summary of 'base case' forecast

7.1. Due to the complexity of the adjustments made to each of the individual forecasts for spring 2020, the individual reports are appended, with the overall change to the autumn 2019 forecast summarised below.

7.2. **Personal income tax (Appendix A)** – The personal income tax forecast comprises several components that have differing economic sensitivities. A number of individual adjustments suggested by the IFG result in a £45m decrease to the forecast in 2020 gradually falling away over three years. However, these adjustments together with the updated FPP economic assumptions, and additional data, reduce the autumn 2019 forecast by £51m in 2020, decreasing to a £15m reduction in 2023.

7.3. **Corporate income tax (Appendix A) –** The recent broadening of the corporate tax base, and the differential effects of the COVID-19 pandemic, has led to the IFG splitting the corporate tax forecast on a sectoral basis. Additional adjustments have been made to reflect the impact of restrictions on activity on sectors subject to a positive rate of tax.
As the 2020 corporate forecast reflects the 2019 year of assessment there is no change to that year resulting from these adjustments. However, from 2021 the forecast is reduced by £27m with a £20m reduction in 2022 and 2023.

7.4. **GST (Appendix B)** – The restrictions to activity arising from the COVID-19 pandemic are likely to lead to a reduction in sales revenues, and hence GST receipts, in 2020. Work has been undertaken to identify the sectoral impact of the restrictions. However, the IFG feels that there will be a persistent impact on GST receipts continuing in 2021, with an implicit judgement that there would be a change in consumer behaviour. This leads to a reduction in the autumn 2019 forecast of £20m in 2020, decreasing to £6.3m in 2023.

7.5. **Impôts duty (Appendix C)** – Available in-year data suggests that the restrictions in place to mitigate the health impacts of COVID-19 are having a material impact on excise duties. For example, the closure of hospitality outlets has resulted in a dramatic fall in on-trade sales of alcohol, and the closure of schools and businesses has led to a significant reduction in fuel consumption. Additionally the FPP economic assumptions have also resulted in a reduction to the presumed duty rates in future years. The autumn 2019 forecast has reduced by £7.6m in 2020, £2.2m in 2021, £3.9m in 2022 and £4.5m in 2023.

7.6. **Stamp duty (Appendix D)** – Despite a strong start to property transactions in 2020, the impact of restrictions on activity will likely result in a decrease in the number of annual property transactions. The updated FPP economic assumptions support a decrease in the number of transactions and a subsequent reduction in property prices. The combination of these reductions result in a long-term reduction to the autumn 2019 forecast of £15.1m in 2020, decreasing to £8.0m in 2023.

7.7. **Other Government income (Appendix E)** – The autumn 2019 forecast has been reduced by £6.3m in 2020, with smaller variances to the forecast for 2021 to 2023. The main driver of the reduction in the forecast is reduced dividends from some States-owned entities and, more significantly, reduced investment returns on the Consolidated Fund and the Jersey Currency Fund.

7.8. **Figure 5** provides a detailed analysis of the base case forecast which is summarised below.

Base Case Forecast (£'000)	2019 (Outturn)	2020	2021	2022	2023	2024
Income Tax	594,000	561,000	570,000	620,000	666,000	697,000
GST	89,704	76,720	87,950	93,990	97,690	99,760
Impôts Duty	62,879	60,679	68,259	69,104	70,245	70,583
Stamp Duty	34,898	20,318	26,851	29,040	31,009	31,910
Bad debts	(3,235)	(9,000)	(6,000)	(6,000)	(3,000)	(3,000)
Other Income	71,434	59,767	59,521	61,247	64,676	67,793
Total States Income	**849,680**	**769,484**	**806,581**	**867,381**	**926,620**	**964,046**
Autumn 2019 (forecast)	850,986	875,459	909,802	947,762	985,010	
Variation	(1,306)	(105,975)	(103,221)	(80,381)	(58,390)	
	-0.2%	-12.1%	-11.3%	-8.5%	-5.9%	

Figure 5 – Base case IFG forecast for spring 2020

2019 Outturn	Base forecast (£'000)	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
	Income Tax					
480,000	Personal	446,000	480,000	519,000	561,000	585,000
475,000	*Autumn 2019*	497,000	524,000	550,000	576,000	
114,000	Corporate	115,000	90,000	101,000	105,000	112,000
113,000	*Autumn 2019*	115,000	117,000	121,000	125,000	
594,000	**Total Income Tax**	**561,000**	**570,000**	**620,000**	**666,000**	**697,000**
588,000	*Autumn 2019*	612,000	641,000	671,000	701,000	
6,000	Variation	(51,000)	(71,000)	(51,000)	(35,000)	
1.0%		-8.3%	-11.1%	-7.6%	-5.0%	
	GST					
80,793	GST	67,810	79,040	85,080	88,780	90,850
85,100	*Autumn 2019*	87,700	90,700	93,000	95,000	
8,911	ISE Fees	8,910	8,910	8,910	8,910	8,910
9,000	*Autumn 2019*	9,000	9,000	9,000	9,000	
89,704	**Total GST**	**76,720**	**87,950**	**93,990**	**97,690**	**99,760**
94,100	*Autumn 2019*	96,700	99,700	102,000	104,000	
(4,396)	Variation	(19,980)	(11,750)	(8,010)	(6,310)	
-4.7%		-20.7%	-11.8%	-7.9%	-6.1%	
	Bad Debts					
(3,235)	Bad Debts	(9,000)	(6,000)	(6,000)	(3,000)	(3,000)
(3,000)	*Autumn 2019*	(3,000)	(3,000)	(3,000)	(3,000)	
(3,235)	**Total Bad Debts**	**(9,000)**	**(6,000)**	**(6,000)**	**(3,000)**	**(3,000)**
(235)	Variation	(6,000)	(3,000)	(3,000)	-	
7.8%		200.0%	100.0%	100.0%	0.0%	
	Impôts Duties					
6,132	Spirits	6,840	7,524	7,691	7,883	8,080
6,375	*Autumn 2019*	7,268	7,441	7,635	7,841	
8,409	Wine	8,276	9,104	9,304	9,536	9,776
8,442	*Autumn 2019*	8,795	9,006	9,240	9,490	
832	Cider	779	841	842	845	849
796	*Autumn 2019*	834	846	860	873	
6,204	Beer	5,940	6,469	6,544	6,641	6,739
6,339	*Autumn 2019*	6,628	6,719	6,827	6,941	
15,399	Tobacco	17,032	15,731	15,917	16,150	15,561
15,081	*Autumn 2019*	15,720	16,283	16,897	17,534	
22,685	Fuel	20,233	25,660	25,962	26,346	26,734
23,557	*Autumn 2019*	26,088	27,360	28,695	29,175	
235	Customs Duty	400	200	200	200	200
200	*Autumn 2019*	200	200	200	200	
2,983	Vehicle Emissions Duty (VED)	1,179	2,730	2,644	2,644	2,644
2,948	*Autumn 2019*	2,730	2,644	2,644	2,644	
62,879	**Total Impôts**	**60,679**	**68,259**	**69,104**	**70,245**	**70,583**
63,738	*Autumn 2019*	68,263	70,499	72,998	74,698	
(859)	Variation	(7,584)	(2,240)	(3,894)	(4,453)	
-1.3%		-11.1%	-3.2%	-5.3%	-6.0%	
	Stamp Duty					
29,599	Stamp Duty	16,653	22,426	24,218	25,940	26,728
28,080	*Autumn 2019*	29,568	30,151	31,483	32,484	
2,548	Probate	2,400	2,400	2,400	2,400	2,400
2,400	*Autumn 2019*	2,400	2,400	2,400	2,400	
2,751	LTT	1,265	2,025	2,422	2,669	2,782
3,162	*Autumn 2019*	3,433	3,702	3,924	4,090	
34,898	**Total Stamp Duty**	**20,318**	**26,851**	**29,040**	**31,009**	**31,910**
33,643	*Autumn 2019*	35,401	36,254	37,807	38,974	
1,255	Variation	(15,083)	(9,403)	(8,767)	(7,965)	
3.7%		-42.6%	-25.9%	-23.2%	-20.4%	
778,246	**General Tax Revenue**	**709,717**	**747,060**	**806,134**	**861,944**	**896,253**
776,481	Autumn 2019 incl GP measures	809,364	844,453	880,805	915,672	
1,765	Variation	(99,647)	(97,393)	(74,671)	(53,728)	
0.2%		-12.3%	-11.5%	-8.5%	-5.9%	
	Other Income					
13,895	Island-wide Rates	13,465	13,761	14,105	14,458	14,834
13,870	Other Income - Dividends	9,427	8,133	8,569	8,918	9,347
13,722	Other Income - Non-Dividends	5,953	5,852	5,955	7,784	9,175
29,947	Other Income - Returns from Andium and Housing Trusts	30,922	31,775	32,618	33,516	34,437
71,434	**Total Other Income**	**59,767**	**59,521**	**61,247**	**64,676**	**67,793**
74,505	*Autumn 2019*	66,095	65,349	66,957	69,338	
(3,071)	Variation	(6,328)	(5,828)	(5,710)	(4,662)	
-4.1%		-9.6%	-8.9%	-8.5%	-6.7%	
849,680	**Total States Income**	**769,484**	**806,581**	**867,381**	**926,620**	**964,046**
850,986	*Autumn 2019*	875,459	909,802	947,762	985,010	
(1,306)	Variation	(105,975)	(103,221)	(80,381)	(58,390)	
-0.2%		-12.1%	-11.3%	-8.5%	-5.9%	

8. Downside scenario

8.1. The 'base case' forecast has been prepared assuming a three-month period of restrictions on economic activity with a three-month phased return to full economic activity.

8.2. In order to present a downside scenario, additional forecasts have been prepared to consider a scenario which assumes that economic activity remains severely restricted for up to five months, with a two-month phased return to full economic activity.

8.3. The downside forecast further assumes that the COVID-19 pandemic results in significant structural impacts and, therefore, this should not be considered a 'default' forecast if restrictions are extended.

8.4. The impact of the downside scenario results in a reduction of the overall base case forecast by £56.7m in 2020 increasing to £77.4m in 2024 as shown in Figure 6.

8.5. The specific impact of the downside assumptions on the forecast are detailed in the relevant appended reports. In summary these are:

8.5.1. **Personal income tax** - A c.£50m decrease from the base forecast for 2020 arising from the extended period of reduced economic activity. The downside forecast for 2024 is £54m lower than the base case, reflecting the assumption of more significant structural impacts arising from the COVID-19 pandemic.

8.5.2. **Corporate income tax –** No further effect in 2020 due to this being the 2019 year of assessment. However this is followed by a c.£16m-£19m reduction from the base forecast for each of the years 2021-24. This reduction is a result of a prolonged period of restrictions to economic activity, and an increased negative impact of the other risks to financial services firms as detailed in section A5 of Appendix A.

8.5.3. **GST** – The downside forecast includes a weaker recovery and a permanently-lower level of receipts, beginning with a decrease of £4.3m from the base forecast in 2020 reducing to less than £2m below the base forecast in 2024.

8.5.4. **Impôts duty** – The extended period of restrictions would only impact the 2020 year of the forecast, resulting in a decrease of £2.2m from the base case in that year.

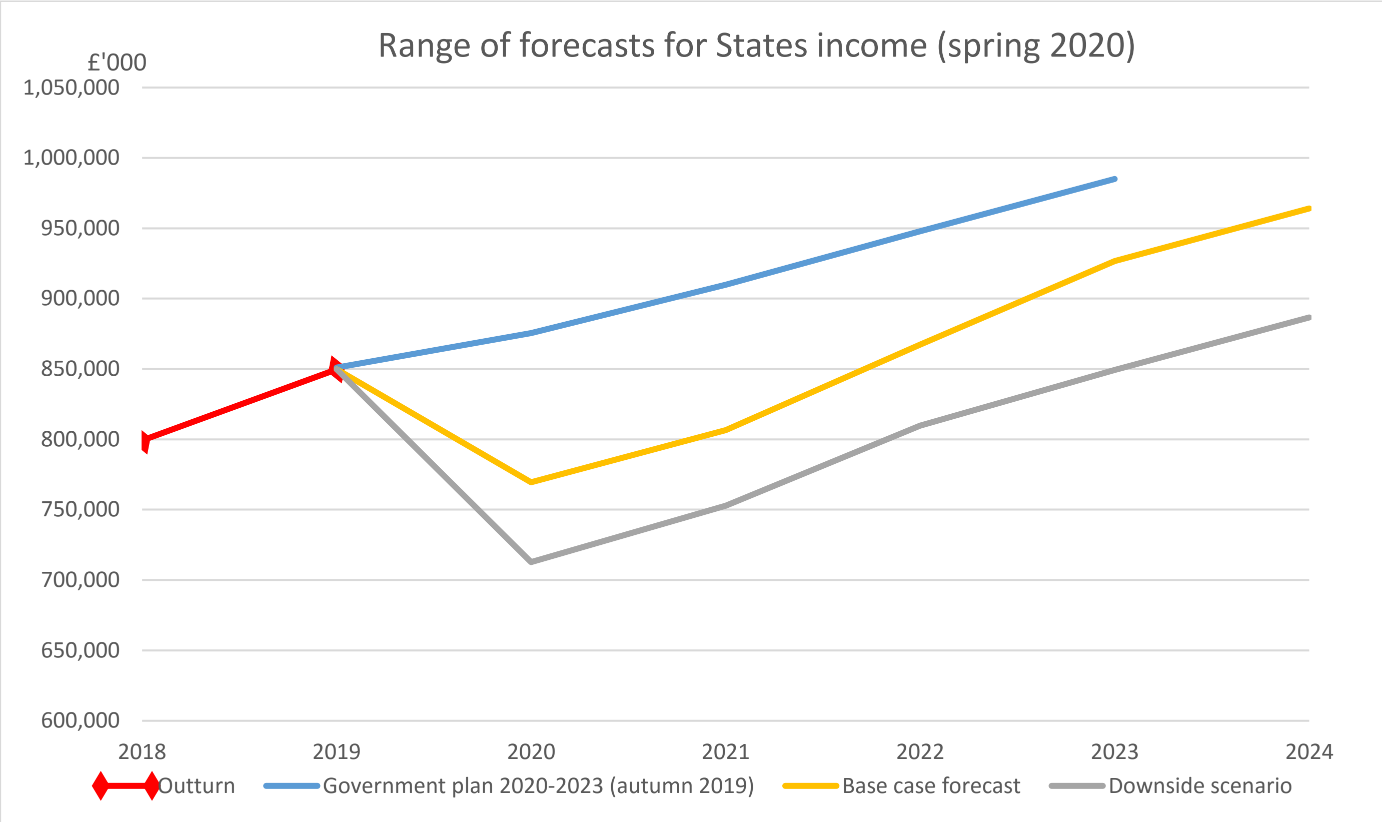
8.5.5. **Stamp duty** – A longer period of restrictions would likely result in fewer transactions of property, particularly those under £2m or subject to Land Transaction Tax (LTT). The lower volume of transactions, and forecast decrease in property prices, further reduces the base case stamp duty forecast in 2020 by £1.2m with an increased reduction of £2.6m by 2024.

8.6. **Other Government income** – The other income forecast is considered to be similar under both scenarios.

Figure 6 – Downside scenario of IFG forecast for spring 2020

Downside Scenario (£'000)	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Income Tax					
Personal	397,000	451,000	486,000	508,000	531,000
Corporate	115,000	74,000	83,000	86,000	93,000
Total Income Tax	**512,000**	**525,000**	**569,000**	**594,000**	**624,000**
GST					
GST	63,530	72,240	80,740	86,120	89,040
ISE Fees	8,910	8,910	8,910	8,910	8,910
Total GST	**72,440**	**81,150**	**89,650**	**95,030**	**97,950**
Total Bad Debts	**(9,000)**	**(6,000)**	**(6,000)**	**(3,000)**	**(3,000)**
Impôts Duties	**58,432**	**68,259**	**69,104**	**70,245**	**70,583**
Stamp Duty					
Stamp Duty	15,608	20,755	22,219	23,736	24,431
Probate	2,400	2,400	2,400	2,400	2,400
LTT	1,111	1,777	2,126	2,343	2,442
Total Stamp Duty	**19,119**	**24,932**	**26,745**	**28,479**	**29,273**
General Tax Revenue	**652,991**	**693,341**	**748,499**	**784,754**	**818,806**
Variation to Autumn 2019	(156,373)	(151,112)	(132,306)	(130,918)	
	-19.3%	-17.9%	-15.0%	-14.3%	
Total Other Income	**59,767**	**59,521**	**61,247**	**64,676**	**67,793**
Total States Income	**712,758**	**752,862**	**809,746**	**849,430**	**886,599**
Variation to Autumn 2019	(162,701)	(156,940)	(138,016)	(135,580)	
	-18.6%	-17.2%	-14.6%	-13.8%	
Variation to base case forecast	(56,726)	(53,719)	(57,635)	(77,190)	(77,447)
	-7.4%	-6.7%	-6.6%	-8.3%	-8.0%

Figure 7 – Comparison of spring 2020 base case and downside scenario forecasts



Appendix A – Income tax forecast

Income tax forecast

The updated income tax forecast is summarised in Figure 1.

Figure 1: Changes to income tax forecast since Government Plan 2020-23

£m	2018	2019	2020	2021	2022	2023	2024
Personal tax							
Autumn 2019 forecast	453	475	497	524	550	576	
Impact of audit	0	+1	0	0	0	0	
New ITIS data	+1	+6	+6	+6	+7	+7	
New FPP assumptions	0	0	- 14	- 14	- 19	- 21	
Re-estimated equations	0	0	+3	+2	+3	+3	
New HVR forecast	-1	-1	-2	-3	-3	-4	
IFG adjustments	0	0	-45	-36	-18	0	
Personal tax forecast	**453**	**480**	**446**	**480**	**519**	**561**	**585**
Corporate tax							
Autumn 2019 forecast	98	113	115	117	121	125	
Impact of outturn		+1	+1	+1	+1	+1	
New FPP assumptions			0	-5	-3	-3	
Sectoral adjustments			-1	-24	-18	-17	
Corporate tax forecast	**98**	**114**	**115**	**90**	**101**	**105**	**112**
Total forecast	**551**	**593**	**561**	**570**	**620**	**666**	**697**
Change since Autumn 2019 forecast	**0**	**+6**	**- 51**	**- 71**	**- 52**	**- 35**	

Some columns may not sum due to rounding

The remainder of the note is set out as follows:

- **Section A1** describes how the forecast is carried out.
- **Section A2** outlines the new economic assumptions and updates to tax outturn data.
- **Section A3** explains the IFG's adjustments to the forecast to account for the COVID-19 crisis.
- **Section A4** sets out the forecast.
- **Section A5** covers the uncertainties and risks to the forecast
- **Section A6** – the IFG's downside scenario with a more severe contraction, due to the COVID-19 crisis.
- **Section A7 -** a comparison of the Fiscal Policy Panel's forecast with comparable forecasts for other jurisdictions.
- **Section A8 –** comparison of the IFG forecast with income tax forecasts for other jurisdictions.

A1. How the forecast is carried out

Methodology for personal income tax forecast

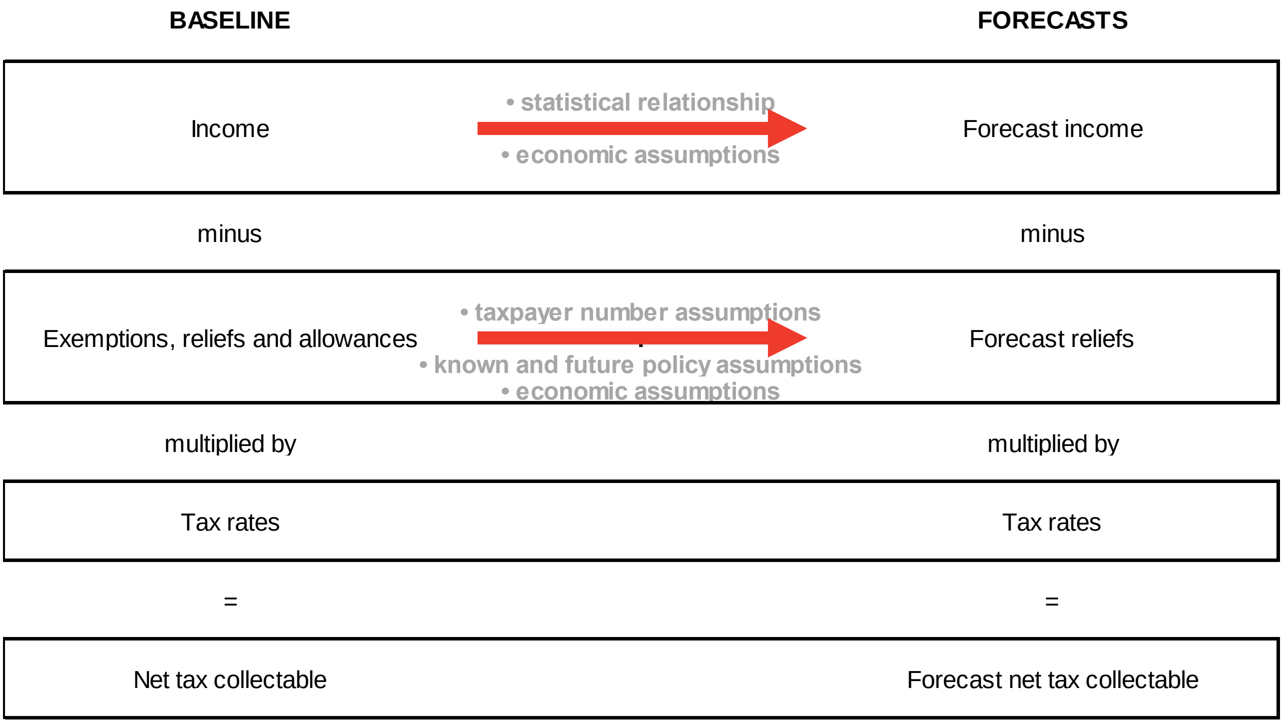
An overview of the personal income tax forecasting model is shown in

Figure 2. There are two main elements – forecasting taxable income and then forecasting the likely yield (i.e. tax collectable per £1 of taxable income) based on forecasts of the value of deductions (including exemption thresholds for marginal rate taxpayers, and the various reliefs, credits and allowances claimed by taxpayers). The forecast of tax collectable is therefore the product of the forecasts for taxable income and yield.

Taxable personal income is estimated over the forecast period by taking outturn data provided by Revenue Jersey and projecting it forward on the basis of statistical relationships between taxable income and various economic variables. The economic variables include compensation of employees (CoE), company profits, employment, average earnings, inflation and interest rates. Forecasts of these variables are overseen by the independent FPP.

