# STATES OF JERSEY

# LONG-TERM TAX POLICY

**Presented to the States on 16th September 2014**
**by the Minister for Treasury and Resources**

**STATES GREFFE**

States of Jersey

# Long Term Tax Policy

# Current Position, Questions to be Considered and Future Administration

## A discussion paper prepared by the Tax Policy Unit & the Taxes Office

States of Jersey

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## Ministerial Foreword

For many years Jersey's tax system was characterised by its heavy reliance on income tax, with its unchanging headline rate of 20%. This was coupled, in the latter part of the 20th century, with a move to reduce the amount of income tax paid by lower/middle income individuals and households through the creation and extension of generous income tax allowances and reliefs.

Then, at the start of the 21st century, a number of significant international challenges emerged, from bodies such as the EU Code of Conduct Group, which necessitated urgent action to change the Island's domestic tax system. Although difficult, each of these challenges was faced and resolved, resulting in a significant amount of change to the Island's tax system, including:

- collection of personal income tax through the Income Tax Instalment System ("ITIS")
- phasing in of "20-means-20"
- changes to corporate income tax
- introducing GST

The result is a domestic tax system which is no longer subject to external challenge, whilst delivering the income required to secure high quality public services. The "pillars" of this tax system are:

- personal income tax with a headline rate of 20%
- enhanced income tax allowances coupled with a marginal tax rate to help lower/middle income individuals and households
- the corporate tax regime
- a low rate, broad based, simple GST

These "pillars", agreed by the States following extensive periods of consultation and research, provide the stability at the core of the Island's tax system, meaning that change at the pace and level we have seen over the last decade is unlikely to occur again.

Having tackled the external challenges and established these "pillars", it is now time to focus more on the internal issues existing within our tax system, for example:

- our personal income tax system has become complicated
- many taxpayers do not understand the operation of marginal relief and we need to better explain the benefits for those lower/middle income individuals and households who fall within it
- some of our existing tax measures (e.g. income tax relief for mortgage interest) cause market distortion

I hope that the tax policy aspects of this paper will help the next Council of Ministers to engage with the issues raised and then fulfil the paper's recommendation to publish a detailed framework for the future development of the Jersey tax system early in their term of office.

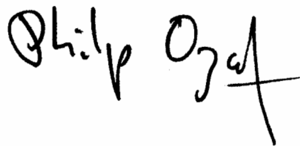
How the Taxes Office goes about collecting the tax properly due is equally important. The Taxes Office recognises the importance of changing the way it engages with taxpayers,

facilitating modern methods of communication, and focussing its resources on those who present the highest compliance risk.

The Taxes Office has taken on a significant additional responsibility over the last decade, including the administration of the Long Term Care contribution, acting as agents for the Social Security Department, resulting in a fairer charge and efficient administration which the next Council of Ministers may consider a good template for the future.

The Taxes Office has risen to the numerous challenges put before them and I commend the Comptroller of Taxes and all his staff for their hard work and dedication. It will be important for the next Council of Ministers to further support the Taxes Office in its aim to deliver the modern tax administration that is the target of the Taxes Transformation Programme outlined in this paper.

The debates about tax and spending rightly command the time and energy of most States Members. The taxation debates of the last decade have been challenging, but the fact that the States have approved almost all the measures proposed means that Jersey is in a much better financial position than most other countries. There is no time for complacency though and it is important that the drive applied to resolving the external challenges is now applied to further improving the tax system and how it is administered.



**Senator Philip Ozouf**
**Minister for Treasury & Resources**
**15 September 2014**

## Executive summary

The Island should have a publically available strategic tax policy framework within which the tax system will be developed in the future. However it would not be appropriate for such a forward-looking policy document to be published at this point in the current Council of Ministers' term of office.

It will be for the next Council of Ministers, early on in their term of office, to develop and publish a strategic tax policy framework, which *prima facie* builds upon the existing key tax policy principles and contains a programme of proposed changes, covering at least the period of the next MTFP. This strategic tax policy framework should also identify those elements of the tax system that will not be subject to change/significant change.

Ultimately the strategic tax policy framework should be shaped by and be consistent with that Council of Ministers' Strategic Plan and in due course it should help to inform the next MTFP.

The purpose of the tax policy aspects of this paper is therefore to aid the next Council of Ministers in the development of that strategic tax policy framework by:

- Outlining the arguments for the creation of a framework within which a tax system is developed and identifying a potential model for the development of such a framework
- Providing a high-level summary of the Jersey tax system as at September 2014 (in advance of any changes made in the 2015 Budget)
- Consolidating a number of the key statements on the Island's existing tax policy in one place
- Identifying some of the key tax policies issues that the next Council of Ministers should consider when preparing their strategic tax policy framework

This paper also provides an update on the developments in the administration of the tax system being undertaken by the Taxes Office.

Below is a summary of the key findings from this paper:

**<u>Tax policy</u>**

1. To avoid unnecessary costs, both for taxpayers and the tax authorities, and unplanned or unexpected consequences, governments should adopt a long-term, coherent approach to the development of their tax systems.

2. This requires governments to set out a clear and coherent strategic tax policy framework, against which individual tax policy initiatives are assessed.

3. One of the key benefits of adopting such a strategic tax policy framework is that it encourages tax policy makers to think about the tax system as a whole, rather than thinking about a series of independent taxes in isolation.

4. Such an approach to the development of the Island's tax system is not without precedence; for example the work undertaken by the Finance and Economics Committee on the "Fiscal Strategy" propositions lodged with the States in 2004/05 demonstrated many of the aspects of the recommended approach to tax policy making.

5. It is recommended that the Council of Ministers develop and publish a strategic tax policy framework within which the Island's tax system is developed in the future. *Prima facie* this should be built upon the key tax policy principles, which were outlined in the "long term tax policy" appendix to the Medium Term Financial Plan ("MTFP") 2013-2105. It should contain a programme of proposed changes, outlining in greater detail the changes proposed to the tax system in the short, medium and longer term. Importantly the strategic tax policy framework should also identify those elements of the tax system that will not be subject to change/significant change in the future.

6. The publication of such a forward-looking policy document at the end of a Council of Ministers' term of office is not appropriate. It is recommended that the next Council of Ministers, early on in their term of office, develop and publish a strategic tax policy framework, to cover at least the period of the next MTFP.

7. This strategic tax policy framework should be shaped by and be consistent with the Council of Ministers' Strategic Plan and should inform the next MTFP.

8. A potential model for the development of this strategic tax policy framework is outlined in Section One of this paper. This model consists of three layers:
   (i) Long term tax policy principles
   (ii) Long/medium term aims
   (iii) Medium/short term deliverables

9. Important statements regarding Jersey's current tax policy are spread across a wide range of States documents including (but not limited to):
   - Appendix 11 to the MTFP 2013-2015
   - Budget statements
   - Tax Policy Unit reports
   - Comments in relation to States propositions
   - Other States documents such as the "Financial Services Framework"

10. Some of the key tax policy issues which the next Council of Ministers should consider as part of the development of the strategic tax policy framework include (but are not limited to):
   - Maintaining stability and certainty
   - Simplicity and resulting trade-offs
   - Maintaining/developing a broad-based tax system
   - Hypothecation of tax revenues
   - Availability of allowances, deductions and reliefs in the personal income tax regime

- Understanding/operation of marginal relief
- Current year payment basis
- Interaction of income tax and social security
- Availability of zero ratings/exemptions in the GST regime

## Tax administration

1. The world has witnessed unprecedented change over recent years and, as a result, governments have focussed their attention on tax policy and administration to maximise revenue receipts; reducing both administration and compliance costs and improving taxpayer services.

