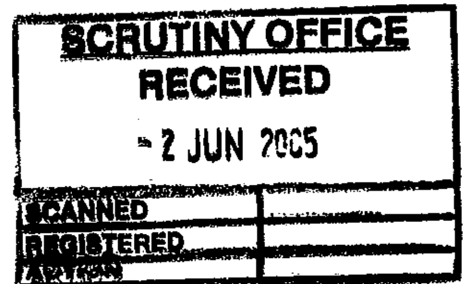
Policy and Resources
Chief Executive
Cyril Le Marquand House
St Helier, Jersey, JE4 8QT
Tel: +44 (0)1534 603400
Fax: +44 (0)1534 870755

31 May 2005

Deputy Rob Duhamel
Chairman – Shadow Scrutiny Panel
Royal Court House
Royal Square
States Building



Our ref: CP/CR
Your ref:

Dear Deputy Duhamel

Shadow Scrutiny Panel
Goods and Services Tax Review

I refer to your letter of 20 May 2005 in which you asked me to respond to certain questions in connection with the above review.

It is not clear from your letter in what capacity I am being asked these questions. Is it because of my former position as Chief Adviser to the States, or is it because of my present position as Adviser – International Affairs for the Policy and Resources Committee? Whichever position you had in mind, I have to tell you that I have not been directly involved in the process of considering the GST and matter relating thereto.

What I can say on the matter of the GST however is that throughout my period of office, firstly as Economic Adviser and secondly as Chief Adviser, I supported the broadening of the Island's tax base through the wider adoption of indirect taxation. When I arrived in the Island in 1969 the States were not flush with funds and in the first of my annual reports on the budget I suggested that consideration should be given to adopting a low rate broadly based sales tax, and quoted as an example the 2.5% turnover tax applied in the Irish Republic at that time. In the light of this you would not be surprised to learn that, irrespective of the need to fill the so called tax black hole, I would support the introduction of a low rate broadly based sales tax. However, what I have also always said in this connection is that such a tax if introduced should be accompanied by the more comprehensive support of those on low incomes, and I am pleased to see that this is being proposed in connection with the introduction of the GST.

I have provided below some answers to the questions you have posed of me, but I would emphasise that these are my personal views. The matters to which the questions refer, if they are to be answered officially, should be directed to the officers of the Policy and Resources Committee who have been directly involved with the matters concerned. My role as Adviser – International Affairs in respect of taxation has been concerned primarily with the Agreements with the EU Member States on the Taxation of Savings Income and the Tax Information Exchange Agreements being negotiated with the OECD Member States. While I have a natural interest in the EU Code of Conduct issues, I was not involved in the discussions with the UK Government on this aspect.

1. To remain competitive with other jurisdictions, and to maintain the significant contribution that the present exempt company regime makes to the role of the Island as an International finance centre, it is important that the present zero rate applied to exempt companies should be maintained in the future. To achieve this and be compliant with the EU Code of Conduct principles the "standard" rate of tax applicable to the majority of Jersey companies needs to be zero.

   The Code of Conduct regime allows for a different rate of tax to be applied to particular categories, but only if the departure from the "standard" rate is in an upward direction, and this is the basis for the 10% applicable to companies regulated by the Jersey Financial Services Commission. The 10% rate in turn is the result of market forces arising from the decision of competitor financial centres to set a similar rate of tax (e.g. Ireland, Isle of Man).

2. As far as I am aware the proposal was put by Jersey.

3. The EU Code of Conduct principles to which the Island has responded are concerned with removing discriminatory tax rates which influence business location. That is, a rate lower than the standard rate in the Countries concerned. It follows that a standard rate of 10% across the board would satisfy the Code of Conduct principles, but the impact on the finance industry of moving from zero to 10% for the present exempt companies would be extremely damaging.

4. In light of the answer to question 3, this question is not applicable.

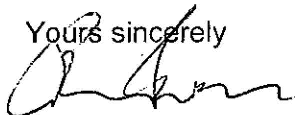
5. The reason for not imposing a 10% tax on non JFSC licensed companies that have a presence in the Island is explained above.

6. All correspondence, meeting notes and relevant e-mails are in the possession of the Policy and Resources Department and not in my possession.

7. The present double taxation arrangement with the UK remains unchanged.

8. The impact of taking spending power from the Island's residents through the introduction of GST will depend on the circumstances prevailing (for example, whether the tax has an impact on expenditure in the Island, expenditure outside the Island (e.g. holidays) or personal savings. In general if the GST means that the level of consumer expenditure in the Island is reduced then it might be expected to be counter inflationary. As an economist, I would expect the inflationary pressures in the Island to be caused by excess demand – too much money chasing too few goods. Most Governments would attack this problem with monetary or fiscal policy weapons. Jersey cannot use the monetary policy weapon because it does not control interest rates. In the past the Island also has been reluctant to use the fiscal policy weapon, in terms of raising the rate of taxation, because this would mean increasing the rate of income tax. As a result the Island has had to resort to physical controls, hence the Regulation of Undertakings Law. With a broad base of indirect taxation the policy options will be greater when considering how best to reduce inflationary pressures.

Yours sincerely



Colin Powell
Adviser – International Affairs

direct dial: +44 (0)1534 603414
email: c.powell@gov.je
www.gov.je