The yield is then forecast by taking the baseline data for the value of deductions and forecasting changes in these in line with assumptions about future taxpayer numbers, inflation, interest rates and policy changes announced in previous Budgets and Government Plans. So, for example, the aggregate value of the basic exemption thresholds might be assumed to rise in line with the lower of RPI inflation and earnings (to represent the anticipated annual increase in the threshold), and employment growth (to represent the increase in taxpayer numbers claiming this threshold).

Figure 2: Model overview



Methodology for corporate income tax forecast

Corporate tax is forecast to grow in line with the IFG judgement for specific sectors, informed by the FPP's economic assumptions.

A2. New economic assumptions and updated tax data

The Fiscal Policy Panel's (FPP) updated economic assumptions (**Figure 3**) have been used in the model to update the income tax forecast. The economic assumptions were published in March 2020. The economic assumptions letter can be found on the FPP web-site www.gov.je/fiscalpolicypanel

Figure 3: FPP economic assumptions, March 2020 (nominal growth rates, unless otherwise stated)

% change unless otherwise specified	2017	2018	2019	2020	2021	2022	2023	Trend 2024+
Real GVA	0.8	1.4	0.6	-6.3	4.4	1.0	0.6	0.6
RPI	3.1	3.9	2.9	1.2	2.2	2.5	2.5	2.6
RPIY	3.2	3.6	2.6	1.4	2.2	2.4	2.4	2.5
Nominal GVA	4.1	5.9	3.9	-5.1	6.0	2.7	2.8	3.1
Gross operating surplus (including rental)	-0.3	7.5	4.3	-8.2	7.7	2.2	2.5	3.2
Financial services profits	-6.4	9.6	2.0	-2.0	5.0	2.9	2.9	3.4
Compensation of employees	8.1	4.6	3.6	-2.5	4.6	3.1	3.0	3.1
Employment	2.3	1.4	1.0	-2.9	2.8	0.8	0.5	0.4
Average earnings	2.6	3.5	2.6	-0.6	2.2	2.3	2.5	2.7
Interest rates (%)	0.3	0.6	0.8	0.2	0.2	0.3	0.4	0.6*
House prices	2.9	7.1	7.0	-10.0	5.0	4.0	3.0	2.7
Housing transactions	7.8	5.3	-1.8	-50.0	45.0	15.0	7.0	1.5

* Bank Rate forecast for 2024 only

The changes since the last set of assumptions are summarised in **Figure 4**.

Figure 4: Change in FPP economic assumptions between October 2019 and March 2020, percentage point change in growth

% change unless otherwise specified	2019	2020	2021	2022	2023	Trend
Real GVA	-0.3	-7.3	3.1	0.2	0.0	0.0
RPI	0.1	-1.2	-0.4	-0.2	-0.1	0.0
RPIY	0.0	-0.9	-0.3	-0.2	-0.1	0.0
Nominal GVA	0.4	-8.4	2.2	-0.7	-0.3	0.0
GOS (including rental)	1.0	-11.2	4.2	-1.0	-0.7	0.0
Financial services profits	0.0	-4.0	1.9	-0.4	-0.5	0.0
Compensation of employees	0.0	-6.0	0.6	-0.4	-0.1	0.0
Employment	0.0	-3.1	2.0	0.3	0.1	0.0
Average earnings	0.0	-3.9	-1.0	-0.7	-0.2	0.0
Interest rates (%)	0.1	-0.4	-0.3	-0.2	-0.1	0.1*
House prices	0.7	-15.4	0.5	0.4	0.3	0.0
Housing transactions	-8.8	-53.0	41.8	12.7	5.5	0.0

* Bank Rate forecast for 2024 only

When compared to the previous (October 2019) assumptions, the main changes are:

- GVA in 2020 is forecast to fall and is more than 7% lower than the previous forecast. This is composed of gross operating surplus (GOS) i.e. profits, which are expected to be 11% lower than the previous forecast, and compensation of employees (aggregate wages), which are expected to be 6% lower.
- There is some recovery in GVA in 2021, but by the end of the forecast period GVA remains 5% lower than under the previous forecast.
- Employment is expected to fall, driven by a contraction in non-finance employment. The figure presented in the FPP forecast is an annual average, during the peak period of disruption the actual year-to-year fall is likely to be much larger.
- Average earnings are forecast to decline in 2020 in nominal terms. This would be the first decline in nominal earnings on record, with records going back to 1990.
- Inflation in 2020 is lower than in the last forecast. This reflects lower oil prices and lower mortgage interest rates for tracker mortgages. However, the FPP stated that other inflation pressures could work in either direction, as supply chain disruption or other shortages could cause pockets of high prices but there will be downward pressure on other prices due to reduced demand. Again, this is an annual average and quarterly data is likely to show significantly more volatility.
- Interest rates are lower in the early years of the forecast – reflecting both the recent cuts to Bank Rate of 0.1% and lower market expectations for the future path of rates.

The statistical outturns for some of these measures may be challenging for Statistics Jersey to compile and may show more volatility than usual. As new data are published, the Economics Unit will work with Statistics Jersey to seek to understand how these issues may affect tax forecasting.

Updated information from Revenue Jersey

Personal tax assessments

There were delays to the assessing process for 2018 personal tax returns. In due course, assessments will also need to be raised for taxpayers who did not file a 2018 return. Further, there are some differences in the way that data are reported between the previous system (ITAX) and the new system (RMS) with the new system providing greater granularity between taxable income types. Revenue Jersey are working through both these issues to provide an estimate of the baseline position for 2018 but this has not been available to inform this forecast.

ITIS data

Data are however available from ITIS. Employment income reported through ITIS suggests growth of 5.7% in 2018 and 4.3% in 2019. This has been incorporated into the forecast.

Corporate outturn

A total of £114m was received in 2019, in respect of the 2018 year-of-assessment. This is around £1m higher than forecast.

A3. Adjustments to personal income tax forecast due to COVID-19 crisis

The personal income tax forecasting model is primarily based on estimates of the statistical relationships between economic variables and the tax base. This uses data over the last 20 years to forecast future tax receipts. While these statistical relationships are robust in the long run and in *normal times,* the IFG considers it likely that the collection of personal tax will diverge from the overall economic performance during the current period of economic distress and beyond, for the reasons set out in the remainder of this section.

Additional functionality has been added to the model to allow temporary adjustments to be made to each taxable income line in the forecast, and to the average effective tax rate. The starting point is based on the economic forecasts, and the statistical relationships, then a percentage reduction is made to this level of income in each year. It is important to emphasise that these adjustments are in addition to the downward impact of the revised FPP economic assumptions. So, the statistical relationships will already account for some lower growth in taxable income – for example growth in taxable employment income will already be smaller because of the lower forecast for growth in compensation of employees (CoE – the national accounts measure of aggregate earnings).

This is not intended to reopen the FPP forecast, but rather to seek to overlay additional impacts on the tax base. The IFG judgement on these adjustments is set out below. The adjustments are made on the available evidence and the IFG's judgements.

Employment income and other earned income (£2.3bn)

The extent of reductions to employment income is partly mitigated by the Government's Co-Funded Payroll Scheme (CFPS), which aims to ensure employment in supported firms, and allow workers continue to benefit from a reasonable level of income to avoid hardship. The IFG's adjustment here assumes that this scheme is successful in sustaining much of the employment income that would otherwise be lost, but there will inevitably still be some redundancies and reduced earnings in firms affected by the economic situation.

The downgraded FPP economic assumptions result in a considerable reduction to growth in taxable earnings due to the COVID-19 crisis, as this includes a forecast 2.9% fall in annual average employment in 2020; and a 0.6% fall in average weekly wages. This results in a reduction to the tax forecast of £14m in 2020.

However, since the FPP forecast the Bank of England has asked the largest UK banks not to pay cash bonuses to senior staff and to take appropriate further actions with regard to accrual, payment and vesting of variable remuneration[2]. The majority of these banks are also significant employers in Jersey. While the Bank of England guidance focused solely on senior staff at banks, the IFG considers it likely that a large proportion of local financial services firms will reduce bonus payments across a range of staff – particularly for bonuses due to be paid in 2021. It is estimated that around £90m of bonuses were paid in the financial services sector in 2018, representing around 3% of total taxable earned income. Therefore a 3% downward adjustment has been made to employment and other earned income in 2021, with smaller adjustments in 2020 and 2022.

[2] https://www.bankofengland.co.uk/prudential-regulation/letter/2020/letter-from-sam-woods-to-uk-deposit-takers-on-dividend-payments-share-buybacks-and-cash-bonuses

In the non-finance sector, the FPP forecast already includes a fall in CoE of around 5%[3]. However, while the CFPS will help to reduce the number of redundancies that otherwise would have occurred, there will be temporary layoffs, reductions in hours and reductions in hourly wages. The majority of non-finance earnings are taxed at a marginal rate of 26%, rather than the c 22.8% marginal rate used in the model[4]. A 5% reduction in non-finance equates to around an overall reduction in wages of around £100m. If 26% of this were to be lost, rather than 22.8%, this would result in a further loss of £3m. This has the effect of reducing the overall average effective tax rate by around 0.1 percentage points in 2020, which is assumed to gradually fall away over the following two years.

The impact of both these effects is set out in Figure 5.

Figure 5: Impact of adjustments to employment income and yield

	2020	2021	2022	2023+
Reduction to tax base (%)	-1.5	-3	-1.5	0
Tax impact (£m)	-8	-17	-9	0
Reduction to tax rate (percentage points)	0.1	0.05	0.03	0.0
Tax impact (£m)	-3	-2	-1	0

It is important to note that as the downward adjustment falls away, the amount of tax collected in the medium term is gradually forecast to come back into line with the growth in the economic variables. There is a risk that the current economic disruption might result in a permanent adjustment to the relationship between economic variables and the tax base. Under the FPP forecast, the economy is smaller throughout the period, with a gradual recovery to a lower level, and this is considered sufficient in the central forecast to capture the impact on taxes in the medium term, with a more permanent adjustment considered in the downside scenario set out in section A6.

Pension income (£290m)

The IFG forecast for pension income is driven by both demographic change (growth in the population aged 65 and over) and growth in recent earnings. Earnings can impact the annual uprating of pensions, particularly for the Social Security pension, and in the longer term will also influence the income for new pensioners retiring each year.

The recent fall in financial asset valuations will have resulted in a reduction in the size of many pension funds, which may in turn result in new pensions paying out a lower amount than might have otherwise been expected – and could in turn potentially lead to some deferral of retirement. Therefore, the IFG believes that it would be prudent to adjust pension income in 2020 so that it is not forecast to grow from its 2019 level. This requires a downward adjustment of 3.5%, with the adjustment assumed to fall away gradually over three years.

[3] This includes sectors like the public sector and utilities, which are likely to be less affected, and therefore the impact on sectors like hospitality and retail is likely to be much higher than 5%

[4] 22.8% is the weighted averages of exempt taxpayers paying 0%, standard rate taxpayers on 20% and marginal rate taxpayers on 26%. This rate is used in the model to estimate the tax changes in response to any changes to taxable income. However, if earnings are reduced without any loss of allowances, this will result in a loss of tax at the marginal rate of the taxpayer – for most non-finance employees this marginal rate is 26%.

Figure 6: Impact of adjustments to pension income

	2020	2021	2022	2023 onward
Adjustment to tax base (%)	-3.5	-1.8	-0.9	0
Tax impact (£m)	-3	-1	-1	0

Business profits (£160m) and property income (£100m)

In the absence of clear statistical relationships between the economic variables and taxable income in these categories, the IFG has in the past assumed that this income grows in line with the respective recent average growth rates. Business profit (i.e. sole trader and partnership income) would therefore normally be forecast to grow at its 5-year average rate (3.5% per year) and property income at its 10-year average rate (6.9%). There are good reasons to assume that this rate of growth is likely to be disrupted in the short term, as set out below.

In relation to business income, a number of these businesses are likely to be in non-finance, particularly sole traders – though much of the partnership income will be in the financial services sector. The FPP forecast overall gross operating surplus (GOS – a national accounts measure of profits) to fall by over 8% in 2020. While non-finance profits are not explicitly included in the FPP letter, the implied fall is around 30%. IFG's judgement is therefore to make a downward adjustment of 30% to personal business profits in 2020.

Property rental income is likely to come under similar pressure, with revenues reduced but less reduction in costs. While it may be possible for some buy-to-let landlords to take mortgage holidays, this will not reduce the interest accrued on the loan but will in fact increase it due to compounding of interest. Therefore, the IFG judgement is for a significant fall in property income, with a negative adjustment of 15% in 2020.

Figure 7 shows the impact of this, with the downward adjustment gradually reduced over three years such that the growth in the tax base in the medium term gradually comes back into line with the growth in the economic variables.

Figure 7: Impact of adjustments to personal business profits and property income

	2020	2021	2022	2023 onward
Adjustment to profits (%)	-30	-15	-7.5	0
Tax impact (£m)	-12	-6	-3	0
Adjustment to property income (%)	-15	-7.5	-3.75	0
Tax impact (£m)	-4	-2	-1	0

Investment and other unearned income (£100m), shareholder income (£180m) and income taxed at source (£20m)

Investment and other unearned income includes a range of income sources such as bank interest, dividends and investment income plus a number of smaller sources of income. This income is generally grown in the IFG forecast using an established statistical relationship with interest rates (specifically Bank Rate). Shareholder income is a separate category, taxed on distributions of locally owned companies. The volatile nature of shareholder income, and the recent history of policy changes made to taxation of this area, means that in the past the IFG forecast assumed that this income remains flat in real terms. Income taxed at source, while not a substantial amount, has also generally been assumed to be flat in real terms.

While the lower forecast for Bank Rate will reduce the forecast for investment income, there are likely to be more powerful factors at play. There have been various reports of dividend cuts globally, and both the Bank of England and European Central Bank have urged banks to reduce dividend payments. Similar steps have been taken for insurance companies. Dividends or other payments from investment funds will similarly come under pressure, with reductions in the value of, and income from, underlying assets.

Forecasts for global dividend payments in 2020 vary, with calculations from UBS suggesting that European dividends could fall by 14% year-on-year, while Goldman Sachs have forecast a reduction in US dividends of 25%. IFG's judgement is therefore a downward adjustment of 20% in 2020, with this downward adjustment falling away gradually over the following two years.

Shareholder distributions and income taxed at source are also highly uncertain, but it is assumed that these follow the same path as investment income.

Figure 8: Impact of adjustments to investment income, shareholder distributions and other unearned income

	2020	2021	2022	2023 onward
Adjustment to tax base (%)	-20	-10	-5	0
Tax impact (£m)	-14	-7	-4	0

Comparison with post-2008 economic crash

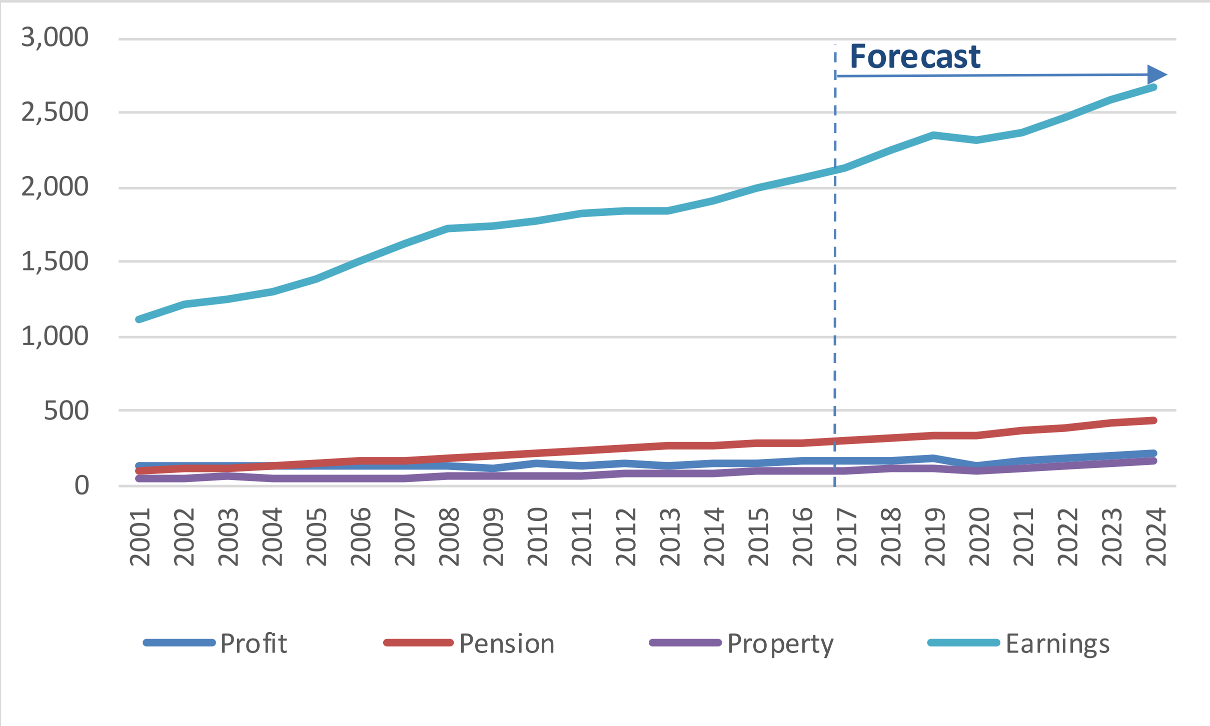
After accounting for these adjustments, in addition to the impact of the FPP forecast, the fall in taxable income would be significantly greater than that experienced in 2009:

- Employment income grew by only ½% in 2009, the lowest rate of growth for the last seventeen years. The forecast includes a fall of 2% in 2020.
- Pension income grew by 8% in 2009 but slowed to 5% in 2010. Much slower growth in pension income was seen in both 2014 and 2016 but this was due to one-off exercises to reduce the number of tax assessments raised particularly for pensioners with income below their exemption threshold. The IFG forecast assumes no growth in 2020.
- Business profits fell by 10% in 2009, before recovering 24% in 2010. A 12% fall in 2011 is the largest fall in business income since at least 2002. The IFG forecast assumes a fall of 28% in 2020.

- Property income grew by 12% in 2009 but subsequently fell by 5% in 2011. The largest fall in property income was 8% in 2004. The IFG forecast suggests a fall of 9% in 2020.
- Bank, dividend and other income fell by 42% in 2009, the largest fall on record, with most of this coming from a fall in bank interest - driven by the 400bp fall in the average Bank Rate. The provisional IFG forecast includes a fall of 23% in 2020.
- A comparison of shareholder income is not possible as this was not taxed before the introduction of 0/10 in 2009.

Therefore, the combined impact of both the FPP forecast and the IFG adjustments would result in a forecast for a significant and unprecedented adjustment in each of the key areas of taxable income.

Figure 9: Sources of taxable income (£m)



A4. Updated income tax forecast

Personal tax

The personal tax forecast has been reduced in each of the years 2020 to 2023. The forecast has been extended to include 2024.

Figure 10: Changes to personal income tax forecast since Government Plan 2020-23

£m	2018	2019	2020	2021	2022	2023	2024
Personal tax							
Autumn 2019 forecast	453	475	497	524	550	576	
Impact of audit	0	+1	0	0	0	0	
New ITIS data	+1	+6	+6	+6	+7	+7	
New FPP assumptions	0	0	- 14	- 14	- 19	- 21	
Re-estimated equations	0	0	+3	+2	+3	+3	
New HVR forecast	-1	-1	-2	-3	-3	-4	
IFG adjustments		0	-45	-36	-18	0	
New forecast	**453**	**480**	**446**	**480**	**519**	**561**	**585**
Change since Autumn 2019 forecast	0	+5	-51	-43	-31	-15	

Some columns may not sum due to rounding

Impact of audit

The IFG forecast for personal income tax was included in the audit of the Government of Jersey accounts for 2019. This focused on the forecasts for 2018 and 2019, which were used as estimates in the accounts. As a result of this audit, a number of minor changes were made to the approach, resulting in a small increase to the forecast.

New tax data

The latest ITIS data for employment income in 2018 result in an additional £1m of tax in each year. The latest data for 2019 result in a further additional £5m from 2019 onward.

Re-estimated relationships

Growth in earnings, pension income and investment income are forecast using statistical relationships that are proven to be effective in explaining past growth rates. Estimates of these relationships are normally updated (i.e. re-estimated) when a new set of tax data are available. However, a complete set of tax data for 2018 is not yet available, the relationships have been re-estimated using a set of revised economic data, which has been received from Statistics Jersey. There have been relatively small revisions to the historic data for the components of gross value added (GVA), i.e. compensation of employees (CoE) and gross operating surplus (GOS) – both of which are used to estimate the equation that is used to forecast earned income.

The IFG has also used the growth rate in ITIS earned income as a proxy for assessed earned income in 2018, therefore allowing an additional data point to be used to establish the statistical relationship.

The net impact of this is to increase the forecast by £2m-£3m each year.

New FPP economic assumptions

The new economic assumptions (outlined in **Section A2**) result in a reduction to the forecast of £14m in 2020, rising to £21m by 2023.

- Lower earnings and employment results in a reduction to the forecast of £14m in 2020, rising to £24m by 2023.
- Lower inflation results in an increase to the forecast of £2m in 2020, rising to £4m by 2023. This is as a result of slower growth in allowances.
- Lower profits in financial services results in a reduction to the forecast of around £1m in each year.

New HVR forecast

Tax from taxpayers on the high-value residency scheme (HVRs) is forecast separately. Outturn data from Revenue Jersey indicate that the tax received from these taxpayers for 2018 was £1m lower than forecast, this lower tax is taken as a new baseline position and the reduction therefore recurs in each year of the forecast.

Further, data have been received from Locate Jersey on HVR arrivals for 2019, and expectations for 2020 onward. The net impact of these is a further reduction to the forecast from 2020.

IFG adjustments

The impact of the individual IFG adjustments is set out in section A3. The aggregate impact is a reduction in the forecast of £45m in 2020, which gradually falls away over three years.

Policy changes

Two policy changes were already reflected in the previous forecast and remain in this forecast:

- Revenue Jersey has estimated a reduction in personal tax of around £1m from 2020 onward as a result of reduced distributions that may result from the extension of a positive rate of income tax to large corporate retailers[5];
- An increase of around £3½m due to the decision to remove the higher child allowance from 2019 as part of the new higher education funding scheme.

As these are unchanged from the previous forecast they do not appear in Figure 10.

[5] There may be some lag in the reduction in personal income tax due to this change, as distributions of profits that arose before 2018 but distributed in 2018 or later will not benefit from the tax credit. However, the most likely profile of this reduction is difficult to predict and therefore it has been assumed to be £1m across the forecast period.

Corporate tax

Corporate tax has in the past been forecast to increase in line with the FPP's forecast for financial services profits. This is because most of the tax is levied on financial services profits. Some tax is also collected from property development, property rental, utilities, and from 2019 tax has also been collected on the profits of large corporate retailers.