2. There is now a greater demand from all citizens to understand more about tax policy and tax administration and what strategies are in place for the future.

3. There is an inextricable link between tax policy and tax administration – good tax policy is meaningless unless it is implemented and administered in an effective and efficient way.

4. Tax administration is a complex combination of core business and support functions which are subject to a range of external and internal influences.

5. Jersey's tax administration had experienced a long period of stability and buoyant revenue inflows but that situation has changed over the last ten years. For good reasons (including both internal and external influences), the Taxes Office ("TO") has experienced a period of significant reform and modernisation.

6. A major independent review of Jersey's revenue agencies was conducted in 2010 and a report, which included 140 recommendations, was published and agreed in early 2011.

7. The Taxes Transformation Programme ("TTP") started in late 2011 as a major modernisation programme, involving mainly the TO, to implement the report recommendations over a 4 year period.

8. The TTP roadmap changed significantly in early 2012, mainly as a result of the TO taking on the implementation of Long Term Care ("LTC") contributions in partnership with Social Security Department ("SSD"). The TO is responsible for charging and collecting the LTC contributions for SSD on an agency basis. From 2014 the implementation of Foreign Account Tax Compliance Act ("FATCA") was also added as a project sub-component under the umbrella of TTP.

9. The LTC component had a major impact on the original TTP planned deliverables, however a number of important initiatives/recommendations have been successfully delivered including: establishment of the Tax Policy Unit and the introduction of certain electronic facilities (e-payments; online return filing for business taxpayers).

10. A broad range of initiatives, which are in line with international best practice, are planned and are listed below.

Headline initiatives included in the future work programme

*Organisation*

- Staffing complement – regular resource audits as part of the reform programme
- Allocation of casework – move from client based to segmented and/or specialism
- Domestic Business Tax Department – started as from January 2014 with a mainly top down approach but will require a period of transition and further development
- Integration – explore the range of potential opportunities to merge common support functions, starting with closer working
- International relations – continue liaison meetings with Guernsey and the Isle of Man and explore provision of joint training courses and technical assistance
- Public awareness programme – improve voluntary compliance by programme of targeted education, starting with school leavers

*Operational Compliance*

- Self assessment – move to taxpayers calculating their own tax liability on returns for all tax types
- Risk based approach – expand use of compliance measures based on the risk presented by taxpayers
- Statutory based interest regime – move from current penalty based regime to implement calculation of interest on outstanding payments
- Training of officials – conduct training need analysis of staff and deliver specialist courses including capability to prosecute simple cases
- Freedom of Information – comply with obligations of new legislation as from 2015
- Internal data/information sharing – started in 2014, recommendations likely to be implemented over next two years and linked to other States projects
- External data/information sharing – mainly involves obtaining taxpayer information from private companies/finance sector, initiative now directly linked to FATCA

*Information Technology*

- Systems migration – replace old software platform used in the TO
- Paperless office – introduce electronic files for all taxpayers
- Self Assessment (Business Tax) – move to taxpayers calculating their tax liability as part of the online return filing process
- Online filing (Personal Tax – Agents) – improve current e-filing facilities

- Online filing (Personal Tax – Non-Agents) – extend e-filing to all taxpayers whilst recognising and accepting some human rights exemptions
- Self Assessment (Personal Tax) – move to taxpayers calculating their tax liability as part of online return filing process – transitional approach likely due to complications of the current system, automatic assessment likely as a first stage
- Taxpayer online enquiries – individual taxpayers to be able to make enquiries electronically and access their own ledgers

*"Other" initiatives*

- Relations with organisations promoting international best practice – start by TO joining Commonwealth Association of Tax Administrators ("CATA")
- Implement a Taxpayer Charter – replace current "Mission; Vision; Values" statement with a modern Charter listing rights and obligations
- Tax Legislation – replace current Tax Laws with a modern style of integrated Tax Code or Tax Administration Act
- Independent mechanism for taxpayer appeals – replace current Commissioners of Appeal with completely independent body, dealing with appeals only
- Tax Gap – prepare a Jersey estimate to inform and influence a better debate

## Introduction

Taxes necessarily have an impact on all taxpayers and on an economy's aggregate performance and hence, as outlined in Section One of this paper, it is important that a tax system is developed within a coherent framework, which seeks to minimise the impact of the tax system on the economy, whilst also ensuring that it is consistent with that jurisdiction's wider social and political goals.

Jersey has already taken positive steps in the formulation of such a strategic tax policy framework, with the Medium Term Financial Plan ("MTFP") 2013-2015 containing a "long term tax policy" for Jersey[1]. This "long term tax policy" recommended the key tax policy principles, as shaped by the wider economic and policy objectives determined by the States.

Whilst this "long term tax policy" set out the key tax policy principles of Jersey's tax system, it was not, and was never intended to be, granular in its approach. In particular it did not attempt to identify any specific changes to the tax system.

To further develop the Island's strategic tax policy framework, more detail of the changes proposed to the tax system in the short, medium and long term should be made available; a point acknowledged by the Minister for Treasury and Resources when he made the following commitment in the 2014 Budget:

> "Following the establishment of long term tax strategy principles in the Medium Term Financial Plan 2013-2015, the Treasury is in the process of producing a detailed programme which will set out the key tax objectives to be delivered over the next 5 to 10 years. This will include, for example, a step plan and timetable to deliver the modernisation of the personal tax regime, such as self assessment and independent taxation
>
> The long term tax programme will be aligned with the long term tax principles and support the Strategic Plan and Economic Development Strategy. It will also incorporate the Taxes Transformation Programme.
>
> The report will be published alongside the 2015 Budget proposals."[2]

This "programme" would meet the need to further develop the Island's strategic tax policy framework.

It is acknowledged that the publication of such a forward-looking policy paper now, at the end of a term of office, is not appropriate.

Instead it should be for the next Council of Ministers, early on in their term of office, to develop and publish a strategic tax policy framework, which *prima facie* builds upon the

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[1] Attached as Appendix A

[2] See 2014 Budget, Page 46 (see: http://www.gov.je/SiteCollectionDocuments/Tax%20and%20your%20money/ID%20Draft%20Budget%20Statement%202013%20Sections%20A%20and%20B%20JB%2020131007.pdf)

existing key tax policy principles and contains a programme of proposed changes, covering at least the period of the next MTFP.

Importantly this strategic tax policy framework should also identify those elements of the tax system that will not be subject to change/significant change. Ultimately the strategic tax policy framework should be shaped by and be consistent with the Council of Ministers' Strategic Plan and in due course it should help to inform the next MTFP.

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In addition this paper contains a separate part on proposed changes to the way Jersey's tax system will be administered by the Taxes Office. Pressure has never been greater on tax administrations throughout the world to maximise revenue yields; improve efficiency; provide high quality services to taxpayers whilst at the same time reduce the cost and burden of taxpayer compliance and reduce the cost of administration.

Taxpayers increasingly want to understand more about the taxes they may have to pay, how taxes will be collected in the future and what their obligations will be.

This paper is an ideal opportunity to explain to all stakeholders (States members, tax professionals, the business community and citizens) how the Taxes Office will operate, what changes are planned over the next 5 – 10 years and how this will impact on the taxpayer's relationship with the revenue agencies and, in particular, the Taxes Office.

This part of the paper therefore provides a brief explanation of tax administration (generic principles; current status in Jersey) and what is being planned for the future. The structure of this part is as follows:

- Section Five provides a brief overview of the basic principles of generic tax administration
- Section Six summarises the current administration of taxes in Jersey
- Section Seven provides information on the modernisation programme under the Taxes Transformation Programme ("TTP") currently deployed in Jersey
- Section Eight outlines the main initiatives expected to be implemented in the future

States of Jersey

# Tax Policy

## Section One: why create a coherent framework within which a tax system is developed

In 1978 Dick Taverne, the Director of the Institute of Fiscal Studies, wrote in the preface to the Meade Report[3]:

> "For too long, ... tax reforms have been approached *ad hoc*, without regard to their effects on the evolution of the tax structure as a whole. As a result many parts of our system seem to lack a rational base. Conflicting objectives are pursued at random; and even particular objectives are pursued in contradictory ways."

Such an approach to tax policy making results in unnecessary costs, both for taxpayers and the tax authorities, and may result in unplanned or unexpected consequences within the tax system. In response most commentators on what makes a good tax system have challenged governments to adopt a long-term, coherent approach to the development of their tax systems:

> "The tax and benefit system should have a coherent structure based on clearly defined economic principles ... There should be a clear vision of the ideal system, in which the various elements fit properly together and from which unnecessary distortions have been eliminated. Making strides towards a coherent system such as this would be valuable at any time."[4]

Their primary recommendation is that governments should set out a clear and coherent strategic policy direction/framework[5]:

> "[there is a] need for a clear and coherent strategic policy direction. That strategic direction needs to be set out and understood. Individual policy initiatives need to be assessed against it. There is an urgent need for government to set out and pursue a long-term agenda of tax reform."[6]

To implement such an approach to tax policy making takes "a government willing to be honest with the electorate, willing to understand and explain the arguments, willing to listen to and to consult experts and public alike, and willing to put long-term strategy ahead of short-term tactics."[7]

One of the key benefits of adopting this type of approach is that it encourages tax policy makers to think about the tax system as a whole, rather than a series of independent taxes:

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[3] The Meade Report was the product of a committee chaired by Professor James Meade, whose remit was to make a study of the UK tax system as whole. The Institute of Fiscal Studies asked the committee to produce a statement of the objectives of taxation, including an assessment of any conflicts between different objectives; to comment on the present system in the light of these objectives; and to make recommendations for reform. See: http://www.ifs.org.uk/publications/3433

[4] "Mirrlees Review – Tax by Design", Institute of Fiscal Studies 2011, page 471

[5] For the purposes of this paper this framework is called a strategic tax policy framework

[6] "Mirrlees Review – Tax by Design", Institute of Fiscal Studies 2011, page 501

[7] "Mirrlees Review – Tax by Design", Institute of Fiscal Studies 2011, page 503

"…by considering the tax system as a whole (or even the tax-and-benefit system, when the taxation of labour income is at issue), rather than focusing on isolated elements, policy makers can better communicate the issues involved, as well as address issues of efficiency and equity. This points to the potential for advancing reforms via broad packages that reduce distortions in the system while spreading both benefits and adjustment costs widely."[8]

Looking at the tax system in this way means that it can be acknowledged and accepted that not every tax within the tax system needs to fulfil every element of the strategic tax policy framework, provided that the tax system as a whole is consistent with that framework:

"Tax reform must be considered as a package, but in light of common lessons and challenges on key instruments. What matters for the fairness of a tax system, for instance, is not the distributional impact of any tax considered in isolation, but that of all taxes (and indeed spending) combined. While 'tax-by-tax' policy design is thus to be avoided, effective reform does require recognizing the limits and potential of each instrument."[9]

"…not all taxes need be progressive as long as the overall system is. In general, the right tools for achieving distributional objectives are direct personal taxes and benefits. Since the rates on these can be adjusted to achieve the desired degree of progressivity, other aspects of the tax system can be focused on achieving efficiency."[10]

Although not described in these specific terms, such an approach to tax policy making is not without precedence in Jersey. In June 2004 and March 2005 the Finance and Economic Committee lodged propositions with the States under the title "Fiscal Strategy"[11]. Taken together these two propositions outlined a clear vision of how Jersey's tax system would be developed over the medium term.

This vision was based on a set of principles (e.g. efficiency, fairness, simplicity, stable revenues, etc.), upon which the detail of the particular tax changes (e.g. the introduction of a broad based GST at the rate of 3%, the phasing out of tax allowances for those taxpayers with higher disposal income over a period of 5 years, etc.) was built. In addition where new forms of taxation were considered, these were benchmarked against the principles and either rejected or further research commissioned.

For the avoidance of doubt, Jersey is not in the same situation as 2004/05, there is no external pressure on the Island to change its domestic tax regime and change at the level and pace seen in that period is not required now; however the preparation of the "Fiscal Strategy"

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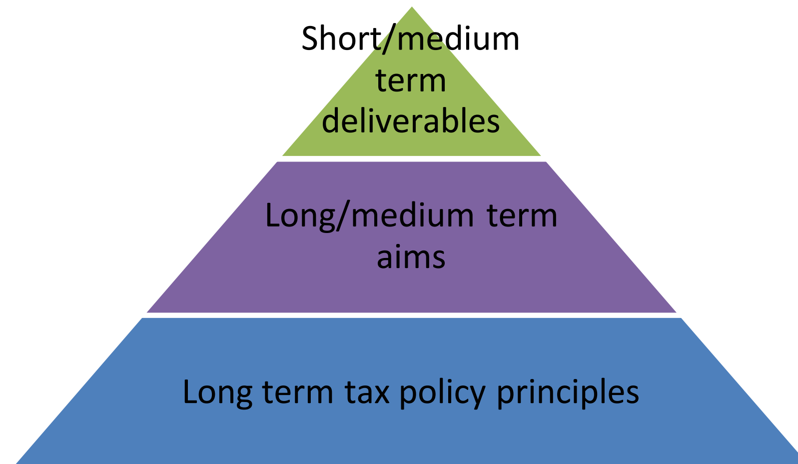
[8] "Tax Policy Reform and Economic Growth", OECD 2010, pages 11-12
[9] "From Stimulus to Consolidation: Revenue & Expenditure Policies in Advanced and Emerging Economies", IMF 2010, page 34
[10] "Mirrlees Review – Tax by Design", Institute of Fiscal Studies 2011, page 472
[11] See: P106/2004 "Fiscal Strategy" (http://www.statesassembly.gov.je/AssemblyPropositions/2004/2665-4197-262004.pdf) and P44/2005 "Fiscal Strategy" (http://www.statesassembly.gov.je/AssemblyPropositions/2005/14968-27446-832005.pdf)

outlines that Jersey has the experience of developing a strategic tax policy framework for the future development of its tax system.

What might this strategic tax policy framework look like?

Below is a potential model which could be used to help develop a strategic tax policy framework for Jersey:




Under this model a strategic tax policy framework consists of three separate layers:

1. *Long term tax policy principles*

At the base of the framework is the identification of long term tax policy principles. These are the fundamental building blocks of the tax system and help to shape the nature of the tax system as a whole. By definition these principles are likely to remain constant over long periods of time. Changes to the tax system which are inconsistent with the long term tax policy principles should *prima facie* not be introduced, whilst acknowledging that, at times, there will be a trade-off between principles that will need to be resolved or accepted.

2. *Long/medium term aims*

The next layer of the framework in this model is the identification of a series of long/medium term[12] aims for the development of the tax system. These "aims" outline specific issues within, and areas of, the tax system that should be reviewed, developed, modernised and/or otherwise improved. For each aim a "vision" of what the tax system will look like after the improvement has been made should be provided.

Importantly this layer of the framework should also be used to identify those elements of the tax system that will not be subject to change/significant change over the long/medium term.