Given the recent broadening of this tax base, and the likely differential effects of the COVID-19 outbreak, the IFG has split the corporate tax forecast on a sectoral basis.

Financial services and other

Revenue Jersey discussions with a number of banks and their agents suggest the recent reduction in interest rates could see a significant reduction in their tax liability for 2021. On the basis of these discussions, tax on banks has been assumed to fall 35% in 2021, with around half of this being recovered in 2022.

The remainder of the sector is assumed to grow in line with the FPP forecast for financial services profits. For 2021, therefore, tax is assumed to fall by 2% – based on reduced profits in 2020. There are likely to be pockets of the financial services sector seeing a more significant reduction in profits in 2020, but others may see some profit growth. A more significant fall in overall profits is considered in the downside scenario in section A6.

Given that banks make up around 70% of finance sector Gross Operating Surplus in Jersey (excluding legal and accountancy firms, which are predominantly taxed through personal income tax rather than corporate), the weighted average fall in tax on financial services profits in 2021 is forecast to be 25% (70% at 35% and 30% at 2%). 2022 is assumed to grow by 15%, recovering around half of the reduction in tax.

Other sectors subject to a positive rate of tax make up a relatively small proportion of the total (around 7% – mostly from utilities). No change has been made to the approach to forecasting tax from these sectors. Therefore, tax is assumed to grow in line with the FPP assumption for financial services profits.

Property development and rental

Tax from property development and rental is assumed to fall in 2020 as there was a large increase in tax received in 2019 from property development profits in 2018. In the absence of any reliable information on property development profits in 2019, this has assumed to be a one-off increase due to a heightened level of activity in 2018, particularly relating to some large developments. Rental income has been forecast to grow in line with IFG's forecast for personal taxable rental income.

Tax in 2021 is expected to fall further, as commercial rents are likely to come under pressure – particularly from sectors most affected by the economic crisis caused by the COVID-19 outbreak. IFG's judgement is that a fall of around 9% is reasonable, in line with the fall assumed for rental profits in the personal tax forecast.

While the likely structural impacts of the economic crisis are difficult to quantify at this stage, the IFG has assumed that there is a reduction in demand, in particular for retail space, and therefore tax from property in 2022 is not expected to increase from its 2021 level and growth thereafter is assumed to be remain subdued, growing in line with the general rate of underlying inflation (i.e. RPIY inflation).

Retail

Tax from large corporate retailers (LCR) has been assumed to decline by 50% in 2020, reflecting that sales in food and pharmacy retail will continue with most other sectors seeing a significant fall in sales and therefore likely to have limited profits in 2020. There are challenges in splitting the tax received on a retail sub-sector basis, as some companies will sell a wide range of items. But roughly a third of the tax is estimated to come from activities that have been completely or largely halted, temporarily, due to the restrictions put in place to reduce infection. A further third are likely to be severely restricted by the reduction in footfall, with the remaining third coming from activities that are less affected (e.g. food).

The IFG has assumed therefore that tax from LCRs falls by 50% in 2021, reflecting weighted averages of the estimated falls in subsector profits in 2020[6].

Considerable uncertainty remains in the forecast beyond 2021. There are likely to be losses in 2020 that not only mean that tax is reduced in 2021 but also losses are carried forward to be offset against tax in 2022. A gradual recovery is therefore forecast, for tax to return to 2020 levels by 2023, then grow in line with underlying inflation thereafter.

Figure 11: Assumptions used in corporate tax forecast

% growth rate	2020	2021	2022	2023	2024 onward
Financial services and other	2.0	-25	15.0	2.9	2.9
Property	-5.1	-9	0	2.2	2.4
Large corporate retailers	2.0	-50	50	35	2.4

Note: tax is collected one year in arrears, so tax in 2020 relates to profits in 2019.

[6] I.e. 1/3 of profits reduced to zero, 1/3 reduced by half and 1/3 unaffected.

Figure 12: Forecast of corporate tax in key sectors (£m)

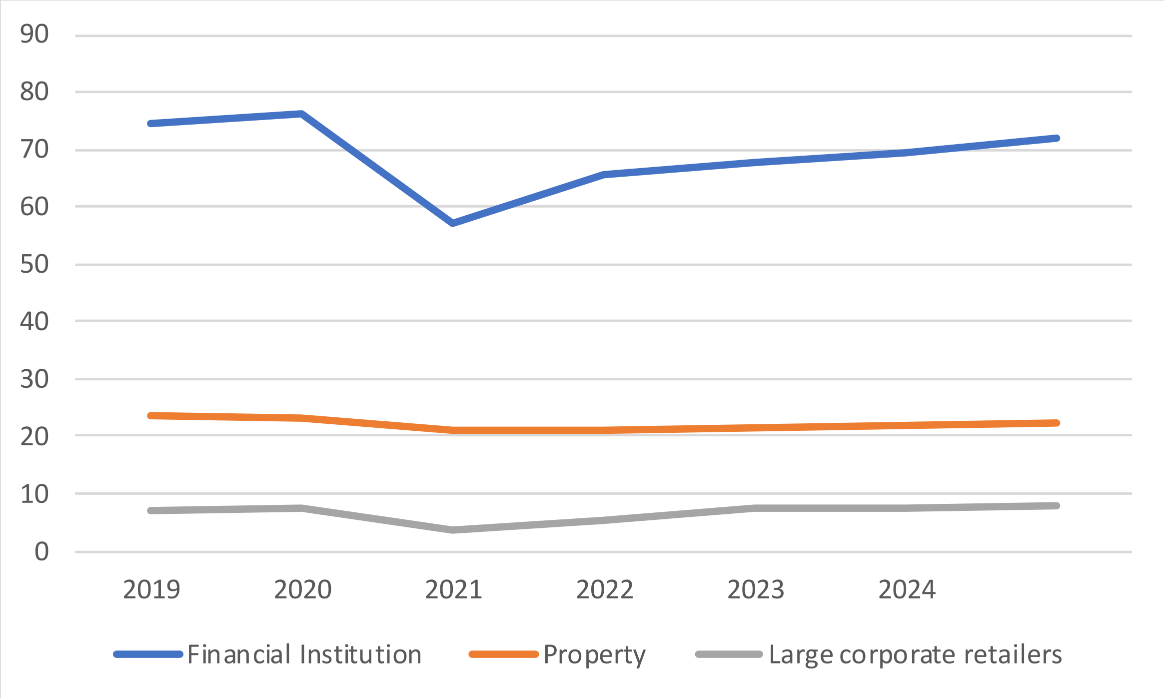


Figure 13 sets out the new forecast in comparison to the previous IFG forecast. The outturn was £1m higher than the previous forecast, and the impact of this continues in future years. The revised FPP economic assumptions result in a reduction to the forecast of £5m in 2021, and £3m in 2022 and 2023. The IFG's sectoral adjustments - for banking profits, property and large corporate retailers - reduces the forecast by a further £1m in 2020 and £24m in 2021.

Figure 13: Corporate tax forecast

£m	2018	2019	2020	2021	2022	2023	2024
Corporate tax							
Autumn 2019 forecast	98	113	115	117	121	125	
Impact of outturn		+1	+1	+1	+1	+1	
New FPP assumptions			0	-5	-3	-3	
Sectoral adjustments			-1	-24	-18	-17	
New forecast	**98**	**114**	**115**	**90**	**101**	**105**	**112**
Change since Autumn 2019 forecast	0	+1	0	-27	-20	-20	

Some columns may not sum due to rounding

A5. Uncertainties and sensitivities

IFG's view is that the 'base case' forecast set out in section A4 is consistent with a three-month period of restrictions on economic activity in order to reduce the spread of COVID-19, with a three-month phased return to a full level of economic activity. The main uncertainty to the forecast is that the medical situation requires a longer period of significant parts of the economy shut down, or a second phase of restrictions. Section A6 includes a downside scenario, which is considered consistent with a longer period of reduced activity – in addition to more permanent impacts on the tax base.

Beyond this, the main risks appear to be related to a deeper or more sustained economic downturn than the FPP's central forecast:

- A larger impact on financial services, through a contagion effect – either from the global or local economies. This is a particular risk to corporate tax, as banks pay a significant proportion of corporate tax and may see reduced profits in the event of suffering significant loan impairments.
- Long-term structural impacts, for example due to the failure of some key businesses.
- A reduction in travel to and from the island in the medium term, which would delay the recovery in the visitor economy and could hinder the development of new business for exporting sectors.
- A prolonged reduction in domestic demand due to strain on household finances and reduced consumer confidence.
- A prolonged reduction in business investment due to strain on corporate finances and reduced business confidence.
- Changes to consumer behaviour, for example an acceleration in the shift to online retail.

In addition to downside economic risks, there is a further layer of downside risks to income tax:

- The potential that bad debts will increase more than in the base case forecast.
- A potential trend for greater retention of profits in locally-owned firms, resulting in lower distributions.
- A potential reduction in relocations on the high-value residency tax regime.

While the balance of the risks from COVID-19 are to the downside, there is some potential for the impact on the economy or the tax base to be less severe than the base case forecast. Section A7 and Section A8 respectively demonstrate that the FPP and IFG forecasts are broadly in line with those for other advanced economies – but all forecasts are particularly uncertain currently.

In addition to risks from the COVID-19 outbreak, the longer-term risks remain:

- The uncertainty regarding the UK's future trading relationship with the European Union. While the global coronavirus pandemic may result in slow progress in negotiations, the British government has so far ruled out any extension to the end of the transition period beyond the end of 2020. The IFG forecast assumes that the UK moves in an orderly fashion to a new trading relationship, at the end of the transition period – whether or not this is extended beyond the end of 2020.

- Risks to financial services, including the risk of external regulatory challenges. The pressure the current crisis has put on public finances around the world may result in an intensification of regulatory interventions, which may have unintended negative consequences for Jersey’s financial services sector. In addition, the risk to the Jersey financial services sector posed by the possible behavioural responses of multinational companies to changing international tax rules and, in particular, the OECD work on the Taxation of the Digitalised Economy.
- Longer-term challenges including low productivity growth and demographic change.

A6. Downside income tax forecast

An alternative forecast has been carried out, assuming a larger and more sustained fall in the tax base as a result of the COVID-19 outbreak.

Figure 14: IFG downside forecast for income tax

£m	2018	2019	2020	2021	2022	2023	2024
Personal tax							
Autumn 2019 forecast	453	475	497	524	550	576	
Impact of audit	0	+1	0	0	0	0	
Re-estimated equations	0	0	+3	+2	+3	+3	
New ITIS data	+1	+6	+6	+6	+7	+7	
New FPP assumptions	0	0	-14	-14	-19	-21	
IFG downside adjustments	0	0	-94	-65	-50	- 52	
Personal tax forecast	**453**	**480**	**397**	**451**	**486**	**508**	**531**
Corporate tax							
Autumn 2019 forecast	98	113	115	117	121	125	
Impact of outturn		+1	+1	+1	+1	+1	
New FPP assumptions			0	-5	-3	-3	
Sectoral adjustments			-1	-24	-18	-17	
Downside adjustments			0	-16	-18	-19	
Corporate tax forecast	**98**	**114**	**115**	**74**	**83**	**86**	**93**
Total forecast	**551**	**593**	**512**	**525**	**569**	**594**	**624**
Change since Autumn 2019 forecast	**0**	**+6**	**- 101**	**- 116**	**- 102**	**- 106**	

Some columns may not sum due to rounding

Personal tax

The downside forecast for personal tax is based on the IFG judgement for appropriate increases to the adjustments set out in section A3. This downside forecast assumes that economic activity remains severely restricted for up to five months, rather than the three months in the base case, but also that the COVID-19 outbreak results in significant structural impacts. Therefore, this should not necessarily be considered a ‘default’ forecast if restrictions are extended, as an extended period of restriction increases the risk of structural impacts but does not guarantee them.

Figure 15 calculates the ‘incremental’ impact of each of the downside adjustments – i.e. the difference between the base case and downside forecasts.

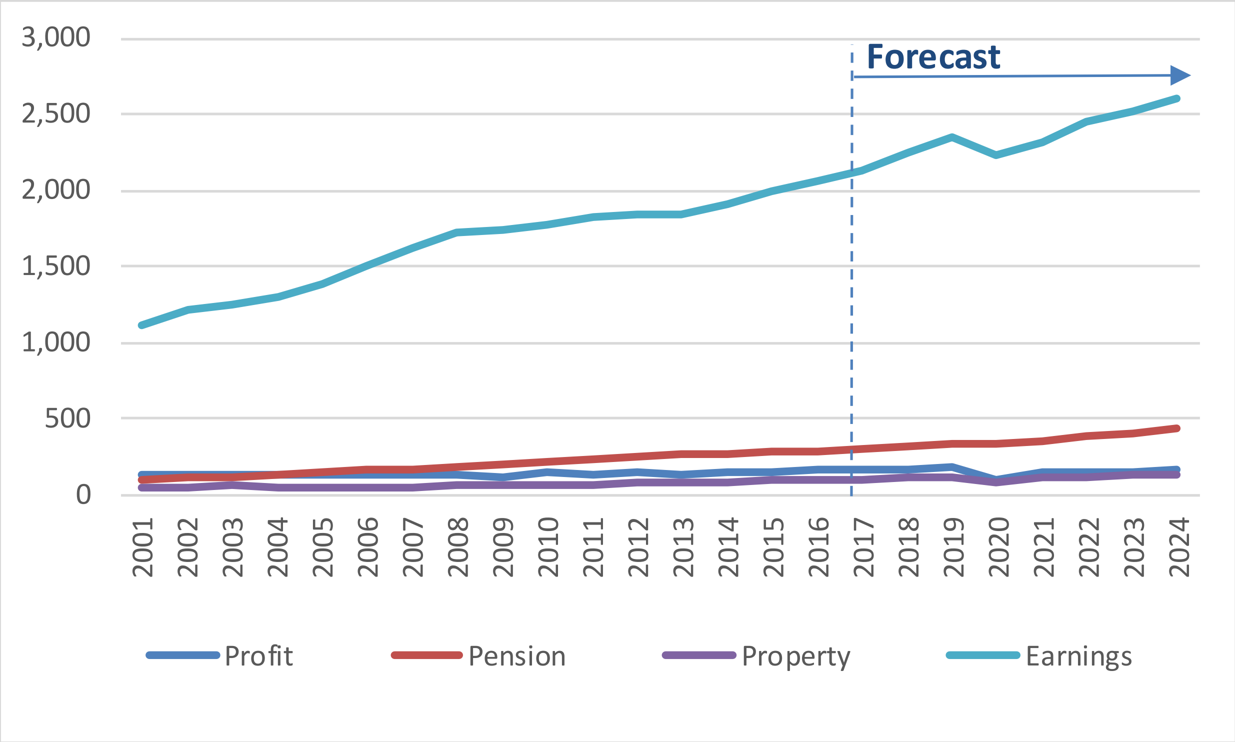
Figure 15: Downside scenario assuming larger downward adjustments to the tax base

		2020	2021	2022	2023 onward
Adjustment to average tax rate	Base case	-0.1pp	-0.05pp	-0.025pp	0
	Downside	-0.2pp	-0.1pp	-0.1pp	-0.1pp
	Incremental tax impact -£16m	-£3m	-£2m	-£3m	-£4m
Employment / other earned income adjustment	Base case	-1.5%	-3%	-1.5%	0
	Downside	-5%	-5%	-2.5%	-2.5%
	Incremental tax impact	-£18m	-£11m	-£6m	-£15m
Pension income adjustment	Base case	-3.5%	-1.8%	-0.9%	0
	Downside	-5%	-5%	-2.5%	-2.5%
	Incremental tax impact	-£5m	-£7m	-£4m	-£5m
Profits adjustment	Base case	-30%	-15%	-7.5%	0
	Downside	-50%	-25%	-25%	-25%
	Incremental tax impact	-£8m	-£4m	-£8m	-£11m
Rental income adjustment	Base case	-15%	-7.5%	-3.8%	0
	Downside	-30%	-15%	-15%	-15%
	Incremental tax impact	-£4m	-£2m	-£4m	-£5m
Investment and shareholder income adjustment	Base case	-20%	-10%	-5%	0
	Downside	-40%	-20%	-20%	-20%
	Incremental tax impact	-£14m	-£7m	-£11m	-£15m
	Overall incremental impact	**-£49m**	**-£29m**	**-£32m**	**-£52m**
Downside scenario IFG adjustments (£m)		**-£94m**	**-£65m**	**-£50m**	**-£52m**

Some columns may not sum due to rounding

Figure 16 demonstrates that the combined impact of both the FPP forecast and the downside IFG adjustments would result in very large downward shifts in each of the key areas of taxable income. Further, under the downside scenario the recovery in income lines is slower and while income growth returns to rates forecast without the adjustment, they remain at a permanently lower level.

Figure 16: Growth in key taxable income types under the downside scenario (£m)



The adjustments result in an overall downside scenario forecast as set out in Figure 17.

Figure 17: Downside personal income tax forecast, incorporating larger IFG adjustments

£m	2018	2019	2020	2021	2022	2023	2024
Personal tax							
Autumn 2019 forecast	453	475	497	524	550	576	
Impact of audit	0	+1	0	0	0	0	
Re-estimated equations	0	0	+3	+2	+3	+3	
New ITIS data	+1	+6	+6	+6	+7	+7	
New FPP assumptions	0	0	- 14	- 14	- 19	- 21	
New HVR forecast	-1	-1	-2	-3	-3	-4	
IFG downside adjustments	0	0	-94	-65	-50	- 52	- 54
New forecast	**453**	**480**	**397**	**451**	**486**	**508**	**531**
Change since Autumn 2019 forecast	0	+5	-100	-73	-64	-68	

Some columns may not sum due to rounding

Corporate tax

The IFG's downside scenario for corporate tax also assumes a longer period of restrictions on economic activity and more significant structural impacts – with a resulting larger impairment to profits in property firms and large corporate retailers.

The IFG downside scenario also includes a more significant reduction in tax from financial services firms. The IFG does not consider that this is a likely impact of a longer period of restrictions, but relates to the further risks outlined in section A5.

Note that the downside scenario for corporate tax is constructed using adjustment to the growth rates for specific sectors, so caution is required when comparing this to the assumptions used for the downside scenario on personal tax (where adjustments are made to the levels of tax).

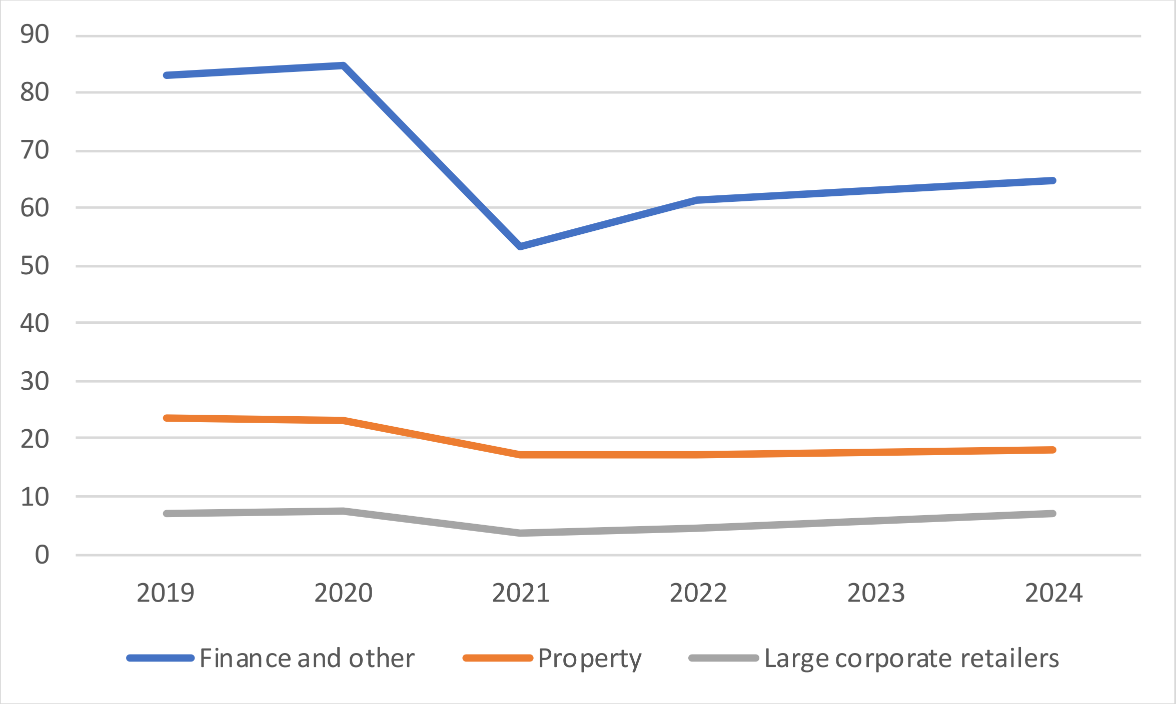
The downside assumptions are set out in Figure 18. The downside assumption is that financial services profits could fall 40% in 2020, resulting in a 40% reduction in corporate tax from the sector in 2021. Growth rates in future years are unchanged from the base case, but tax will start from a lower base – suggesting a significant structural reduction in corporate tax from this sector in this scenario. The downside for property income is similar, with the IFG assuming a much more significant impact on profits in 2020 (and tax in 2021) with future growth rates unchanged but from a lower base.

The downside for large corporate retailers has been dealt with in a different manner. Tax is still forecast to fall by 50% in 2021 – a larger reduction has not been assumed due to the likelihood of continued sales of essentials. However, a much slower recovery is forecast – accounting for the potential for a slower economic recovery and a greater level of losses carried forward from 2020.

Figure 18: Assumptions used in corporate tax downside forecast

% growth rate	2020	2021	2022	2023	2024 onward
Financial services and other	2.0	-40	5.0	2.9	2.9
Property	-2.0	-25	0	2.2	2.4
Large corporate retailers	2.0	-50	25	25	25

Figure 19: Downside forecast of corporate tax in key sectors (£m)



This results in a revised downside forecast as set out in Figure 20

Figure 20: Downside corporate tax forecast

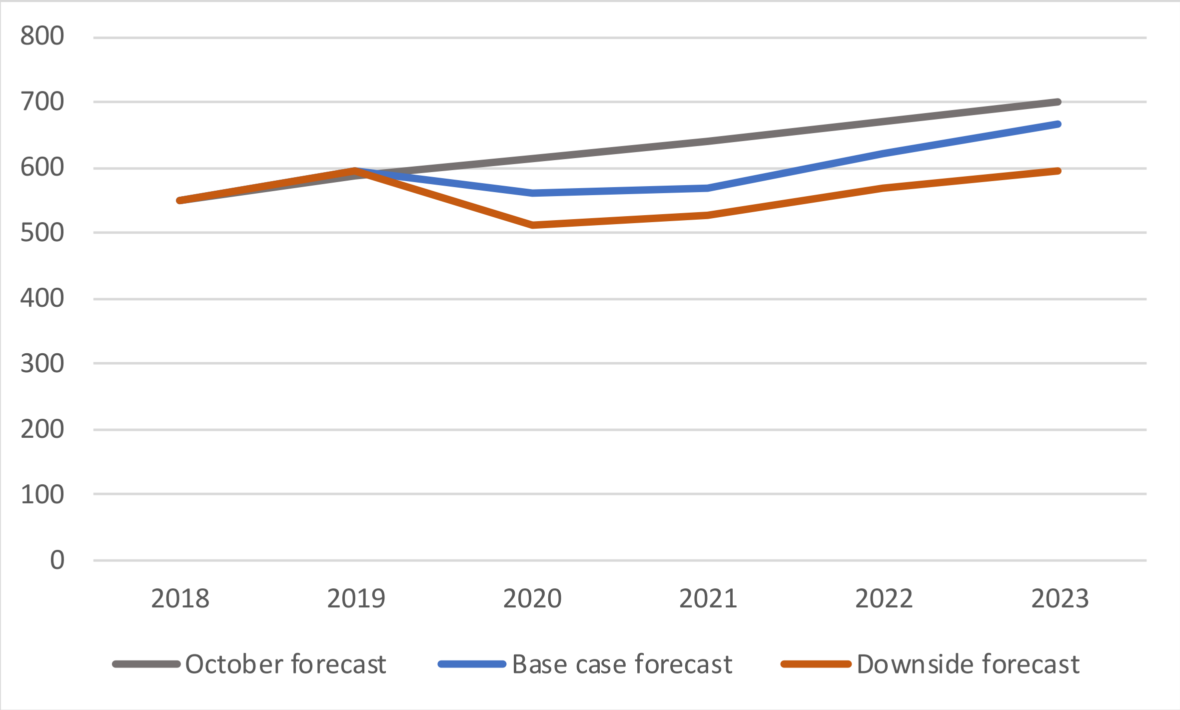
£m	2018	2019	2020	2021	2022	2023	2024
Corporate tax							
Autumn 2019 forecast	98	113	115	117	121	125	
Impact of outturn		+1	+1	+1	+1	+1	
New FPP assumptions			0	-5	-3	-3	
Sectoral adjustments			-1	-24	-18	-17	
Downside adjustments			0	-16	-18	-19	
Downside scenario	**98**	**114**	**115**	**74**	**83**	**86**	**93**
Change since Autumn 2019 forecast	0	+1	0	-43	-38	-39	

Some columns may not sum due to rounding

Overall forecast

Figure 21 compares the IFG's base case and downside forecasts with the forecast that was published in the addendum to the Government Plan 2020-23[7]. In all cases the forecast is before the forecast of bad debts. The base case forecast is £51m lower than the previous forecast for 2020, but the difference increases to £71m in 2021, before falling back to a £35m differential by 2023. The downside is around £100m lower than the previous forecast in each year other than 2021 when the difference peaks at £116m.

Figure 21: Comparison of base case and downside with previous forecast



[7] https://statesassembly.gov.je/assemblypropositions/2019/p.71-2019add.pdf

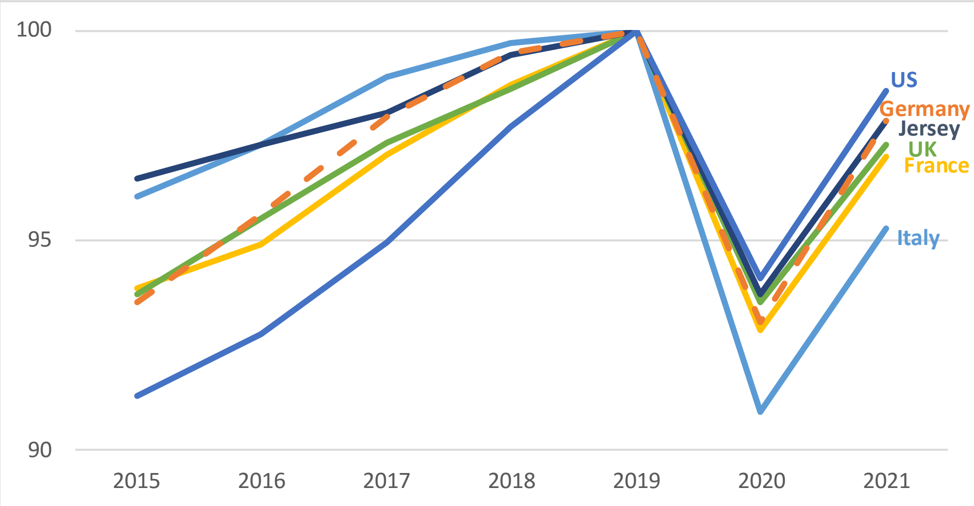
A7. Comparison of Fiscal Policy Panel forecast with other jurisdictions

Economic forecasting is always uncertain, but the circumstances of the current crisis mean that a much greater range should be considered around any forecast. Comparisons have therefore been made of the FPP forecast with forecasts for other jurisdictions, as a *sense check* for IFG.

GVA forecasts

The Economics Unit has compared the FPP's GVA forecast to GDP forecasts included in the International Monetary Fund's April 2020 World Economic Outlook[8].

Figure 22: Index of GVA – Jersey and other advanced economies (2019=100)



Sources: Jersey from FPP economic assumptions 23 March 2020
Other jurisdictions from IMF World Economic Outlook 14 April 2020

Other than Italy, all countries shown in the chart are forecast to experience a decline of around 6-7% in 2020. All countries with the exception of Italy are forecast to see GDP return to within 3% of its 2019 level, by 2021.

Of all the 39 advanced economies included within the IMF forecast, the worst hit are forecast to see declines of more than 5% over two years – San Marino (7.4%), Macao (7.1%) and Greece (5.5%). Only three advanced economies are forecast to grow over two years – Malta (4%), Korea (2.2%) and the Czech Republic (0.5%). The mean two-year decline is 2.1% and median 2.0% – compared to a forecast decline of 2.2% for Jersey.

The IMF forecasts have also been compared to various other easily-available forecasts and appear to be close to the lower end of the forecasts, though most of the other forecasts were made earlier than the IMF and therefore did not have the same degree of available information.

[8] https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020

Figure 23: Other forecasts for UK

UK (% growth in GDP)	2020	2021	Date of forecast
IMF	-7.2	4.5	14 April 2020
Commerzbank	-9.5	6.5	15 May 2020
ING	-7.0	3.4	15 May 2020
Capital Economics	-12.0	10.0	15 May 2020
Bank of England illustrative scenario	-14.0	15.0	07 May 2020
KPMG	-7.8	8.4	29 April 2020
NIESR	-7.0	7.0	28 April 2020
EY Item Club	-6.8	4.5	27 April 2020
OBR reference case	-12.8	17.9	14 April 2020
CEBR	-4.0	3.5	30 March 2020

Figure 23 shows that forecasts for the UK vary, with the IMF forecast close to average. Further to this, the UK Treasury (HMT) produces a monthly compendium of forecasts for the UK economy, with the most recent published on 20 May . This includes 24 forecasts made between 1 May and 18 May. The average of these forecasts is an 8.6% decline in 2020, followed by 6.2% growth in 2021. The forecasts for 2020 GDP range from a 12.9% fall, forecast by Bank of America - Merrill Lynch, to a 4.7% fall forecast by Heteronomics. JP Morgan are forecasting the steepest quarterly decline – 56.7% in quarter 2, followed by growth of 63.9% in quarter 3.

The UK's Office for Budget Responsibility has produced a 'reference case' scenario , which shows a steeper decline than most of the forecasts covered in the HMT compendium. Under this scenario, UK GDP declines by 35% in quarter 2 of 2020. This drives a fall in annual GDP of 12.8%, which then bounces back strongly to 17.9% in 2021. However, the OBR's reference case assumes 'no lasting economic hit'.

Figure 24 demonstrates again that the IMF forecasts for the US and euro area are close to average. But there remains considerable uncertainty with the IMF indicating that risks are to the downside.

Figure 24: Other forecasts for the euro area and US

Euro area (% growth in GDP)	2020	2021	Date of forecast
IMF	-6.5	5.6	14 April 2020
Commerzbank	-7.0	5.0	15 May 2020
ING	-8.0	4.0	15 May 2020
Capital Economics	-12.0	10.0	15 May 2020
Barlcays Capital	-5.5		26 March 2020
Goldman Sachs	-9.0	7.8	24 March 2020

USA (% growth in GDP)	2020	2021	Date of forecast
IMF	-6.2	4.2	14 April 2020
Commerzbank	-4.5	4.0	15 May 2020
ING	-7.1	3.7	15 May 2020
Capital Economics	-5.5	7.0	15 May 2020
Barlcays Capital	-0.6		26 March 2020
Goldman Sachs	-3.8	5.3	24 March 2020

Overall then, the FPP forecast appears to be close to the IMF's forecast for most advanced economies. The IMF forecast in turn appears to be around average compared to other forecasts, though within a large range of forecasts.

GVA forecasts – quarterly considerations

It is worth noting that a number of the forecasts for other jurisdictions are based on significant quarterly declines, and it is these quarterly declines that are forming many of the headlines. For example, CEBR's forecast for the UK includes a 15% fall in GDP in Q2, while Goldman Sachs' forecast for the US includes a 5.5% fall in Q2[9] – but both forecasts include a recovery in the remainder of the year with annual GDP down 4%.

The FPP assumed a similar path for Jersey, stating that:

> *'this forecast for annual growth comprises a very sharp contraction within the year with a short period of very steep decline, particularly in the second and third quarters of the year, but with the first and last quarter seeing less impact'*

The FPP does not forecast quarterly GVA, nor is a series of quarterly GVA available for Jersey. However, Figure 25 illustrates one possible way in which an annual decline of 6.3% could be achieved with, in this example, a 15% fall in seasonally-adjusted GVA in the second quarter.

Figure 25: Illustrative quarterly growth rates to align with FPP annual forecast

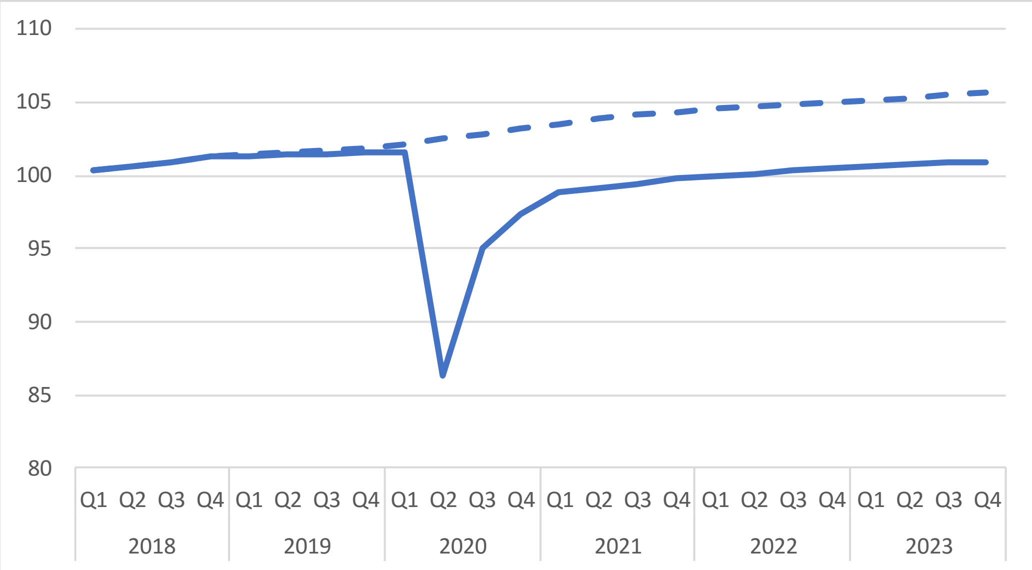
	2020			
	Q1	Q2	Q3	Q4
Quarterly growth	0.1%	-15.0%	10.0%	2.5%
Year-on-year growth	0.3%	-14.8%	-6.4%	-4.1%
Annual growth	**-6.3%**			

Forecasts of the impact of the current crisis refer to the prospect of a V-shaped, U-shaped or L-shaped recovery, or alternatives such as a tick or a swoosh. The 'shape' of the forecast depends on whether it is the shape of the growth rates or the shape of the level of GVA – so while the FPP's annual growth rates look like a V-shape, the level of GVA is not.

[9] Expressed as 24% annualised growth.

Figure 26 extends the illustration in Figure 25 further, showing an index of quarterly GVA using illustrative quarterly growth figures that align to the FPP forecasts. It is worth noting that this is just one path for quarterly GVA that would align to the FPP forecasts, and the quarterly GVA figures illustrated here are not published or endorsed by the FPP.

Figure 26: Illustrative quarterly GVA index, based on FPP annual GVA forecasts

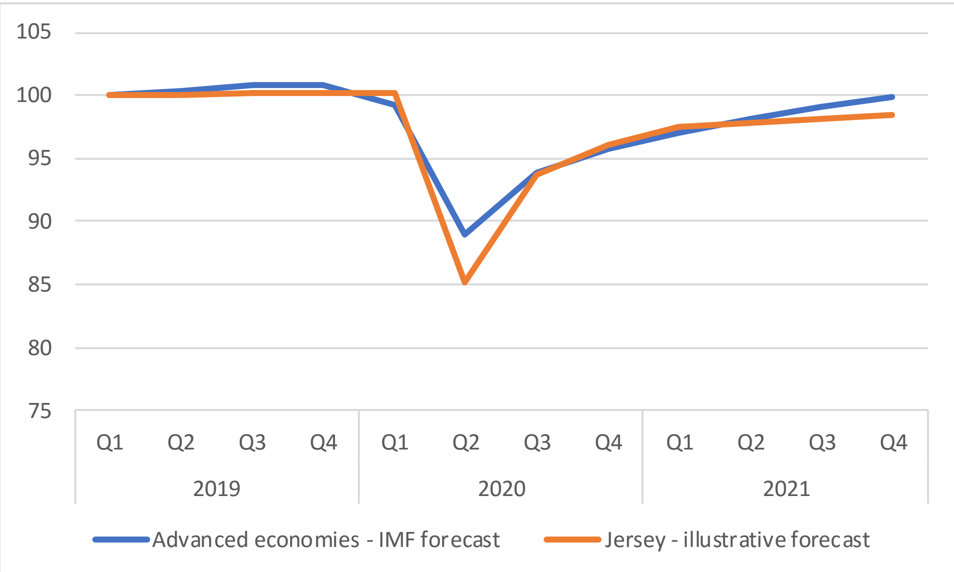


Source: Economics Unit quarterly illustration, based on FPP annual forecasts, dashed line represents the FPP's October 2019 forecast

Figure 27 demonstrates that Jersey could see a broadly 'U-shaped' initial recovery phase, when looked at on a quarterly basis. But beyond this initial recovery GVA remains significantly below the FPP's previous forecast.

The shape of the illustrative quarterly GVA chart appears broadly similar in shape to the IMF's forecasts for advanced economies, as shown in Figure 27.

Figure 27: IMF quarterly forecast for advanced economy GDP and indicative Jersey quarterly GVA forecast (Index: 2019Q1 = 100)



Inflation forecasts – IMF

Forecasts for inflation are not available as widely as those for GDP. However, the IMF's forecast for consumer prices can be compared to those for Jersey's RPIY inflation. While there are differences in the measurement of price indices, the FPP forecast for Jersey appears to follow a similar trend to the IMF forecasts for a number of other advanced economies – with inflation in 2020 forecast to be around 1 percentage point lower than that experienced in 2019; with 2021 returning close to 2019 rates.

Figure 28: Forecast for Jersey RPIY inflation compared to forecasts for other advanced economies

Inflation (%)	2019	2020	2021
United States	1.8	0.6	2.2
Germany	1.3	0.3	1.2
France	1.3	0.3	0.7
Italy	0.6	0.2	0.7
United Kingdom	1.8	1.2	1.5
Jersey	2.6	1.4	2.2

Sources: Jersey from FPP economic assumptions 23 March 2020
Other jurisdictions from IMF World Economic Outlook 14 April 2020

Labour market forecasts – OBR

The OBR 'coronavirus reference case' forecasts UK employment to fall from 32.8m in 2019 to 31.8m in 2020 (3%) before recovering to 32.3m in 2021 (1.7% growth) and 33m in 2022 (2% growth). The fall in 2020 is very close to the FPP's forecast of 2.9%, and the growth in 2021 is also similar to the 2.0% FPP forecast. However, the OBR's forecast for 2022 is significantly stronger than the FPP's 0.8%.

The OBR forecasts the unemployment rate to increase from 3.8% to 7.3% in 2020, then to 6.0% in 2021. However, these are annual averages and unemployment is forecast to peak at 10% in Q2.

Earnings are forecast to fall by 7.3% in 2020, before growing 18.3% in 2021. The OBR assumes that 30% of UK employees are covered by the Coronavirus Job Retention Scheme and it is likely that many of these will have their wages reduced to 80% while on furlough, and the OBR also assumes that many employees not on furlough will be working reduced hours.

Figure 29: OBR labour market forecasts - 'coronavirus reference case'

	Percentage change on a year earlier, unless otherwise stated					
		Scenario horizon				
	2019	2020	2021	2022	2023	2024
Employment (millions)	32.8	31.8	32.3	33.0	33.3	33.4
Average earnings	2.8	-7.3	18.3	1.6	2.5	3.1
Unemployment (millions)	1.3	2.5	2.1	1.6	1.4	1.4
Unemployment rate (per cent)	3.8	7.3	6.0	4.5	4.0	4.1

Source: https://obr.uk/coronavirus-reference-scenario/#economic-scenario

A8. Comparison of income tax forecast with forecasts for other jurisdictions

As with economic forecasts, fiscal forecasting is also very uncertain. There are two ways in which errors can manifest in revenue forecasts: either because of economic outturns diverging from forecast; or a divergence in the relationship between revenues and economic variables. The draft IFG forecast for Jersey has been compared to forecasts for the UK and Ireland:

Office for Budget Responsibility forecast for the UK[10]

The OBR published a coronavirus reference case scenario on 14 April. This included a forecast fall in income tax and National Insurance contributions from £341bn in 2019/20 to £300bn in 2020/21 – a fall of 12%, compared to 7% for the IFG's base case forecast, and 17% in the IFG's downside forecast.

Corporate tax was forecast to fall from £55bn to £48bn – a fall of 13%, compared to 22% in the IFG's corporate income tax forecast for 2021. The IFG's downside forecast is for a 35% fall in corporate tax.

Economic and Social Research Institute (ESRI) forecast for Ireland[11]

ESRI have forecast a fall in Irish GDP of around 7% in 2020 – broadly similar to the FPP forecast for Jersey. ESRI forecast this to result in a 7% reduction in taxation, when compared to 2019:

- Income tax 5% lower
- VAT receipts 8% lower

The IFG's base case forecast of a 7% fall in personal income tax forecast for Jersey would therefore be slightly steeper than the ESRI forecast for Ireland. The IFG's downside forecast is steeper still, at 17%.

[10] https://obr.uk/coronavirus-reference-scenario/
[11] https://www.esri.ie/system/files/publications/QECSPRING2020.pdf

Appendix B – GST forecast

GST forecast note

This note sets out a provisional forecast of Goods & Services Tax (GST) for the Income Forecasting Group's (IFG) consideration. This updated forecast is based on new economic forecasts published by the Fiscal Policy Panel (FPP) in March 2020.

The remainder of the note is set out as follows:

- **Section B1** describes how the forecast is carried out.
- **Section B2** outlines the new economic assumptions.
- **Section B3** sets out the new forecast.
- **Section B4** covers the uncertainties and risks to the forecast.
- **Section B5** sets out the results from the model estimation.

B1. How the forecast is carried out

Goods & Services Tax ("GST") was introduced in 2008 and is collected by Revenue Jersey. GST is collected from purchases of goods and services on the Island, and some imports from off-island. Initially introduced at 3%, the GST rate was increased to 5% in June 2011 with an effective rate of 4% for 2011 overall.

There are three components to GST receipts:

- "Normal" GST (i.e. spend on Island)
- Import GST (i.e. imports from off-island)
- International Services Entity ("ISE") fees

Normal GST refers to purchases on-Island and as such would typically refer to purchases by households, these receipts were around £77.5m in 2018 and accounted for 84% of the total.

Import GST is paid on the importation of high-value goods directly, these receipts are volatile and in 2018 were £5.8m and a little over 6% of the total.

ISE fees are paid by the financial services sector in Jersey and have been broadly stable at around £9m since 2011, at £9m they account for 10% of the total.

The IFG considered as part of its draft MTFP 2016-2019 (June 2015) forecasts, changes to the forecast modelling of GST. The previous assumptions to increase GST forecasts by RPI were replaced by assumptions reflecting information on general trends in GST relative to the overall economic situation. Specifically, the IFG agreed forecast methodology was:

- For years in which real economic growth is being predicted by the FPP: increase "normal" GST revenues by 2%; and
- For years in which real economic growth is not being predicted by the FPP: increase "normal" GST revenues by 0.8%
- Import GST used a five-year rolling average of growth rates
- ISE fees are held flat at the latest outturn.

This methodology is relatively crude, and simple comparison against an alternative model that forecast growth in GST with growth in Compensation of Employees (CoE) suggested the potential for a marked improvement.

To illustrate the relative performance of the two methods simplifying assumptions are made here:

1. It is assumed the sum of normal and import GST grows at either 2% or 0.8% rather than normal GST only. This is because it would require a great deal of additional work to obtain an historical import GST series. In any event since import GST is currently just 6% of total GST this simplification would not significantly change the result.
2. The evaluation is against historical outturns and is conditional on the economic determinant (CoE). Simply put when the economy is growing is it better to simply assume a 2% increase in GST or have a forecast consistent with the economy forecast conditional on the forecast for CoE being true.
3. The agreed existing forecast methodology does not cover explicitly how to model a change in the rate of GST. So, the method is extended to assume that the increase in revenue is proportional to the change in the rate e.g. an increase from 3% to 4% would mean, all else equal, an increase of 33% (4/3) in the revenue.