[12] For these purposes: "long term" – 5 years+; "medium term" – 3-5 years; "short term" – 1-2 years

These "aims" should be consistent with and build upon the long term tax policy principles. However unlike the long term tax policy principles they will change over time as, for example, they are delivered and replaced by other aims or reprioritised.

3. *Short/medium term deliverables*

The final layer of the framework in this model is a series of short/medium term deliverables which seek to identify the practical steps that should be taken in order to work towards and eventually deliver the long/medium term aims. By their nature, these deliverables should be much more granular than the remainder of the framework.

These deliverables will change regularly as they are fulfilled and replaced by other deliverables. They will also be subject to reprioritisation as other deliverables are identified or obtain greater importance.

## Section Two: a high level summary of Jersey's current tax system

Jersey's current tax system consists of the following taxes:

- Personal income tax
- Corporate income tax
- Goods and services tax ("GST")
- Impôts duties
- Island-wide Rate
- Stamp duties and fees
- Land transaction tax

A high-level summary of each of these taxes as at September 2014 (in advance of any changes made in the 2015 Budget) is provided below. For the sake of simplicity, certain detailed/technical aspects of these taxes have not been outlined below.

Personal income tax

*Taxable persons*

A person who is resident and ordinarily resident in Jersey is subject to Jersey income tax on their worldwide income. A person who is resident, but not ordinarily resident, in Jersey is subject to Jersey income tax on their Jersey source income and any other income which they remit into the Island. A person who is non-resident in Jersey is *prima facie* subject to tax on their Jersey source income; although there are a number of statutory exemptions which limit when tax is due (e.g. a non-resident person is exempt from tax on interest paid by a Jersey bank and distributions paid by a Jersey resident company).

*Calculation of taxable income*

There are a number of different types of taxable income, including:

1. Profits from the trade of property development undertaken within Jersey or generated from the letting of real estate located in the Island
2. Profits from any other trade undertaken either in Jersey or outside the Island
3. Earnings relating to employment, profession, vocation or office
4. Pensions or similar income
5. Interest income or income of a similar nature
6. Distributions or shareholder loans from Jersey resident companies
7. Income from securities outside of Jersey (e.g. shares in a UK company)
8. Income from possessions outside of Jersey (e.g. the rental profits from a French investment property)
9. Income not taxable under one of the types of taxable income listed above

Each of the types of taxable income have their own rules for calculating how much income is subject to tax, in particular there are detailed rules when calculating the taxable profits arising from trading activities (i.e. what can and cannot be deducted when calculating the taxable

profits). Capital gains are not included in any of the types of taxable income and hence are not subject to personal income tax.

*Calculation of tax liability*

The amounts calculated under each of the types of income are then added together to determine the person's taxable income. In the case of a married couple or a civil partnership the couple are treated as if they are one person, with their combined total income being treated as the husband's (in the context of a married couple) and civil partner A's (in the context of a civil partnership).

*Deductions, allowances and reliefs (including the marginal rate calculation)*

The person's taxable income is then subject to two separate calculations to determine the person's income tax liability, the liability being determined by the calculation that produces the lower figure.

The first calculation ("the standard rate calculation") provides the taxpayer with a limited number of potential deductions, allowances and reliefs to offset against his/her taxable income and then taxes the resulting amount at 20%; the second calculation ("the marginal rate calculation") provides the taxpayer with a more generous set of potential deductions, allowances and reliefs, including the exemption threshold, to offset against his/her taxable income and then taxes the resulting amount at the marginal tax rate of 26%.

*Payment of personal income tax*

Currently personal taxpayers pay their tax in one of three ways:

1. Deducted by way of the Income Tax Instalment System ("ITIS") from salary/wages on a current year basis (i.e. the tax deducted in 2014 primarily goes towards settling the taxpayer's liability in respect of the 2014 tax year)
2. Deducted by way of ITIS from salary/wages on a prior year basis (i.e. the tax deducted in 2014 primarily goes towards settling the taxpayer's liability in respect of the 2013 tax year)
3. Taxpayers with no employment income, or where the taxpayer's employment income is less than 25% of their total income, pay their tax through two payments, made in the year after the relevant tax year (i.e. the tax payments made in 2014 go towards settling the taxpayer's liability in respect of the 2013 tax year)

Corporate income tax

*Taxable companies*

Jersey income tax is levied on companies which are resident in Jersey or which have a permanent establishment in Jersey. Non-resident companies are *prima facie* subject to tax on their Jersey source income; although there are a number of statutory exemptions which limit

when tax is due (e.g. a non-resident company is exempt from tax on interest paid by a Jersey bank and distributions paid by a Jersey resident company).

*Calculation of taxable income*

Companies are required to calculate their total taxable income in a similar way to natural persons. Consistent with personal income tax, capital gains are not included in the calculation of a company's taxable income.

*Corporate income tax rates*

The total taxable income calculated is then subject to tax at one of three rates: 0%, 10% or 20%.

Where a company meets the definition of a "utility company", the whole of its taxable income is subject to tax at 20% irrespective of the source of that income.

Where a company meets the definition of a "financial services company" and has a permanent establishment in Jersey, the whole of its taxable income is subject to tax at 10% irrespective of the source of that income. The exception to this statement is where the company undertakes activities which produce income which is separately taxable at 20% (see below).

Where a company meets neither the definition of a "utility company" nor a "financial services company" it is subject to the standard corporate income tax rate of 0%. This rate applies to all of the company's income. The exception to this statement is where the company undertakes activities which produce income which is separately taxable at 20% (see below).

Where a company undertakes the trade of property development within Jersey or generates profits from the letting of real estate located in the Island, the profits generated from those activities are subject to tax at 20% irrespective of the rate of tax applying to the company in general.

Where a company undertakes the trade of quarrying (or similar activities) within Jersey, the profits generated from that activity are subject to tax at 20% irrespective of the rate of tax applying to the company in general.

Where a company undertakes the trade of the importation/supply (other than forecourt sales) of hydrocarbon oils into or within Jersey, the profits generated from that activity are subject to tax at 20% irrespective of the rate of tax applying to the company in general.

GST

GST is a broad based, consumption tax. Consistent with this broad based approach, the vast majority of goods and services supplied in the Island are liable to GST at the standard rate of

5%. GST is also charge on the importation of goods into the Island, subject to a de-minimus limit which excludes goods worth not more than £240 from the charge to GST on importation.

A small number of goods and services supplied in the Island are subject to GST at 0% such as:

- buying, selling or renting of residential accommodation
- exports
- the supply of international services where the benefit is received in a country outside Jersey

Furthermore a small number of goods and services supplied in the Island are exempt from GST including:

- financial services
- insurance
- postal services
- medical supplies
- medicines on prescription
- supplies by charities
- registered child care
- some burial and cremation services
- school fees

Businesses that either:

- made taxable supplies of £300,000 or more in the preceding 12 months; or
- have reasonable grounds to believe that the value of their taxable supplies in the coming 12 months is likely to exceed £300,000

are required to register as a "taxable person" and must charge GST on the supplies that they make. Businesses that make taxable supplies below this threshold can voluntarily choose to register as a "taxable person", whereupon they must charge GST on the supplies that they make.

Impôts duties

Impôts duties are charged on the importation/manufacture of certain goods into/in Jersey. The impôts duties currently charged break down into four broad categories: (a) alcohol duties; (b) tobacco duties; (c) motor fuels duties; and (d) vehicle excise duty. The full list of duty rates is outlined in Schedule 1 to the Customs and Excise (Jersey) Law 1999[13].