GSTX is defined as normal GST plus import GST or equivalently GST excluding ISE fees, and so the agreed forecast methodology when the economy is growing i.e. growth in real GVA is positive can be set out as

$GSTX_{t+1} = GSTX_t * (GST\_RATE_{t+1} / GST\_RATE_t) * (1 + 2\%)$

where $GSTX_t$ = the latest outturn for GSTX receipts at time t

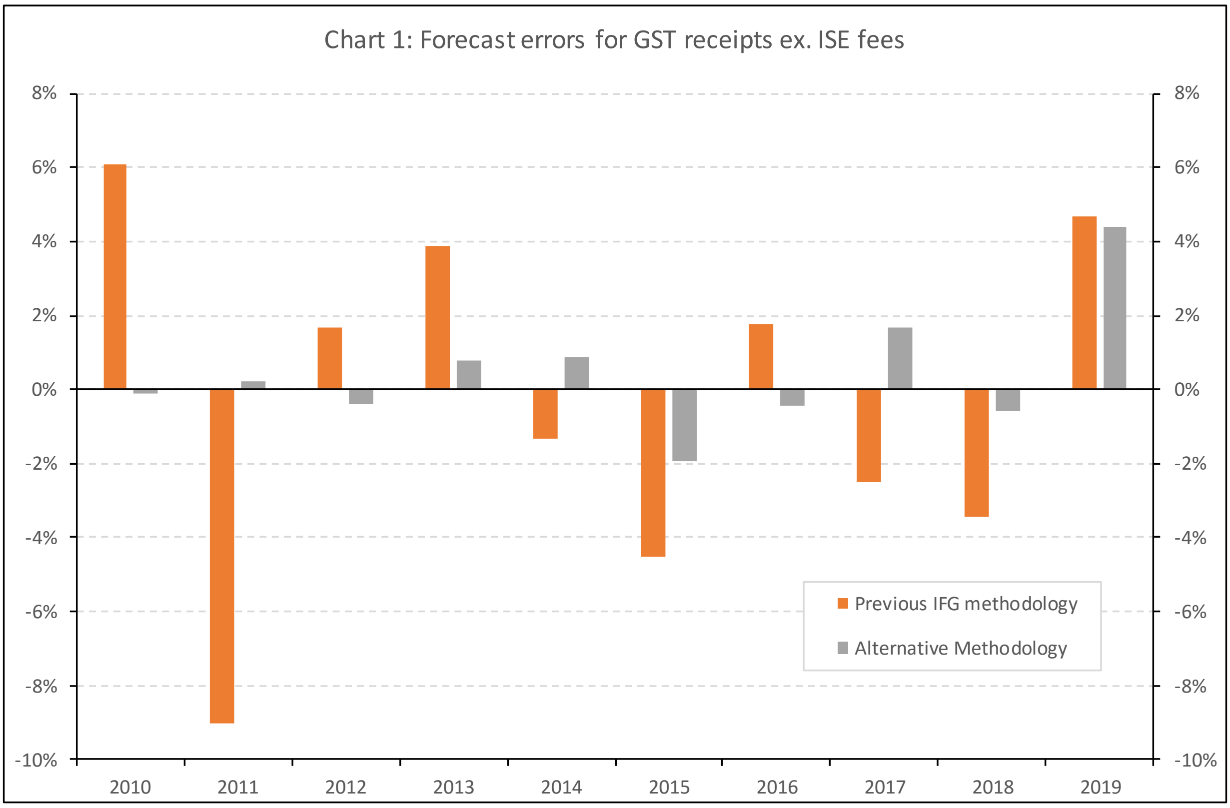
$GSTX_{t+1}$ = the forecast for GSTX receipts following the outturn

GST_RATE = the rate of GST in the outturn period and forecast period

The alternative method forecasts GSTX given CoE i.e. instead of assuming a growth rate of 2% or 0.8% it is the growth in CoE that drives the growth in GSTX, the details of this method are set out following a comparison of the two methods. A comparison of one-year ahead forecast errors is set out in the chart below.

It is notable that both methods have large forecast errors in 2015 and that Jersey hosted the ‘Island’ games in that year which would have brought additional expenditure on-island by visitors.

Moreover, the latest outturn for GSTx in 2019 is markedly lower than would be expected. After growth in GSTx of around 4.5% in 2017 and 2018, GSTx fell by a little under 2% in 2019. Outturn data for CoE in 2019 is not available but conditional on the FPP forecast for CoE growth in GSTX for 2019 was forecast to be a little over 2%. A fall of 2% in 2019 compared with a forecast for a rise of 2% means the forecast error was +4%. The fall in GSTx revenues is at odds with the performance of the Jersey economy in 2019, and would be consistent with a fall in CoE that seems unlikely given wider indicators including business surveys.



The chart illustrates that the errors for the previous methodology are much larger than the 'Alternative' method. The error in 2011 is particularly large but receipts growth was exceptionally strong: GSTX receipts rose from £39m in 2010 to £57m in 2011 when the rate of GST rose from 3% to 4%. However, the growth in GSTX even after accounting for the rate change was still exceptionally strong at over 10%, the Alternative method explains this growth by changing the coefficients in the model used to explain the growth in GXTX whereas the previous methodology is constrained to use growth of 0.8% as growth in real GVA was negative in 2011. As is often the case in considering the average forecast error large negative forecast errors can be partly offset by large positive forecast errors, so it is useful to consider the average absolute forecast error that ignores the sign (positive or negative) of the error. The table below sets out the forecast errors of the two methods, it shows that the average absolute forecast errors for the previous method are 5 times larger than the Alternative method, and still 4 times larger after excluding 2011.

The IFG agreed to review the modelling assumptions applied in the GST forecast in advance of the completion of the next full forecast (i.e. spring 2020), to determine whether the assumptions could be improved. The next section of the paper sets out the new 'Alternative' method for forecasting GST the results of which are shown in the table above.

Table 1: Comparison of forecast methods for GST receipts excluding ISE fees							
	Actual, £m	Forecast, £m		Forecast error, %		Forecast error, £m	
		Previous	Alternative	Previous	Alternative	Previous	Alternative
2010	38.7	41.0	38.6	6.1%	-0.1%	2.3	0.0
2011	57.1	52.0	57.2	-9.0%	0.2%	-5.1	0.1
2012	70.7	71.9	70.5	1.7%	-0.4%	1.2	-0.3
2013	68.6	71.3	69.2	3.9%	0.8%	2.7	0.5
2014	71.0	70.0	71.6	-1.3%	0.9%	-0.9	0.6
2015	75.8	72.4	74.3	-4.5%	-1.9%	-3.4	-1.5
2016	76.0	77.3	75.6	1.8%	-0.4%	1.3	-0.3
2017	79.5	77.5	80.8	-2.5%	1.7%	-2.0	1.3
2018	84.0	81.1	83.5	-3.4%	-0.6%	-2.9	-0.5
2019	81.8	85.6	85.4	4.7%	4.4%	3.8	3.6
Average 2010-2018				-0.8%	0.0%	-0.76	0.00
Average absolutue value				3.8%	0.8%	2.44	0.57
Average excluding 2011				0.2%	0.0%	-0.21	-0.02
Average absolutue value				3.2%	0.8%	2.10	0.63

GST receipts are a product of the GST rate and the expenditures on which GST is liable

T = t * C [1]

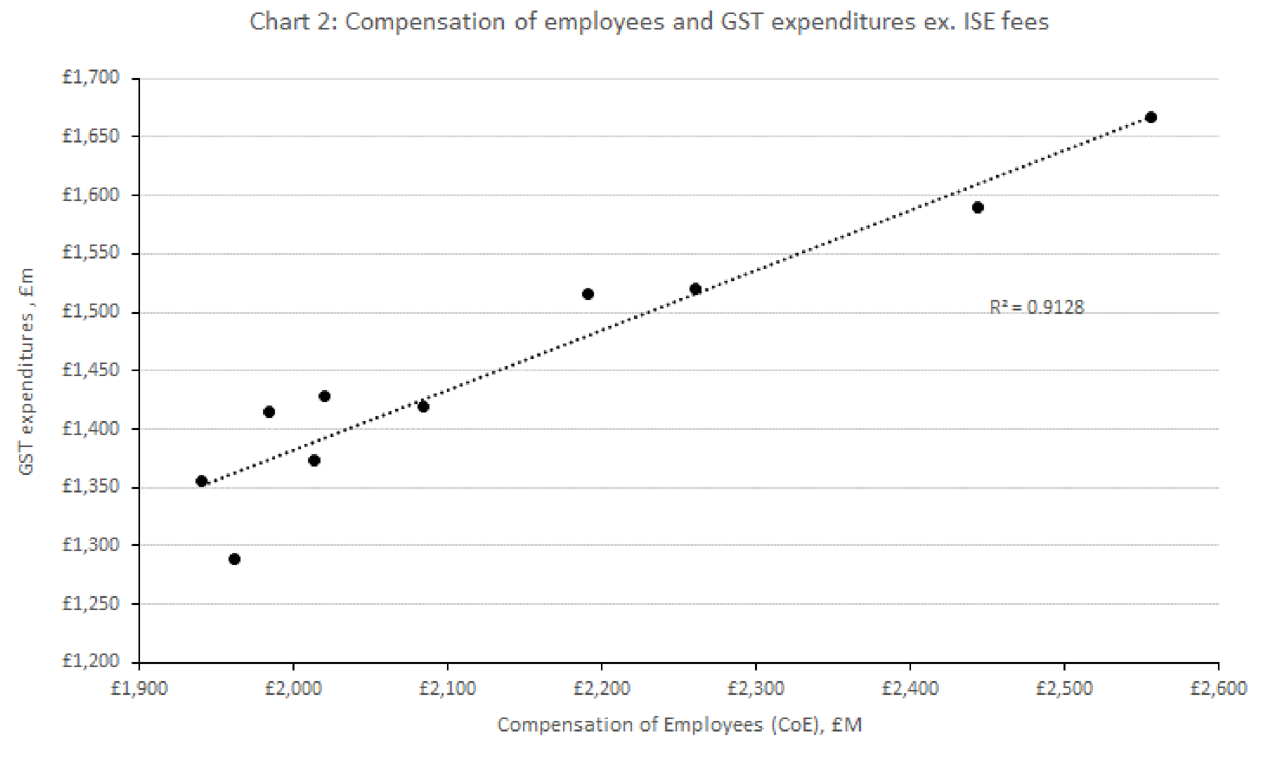
T = GST receipts excluding ISE fees
t = GST rate i.e. 5%
C = GST expenditures, broadly equal to around 2/3 of household consumption, C = T/t

Consumption generally rises directly with income, and the largest part of income for the household sector is income from employment. So it is reasonable to use the compensation of employees as a proxy for total household income and hence a key determinant of household consumption.

C = c * CoE [2]

c = the proportion of CoE that is spent on GST expenditures
CoE = Compensation of Employees

In this context it is assumed that ISE fees are driven by different factors than normal and import GST so GXTx is defined as GST excluding ISE fees. As a first step GST expenditures excluding ISE fees i.e. C above is compared against CoE for the years 2009-2018.



As expected GST expenditures generally rise with income, so the higher the Compensation of Employees (CoE) the higher the expenditure on which normal and import GST is paid and vice-versa so when CoE is lower so are GST expenditures. The coefficient of determination or R2 of 0.9128 estimates the fraction of the variance in GST expenditures that can be explained by a simple linear relationship using CoE.

In simple terms this means that GST expenditures and hence receipts can largely be explained by CoE, and given a forecast for CoE as an 'economic determinant' then conditional on that forecast for CoE a good forecast for GST can be estimated. The next section sets out the estimation of such a model.

$T = t * c * CoE$	substituting [2] in to [1]	[3]
$Ln(T) = Ln(t) + Ln(c) + Ln(CoE)$	taking logs	[4]

The model [4] can be estimated by standard Ordinary Least Squares (OLS) regression. The model is unrestricted in that lags of up to one year are allowed for in estimation and the 'best' model among all the possible permutations is taken. NB the 'regressor' INPT is a constant term in the regression. Selected results are shown below:

GST model estimated in Microfit

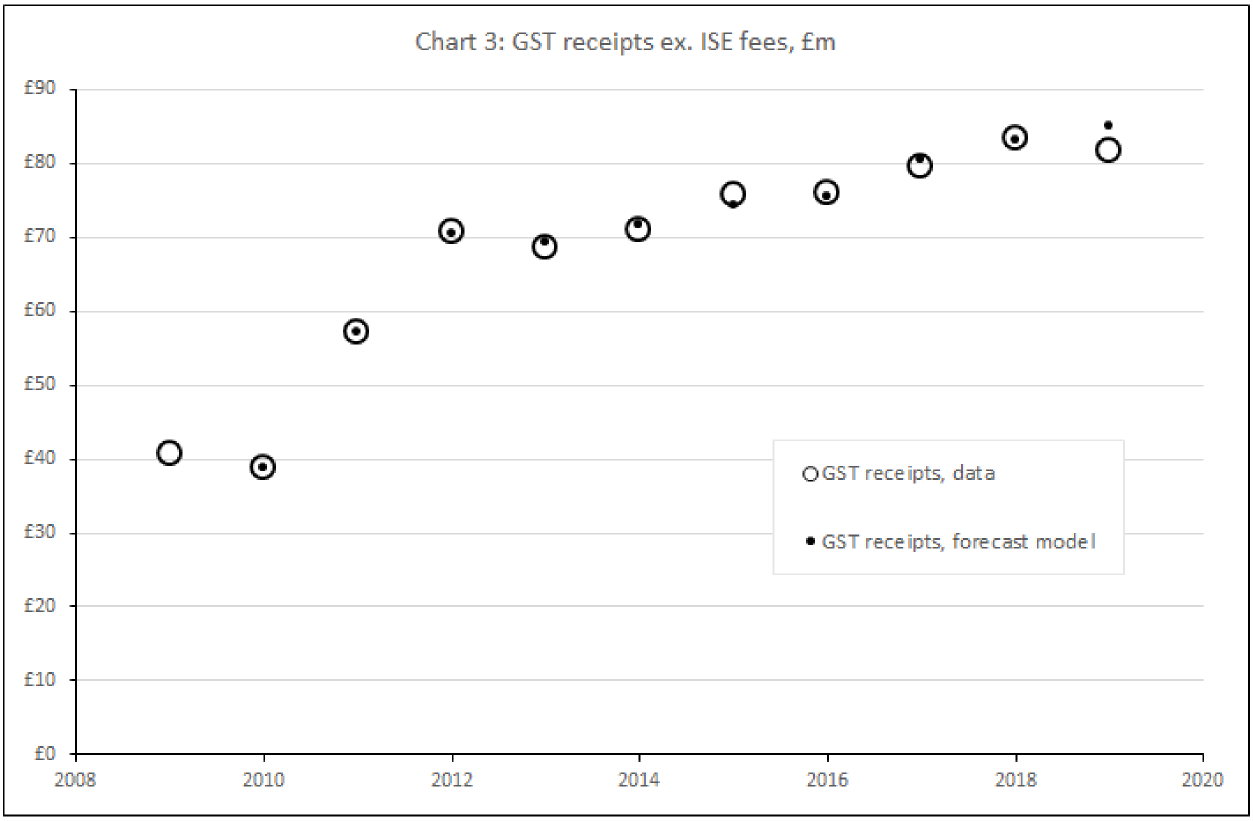
```
*******************************************************************************
 Dependent variable is GSTX [variables in natural logarithms]

 9 observations used for estimation from 2010 to 2018
*******************************************************************************
Regressor          Coefficient        Standard Error     T-Ratio[Prob]

GSTX(-1)           -.14244            .037926             -3.7558[.013]
COE                .83664             .067110             12.4667[.000]
GST_RATE           1.2541             .047940             26.1608[.000]
INPT               2.2363             .45630              4.9010[.004]

*******************************************************************************
R-Squared                   .99821
R-Bar-Squared               .99713
S.E. of Regression          .012595
F-Stat.            F(3,5)       927.5619[.000]
*******************************************************************************
```

This statistical model is very robust and provides an excellent ‘fit’ to the data. The lagged term on GSTx captures the dynamics between the income of households and their spending. The econometrics of this model are not discussed further but a fuller set of results is contained in the Annex. The performance of the forecasting model is shown in the chart below.



The forecast model is derived from a well-structured theoretical model that is borne out empirically i.e. it explains the data. All variables are correctly signed and provide a clear intuition e.g. it implies that on average in due course that expenditure on goods and services that are liable to GST is equal to around ¾ the Compensation of Employees (CoE). The historical forecast performance given outturn CoE and the forecast conditional on the FPP forecast for CoE in 2019-24 is shown in the table below:

Table 2: GST receipts excluding ISE fees (GSTx), £m						
	Actual	Forecast	Forecast error		Growth rates	
			%	£m	Actual	Forecast
2009	40.7					
2010	38.7	38.6	-0.1%	-0.03	-5.0%	
2011	57.1	57.2	0.2%	0.12	47.7%	48.1%
2012	70.7	70.5	-0.4%	-0.29	23.9%	23.2%
2013	68.6	69.2	0.8%	0.53	-3.0%	-1.8%
2014	71.0	71.6	0.9%	0.61	3.4%	3.5%
2015	75.8	74.3	-1.9%	-1.46	6.8%	3.9%
2016	76.0	75.6	-0.4%	-0.33	0.2%	1.7%
2017	79.5	80.8	1.7%	1.31	4.6%	6.8%
2018	84.0	83.5	-0.6%	-0.49	5.6%	3.3%
2019	81.8	85.4	4.4%	3.60	-2.6%	2.3%
2020		82.0				0.3%
2021		85.0				3.6%
2022		86.8				2.1%
2023		88.8				2.3%
2024		90.9				2.3%
Average 2010-2018			0.0%	0.00		
Average absolutue value			0.8%	0.57		

It should be noted that the new method aggregates normal and import GST whereas previously import GST was forecast as a 5-year rolling average. Import GST is volatile but given the accuracy of the new method that forecasts normal and import GST as a total it is not proposed to forecast import GST separately. If the IFG decided it would be worth forecasting Import GST separately further work would be required to evaluate the forecast accuracy of this approach.

B2. New economic assumptions

The Fiscal Policy Panel's (FPP) updated economic assumptions (**Figure 30**) have been used in the model to update the GST forecast.

Figure 30: FPP economic assumptions March 2020 (% change, unless otherwise stated)

% change unless otherwise specified	2017	2018	2019	2020	2021	2022	2023	Trend 2024+
Real GVA	0.8	1.4	0.6	-6.3	4.4	1.0	0.6	0.6
RPI	3.1	3.9	2.9	1.2	2.2	2.5	2.5	2.6
RPIY	3.2	3.6	2.6	1.4	2.2	2.4	2.4	2.5
Nominal GVA	4.1	5.9	3.9	-5.1	6.0	2.7	2.8	3.1
Gross operating surplus (including rental)	-0.3	7.5	4.3	-8.2	7.7	2.2	2.5	3.2
Financial services profits	-6.4	9.6	2.0	-2.0	5.0	2.9	2.9	3.4
Compensation of employees	8.1	4.6	3.6	-2.5	4.6	3.1	3.0	3.1
Employment	2.3	1.4	1.0	-2.9	2.8	0.8	0.5	0.4
Average earnings	2.6	3.5	2.6	-0.6	2.2	2.3	2.5	2.7
Interest rates (%)	0.3	0.6	0.8	0.2	0.2	0.3	0.4	0.6*
House prices	2.9	7.1	7.0	-10.0	5.0	4.0	3.0	2.7
Housing transactions	7.8	5.3	-1.8	-50.0	45.0	15.0	7.0	1.5

* Bank Rate forecast for 2024 only

Source: Fiscal Policy Panel letter, 23 March 2020.

Note that the GST forecast uses only the forecast for Compensation of Employees (CoE).

In 2020 CoE falls by less than the sum of the growth in average earnings and employment in 2020, whereas typically the growth in CoE is broadly equal to the sum of the growth in average earnings and employment. This is because the falls in employment are concentrated in non-finance that has much lower average earnings than the finance sector.

However, the economic model for GST includes an implicit model for consumer spending that will not be applicable in 2020 due to the restrictions put in place to combat the global pandemic COVID-19. The hospitality industry i.e. hotels, restaurants and bars was largely closed along with many other industries including non-food retailing from late March with only limited activity permitted now.

To estimate the impact of closures on revenues and hence GST receipts a judgement is made over what proportion of typical revenues will be received in each month through 2020. For example, it might be assumed that hotels will have no revenue from April to September. Two scenarios are considered: the central scenario is for restricted activity for 3 months followed by recovery over 3 months while the more severe scenarios is for restricted activity for 5 months followed by recovery over 2 months. These scenarios are identified as base case (3+3) and downside (5+2) respectively.

For each scenario four categories are identified with differing severity: Red, Amber, Green and Essential; Green and Essential industries are those sectors broadly unaffected directly by COVID-19 or providing critical services that will be maintained through the crisis. This judgement can be applied to detailed industries within the broader sectors for the Standard Industrial Classification 2007 (SIC07). For example, the 'sale of motor vehicles' can be identified within the sector 'G - Wholesale and Retail Trade'.

The monthly profile and consequent annual impact under the two scenarios is set out below:

Impact of Covid-19 on revenues in 2020													
Severity	2020	Revenue proportions: 3+3 scenario											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Red	58%	100%	100%	50%	0%	0%	0%	25%	50%	75%	100%	100%	100%
Amber	79%	100%	100%	75%	50%	50%	50%	50%	75%	100%	100%	100%	100%
Green	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Essential	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Severity	2020	Revenue proportions: 5+2 scenario											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Red	48%	100%	100%	50%	0%	0%	0%	0%	0%	50%	75%	100%	100%
Amber	69%	100%	100%	75%	50%	25%	25%	25%	50%	75%	100%	100%	100%
Green	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Essential	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

The assumptions over monthly revenue through 2020 imply that revenue in ‘Red’, ‘Amber’, ‘Green’ and ‘Essential’ will be 58%, 79% and 100% of normal through 2020 overall under the base case ‘3+3’ scenario.

GST receipts are only readily available by broad sector e.g. Wholesale and Retail Trade for 2018, and these are then apportioned using Full-Time Equivalent (FTE) employment for June 2019 to the detailed industries. Table 3 illustrates these judgments and estimates for the sector ‘Wholesale and Retail trade’. On this basis revenue and hence GST receipts in Wholesale and Retail is expected to be 23% lower than normal through 2020 under the base case.

This method is extended to all sectors that expected to be significantly affected by the restrictions brought about by COVID-19, notably Construction along with Accommodation and food services activities. The summary results for all sectors are shown in Table 4 and show that in aggregate across all sectors GST receipts would, all else equal, be expected to be 17% lower than would be expected in a ‘typical’ year without restrictions under the base case (3+3) scenario. Under the downside (5+2) scenario receipts would be 23% lower.

B3. Updated GST forecast

The GST forecasts are set out in the attached Table 5 comparing the Base and Revised March 2020 forecasts with the forecasts in the Government Plan 2020-23. The base forecast is the forecast for GST receipts that would be expected taken as given the FPP forecast for Compensation of Employees (CoE). However, as discussed, restrictions on activity mean that sales, revenues and hence GST receipts will be markedly lower in 2020. The expected decline in GST receipts e.g. 17% under the 3+3 restrictions is then applied to the base forecast for GSTx to provide a ‘Revised’ forecast; the 5+2 scenario provides a downside forecast.