A summary of the impôts duties applied, as at 1 January 2014, to some of the most common goods within each of the first three categories is provided below:

[13] See: http://www.jerseylaw.je/Law/display.aspx?url=lawsinforce%2fconsolidated%2f24%2f24.660_CustomsandExciseLaw1999_RevisedEdition_1January2014.htm#ID1244

| Good chargeable to duty | Duty charged |
|---|---|
| Litre of whisky at 40% | £12.76 |
| Bottle of table wine | £1.43 |
| Pint of beer ≤ 4.9% abv | £0.34 |
| Pint of beer > 4.9% abv | £0.57 |
| 20 King size cigarettes | £4.76 |
| Litre of unleaded petrol | £0.44 |

The rates of vehicle excise duty applying to a light passenger vehicle[14] ("LPV") are *prima facie* determined by the $CO^2$ mass emission figure in accordance with the following table:

| **$CO^2$ mass emission figure** | **LPV vehicle first registered in Jersey** | **LPV first registered outside Jersey 1 year or less ago** | **LPV first registered outside Jersey more than 1 but 2 years or less ago** | **LPV first registered outside Jersey more than 2 years ago** |
|---|---|---|---|---|
| 120g or less | £0 | £0 | £0 | £0 |
| More than 120g but not more than 150g | £46 | £46 | £28 | £23 |
| More than 150g but not more than 165g | £139 | £139 | £92 | £69 |
| More than 165g but not more than 185g | £208 | £208 | £133 | £105 |
| More than 185g but not more than 225g | £348 | £348 | £226 | £174 |
| More than 225g but not more than 250g | £695 | £695 | £453 | £348 |
| More than 250g but not more than 300g | £1,158 | £1,158 | £753 | £579 |
| More than 300g | £1,448 | £1,448 | £944 | £723 |

For other vehicles, or where a LPV either does not have an established $CO^2$ mass emission figure or was first registered before 1 March 2001, the rates of vehicle excise duty are determined in accordance with the following table:

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

| Cylinder capacity of engine | Vehicle first registered in Jersey | Vehicle first registered outside Jersey 1 year or less ago | Vehicle first registered outside Jersey more than 1 but 2 years or less ago | Vehicle first registered outside Jersey more than 2 years ago |
|---|---|---|---|---|
| 1000cc or less | £0 | £0 | £0 | £0 |
| More than 1000cc but not more than 1400cc | £174 | £174 | £116 | £87 |
| More than 1400cc but not more than 1800cc | £290 | £290 | £191 | £145 |
| More than 1800cc but not more than 2000cc | £440 | £440 | £284 | £221 |
| More than 2001cc but not more than 2500cc | £579 | £579 | £376 | £290 |
| More than 2501cc but not more than 3000cc | £868 | £868 | £568 | £435 |
| More than 3001cc but not more than 3500cc | £1,158 | £1,158 | £753 | £579 |
| More than 3500cc | £1,448 | £1,448 | £944 | £723 |

Island-wide Rate

The Island-wide Rate ("IWR") was introduced in 2005 following the decision of the States that the Social Security Department would take responsibility for social welfare policy and payments across the Island, replacing the previous system whereby aid was available to residents of each parish on application to their respective Constable via the Parish Hall.

It was decided that a contribution to the additional cost incurred by the States because of the provision of the social welfare system should be borne by all ratepayers across the Island through the mechanism of the IWR. Despite the reasons behind its introduction the IWR is not hypothecated, and the revenue raised goes into general States revenues.

The IWR is assessed and collected by the individual parishes through their own rate collection mechanism, and then paid by them to the States.

The amount of revenue to be raised through the IWR is fixed in the Rates Law and increases annually by the rate of inflation. This revenue figure is then split so that 45% of the total is raised from business properties and 55% from domestic properties. The revenue required from each sector is then divided by the number of rateable quarters in each of those sectors, and the rate to be charged per quarter established.

Stamp duties and fees

Stamp duty is payable on the transfer of freehold/flying freehold property when the transaction is registered by the Royal Court.

*Prima facie* stamp duty is payable at the following rates:

| Property value | Rate* |
|---|---|
| £0 - £50,000 | 0.5% |
| £50,001 - £300,000 | 1.5% |
| £300,001 - £500,000 | 2.0% |
| £500,001 - £700,000 | 2.5% |
| £700,001 - £1,000,000 | 3.0% |
| £1,000,001 - £1,500,000 | 3.5% |
| £1,500,001 - £2,000,000 | 4.0% |
| >£2,000,001 | 5.0% |
| * An £80 registration fee is payable in addition | |

Duty is payable at the same rates on the grant, transfer, modification and cancellation of leases lasting more than 9 years. Shorter leases need not be registered by the Royal Court and therefore no duty is payable.

Under Jersey law, a debt secured against a named property must be registered with the Royal Court, and renewed every ten years. Stamp duty is payable on each of these events, and again when the charge comes to an end, whether through repayment or cancellation.

Stamp duty is charged at 0.5% on the registration of a secured debt, plus the registration fee which is £80 in the case of most debts. When the registration of debts is renewed at 10-yearly intervals, the standard £80 fee is payable, as is the case when debts come to an end.

On the re-mortgaging of residential property, stamp duty is only payable to the extent the amount of the new borrowing exceeds the old debt.

*First time buyers' relief*

Provided certain conditions are met, first-time buyers are eligible to pay a reduced rate of stamp duty on the purchase of their property and any debt secured against it. Relief, both from the stamp duty on property and secured debt, is only available where the value of the property does not exceed £450,000. This cap was temporarily increased from £400,000 in 2011 for an initial period of 12 months, and has been renewed every year since then. The current extension will expire on 31 December 2014.

The lower rates of stamp duty applicable to first-time buyers eligible for the relief are:

| Property value | Rate on property purchase |
|---|---|
| £0 – £300,000 | 0% |
| £300,001 – £450,000 (£400,000 from 1 January 2015) | 0% on the first £300,000 and 1% on the difference between the value and £300,0000 |
| Over £450,000 (£400,000 from 1 January 2015) | Normal stamp duty rates apply, no exemption available |
| The usual £80 registration fee applies to all transactions | |

| Debt | Rate on debt |
|---|---|
| £0 – £300,000 | 0% |
| £300,001 – £450,000 (£400,000 from 1 January 2015) | 0% on the first £300,000 and 0.25% on the difference between the amount of the debt and £300,0000 |
| Over £450,000 (£400,000 from 1 January 2015) | Normal stamp duty rates apply, no exemption available |
| The usual £80 registration fee applies to all transactions | |

Land transaction tax

Land transaction tax ("LTT") was introduced with effect from 1 January 2010 and was designed to remove the inequity whereby stamp duty was charged on transfers of freehold properties, including leases, but was not chargeable in respect of share transfer properties. This inequity arose because what was transferred was not an interest in the individual property itself but a company or share in a company established to hold the property.

LTT is chargeable on an identical basis to stamp duty on transfers of these share transfer properties. As a result, LTT arises in two main circumstances, the transfer of a share carrying the right to occupy property, and the registration of a debt charge against that share.

Share transfer transactions are not required to be registered with the Royal Court or elsewhere, and there is no need to buy physical stamps to affix to deeds of transfer in the same way as for other property transactions.

*First time buyers' relief*

Relief for first time buyers of share transfer properties is given in a similar way as for stamp duty.

## Section Three: key statements on the Island's existing tax policy

This Section of the paper outlines a number of the key statements that have been made regarding the Island's existing tax policy. It is noticeable that these statements have been made in a wide range of documents including (but not limited to): the MTFP 2013-2015; Budget statements; reports produced by the Tax Policy Unit; comments made in relation to States propositions and other States documents such as the "Financial Services Framework".

Hence currently these is no single document that a taxpayer (or other interested party) could refer to which summarises the Island's tax policy. Although this is not unexpected, it does make it challenging to ensure that the overall policy is coherent. This challenge could be addressed through the publication of a strategic tax policy framework as recommended in Section One of this paper.

Key tax policy principles taken from "long term tax policy" for Jersey, appendix 11 to the MTFP 2013-2015

As outlined in the introduction to this paper, appendix 11 to the MTFP 2013-2015 contained a long term tax policy for Jersey[15]; this long term tax policy outlined the key tax policy principles for Jersey's tax system. These key tax policy principles have been reproduced below:

*Key tax policy principle number 1: taxation must be necessary, justifiable and sustainable*

- Taxes should not be raised for the sake of raising taxes, but with an identifiable spending need in mind. For example if a potential new source of revenues is identified, it should not automatically be adopted without considering whether the States has a specific requirement for more revenues, or if existing taxes should be reduced in response.

- It should be clear why any new tax is being introduced, and if any one sector or type of taxpayer is more affected, the reasons behind that should be made clear. Where the tax system discriminates between taxpayers, the rationale behind that should be clear.

- Taxes should also be sustainable in the long term. As such, it should be clear that revenues can be projected forward with a reasonable degree of certainty. Taxes should also not affect taxpayer behaviour such that the revenue stream dries up, unless that is the intention of introducing that tax to change behaviour, for example where a decision is made to intentionally increase the cost of unhealthy items like alcohol or tobacco.

*Key tax policy principle number 2: taxes should be low, broad and simple*

- Much of the output of Jersey's main industries (finance, tourism and agriculture) is exported. As a result, most businesses in the Island depend directly or indirectly on their ability to sell into the global market place. Jersey faces a high degree of competition in

[15] See Appendix A

all of these sectors, and must remain competitive in order to continue to attract business. Low rates of tax are a feature of this.

- Simplicity is also a key selling point for international business, though this is more important for finance than for other sectors. Where a low or zero rate of tax can be obtained in a competitor jurisdiction with relative ease, international business will not be prepared to achieve the same result in Jersey through a number of complicated steps. Complexity adds cost and risk to a transaction, and business may not be prepared to accept either.

- Taxes should also be broad; an economy which relies too heavily on one particular sector or type of taxpayer or tax base for revenues will be at risk if that sector, taxpayer group or tax base falters. A broader based tax system, where as many sectors and individuals as possible contribute over a wider taxable base, is a more stable one.

- A broader tax base also supports the principle that tax rates should be low, as the greater the number contributing to revenues, the lower the rate of tax that each will be required to pay.

*Key tax policy principle number 3: everyone should make an appropriate contribution to the cost of providing services, while those on the lowest incomes are protected*

- The people who live in Jersey should contribute to the cost of the services they receive to the best of their ability.

- There have been many debates by the States in recent times, including those relating to the rate of income tax, the tax regime for wealthy individuals and the GST regime. The outcome of those debates suggests that the States broadly supports the current structure.

- This principle can be viewed from another equally relevant angle i.e. that all taxpayers should pay the tax which is rightly and properly due. To do this both the tax law and the application of that law must be robust.

*Key tax policy principle number 4: taxes must be internationally competitive*

- Jersey's tax system must enable it to compete with its key competitors to attract and retain business. This must apply not only to the types of business which currently use Jersey, but also to new business which the Island would wish to attract.

- It is important to monitor developments in competitor jurisdictions and to ensure that there is good communication between government and industry on the best way to ensure Jersey's continued competitiveness.

- Compliance with international standards may be needed to ensure that international competitiveness is maintained as to do so can reduce the risk of action being taken against Jersey to deter investment. This is not the only reason for complying with international standards but is an important one.

*Key tax policy principle number 5: taxation should support economic development and, where possible, social policy*

- While the tax regime cannot create economic growth in itself, it can work to support economic growth and it is important that it does not hinder it.

- Tax policy can support economic growth by reducing distortions in taxpayer behaviour, thereby improving economic efficiency. It can act to encourage economic activity to flourish thereby encouraging growth in employment.

- Taxes should not serve to deter investment, employment or diversification or act as a barrier to economic development. For example, the tax treatment of new businesses and start-ups should not impose an unnecessary cost which again could act to stifle business growth. In this respect, taxes on income, rather than flat fees or charges, may be less economically damaging.

- Tax reforms can also remove incentives to act in a way which is not intended or desired. For example, the interaction of the income support system and the personal tax system should not act to deter people from taking up employment.

- Similarly the tax system cannot, and arguably should not, define social policy but where there is a clearly defined objective, and where it can be objectively demonstrated that the tax regime can affect taxpayer behaviour, then it may be appropriate to set taxes accordingly. One example of this may be environmental taxes, where taxes are set to encourage or deter a specific type of environmentally damaging behaviour, and the revenue collected is used to further encourage taxpayers to make "good" choices. Another may be the linking of increases in impôts to the States strategy on deterring alcohol abuse.

Fiscal strategy review (comments taken from the 2011 Budget Statement)[16]

**3. Fiscal Strategy Review**

*Personal tax*

Taxation, and personal taxation in particular, are controversial issues and this was apparent in the responses to the FSR consultation paper issued in June. Nearly 1,000 Islanders and many representative organisations contributed to this consultation and their input was much appreciated. Clear themes emerged from the responses that are representative of the different views in the Island. Involve (the independent charity commissioned to write up the responses to the consultation) summarised them as:

> *"...there seem to be two widely held perspectives; one which emphasises the high cost of living for those on lower incomes and wants to see a more progressive taxation system...and another perspective of concern that increased taxes on the wealthy will lead to Jersey losing financial services and affluent residents to international competitors…"*

This leaves me with a very difficult balancing act. No single measure will achieve the twin objectives of raising money in a fair way, where the better off pay a higher proportion of their income, while also minimising the impact on the economy. To deal with the latter point, the FSR tax increases announced today will be phased in over three years, with greater increases in later years.

An important aspect of fairness is that the better off contribute more. That is why I have asked that the Social Security Minister brings forward proposals to introduce 2% social security contributions above the ceiling for both employers and employees from January 2012. This will make the Social Security Fund more self-sustaining and reduce the need to supplement the fund from general taxation.

The increase in social security contributions will mean that those earning above the ceiling (£44,232 in 2011) pay more. Employers also pay more where they employ people earning above the ceiling. Those on low incomes and earning less than £44,232 will be unaffected by this change.

This proposed change to social security contributions will not take place until January 2012 so that employees and employers have time to prepare for the increase. It also protects against a rise in employment costs – however moderately – until the economy has as much time as possible to recover.

Although the Goods and Services Tax (GST) is controversial there is little doubt that it raises money in an efficient way that does minimal damage to the economy. It is for these reasons that I have proposed an increase in GST from 3% to 5% from 1 June 2011.

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[16] See pages 8-9 http://www.gov.je/SiteCollectionDocuments/Tax%20and%20your%20money/R%20Budget%20Statement%202011%2020110118%20TandR.pdf

The Council of Ministers and I recognise that people are concerned about the impact a rise in GST will have on the less well-off in our Island. That is why I also propose, in the interests of fairness, to compensate those on income support and maintain an adequate GST bonus for those on low incomes but not receiving income support.

An increase in GST is preferred to an increase in domestic property rates because of the complexity of changing rates in Jersey and the potential difficulties in addressing issues of unfairness.

I have paid close attention to the views of businesses and Islanders about the potential impact of a higher rate of tax on the Island. There is a clear difference of views within the population between those that feel a higher rate of tax would be fair and those that think it would seriously damage our economy.