Note that all forecasts include the proposed revenue ‘measure’ to reduce from £240 to £135 of the ‘de minimis’ value of goods that can be imported before taxes i.e. GST becomes payable. This is forecast to raise £800,000 in a full year of implementation. Conceptually the value of this measure would, all else equal, rise with nominal expenditure but for simplicity it is held constant.

There are a number of unusually difficult judgements around forecasting the effects of the medical restrictions on GST, potential effects on forecast are noted in brackets:

1. In estimating the revenue loss for 2020 all months have an equal weighting. In practice the months of the potential lockdown e.g. Apr-Sep are peak seasonal months for tourism and hospitality and so should have a higher weight in deriving the annual figure. (Lower)
2. While hotels, bars and restaurants are closed households may be increasing their consumption of alcohol and food at home. Alcohol duties that depend on the volume of alcohol would be less affected than GST that depends on the value of expenditure. Although a home-cooked meal would be likely to involve lower expenditures than a meal outside the home there will be increased expenditures on food and alcohol – in addition to any stockpiling that would probably be neutral over the year. (Higher).
3. Some consumption such as durable goods would likely simply be delayed while retail outlets are closed, and there would be higher sales with a ‘catchup’ when these stores reopen. Consumption of other goods and services such as food and alcohol is less easily postponed although there would be expected to be increased consumption outside the home for a period when bars and restaurants reopen. (Higher).
4. The closure and restrictions of business premises in Jersey will promote the purchase of goods and services online via the internet and delivery by post that up to the de minimis are not subject to GST. This could prompt a permanent change in consumer behaviour with lower purchases from Jersey retailers in person. (Lower).
5. Fuel consumption is likely to fall very sharply during the period of restrictions. In the UK figures taken from the Department for Business, Energy & Industrial Strategy (BEIS) survey conducted over the weekend 28-29 March showed that petrol consumption was down by 75% and diesel by 71% across supermarkets, oil company and independent sites. (Lower).

Following the first draft of this note further work has been done to consider the seasonal variation in GST expenditures using new analysis by Revenue Jersey. Monthly data on GST returns, payments and repayments by sector e.g. Wholesale and Retail are available for 2018. The data show a ‘stagger’ with a high proportion of the value of returns at the end of calendar quarters i.e. March, June, September and December. This reflects the fact that most firms make a return for 3 months ending in March for example: not that most activity occurs in March.

The data show seasonality in Accommodation and food services with Q2 and Q3 (the quarters affected by lockdown) accounting for 62% of the total, by contrast the respective figure for Wholesale and retail is 51% i.e. not seasonal. The lack of seasonality in retail may reflect offsetting effects between expenditure by tourists, business travellers and residents’ expenditure abroad. The seasonality in GST receipts by sector is shown in Table 7. Accounting for the seasonality in Accommodation and food services makes little impact of the overall GST forecast, reducing revenues by a further £0.4m. Given the wider uncertainties the forecast was left unchanged with no separate adjustment applied for seasonality.

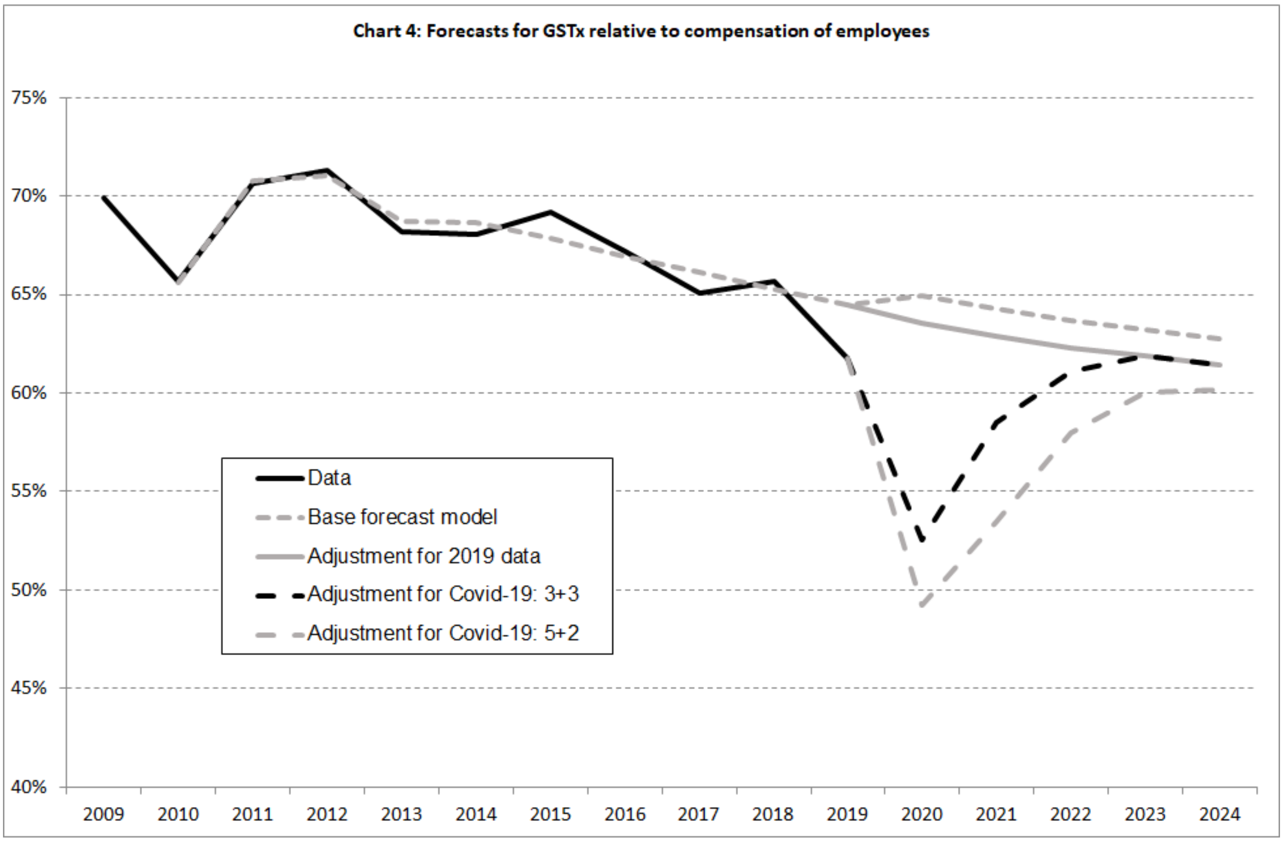
B4. Uncertainties and sensitivities

Conditional on the forecast for compensation of employees the forecast for GST is extremely accurate with a standard error in the estimated equation of 1.25%. Note that the standard error is different from the average forecast error. A general result in statistics for the normal distribution is that 95% of values lie within +/- 1.96 standard errors of the mean so, given the forecast for CoE, the model suggests that forecast GST will be roughly within +/- 2.5% or £2m 95% of the time or +/- 1.25% or £1m 66% of the time.

Conditional on the FPP forecast for Compensation of Employees in 2019 the forecast error in GSTx of 4.4% i.e. forecast growth of +2.3% compared with a fall of -2.6% in the outturn data is statistically significant. On the one hand this error could be entirely a one-off outlier with no new information for the forecast i.e. 'noise', but on the other it could reflect new information i.e. 'news' that should be reflected in the forecast. Note that the forecast model is estimated over the period 2010-2018 and is, by construction in the statistical method used, unbiased in that the average forecast error is zero. To take account of the likely 'news' in the forecast error for 2019 the forecast model was adjusted by applying half the forecast error i.e. -2.2% as an adjustment in future years. This reflects a pragmatic judgement that half the forecast error in 2019 was noise but half the error was news.

To consider the uncertainty and sensitivities in the GSTx forecast the implicit expenditure liable to GST was compared over time as a proportion of Compensation of Employees that is the economic variable which is assumed to be the key driver of GSTx expenditures in Chart 4.

The 3+3 scenario (-17% in 2020) provides a central forecast and the 5+2 scenario with an additional 6% point fall in GSTx receipts in 2020 provides one part of a downside forecast. In addition, the downside forecast includes a weaker recovery and permanently lower level of receipts.



There is a notable downward drift in GSTx expenditures relative to CoE that may reflect a rising proportion of expenditures imported below the de minimis threshold of £240, or alternatively a rising proportion of income (CoE) allocated to housing costs. This trend is reflected in the forecast model where the coefficient on the growth in CoE is around 85% which implies that 5% growth in CoE would be accompanied by growth of 4.25% in GSTx receipts. It should be noted that the forecast adjustment for 2019 data provides a more realistic trend.

Discussion at the IFG on 14/04/20 concluded that it was unlikely that, following the fall in 2020 due to COVID-19 restrictions, expenditure and hence GST receipts would recover completely to the forecast value in 2021. While the FPP economic forecast includes the effect of COVID-19 it was felt that there would be a persistent impact on GST receipts in 2021, with an implicit judgement that there would be a change in consumer behaviour. This judgement is consistent with subsequent reporting in the Financial Times on the challenges for retailing[12].

[12] Retailers fear pain will last beyond the end of lockdown

There was also agreement that the assumptions around restrictions on activity should be amended to a central case of 3+3 and a downside case of 5+2. For the central case of 3+3 adjustments of -7% and -2% were applied to the GSTx forecast in 2021 and 2022 respectively that deliver a protracted recovery in GSTx receipts, and implicitly consumption, relative to income. This would be consistent with a rise in household saving following the forecast recession in 2020 as households recover from a significant rise in unemployment and a fall in incomes. It would generally be consistent with a more cautious consumer post-recession with a rise in precautionary saving. For the downside case of 5+2 larger adjustments were applied consistent with a slower and weaker recovery in GSTx receipts. These judgements are illustrated in Chart 4 above and set out in a revised Table 5 and Table 6 for the central and downside forecasts respectively. It should be noted that the first draft of the GST forecast had an estimated fall in receipts of 27% in 2020 that was revised to 22% with judgement, this included a more severe set of assumptions around lockdown in the monthly profile with 6 months of zero revenue for 'Red sectors'.

Finally, on 17 April, *the Government of Jersey has announced that it will be deferring the changes to the "de minimis" level for paying GST on unaccompanied imported goods for personal use. This change is being deferred due to the Coronavirus pandemic. The changes, outlined in the Government Plan 2020-23, were due to take place from 01 July 2020 and would see the value of goods which could be imported - mainly through the postal system - without paying GST drop from £240 to £135. However, the Treasury and Resources Minister, Deputy Susie Pinel, has decided that the change should be deferred to January 2021 to help manage the current pressures on hauliers, postal workers and customs officers.* So this is reflected with a 'scorecard' loss of revenue of £400k in 2020 and an unchanged costing of £800k in 2021 and thereafter.

Table 3: Estimating the Impact of Covid-19 on GST revenues in 2020, Wholesale and Retail trade; 3+3 scenario

RAG rating for SIC sub-sectors	2020	Revenue proportions in months of 2020											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Red	58%	100%	100%	50%	0%	0%	0%	25%	50%	75%	100%	100%	100%
Amber	79%	100%	100%	75%	50%	50%	50%	50%	75%	100%	100%	100%	100%
Green	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Essential	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

			FTE	GST	Revenue
G - Wholesale and Retail Trade			6310	41.0	77%
45100	Sale of motor vehicles	R	420	2.9	58%
45200	Maintenance and repair of motor vehicles	E	300	2.1	100%
45300	Sale of motor vehicle parts and accessories	R	30	0.2	58%
45400	Sale, maintenance and repair of motorcycles and related parts and accessories	R	40	0.3	58%
46100	Wholesale on a fee or contract basis	A	10	0.1	79%
46200, 4	Wholesale of agricultural raw materials and live animals; Wholesale of information and communication equipment	G	40	0.3	100%
46300	Wholesale of food, beverages and tobacco	G	310	2.2	100%
46400	Wholesale of household goods	G	120	0.8	100%
46600	Wholesale of other machinery, equipment and supplies	A	120	0.8	79%
46700	Other specialised wholesale	E	440	3.1	100%
47100	Retail sale in non-specialised stores	R	2180	15.2	58%
47200	Retail sale of food, beverages and tobacco in specialised stores	G	190	1.3	100%
47300	Retail sale of automotive fuel in specialised stores	R	110	0.8	58%
47400	Retail sale of information and communication equipment in specialised stores	R	30	0.2	58%
47500	Retail sale of other household equipment in specialised stores	R	260	1.8	58%
47600	Retail sale of cultural and recreation goods in specialised stores	R	170	1.2	58%
47710 a	Retail sale of clothing in specialised stores; Retail sale of footwear and leather goods in specialised stores	R	360	2.5	58%
47730, 4	Dispensing chemist in specialised stores; Retail sale of medical and orthopaedic goods in specialised stores; Reta	G	270	1.9	100%
47760	Retail sale of flowers, plants, seeds, fertilisers, pet animals and pet food in specialised stores	R	250	1.7	58%
47770	Retail sale of watches and jewellery in specialised stores	R	120	0.8	58%
47780 a	Other retail sale of new goods in specialised stores; unspecified retail	R	90	0.6	58%
47790	Retail sale of second-hand goods in stores	R	40	0.3	58%
47800	Retail sale via stalls and markets	R	30	0.2	58%
47910	Retail sale via mail order houses or via Internet	G	350	2.4	100%
47990 a	Other retail sale not in stores, stalls or markets	R	30	0.2	58%

Table 4: Estimating the Impact of Covid-19 on GST revenues in 2020, All Sectors; 3+3 scenario

RAG rating for SIC sub-sectors	2020	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
		Revenue proportions in months of 2020											
Red	58%	100%	100%	50%	0%	0%	0%	25%	50%	75%	100%	100%	100%
Amber	79%	100%	100%	75%	50%	50%	50%	50%	75%	100%	100%	100%	100%
Green	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Essential	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

	2018 £M	Covid £M	Impact of Covid-19, %	Impact of Covid-19, 2018 £M
Total	78.0	64.5	**-17%**	-£13.5
A - Agriculture, Forestry and Fishing	1.0	1.0	0%	£0.0
B - Mining and Quarrying	1.0	1.0	0%	£0.0
C - Manufacturing	3.0	3.0	0%	£0.0
D - Electricity, Gas, Steam, and Air Conditioning	5.0	5.0	0%	£0.0
E - Water Supply Sewerage Waste management	1.0	1.0	0%	£0.0
F - Construction	6.0	5.3	-11%	-£0.7
G - Wholesale and Retail Trade	41.0	31.7	-23%	-£9.3
H - Transportation and Storage	2.0	2.0	0%	£0.0
I - Accommodation and food services activities	9.0	5.5	-39%	-£3.5
J - Information and Communication	6.0	6.0	0%	£0.0
K - Financial and Insurance Activities	1.0	1.0	0%	£0.0
L - Real Estate Activities	1.0	1.0	0%	£0.0
M - Professional Scientific and Technical Activities	4.0	4.0	0%	£0.0
N - Administrative and Support Service Activities	3.0	3.0	0%	£0.0
O - Public Administration and Defence	-5.0	-5.0	0%	£0.0
P - Education	0.0	0.0	0%	£0.0
Q - Human Health and Social Work Activities	0.0	0.0	0%	£0.0
R - Arts Entertainment and Recreation	1.0	1.0	0%	£0.0
S - Other Service Activities	0.0	0.0	0%	£0.0
T - Activities of Households as Employers	0.0	0.0	0%	£0.0
V - Charity	-2.0	-2.0	0%	£0.0
W - DIY Housebuilder	0.0	0.0	0%	£0.0
X - Other	0.0	0.0	0%	£0.0

Table 5: Income Forecast Group (IFG) meeting, interim GST forecast (accrual), £m

		2018	2019	2020	2021	2022	2023	2024	Total 2019-23
GP 2019-23	GST	92.9	93.4	95.9	98.4	100.6	102.7		491
	De minimis			0.4	0.8	0.8	0.8		
	ISE	9.0	9.0	9.0	9.0	9.0	9.0		
	GSTx	84.0	84.5	86.5	88.6	90.8	92.9		
	growth		0.6%	2.5%	2.4%	2.5%	2.4%		
Base (Mar'20)	GST	92.9	90.7	91.0	94.7	96.5	98.5	100.6	471
FPP Economic	De minimis				0.8	0.8	0.8	0.8	
determinants	ISE	9.0	8.9	8.91	8.91	8.91	8.91	8.91	
	GSTx	84.0	81.8	82.05	84.99	86.82	88.78	90.85	
	growth		-2.6%	0.3%	3.6%	2.1%	2.3%	2.3%	
Covid-19 effect: 3+3 scenario				-17%	-7%	-2%	0%	0%	
Revised (Mar'20)	GST	92.9	90.7	76.7	88.8	94.8	98.5	100.6	449
	De minimis			0.0	0.8	0.8	0.8	0.8	
	ISE	9.0	8.9	8.91	8.91	8.91	8.91	8.91	
	GSTx	84.0	81.8	67.81	79.04	85.08	88.78	90.85	
	growth		-2.6%	-17%	17%	7.6%	4.4%	2.3%	
Difference from GP in GST:									
Base		0.0	-2.7	-5.0	-3.7	-4.0	-4.2		-20
Revised with Covid-19		0.0	-2.7	-19.2	-9.6	-5.8	-4.2		-41

NOTE: Outurn data in black text and forecast values in grey

SOURCE: Proposed Government Plan 2020-23, page 153
States of Jersey, Annual Report & Accounts 2019, page 161

Table 6: Income Forecast Group (IFG) meeting, interim GST forecast (accrual), £m

		2018	2019	2020	2021	2022	2023	2024	Total 2019-23
GP 2019-23	GST	92.9	93.4	95.9	98.4	100.6	102.7		491
	De minimis			0.4	0.8	0.8	0.8		
	ISE	9.0	9.0	9.0	9.0	9.0	9.0		
	GSTx	84.0	84.5	86.5	88.6	90.8	92.9		
	growth		0.6%	2.5%	2.4%	2.5%	2.4%		
Base (Mar'20)	GST	92.9	90.7	91.0	94.7	96.5	98.5	100.6	471
FPP Economic	De minimis				0.8	0.8	0.8	0.8	
determinants	ISE	9.0	8.9	8.91	8.91	8.91	8.91	8.91	
	GSTx	84.0	81.8	82.05	84.99	86.82	88.78	90.85	
	growth		-2.6%	0.3%	3.6%	2.1%	2.3%	2.3%	
Covid-19 effect: 5+2 scenario				-23%	-15%	-7%	-3%	-2%	
Revised (Mar'20)	GST	92.9	90.7	72.4	82.0	90.5	95.8	98.7	431
	De minimis			0.0	0.8	0.8	0.8	0.8	
	ISE	9.0	8.9	8.91	8.91	8.91	8.91	8.91	
	GSTx	84.0	81.8	63.53	72.24	80.74	86.12	89.04	
	growth		-2.6%	-22%	14%	11.8%	6.7%	3.4%	
Difference from GP in GST:									
Base		0.0	-2.7	-5.0	-3.7	-4.0	-4.2		-20
Revised with Covid-19		0.0	-2.7	-23.5	-16.4	-10.1	-6.9		-60

NOTE: Outurn data in black text and forecast values in grey

SOURCE: [Proposed Government Plan 2020-23, page 153]
[States of Jersey, Annual Report & Accounts 2019, page 161]

Table 7: Income Forecast Group (IFG) meeting, seasonality in GST revenue

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Sector total	Q2-Q3	12m
Impact of lockdown															
Red	100%	100%	50%	0%	0%	0%	25%	50%	75%	100%	100%	100%		15%	
Amber	100%	100%	75%	50%	50%	50%	50%	75%	100%	100%	100%	100%		55%	
Accommodation and food service ac	5%	1%	11%	1%	1%	23%	6%	3%	29%	6%	1%	14%	12%	62%	100%
Administrative and support service a	4%	0%	18%	4%	0%	21%	5%	0%	22%	4%	0%	21%	4%	52%	100%
Agriculture, Forestry and Fishing	3%	0%	5%	0%	2%	36%	4%	3%	37%	4%	1%	6%	1%	82%	100%
Arts, entertainment and recreation	3%	0%	26%	2%	0%	20%	3%	0%	25%	3%	0%	18%	2%	50%	100%
Construction	4%	0%	22%	2%	-1%	23%	2%	-1%	23%	3%	-1%	23%	9%	50%	100%
Education	0%	-4%	26%	0%	0%	29%	0%	0%	27%	0%	0%	21%	0%	57%	100%
Electricity,gas,steam and air conditio	0%	0%	28%	0%	0%	25%	0%	0%	21%	0%	0%	25%	7%	47%	100%
Financial and insurance activities	3%	5%	18%	1%	4%	22%	2%	4%	18%	2%	4%	16%	6%	52%	100%
Human health and social work activit	20%	0%	25%	0%	0%	18%	0%	0%	17%	0%	0%	20%	0%	35%	100%
Information and communication	0%	0%	23%	0%	0%	24%	0%	0%	23%	0%	1%	28%	7%	47%	100%
Manufacturing	5%	1%	17%	4%	0%	22%	4%	0%	22%	2%	0%	23%	2%	53%	100%
Mining and Quarrying	0%	0%	20%	0%	0%	25%	0%	0%	30%	0%	0%	25%	1%	56%	100%
Null	-7%	-5%	35%	-2%	0%	55%	0%	0%	29%	0%	0%	-5%	0%	82%	100%
Other service activities	3%	0%	21%	3%	0%	25%	4%	-2%	25%	3%	0%	18%	0%	55%	100%
Professional, scientific and technical	3%	0%	21%	3%	0%	20%	2%	0%	23%	3%	0%	24%	5%	48%	100%
Public administration and defence; c	1%	0%	19%	0%	0%	26%	1%	0%	25%	1%	0%	27%	-7%	52%	100%
Real Estate activities	11%	4%	7%	8%	1%	24%	8%	1%	12%	9%	4%	11%	1%	55%	100%
Transportation and storage	8%	0%	13%	10%	1%	21%	6%	0%	12%	9%	1%	20%	1%	49%	100%
Water supply,sewerage, waste mana	0%	0%	23%	0%	0%	25%	0%	0%	25%	0%	0%	28%	1%	50%	100%
Wholesale and retail trade; repair of	9%	0%	17%	7%	0%	17%	8%	0%	18%	4%	0%	19%	48%	51%	100%
All Sectors	6%	1%	18%	5%	0%	20%	6%	1%	21%	4%	1%	19%	100%	52%	100%

B5. Model Estimation

The model was estimated in Microfit:

http://www.econ.cam.ac.uk/people-files/emeritus/mhp1/Microfit/Microfit.html

The model, being quite simple, could also be replicated in Excel that supports Ordinary Least Squares (OLS) estimation though the 'Data Analysis' toolpak. Note that the model is estimated in natural logarithms of the variables.

```
17/04/2020                                                          14:42:33

                   Autoregressive Distributed Lag Estimates
           ARDL(1,0,0) selected based on Schwarz Bayesian Criterion
*******************************************************************************
 Dependent variable is GSTX
 9 observations used for estimation from 2010 to 2018
*******************************************************************************
 Regressor               Coefficient       Standard Error         T-Ratio[Prob]
 GSTX(-1)                   -.14396             .039352           -3.6583[.015]
 COE                         .85751             .069634           12.3146[.000]
 GST_RATE                    1.2532             .049743           25.1934[.000]
 INPT                        2.0803              .47346            4.3938[.007]
*******************************************************************************
 R-Squared                      .99808   R-Bar-Squared                   .99693
 S.E. of Regression            .013069   F-Stat.    F(3,5)      867.5747[.000]
 Mean of Dependent Variable     4.2127   S.D. of Dependent Variable      .23595
 Residual Sum of Squares      .8540E-3   Equation Log-likelihood        28.9123
 Akaike Info. Criterion        24.9123   Schwarz Bayesian Criterion     24.5179
 DW-statistic                   2.4847   Durbin's h-statistic       -.73214[.464]
*******************************************************************************

                              Diagnostic Tests
*******************************************************************************
*    Test Statistics  *        LM Version         *           F Version        *
*******************************************************************************
*                     *                           *                            *
* A:Serial Correlation*CHSQ(1)  =    .68598[.408]*F(1,4)       =   .33003[.596]*
*                     *                           *                            *
* B:Functional Form   *CHSQ(1)  =    .10562[.745]*F(1,4)       =  .047499[.838]*
*                     *                           *                            *
* C:Normality         *CHSQ(2)  =    .12376[.940]*       Not applicable        *
*                     *                           *                            *
* D:Heteroscedasticity*CHSQ(1)  =    1.4038[.236]*F(1,7)       =   1.2937[.293]*
*******************************************************************************
   A:Lagrange multiplier test of residual serial correlation
   B:Ramsey's RESET test using the square of the fitted values
   C:Based on a test of skewness and kurtosis of residuals
   D:Based on the regression of squared residuals on squared fitted values
```

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```
          Estimated Long Run Coefficients using the ARDL Approach
          ARDL(1,0,0) selected based on Schwarz Bayesian Criterion
*******************************************************************************
 Dependent variable is GSTX
 9 observations used for estimation from 2010 to 2018
*******************************************************************************
 Regressor              Coefficient       Standard Error         T-Ratio[Prob]
 COE                        .74960            .049394            15.1758[.000]
 GST_RATE                   1.0955            .026016            42.1085[.000]
 INPT                       1.8185             .42418             4.2871[.008]
*******************************************************************************

Testing for existence of a level relationship among the variables in the ARDL
model
*******************************************************************************
 F-statistic  95% Lower Bound  95% Upper Bound  90% Lower Bound  90% Upper Bound
    1.4624          7.6087          9.7298          5.2212          6.7597

 W-statistic  95% Lower Bound  95% Upper Bound  90% Lower Bound  90% Upper Bound
    4.3873        22.8261         29.1894         15.6637         20.2791
*******************************************************************************
 If the statistic lies between the bounds, the test is inconclusive. If it is
 above the upper bound, the null hypothesis of no level effect is rejected. If
 it is below the lower bound, the null hypothesis of no level effect can't be
 rejected. The critical value bounds are computed by stochastic simulations
 using 20000 replications.
```

17/04/2020 14:50:34