It needs to be recognised that much of our economy is reliant on the relatively low rate of income tax. The finance industry has been built on this low rate, and to change it would create the perception of instability and a high likelihood of a net decrease in revenues over time. It is difficult to provide empirical evidence to support this conclusion. However, understanding that much of the finance industry is highly mobile leads to the conclusion that an increase in our very long standing 20% income tax rate will create an incentive for business and individuals to move elsewhere. This would result in a loss of jobs and a loss of tax revenue, leaving a higher tax burden on the rest of us. This is particularly the case when our closest neighbour and key competitor has a 20% income tax rate. Even the suggestion that we are considering a higher rate of tax has been detrimental to our ability to attract new business. It is for these reasons that I believe we should commit to maintaining the current rate of income tax at 20%, removing the uncertainty around what has been the bedrock of the Jersey economy for so long - our low tax rates and stable personal tax system.

Even the suggestion that a higher rate of tax is being considered has been detrimental to our ability to attract new business. It is for these reasons that maintaining the current rate of income tax at 20% is important to the future success of Jersey, thereby removing the uncertainty around what has been the bedrock of the Jersey economy for so long - our low and stable personal tax system.

Foreword to the TPU's feasibility report on independent taxation[17]

The term 'Independent Taxation' refers to the policy of taxing individuals as individuals, regardless of their marital status. In Jersey there is currently a 'default' for married couples to be taxed jointly. There are also certain allowances that apply to married couples, which do not apply elsewhere within the tax regime, such as the Wife's Earned Income Allowance.

While married people have been able to opt for separate assessment, rather than joint, since 2003, there is a now a clear need for the tax regime to adapt and evolve so that in the eyes of the State each individual is treated equally for tax purposes.

It is a widely accepted principle that our tax system should be both efficient and equitable, and that tax policy should not be used to encourage or discourage lifestyle choices; individuals or couples, whether married or cohabiting, should be treated equally. Independent taxation is therefore an important aspect of tax modernisation and provision for the needs of today's families.

The United Kingdom (UK) has had a system of personal taxation in place that treats married women as completely separate and independent taxpayers, for both income tax and capital gains tax since April 1990.

This principle of a moving to Independent Taxation makes sense in a modern society. However, it is vital that the logistical, administrative and financial impact of this change is managed correctly and makes the tax system simpler.

While the report that follows has gone some way to providing us with a clear understanding of the potential impact of change, a wider review of the personal tax regime will be required to facilitate the introduction of independent taxation. It cannot be achieved, equitably, overnight. It needs a phased approach.

[17] See: http://www.gov.je/SiteCollectionDocuments/Tax%20and%20your%20money/R%20Independent%20taxation%2020131007%20JMB.pdf

Tax policy comments contained in the "Financial Services Framework"[18]

A tax regime that supports the financial services industry and complies with international standards is key to ensuring the future sustainability of the Jersey economy. We aim to provide reassurance to the international business community that there is no requirement to amend the current system of taxation in Jersey.

We are committed to providing a tax regime that is not only competitive with other international finance centres, but is also stable and certain. Fundamental changes to Jersey's tax regime will be made infrequently and only after careful consideration and consultation. This is further supported by Jersey's stable system of government and prudent management of its finances over the years.

Tax neutrality is achieved through the corporate tax regime's general rate of tax of 0% and there is also a low rate of tax for financial services companies (10%), both of which are a key feature for the Jersey financial services global offering. The intention is that Jersey will maintain a tax neutral proposition. Maintaining a competitive rate for this industry will continue to be one of the government's policies.

In addition to low corporate tax rates, Jersey is mindful that personal tax rates are also an important element in attracting a highly skilled workforce in an increasingly mobile market place. The personal tax rates in Jersey are competitive with other jurisdictions and we are committed to ensuring this remains part of the tax policy in the future.

Jersey has positioned itself to be an internationally compliant offshore jurisdiction that has adopted international standards. This has been evidenced by:

- A corporate tax regime that is compliant with the European Union's Code of Conduct on Business Taxation in 2011.
- Intergovernmental agreements for improving international tax compliance with both the US and UK were signed on 13 December 2013 and 22 October 2013 respectively.
- From 1 January 2015 automatic exchange of tax information, in place of the present retention tax, for EU Savings Tax Agreements with EU Member States will be mandatory; legislation is in place to facilitate exchange, optionally, from 1 January 2014.
- Jersey has signed 35 TIEAs, of which 27 are in force. A further 5 have been agreed but are unsigned and 5 are in advanced discussions. The Island has also signed 8 DTAs including agreements with Hong Kong, Qatar, Luxembourg and Singapore. These agreements demonstrate Jersey's commitment to international standards and facilitate further business flows between jurisdictions.
- In November 2013 Jersey was rated 'largely compliant' by the OECD Peer Review Group. This is the same rating as the UK, USA and Germany.

[18] See page 20: http://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/P%20Financial%20Services%20Policy%20Framework%2020140402%20LO.pdf

- It has been agreed that the UK's ratification of the OECD/Council of Europe Convention on Mutual Administrative Assistance in Tax Matters be extended to Jersey. This will come into effect in June 2014.

These actions have resulted in an improved understanding of the position of Jersey in the financial services markets that it operates in and increased respect for the legislative and regulatory environment that Jersey maintains.

The international tax environment is currently undergoing significant change in terms of public engagement and increased impetus for greater transparency. We are mindful of these changes and will ensure that we respond and adapt to these changes, whilst ensuring a competitive platform to both sustain existing business and grow the financial services industry.

Ministerial comments in response to GST propositions to exempt/zero rate certain goods

*Extract 1: from the Minister for Treasury and Resources comment in response to P.86/2006 "Goods and Services Tax: Exempt or Zero Rates Items"*[19]

**Why Choose a Simple Goods and Services Tax (GST)?**

A **simple** GST is one that has a broad base and a single positive rate. It requires few zero rates (other than for exports and international transport of goods and persons, the supply of residential accommodation); few exemptions (beyond the usual ones for small traders, the financial sector, postal services, etc); and an invoice-based collection and administration system, with as few special schemes as possible.

Being a tax with a single positive rate, the simple GST minimises the costs of compliance for the traders and suppliers. The costs of administration for the States of Jersey and the Income Tax Office (ITO) are also low because of the built-in self-policing character of the tax implicit in the input tax credits only against output taxes.

The simple GST also ensures that the effective burden of the tax on the consumer is exactly the same as the nominal rate of the tax and the customer knows exactly what he is being charged by way of GST. The tax therefore treats all consumers fairly.

A simple GST treats all businesses uniformly, with minimum deviations, and thus minimises the distortions in the allocation of resources in the economy. It also maximises the revenue yield for the government at the lowest possible tax rate.

A **complicated** GST, on the other hand, is one that consists of many more zero ratings, exemptions and special schemes, all of which tend to narrow the tax base, complicate tax administration and make tax compliance cumbersome and costly.

Traders with a mixture of sales of zero-rated, exempt, and taxable supplies have to keep separate accounts for each of these categories of sales, imposing on them a significant additional burden of compliance. Such traders can also easily be tempted to evade taxes on their taxable supplies.

Extensive zero ratings and exemptions generate continuing pressures from taxable sectors for equity and therefore zero ratings, exemptions, or special treatments for them as well.

By virtue of its narrower tax base, the complicated GST also requires a higher rate to yield a given amount of revenue than does a simple broad-based GST – i.e. fewer items attract a higher rate of tax to achieve the same revenue yield.

Many countries have, therefore, attempted to adopt a simple GST, with as few exclusions and exemptions as possible, in order to make the tax a truly broad-based tax on domestic

[19] See: http://www.statesassembly.gov.je/AssemblyPropositions/2006/15436-30728-16102006.pdf

consumption, with no differentiation in the tax rates, other than the introduction of a zero rate for very limited categories of items.