```
        Error Correction Representation for the Selected ARDL Model
          ARDL(1,0,0) selected based on Schwarz Bayesian Criterion
*******************************************************************************
 Dependent variable is dGSTX
 9 observations used for estimation from 2010 to 2018
*******************************************************************************
 Regressor              Coefficient       Standard Error         T-Ratio[Prob]
 dCOE                       .85751            .069634            12.3146[.000]
 dGST_RATE                  1.2532            .049743            25.1934[.000]
 ecm(-1)                   -1.1440            .039352           -29.0698[.000]
*******************************************************************************
 List of additional temporary variables created:
 dGSTX = GSTX-GSTX(-1)
 dCOE = COE-COE(-1)
 dGST_RATE = GST_RATE-GST_RATE(-1)
 ecm = GSTX   -.74960*COE   -1.0955*GST_RATE   -1.8185*INPT
*******************************************************************************
 R-Squared                      .99444   R-Bar-Squared                   .99111
 S.E. of Regression            .013069   F-Stat.    F(3,5)     298.2888[.000]
 Mean of Dependent Variable    .080500   S.D. of Dependent Variable      .13861
 Residual Sum of Squares     .8540E-3   Equation Log-likelihood        28.9123
 Akaike Info. Criterion        24.9123   Schwarz Bayesian Criterion     24.5179
 DW-statistic                   2.4847
*******************************************************************************
 R-Squared and R-Bar-Squared measures refer to the dependent variable
 dGSTX and in cases where the error correction model is highly
 restricted, these measures could become negative.
```

Appendix C – Impôts duty forecast

Customs and Immigration Service

Impôts estimates 2020-2024

C1. Introduction

This paper gives the Impôts yield for Customs and Excise duty for 2020 and the estimates of yield for the years 2020 to 2024.

In calculating these estimates the RPI figures provided by the Fiscal Policy Panel (FPP) in March 2020 have been used.

C2. Assumptions and uncertainties

The impact of the coronavirus outbreak brings considerable uncertainty to the forecasting of Impôts duty and the forecast will require revision as more data becomes available and the impacts are more fully understood.

A potential lockdown period of April to September to counter the Coronavirus pandemic assumes that revenue proportions for different Impôts revenue streams (Alcohol, Tobacco and Fuel plus Vehicle Emissions and Customs duties) will be affected in different ways due to:

- the nature of the commodities in question
- different consumption pattern; and
- the effects of a phased return to full economic activity.

Revenue losses have been given an equal weighting for all months whereas in practice there exists seasonal variation across commodities.

C3. Alcohol

Q1 2020 in-year quantities are broadly in line with forecasts.

The on-trade market (bars, restaurants, hotels, clubs) and off-trade market (supermarkets, convenience stores, wines and spirits shops) are being affected in different ways by the coronavirus lockdown. Whereas on-trade sales have fallen dramatically since the closure of hospitality outlets (-70% to 80% according to initial indications from suppliers), the retail trade remains buoyant.

Initial indications are that households are increasing their consumption of alcohol at home resulting in a growth in off-trade sales. One large Island retailer estimated that alcohol sales had increased by 6% so far this year but showed signs of now slowing slightly given certain supply-chain issues and a levelling-out of stockpiling purchases which occurred prior to the coronavirus lockdown.

In the United Kingdom the on-trade sales account for approximately 30% of the market and off-trade sales 70%. These proportions are being used for the purpose of this forecast whereas it is recognised that the sector in Jersey may have a slightly different market composition given the nature of the hospitality and tourism sectors in the Island.

Table 1 shows assumptions taking into account the different lengths of reduced economic activity, an estimate of the effect of the lockdown on each sector, and an initial estimate of the overall impact based on judgment and initial information from the trade. Based upon these assumptions revenue from alcohol duty may fall by between 11% in 2020 (5 month period of reduced economic activity) and 8% (3 month period of reduced economic activity).

As more information from the trade and revenue receipts become available it is likely that this forecast will need to be adjusted.

Table 1: Alcohol duty assumptions

Alcohol	Base case		Downside scenario	
January	100	100	100	100
February	100	100	100	100
March	75	105	75	105
April	5	110	5	110
May	5	110	5	110
June	5	110	5	110
July	25	110	5	110
August	50	107	5	110
September	75	105	25	110
October	100	100	75	105
November	100	100	100	100
December	100	100	100	100
Sectoral impact	62	105	50	106
Adjusted impact (%)	92		89	

C4. Fuel

Q1 2020 in-year quantities are in line with the 10 year average of a 1% reduction in consumption over the period.

Fuel consumption is falling significantly since the coronavirus lockdown took effect, firstly in a reduction in the use of non-commercial road vehicles. Fuel suppliers expect a further reduction as non-essential deliveries reduce and as the construction industry slows or halts.

Suppliers are working on an initial assumption of a 70 to 80% decrease in sales over the lockdown period.

Table 2 shows the assumptions that have been made taking into account different lengths of a reduction in economic activity and an initial estimate of the effect on fuel duty revenue.

As more information from the trade and revenue receipts become available it is likely that this forecast will need to be adjusted.

Table 2: Fuel duty assumptions

Fuel	Base case	Downside scenario
January	100	100
February	100	100
March	100	100
April	50	50
May	25	25
June	25	25
July	50	25
August	100	50
September	100	100
October	100	100
November	100	100
December	100	100
Adjusted impact (%)	79	73

Table 3 shows projected fuel receipts for 2021-2024 taking into account RPI only increases compared with Government Plan increases of RPI + 2ppl for 2021 and 2022:

Table 2: Fuel duty forecast

Fuel Duty (£000)	*2020 Original Forecast*	2020 Revised Forecast (Apr 2020) (Downside scenario)	2020 Revised Forecast (Apr 2020) (Base case)	2021 Forecast (1.2% RPI)	2022 Forecast (2.2% RPI)	2023 Forecast (2.5% RPI)	2024 Forecast (2.5% RPI)
RPI only 2021-2024	*25,611*	18,697	20,233	25,660	25,962	26,346	26,734
Government Plan RPI + 2ppl for 2021,2022 and RPI only for 2023 and 2024	*25,611*	18,697	20,233	26,557	27,757	28,166	28,582

C5. Tobacco

Intelligence from the trade and receipts to date indicate that duty paid tobacco consumption has increased by at least 20% since travel to the Island was restricted therefore a corresponding adjustment is being made to the forecast (see **Table 4**) showing an 8% increase for the year. Historically there is considerable volatility in tobacco receipts however the 10 year average is for a 6% decrease in consumption per annum. Further refinements to the forecast will be made by the end of Q2 at the latest and will give the opportunity to provide some certainty on the effect of duty free sales upon domestic consumption of tobacco.

Table 4: Tobacco duty assumptions

Tobacco	Downside scenario	Base case
Jan	100	100
Feb	100	100
Mar	100	100
Apr	120	120
May	120	120
Jun	120	120
Jul	120	115
Aug	120	110
Sep	100	105
Oct	100	100
Nov	100	100
Dec	100	100
Adjusted impact (%)	**108**	**108**

C6. Other

For the purpose of this forecast Vehicle Emissions Duty has been reduced by 60% in line with estimates of the draft GST income forecast that the sale of motor vehicles will reduce by 60%.

The forecast for Customs duty (CCT) has been increased from £200,000 to £400,000 as a result of an exceptional one-off payment for products incorrectly declared in 2018 and 2019.

C7. Impôts Forecast 2020 to 2024

In addition to the measures detailed above as a result of the coronavirus pandemic **Table 5** includes the GP measures of:

- Alcohol RPI increase for 2021, 2022 , 2023
- Cigarettes RPI + 5% increase for 2021, 2022, 2023 and 2024
- HRT RPI + 8% increase for 2021, 2022, 2023

The fuel forecast has been adjusted to remove the GP increases of 2p above inflation for 2021 and 2022 and therefore only incorporates RPI increases for these years.

An RPI increase of 2.5% has been applied for all commodities for 2024.

2024 figures for alcohol and tobacco are based upon 10 year quantitative trends together with the forecast RPI increase of 2.5%.

RPI increases have been applied for fuel for 2021, 2022, 2023, 2024.

Table 5: Impôts duty forecast

2019 Outturn	Impôts Duties (£000)	*2020 Original Forecast*	2020 Revised Forecast (Apr 2020) (Downside scenario)	2020 Revised Forecast (Apr 2020) (Base case)	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
6,132	Spirits	*7,435*	6,617	6,840	7,524	7,691	7,883	8,080
6,375	*Autumn 2019*	*7,268*	*7,268*	*7,268*	*7,441*	*7,635*	*7,841*	
8,409	Wine	*8,996*	8,006	8,276	9,104	9,304	9,536	9,776
8,442	*Autumn 2019*	*8,795*	*8,795*	*8,795*	*9,006*	*9,240*	*9,490*	
832	Cider	*848*	755	779	841	842	845	849
796	*Autumn 2019*	*834*	*834*	*834*	*846*	*860*	*873*	
6,204	Beer	*6,456*	5,746	5,940	6,469	6,544	6,641	6,739
6,339	*Autumn 2019*	*6,628*	*6,628*	*6,628*	*6,719*	*6,827*	*6,941*	
15 ,399	Tobacco	*15,695*	17,032	17,032	15,731	15,917	16,150	15,561
15,081	*Autumn 2019*	*15,720*	*15,720*	*15,720*	*16,283*	*16,897*	*17,534*	
22,685	Fuel (RPI only 2021 onwards)	*25,611*	18,697	20,233	25,660	25,962	26,346	26,734
23,557	*Autumn 2019*	*26,088*	*26,088*	*26,088*	*27,360*	*28,695*	*29,175*	
235	Customs Duty	*400*	400	400	200	200	200	200
200	*Autumn 2019*	*200*	*200*	*200*	*200*	*200*	*200*	
2,983	Vehicle Emissions Duty (VED)	*2,948*	1,179	1,179	2,730	2,644	2,644	2,644
2,948	*Autumn 2019*	*2,730*	*2,730*	*2,730*	*2,644*	*2,644*	*2,644*	
62,879	**Total Impôts**	**68,389**	**58,432**	**60,679**	**68,259**	**69,104**	**70,245**	**70,583**
63,738	***Autumn 2019***	*68,263*	*68,263*	*68,263*	*70,499*	*72,998*	*74,698*	
(859)	Variation	126	(9,831)	(7,584)	(2,240)	(3,894)	(4,453)	
-1.3%		0.20%	-14.4%	-11.1%	-3.3%	-5.6%	-8.7%	

Appendix D – Stamp duty forecast

D1 Report on Stamp Duty for the IFG Spring 2020 Forecast

Summary

The 2019 outturn for stamp duty, at £34.9m, was around £1.3m higher than the Autumn 2019 forecast. This was predominately due to the transactions of property over £2m.

The FPP have reviewed their economic assumptions which has materially affected the updated forecast, resulting in a reduction from the Autumn 2019 forecast of c.£15.1m in 2020.

There remains considerable uncertainty in the forecast due to COVID-19.

In view of the current situation regarding COVID-19 and the updated FPP assumptions, a central and downside scenario has been presented reflecting different lengths of restriction on economic activity.

Outturn for 2019

The outturn of total stamp duty was £34.9m which is c.£1.3m higher than the Autumn 2019 forecast of £33.6m.

Detailed analysis of this is complicated by the difficulty to fully align the monthly amounts shown in JD Edwards with transactions passed before Court. However, using the outturn taken from transaction data, as shown in Figure 5, it appears that the increase is predominately due to the transactions over £2m. These transactions saw a material increase in the last quarter of 2019 with 18 property transactions producing £4.6m on stamp duty.

Transactions Q1 2020

The first quarter of 2020 has seen a strong recovery in stamp duty relating to property transactions across all the forecast components compared to the same period in 2019, as shown in the following tables:

Figure 1: Q1 2020 Stamp Duty values

Q1 Stamp Duty (£)	2016	2017	2018	2019	2020
Stamp duty - transactions under £2m	3,115,367	3,708,282	4,435,543	3,758,884	4,633,234
Stamp duty - transactions over £2m	699,886	1,890,067	1,757,669	1,168,564	2,463,085
Land Transaction Tax (LTT)	315,404	468,172	536,220	619,920	646,650
Total	**4,130,657**	**6,066,521**	**6,729,432**	**5,547,368**	**7,742,968**

Figure 2: Q1 2020 Stamp Duty transactions

Q1 Transactions	2016	2017	2018	2019	2020
Stamp duty - transactions under £2m	609	760	676	631	713
Stamp duty - transactions over £2m	13	20	18	17	18

Revised FPP Economic Assumptions (March 2020)

The FPP have reviewed their economic assumptions, whilst considering the potential impacts of COVID-19, and this has led to a significant change in both the assumptions for house prices and housing transactions.

Figure 3: FPP Economic Assumptions March 2020

March 2020 Assumptions (% change)	2020	2021	2022	2023	2024
House Prices	-10.0	5.0	4.0	3.0	2.7
Housing Transactions	-50.0	45.0	15.0	7.0	1.5

Figure 4: Variation to FPP Economic Assumptions from October 2019

Variation to August 2019 (% change)	2020	2021	2022	2023	2024
House Prices	-15.4	0.5	0.4	0.3	0
Housing Transactions	-53.0	41.8	12.7	5.5	0

Adjustments to the forecast due to COVID-19

The typical forecast methodology is fully described in Section D4. Consideration is typically given to in-year transactions, which have historically tended to improve the accuracy of the forecast.

However the FPP economic assumptions are based upon an average of the whole year, and with the significant change in the assumptions for housing transactions and house prices, the inclusion of the Q1 transactions could lead to a distortion of the overall movement.

Therefore, in order to incorporate the in-year information, the central forecast makes a quarterly adjustment to the FPP economic assumptions to provide a forecast based upon a three-month ‘stay-at-home’/lockdown period followed by a three-month phased return to full activity. This results in Q2 and Q3 transactions being -75% and Q4 being -50% (approx. -50% for the year).

Seasonal Variation

The seasonal variation model for LTT and property transactions under £2m has been updated based on the values of the last 3 years monthly average transactions for each component. However in view of the adjustments for COVID-19 the seasonal variation has not been used for these forecasts.

D2 Spring 2020 Proposed Forecast for Stamp Duty

The updated forecast for Stamp Duty is presented in Figure 5 below. Further explanation of the components is provided later in this report.

Figure 5: Stamp Duty proposed central forecast 2020 - 2024

Outturn 2019 £'000	Stamp Duty Forecast		Forecast 2020 £'000	Forecast 2021 £'000	Forecast 2022 £'000	Forecast 2023 £'000	Forecast 2024 £'000	Forecast 2025 £'000
	Stamp Duty							
18,573	- Transactions <£2m	Spring 2020	8,812	14,099	16,863	18,585	19,373	20,194
19,017		GP Addendum	20,645	22,264	23,597	24,597		
(444)		Variance	(11,833)	(8,165)	(6,734)	(6,012)	19,373	20,194
9,254	- Transactions >£2m	Spring 2020	6,800	7,286	6,314	6,314	6,314	6,314
8,060		GP Addendum	7,919	6,883	6,883	6,883		
1,195		Variance	(1,119)	403	(569)	(569)	6,314	6,314
1,082	- Wills	Spring 2020	1,041	1,041	1,041	1,041	1,041	1,041
1,004		GP Addendum	1,004	1,004	1,004	1,004		
78		Variance	37	37	37	37	1,041	1,041
28,910	Total Stamp Duty	Spring 2020	16,653	22,426	24,218	25,940	26,728	27,549
28,080		GP Addendum	29,568	30,151	31,483	32,484		
829		Variance	(12,915)	(7,725)	(7,265)	(6,544)	26,728	27,549
2,548	Probate	Spring 2020	2,400	2,400	2,400	2,400	2,400	2,400
2,400		GP Addendum	2,400	2,400	2,400	2,400		
148		Variance	0	0	0	0	2,400	2,400
2,751	LTT	Spring 2020	1,265	2,025	2,422	2,669	2,782	2,900
3,162		GP Addendum	3,433	3,702	3,924	4,090		
(412)		Variance	(2,168)	(1,677)	(1,502)	(1,421)	2,782	2,900
34,208	Total Stamp Duty	Spring 2020	20,318	26,851	29,040	31,009	31,910	32,849
33,643		GP Addendum	35,401	36,254	37,807	38,974		
566		Variance	(15,083)	(9,403)	(8,767)	(7,965)		
1.68%			-42.61%	-25.94%	-23.19%	-20.44%		

Stamp Duty – Transactions under £2m

The forecast for transactions under £2m takes the outturn from the previous year and then increases this by the economic assumptions for property transactions (further adjusted for COVID-19) and property prices. Due to the slightly lower than forecast outturn from this sector in 2019, the base is slightly reduced from the Autumn forecast. However, the overall decrease of c.£11.8m is mainly driven by the considerable decrease in the economic assumptions.

Stamp Duty – transactions over £2m

Due to the low number of transactions in property over £2m these are subject to a separate forecast.

2020 has seen a strong start in the transactions over £2m made by High Value Residents, with several transactions having been made totalling c.£2m stamp duty. However, discussions with the Director of High Value Residency, and the reduced economic assumptions of the housing market this year, lead to continuing uncertainty in this component of the forecast.

Following discussion with the IFG, the forecast for 2020 has been based upon 70% of the 3-year average transactions, increasing to 75% of the 3-year average for 2021. These assumptions have been maintained for the central forecast and the forecast for the downside scenario.

Figure 6: Historical trend of property transactions over £2m

	Property All			Property HVR		
	Count	Sum (£)	Average (£)	Count	Sum (£)	Average (£)
2015	27	7,928,654	293,654			
2016	41	6,849,310	167,056	15	2,793,215	186,214
2017	52	8,831,276	169,832	24	4,394,028	183,085
2018	44	7,451,236	169,346	14	4,144,370	296,026
2019	39	7,213,990	184,974	13	2,690,982	206,999

Figure 7: Forecast for property transactions over £2m

(£)	Property non-HVR	HVR Property	Other	Total
2020	4,131,529	1,848,835	1,695,103	**7,675,467**
2021	4,131,529	1,386,626	1,695,103	**7,213,258**
2022	4,131,529	924,418	1,695,103	**6,751,050**
2023	4,131,529	924,418	1,695,103	**6,751,050**
2024	4,131,529	924,418	1,695,103	**6,751,050**

Wills and Probate

The transactions for Wills and Probate are extremely difficult to forecast, and therefore the approach for each is to take a 5-year average. This results in little change to earlier forecasts for the period 2020 – 2024.

Land Transaction Tax (LTT)

Land Transaction Tax (LTT) is the equivalent of stamp duty for share transfer property transactions. These tend to be lower value properties and are therefore less likely to be subject to the variables seen with higher value transactions.

The 2019 outturn for LTT was c.£400k lower than forecast, however this has been balanced by a strong start in quarter 1 of 2020, as shown in Figure 1. As with the forecast for stamp duty under £2m, the largest impact to the Spring 2020 forecast has been the revised economic assumptions for house prices and transactions, which has decreased the Autumn 2019 forecast by c£2.0m.

D3 Stamp Duty Downside Scenario

The downside scenario assumes that economic activity remains severely restricted for up to five months, rather than the three months in the base case, but also that the COVID-19 outbreak results in significant structural impacts. This results in the assumption for transactions of property under £2m or subject to LTT reducing by -75% for Q2 to Q4 (approx. -60% for the year).

Figure 8: Stamp Duty proposed downside scenario forecast 2020-24

Outturn 2019 £'000	Stamp Duty Forecast		Forecast 2020 £'000	Forecast 2021 £'000	Forecast 2022 £'000	Forecast 2023 £'000	Forecast 2024 £'000	Forecast 2025 £'000
	Stamp Duty							
18,573	- Transactions <£2m	Spring 2020	7,767	12,428	14,864	16,381	17,076	17,800
19,017		GP Addendum	20,645	22,264	23,597	24,597		
(444)		Variance	(12,878)	(9,836)	(8,733)	(8,216)	17,076	17,800
9,254	- Transactions >£2m	Spring 2020	6,800	7,286	6,314	6,314	6,314	6,314
8,060		GP Addendum	7,919	6,883	6,883	6,883		
1,195		Variance	(1,119)	403	(569)	(569)	6,314	6,314
1,082	- Wills	Spring 2020	1,041	1,041	1,041	1,041	1,041	1,041
1,004		GP Addendum	1,004	1,004	1,004	1,004		
78		Variance	37	37	37	37	1,041	1,041
28,910	Total Stamp Duty	Spring 2020	15,608	20,755	22,219	23,736	24,431	25,155
28,080		GP Addendum	29,568	30,151	31,483	32,484		
829		Variance	(13,960)	(9,396)	(9,264)	(8,748)	24,431	25,155
2,548	Probate	Spring 2020	2,400	2,400	2,400	2,400	2,400	2,400
2,400		GP Addendum	2,400	2,400	2,400	2,400		
148		Variance	0	0	0	0	2,400	2,400
2,751	LTT	Spring 2020	1,111	1,777	2,126	2,343	2,442	2,545
3,162		GP Addendum	3,433	3,702	3,924	4,090		
(412)		Variance	(2,322)	(1,925)	(1,798)	(1,747)	2,442	2,545
34,208	**Total Stamp Duty**	Spring 2020	19,119	24,932	26,745	28,479	29,273	30,100
33,643		GP Addendum	35,401	36,254	37,807	38,974		
566		Variance	(16,282)	(11,322)	(11,062)	(10,495)		
1.68%			-45.99%	-31.23%	-29.26%	-26.93%		

D4 Stamp Duty Forecast methodology

COVID-19

Due to the current COVID-19 pandemic, and the significant variation in the FPP Economic Assumptions compared to previous forecasts, the Spring 2020 Forecast uses a number of adjustments to the normal forecasting methodology. Whilst these have been described in the body of the report, the full methodology for the stamp duty forecast is described below.

Overview

Stamp Duty is largely collected from duty paid on commercial and residential property transactions, although there are a number of other individual duties and fees set out in the Stamp Duties and Fees Law 1998, such as Probate, Wills and Obligations.

The Stamp duty forecasts are separated into general stamp duty, stamp duty on probate and stamp duty on share transfer property transactions (Land Transaction Tax). Due to the different nature of these transactions they are subject to various external factors and therefore a different methodology is used for each component of the forecast. Where appropriate the Fiscal Policy Panel (FPP) assumptions for House Prices and Housing Transactions are applied to the forecast.

Stamp Duty

The main component of general stamp duty is from transactions of property, however the forecast also allows for a relatively fixed forecast of stamp duty on Wills.

The general stamp duty forecast is modelled using the previous 12 months actual income as a base to project forward with the latest economic assumptions for House Prices and Housing Turnover applied to future periods. These are derived by the economics unit from the forecasts provided in the Fiscal Policy Panel report.

Monthly data for these transactions is received from the Greffe and updated into a single spreadsheet from which the analysis is carried out. Where there is knowledge of large single transactions an attempt is made to treat these as outliers and an adjustment made to the relevant base accordingly.

Transactions under £2m

Property transactions and ‘Obligations’ (registration of loans) under £2m are based on the average monthly stamp duty from the previous year to which a seasonal variation is applied to produce an estimated amount for each month. The FPP House Price and Housing Transactions are then applied to this amount to generate a forecast of stamp duty for each month.

Seasonal variation

The housing market on transactions under £2m is subject to seasonal variations and therefore, to provide for more accurate in-year forecasting, a monthly variation in the average transaction amount is calculated by using a three year average of the proportion of total stamp duty paid each month.

Transactions over £2m

These are predominantly transactions of property, however there are also a number of mortgages registered above this amount raising just over £1m of stamp duty each year.

Due to the low volume of the property transactions in this category (c.50 per year) and their varying values the analysis is broken down further to utilise any available intelligence about forthcoming purchases by High Net Worth (HNW) individuals.

Property transactions by HNW individuals

Based on information from the Director of High Value Residency, the previous year's outturn is used for year 1, this is reduced by 25% for year 2 and then maintained at 50% for the remaining years.

Property transactions by other individuals

A flat amount is applied to the forecast equal to the outturn from the previous year.

Other transactions

A flat amount is applied to each year of the forecast based upon the rolling three year average of these transactions.

Wills

As with Probate, the transactions relating to Wills are difficult to forecast. The forecast is therefore based on the average transaction amount for the last five years and the average number of transactions over the last five years.

Probate

Probate duty is extremely difficult to forecast. It is the result of duty payable from individuals who die and are domiciled in Jersey, or where the individual is not so domiciled but have Jersey moveable property.

There are no economic assumptions applied to this forecast with a flat amount forecast based on the average over a five-year rolling period.

Land Transaction Tax (LTT)

Land Transaction Tax (LTT) was introduced in 2010 to ensure the equivalent of Stamp Duty is raised on share transfer property transactions. These transactions are generally below £2m and therefore the forecasting method for LTT is based on an identical model to that of the forecast for general stamp duty on transactions under £2m as described above.

Appendix E – Other income forecast

E1 Report on forecast of "Other Income" for the IFG Spring 2020 Forecast

Summary

"Other Income" combines a number of income lines for the Government of Jersey which do not relate to taxation and charges. At a high level, these are:

- Island-wide rates (Part of the Rates system and collected by parishes)
- Income from Dividends and returns (from States-owned entities)
- Non dividends (crown revenues, miscellaneous interest, fees and fines)
- Returns from Andium Homes and Housing Trusts

The Autumn 2019 forecast total income from these sources was **£66.0 million** in 2020. The Spring 2020 forecast is **£59.7million** in 2020, which represents a reduction in forecast of £6.3 million (9.5%).

Forecast range and Coronavirus impact

At this stage, forecasters have been only been asked to prepare a central scenario. In order to prepare higher and lower forecasts, we would need to work with the economics unit to prepare high and low assumptions on a line by line basis for each segment of income. We are advised that this approach is preferable to providing a generic set of higher and lower assumptions.

Forecasts have all been developed during the first 2-3 weeks of April 2020 and will therefore reflect early intelligence on the likely impact of the Coronavirus outbreak, but it is clearly difficult to forecast with any certainty at the present time.

Spring 2020 "Other income" Forecast

Table 1 – Spring 2020 Other Income Forecast

Other Income	Forecast (Spring 2020)	Gov Plan 2021-24			
	2020	2021	2022	2023	2024
	£000	£000	£000	£000	£000
Island Wide Rate	*13,465*	*13,761*	*14,105*	*14,458*	*14,834*
Other Income - Dividends	*9,427*	*8,133*	*8,569*	*8,918*	*9,347*
Other Income - Non Dividends	*5,953*	*5,852*	*5,955*	*7,784*	*9,175*
Other Income - Returns from Andium and Housing trusts	*30,922*	*31,775*	*32,618*	*33,516*	*34,437*
Total Other Income	**59,767**	**59,521**	**61,247**	**64,676**	**67,793**
Autumn 2019 Forecast	*66,095*	*65,349*	*66,957*	*69,338*	-
Variation	*(6,328)*	*(5,828)*	*(5,710)*	*(4,662)*	*67,793*

The total forecast income in 2020 of £59.77m represents a reduction of £6.3m from the Autumn 2019 forecast. Smaller variances are forecast for 2021-24. The main driver of the reductions in forecasts is reduced dividends from some States owned entities and, more significantly, reduced investment returns on the Consolidated Fund and the Jersey Currency Fund.

The full forecast and variances are included at the end of this Appendix.

Island Wide Rate

The forecast for the Island Wide rate has been set by increasing the 2019 forecast (£13.3m) by the FPP March 2020 assumption for RPI of 1.2%.

Dividends

The forecasts for dividends from States owned entities are based on the following assumptions:

- Jersey Electricity Company – a 10% reduction in forecast dividends;
- Jersey Water – a 10% reduction in forecast dividends;
- JT Group – a 20% reduction in forecast dividends;
- Jersey Post – no forecast dividends during 2020 and 2021 and broadly a 20% reduction in forecast dividends from 2022;
- Ports of Jersey – no forecast dividends for the period;
- States of Jersey Development Company – no forecast dividends for the period;
- Andium Homes – no change to forecast income as legally binding amounts;
- Housing Trust – again no change to forecast due to contracted sums.

These changes to forecasts represent a total reduction of £1.7m in 2020 compared to the Autumn 2019 forecast.

The dividends are paid according to the defined dividend policies and forecasts are prepared in line with the company's latest business model. In most cases the dividends are directly related to trading performance but can be affected by particular projects being undertaken.

These forecasts are based on the assumption of a decline in the economy until the end of Q3 2020, with a sharp recovery. Forecasters have also considered the shorter 3 month decline in the economy and a slower recovery, but consider that both scenarios give similar outcomes. The longer term scenario is considered to be slightly worse but the difference is not material.

The 2019 Outturn shows a decrease of £5.5 million on Government Plan 2020-23 forecast (Autumn 2019), which is as a result of £5 million of the forecast SoJDC dividend being retained in the company and ring-fenced for regeneration projects and marginally lower than expected dividends paid by Jersey Telecom and Jersey New Waterworks.

The revised forecast 2020 – 2024 shows decreases in each of the forecast years compared to the Autumn 2019 forecast, as a result of the COVID-19 pandemic, the economic implications of which remain to be fully determined with respect to the companies. The 2019 Outturn included a dividend of £2m from SoJDC which was a one-off dividend. Dividends are not currently envisaged from SoJDC in the 2020-2024 period.

Forecasts are not based on detailed analysis of the financial forecasts from each company and through our conversations with them they have indicated that such forecasts would be too difficult to prepare in the current climate. These projections therefore come with a significant caveat that they could be revised and more likely to the downside once the full impacts of the COVID-19 pandemic materialise and are understood.

Table 2 – Spring 2020 Dividend forecast

	2019 £000	*2020 £000*	*2021 £000*	*2022 £000*	*2023 £000*	*2024 £000*
Jersey Electricity	*3,622*	*3,442*	*3,634*	*3,805*	*3,997*	*4,197*
J.N.W.C.	*2,217*	*2,159*	*2,194*	*2,230*	*2,267*	*2,305*
SoJDC	*2,000*	-	-	-	-	-
Jersey Post	*62*	-	-	*149*	*186*	*291*
Jersey Telecom	*5,969*	*3,826*	*2,305*	*2,385*	*2,468*	*2,554*
Ports of Jersey	-	-	-	-	-	-
Other Income - Dividends	***13,870***	***9,427***	***8,133***	***8,569***	***8,918***	***9,347***

Non Dividends

Non dividends include other types of income, including investment returns on the Consolidated Fund and Jersey Currency Fund. It also includes tax penalties, miscellaneous fines, returns from the Jersey Financial Services Commission and Crown Revenue.

Reductions in forecast returns from non-dividends are the biggest driver in the overall reduction in the "other income" forecast. In particular, there is a £2m reduction in forecast return on the Consolidated Fund in 2020, and a £2.2m reduction in forecast return from the Jersey Currency Fund. The Jersey Currency Fund is actually forecasting a negative return in 2020, but for income forecasting purposes, this is capped at zero. Positive returns are forecast in 2021-22 which are retained in the Fund to smooth the impact of the negative return in 2020.

The forecasts for returns on the Consolidated Fund and Jersey Currency Fund are based on the following:

- It is assumed the average balance of the Consolidated Fund will remain stable at £100 million and invested, in line with its published Investment Strategy, in cash. Cash returns have been impacted by the fall in base rates which were lowered by the BOE in response to the Covid Crisis. Based upon FPP assumptions market interest rates for cash is projected to average 0.3% in 2020 with base rates rising slowly in subsequent years.

- The Currency Notes Fund balance is assumed to remain stable at £90 million. The Fund is invested, in line with its published Investment Strategy, in a defensive portfolio including 20% allocated to equity. In Q1 2020 the portfolio was valued at £100m with 20% of that value held in equity. The equity portfolio saw a drawdown of 23% a loss of circa £5m. A prudent assumption has been made that no recovery or earnings are generated by the equity portion of the portfolio until 2023, when returns are projected to revert to the 10 year assumed average of 7.5%. Historically the equity portfolio drove a large proportion of the Fund returns.

- In the current climate, the forecasts should be treated with caution. The forecasts use the 10 year average returns from 31/12/18, provided in June 2019 by Aon. Aon are not in a position to provide reliable future market forecasts at the moment as a result of the ongoing uncertainty about COVID-19.

Table 3 – Spring 2020 Non-Dividend forecast

	2019 £000	2020 £000	2021 £000	2022 £000	2023 £000	2024 £000
Investment Income - Return from Consolidated Fund	5,730	300	200	300	400	600
Jersey Currency Notes Surplus	2,365	-	-	-	1,800	3,000
Tax Penalties	924	1,000	1,000	1,000	1,000	1,000
Miscellaneous Loans	156	205	167	150	79	65
Miscellaneous Fines	287	293	300	300	300	300
JFSC - Financial Services	3,986	3,900	3,900	3,900	3,900	3,900
Crown Revenues	274	255	285	305	305	310
Other Income - Non Dividends	**13,722**	**5,953**	**5,852**	**5,955**	**7,784**	**9,175**

Returns from Andium and Housing Trusts

The returns from Andium Homes and the Housing Trusts arise from the incorporation of the housing function in July 2014. Andium is obliged to make a return based on the transfer agreement and an agreed rental and return policy.

The return is influenced by the prevailing RPI and the small variations in the latest FPP economic assumptions produce a small increase in the forecasts. Agreements are in place with the Housing Trusts that have moved to the 90% market rent level policy.

This income stream is intended to broadly offset the increases that would be required to the housing component of income support for those claimants in Andium or Housing Trust properties. Although it should be noted that these returns do not directly fund income support claims.

The only small outturn variance to Government Plan 2020-23 forecast (Autumn 2019) is in respect of Housing Trusts due to fluctuations in the RPI and transition to the 90% market rent levels.

The forward forecast is neutral compared to Autumn 2019 forecast due to the contractual returns from Andium and the Housing Trusts within the agreements in place.

Table 4 – Spring 2020 Returns from Housing Trusts forecast

	2019 £000	2020 £000	2021 £000	2022 £000	2023 £000	2024 £000
Andium Homes Return	29,673	30,593	31,389	32,173	33,010	33,868
Housing Trusts Return	274	329	386	445	506	569
Other Income - Returns from Andium and Housing trusts	**29,947**	**30,922**	**31,775**	**32,618**	**33,516**	**34,437**

Full Spring 2020 forecast

	Outturn	Gov Plan 2021-24 (Recovery Plan 2021)				
	2019	**2020**	***2021***	**2022**	***2023***	**2024**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Island-wide Rates	***13,895***	***13,465***	***13,761***	***14,105***	***14,458***	***14,834***
Jersey Electricity	*3,622*	*3,442*	*3,634*	*3,805*	*3,997*	*4,197*
J.N.W.C.	*2,217*	*2,159*	*2,194*	*2,230*	*2,267*	*2,305*
SoJDC	*2,000*	-	-	-	-	-
Jersey Post	*62*	-	-	*149*	*186*	*291*
Jersey Telecom	*5,969*	*3,826*	*2,305*	*2,385*	*2,468*	*2,554*
Ports of Jersey	-	-	-	-	-	-
Other Income - Dividends	***13,870***	***9,427***	***8,133***	***8,569***	***8,918***	***9,347***
Investment Income - Return from Consolidated Fund	*5,730*	*300*	*200*	*300*	*400*	*600*
Jersey Currency Notes Surplus	*2,365*	-	-	-	*1,800*	*3,000*
Tax Penalties	*924*	*1,000*	*1,000*	*1,000*	*1,000*	*1,000*
Miscellaneous Loans	*156*	*205*	*167*	*150*	*79*	*65*
Miscellaneous Fines	*287*	*293*	*300*	*300*	*300*	*300*
JFSC - Financial Services	*3,986*	*3,900*	*3,900*	*3,900*	*3,900*	*3,900*
Crown Revenues	*274*	*255*	*285*	*305*	*305*	*310*
Other Income - Non Dividends	***13,722***	***5,953***	***5,852***	***5,955***	***7,784***	***9,175***
Andium Homes Return	*29,673*	*30,593*	*31,389*	*32,173*	*33,010*	*33,868*
Housing Trusts Return	*274*	*329*	*386*	*445*	*506*	*569*
Other Income - Returns from Andium and Housing trusts	***29,947***	***30,922***	***31,775***	***32,618***	***33,516***	***34,437***
Total Other Income	***71,434***	***59,767***	***59,521***	***61,247***	***64,676***	***67,793***

Full Autumn 2019 Forecast

	Outturn	Gov Plan 2020-23 (Autumn 2019)				
	2019	**2020**	***2021***	**2022**	***2023***	**2024**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Island-wide Rates	***13,895***	***13,800***	***14,100***	***14,500***	***14,900***	
Jersey Electricity	3,622	3,800	4,000	4,200	4,500	
J.N.W.C.	2,217	2,400	2,500	2,500	2,500	
SoJDC	2,000	-	-	-	-	
Jersey Post	62	220	400	200	200	
Jersey Telecom	5,969	4,780	2,900	3,000	3,100	
Ports of Jersey	-	-	-	-	-	
Other Income - Dividends	***13,870***	***11,200***	***9,800***	***9,900***	***10,300***	
Investment Income - Return from Consolidated Fund	5,730	2,255	1,317	1,498	1,498	
Jersey Currency Notes Surplus	2,365	2,261	2,657	2,784	3,472	
Tax Penalties	924	1,000	1,000	1,000	1,000	
Miscellaneous Loans	156	11	8	5	-	
Miscellaneous Fines	287	300	300	300	300	
JFSC - Financial Services	3,986	4,150	4,150	4,150	4,150	
Crown Revenues	274	218	217	220	218	
Other Income - Non Dividends	***13,722***	***10,195***	***9,649***	***9,957***	***10,638***	
Andium Homes Return	29,673	30,570	31,400	32,200	33,000	
Housing Trusts Return	274	330	400	400	500	
Other Income - Returns from Andium and Housing trusts	***29,947***	***30,900***	***31,800***	***32,600***	***33,500***	
Total Other Income	***71,434***	***66,095***	***65,349***	***66,957***	***69,338***	

Variance Spring 2020 v Autumn 2019

	Variations to Gov Plan 2020-23 (Autumn 2019 Forecast)			
	2020 £000	**2021 £000**	**2022 £000**	**2023 £000**
Island-wide Rates	**(335)**	**(339)**	**(395)**	**(442)**
Jersey Electricity	(358)	(366)	(395)	(503)
J.N.W.C.	(241)	(306)	(270)	(233)
SoJDC	0	0	0	0
Jersey Post	(220)	(400)	(51)	(14)
Jersey Telecom	(954)	(595)	(615)	(632)
Ports of Jersey	0	0	0	0
Other Income - Dividends	**(1,773)**	**(1,667)**	**(1,331)**	**(1,382)**
Investment Income - Return from Consolidated Fund	(1,955)	(1,117)	(1,198)	(1,098)
Jersey Currency Notes Surplus	(2,261)	(2,657)	(2,784)	(1,672)
Tax Penalties	-	-	-	-
Miscellaneous Loans	194	159	145	79
Miscellaneous Fines	(7)	-	-	-
JFSC - Financial Services	(250)	(250)	(250)	(250)
Crown Revenues	37	68	85	87
Other Income - Non Dividends	**(4,242)**	**(3,797)**	**(4,002)**	**(2,854)**
Andium Homes Return	23	(11)	(27)	10
Housing Trusts Return	(1)	(14)	45	6
Other Income - Returns from Andium and Housing trusts	**22**	**(25)**	**18**	**16**
Total Other Income	**(6,328)**	**(5,828)**	**(5,710)**	**(4,662)**

Appendix F – Revised Terms of Reference for the Income Forecasting Group

Treasury and Exchequer

F1 Revised Terms of Reference of the Income Forecasting Group

Purpose

The group is established as an advisory function on the forecasts of all States income from taxation and social security contributions which will be informed by economic assumptions produced by the Fiscal Policy Panel with additional forecasts for other States income prepared by Treasury officers.

Objectives

To produce an absolute minimum of two forecasts each year

- A full review of states tax, social security contributions and duty revenue forecasts will take place following the provisional outturn and no later than May of each year.
- A further forecast to inform the Government Plan debate, including any revised economic assumptions and experience from the current year actual revenues.

To produce reports on the forecasts of states income from taxation and social security contributions, including:

- Forecasts for income tax revenues
- Forecasts for goods and services tax and ISE Fees
- Forecasts for impots duties
- Forecasts for stamp duties
- Forecasts for social security contributions
- Forecasts for other States income
- Economic assumptions used; and
- Factors and risks that should be considered

The forecasts will cover a period of at least four years and include a range within which a central forecast can be applied

Reporting

The reports will be presented to the Treasury and Resources Minister in advance of the Council of Ministers consideration.

Once a report is approved by the Treasury and Resources Minister it will be published alongside the Government Plan.

Other reports can be prepared on the request of the Treasury and Resources Minister.

Administration

All meetings will be minuted with agreed actions.

Quorum – at least six members be present for the meetings to be considered quorate. In exceptional circumstances a delegate may be appointed by an official, however external members cannot delegate.

Quarterly internal review meetings will also be held.

Any variations to the group membership once established are to be agreed by the Treasury and Resources Minister or Chief Minister.

It will be the responsibility of the Chief Executive and Treasurer of the States to ensure that the group has sufficient resources to fulfil its responsibilities.

Group Membership

The members of the group are:

- Director General, Treasury and Exchequer (Chair)
- Director General, Customer and Local Services
- Comptroller of Revenue
- Group Director, Financial Services and Digital Economy
- Group Director, Strategic Finance
- Deputy Comptroller of Revenue
- GoJ Chief Economic Adviser
- GoJ Economist
- At least two external members appointed by the Treasury and Resources Minister

The meetings of the group may be attended by the following officers in a supporting role:

- Head of Finance Business Partnering
- Revenue Accountant
- Tax Policy Unit Officer (secretary)

The group will invite other officers and external advisers to attend as appropriate which will be documented.

The group will operate independent of any political influence.