The GSTs of Singapore and New Zealand represent by far the best examples of a simple GST while Value Added Tax (VAT) in the United Kingdom is an example of a complicated GST. The items for exclusion listed in this Proposition are essentially 'lifted' from the U.K. model.

The main reason for the complications in the United Kingdom system is that it attempts to provide relief to lower income groups by zero rating food and children's clothing – which is known to be an extremely poor instrument of relief, especially when compared with an income support system appropriately tailored to compensate the lower income groups for the burden of GST. Zero rating items such as food and children's clothing is a crude blanket application. Even those on higher incomes, including the very rich would benefit. Exemptions are therefore not effectively targeted to those who need assistance from the effects of GST, those on lower incomes.

An income support system is a superior and far more effective instrument of relief than a system of tax exclusions. It is targeted; it is not susceptible to abuse; and its budgetary cost is transparent and known with a degree of certainty.

A GST based on the United Kingdom model would also be far more cumbersome and costly both in administration and in compliance.

It is therefore recommended that, given the extra costs involved in administration and compliance, the inclusion of such items as food and children's clothes in the tax base of the GST is desirable, subject to an effective income support mechanism, since the resulting effect on the taxpayer will be that he or she will pay, overall, a lower amount of tax.

A broad-based, low-rate GST minimises economic distortions. Since all goods and services are equally affected, customers are less likely to change their spending behaviour.

*Extract 2: from the Minister for Treasury and Resources comment in response to P.36/2011 "Goods and Services Tax: Exemption or Zero-Rating for Food Stuffs, Domestic Energy and Fuel"*[20]

**3. The case for a simple system of GST**

Economic merits, international advice and evidence for a simple GST

A recent review of taxation in the UK, headed by Nobel laureate Sir James Mirrlees, recommended that the UK abandon its current system of VAT exclusions and differential rates, and instead move towards a broad-based system. In the words of that review –

> *"Even if the better off spend a smaller proportion of their current income on such items as food than do the less well-off, they are unlikely to spend a smaller absolute amount on them. If there were no other way of transferring resources to the poorest, setting a low tax rate on these items might be sensible policy. But it is unlikely to be so when, as in the UK, there is a range of other instruments—not only the income tax, but tax credits and benefits— that could be targeted more directly upon them."* (Dimensions of Tax Design, Mirrlees Review, 2010)

And the International Monetary Fund (IMF) agrees, noting that –

> *"…reduced and zero VAT rates are an expensive and poorly targeted means of addressing distributional concerns. Most G-20 countries apply zero and/or reduced rates of VAT to "essential" goods and services that are consumed disproportionately by the less well off, such as fuel, housing and basic foodstuffs. However, the degree of income redistribution that can be achieved is limited by the fact that rich individuals spend large amounts on these essentials in absolute terms. Progressive income tax and expenditure policies are better suited to providing targeted support to low-income households at a lower fiscal cost. In the United Kingdom, for example, eliminating zero- and reduced-rating, while increasing income-related benefits to protect the poor, would raise net revenue of around 0.75 percent of GDP."* (IMF, Fiscal Monitor, Nov 2010)

For Jersey to move towards the system that the UK currently has would be contrary to this advice.

The evidence also suggests that a broad-based consumption tax, as an element of a wider, progressive tax system, is economically efficient as it does not distort decisions about productive economic activity, and therefore is more conducive to economic growth than taxes that discourage this type of activity such as income tax. In the words of the Mirrlees Review–

> *"A more uniform rate would increase consumers' welfare by distorting their spending decisions less. People would make choices based on relative prices that reflect the underlying costs of producing the goods rather than differences in tax rates."* (Tax by Design, Mirrlees Review, 2010)

[20] See: http://www.statesassembly.gov.je/AssemblyPropositions/2011/15333-38068-1352011.pdf

Again the International Monetary Fund (IMF) agrees –

> *"[A] "pure" VAT with a single rate and minimal exemptions is an efficient way to raise revenues. Taxing consumption is equivalent to taxing accumulated assets and labour income: thus it falls partly on a completely inelastic base – previously existing assets – and partly on a base less internationally mobile than capital income. Broad-based consumption taxes are therefore considered less harmful to growth than income taxes."* (IMF, Fiscal Monitor, Nov 2010)

## Section Four: some key tax policy issues for future consideration

This Section of the paper seeks to identify some of the key tax policy issues which should be addressed by the next Council of Ministers as part of the development of their strategic tax policy framework. This Section does not seek to identify all the potential issues, but it is hoped that it will help the next Council of Ministers to engage with a number of the key issues.

### Issue 1: maintaining stability and certainty

A stable tax system with fewer, more considered changes is beneficial for all taxpayers as it allows them to make longer term plans, longer term decisions and invest in the Island with confidence. This is particularly relevant in the context of an international financial centre, where external investors identify stability as one of the key drivers for choosing to invest in a particular centre.

It is acknowledged that the publication of a strategic tax policy framework, as advocated in this paper, would help create a more stable tax system; particularly if that framework identifies those elements of the tax system which will not be subject to change/significant amounts of change.

In respect of elements of the tax system that are identified as subject to change, taxpayers will have a better understanding of what changes are coming and how each individual change fits within the bigger picture.

*Potential questions to be addressed:*

- What elements of the tax system should and should not be subject to change?
- How should changes be introduced so as to maintain the stability of the system as a whole?
- How should changes be prioritised?
- What sorts of change to the tax system should be subject to public consultation?
- How should public consultations be structured in order to maximise public engagement and the quality of the responses received?
- How else should the government engage with interested parties regarding potential changes to the tax system?

### Issue 2: simplicity and resulting trade-offs

It is widely accepted that tax systems should be kept as simple as possible. The World Bank's Handbook for Tax Simplification identifies the tangible benefits of simplification as "it reduces compliance costs and unintentional tax evasion, and increases compliance through improving the taxpayer perception that the tax system is fair."[21]

[21] "A Handbook for Tax Simplification", The World Bank 2009, page 15

However “simplification is not an end in itself, but a means towards greater transparency, predictability and fairness in the tax system”[22]. The focus should not be on reducing the amount of tax legislation, but on improving the tax system as a whole (including administration) so that taxpayers are clear about their obligations and have certainty of tax treatment.

Furthermore a move towards simplification may result in broader trade-offs, for example a move to simplify the personal income tax regime could result in changes to the allowances, deductions and reliefs available, which, in turn, could have a distributional impact that is considered contrary to the States wider social objectives.

Such trade-offs occur not only in the context of simplicity. For example, in the context of high net worth individuals there is a trade-off between the principle that everyone should make an appropriate contribution and the principle that the tax system should support economic development.

*Potential questions to be addressed:*

- What sort of simplification of its tax system is Jersey seeking?
- How important is simplification?
- How should the key tax policy principles be weighed against each other when trade-offs arise?

**Issue 3: maintaining/developing a broad based tax system**

Tax systems which are highly reliant on a single form of tax revenue place themselves at significant risk if that source of revenue changes and the resulting revenues are unexpectedly reduced. To counteract this risk, tax systems should be broad-based, with a number of different forms of taxation contributing to overall public revenues.

Before the implementation of the fiscal strategy from 2004/05, Jersey was almost wholly reliant on income tax as its only source of tax revenues. With the introduction of GST this reliance on income tax has reduced but consideration could be given to further opportunities to broaden the tax base. Property taxes have already been identified as one area where the tax system could potentially be broadened. The issue of property taxes is covered in the property tax review[23] which was launched in July 2014.

*Prima facie* each individual tax should also have a broad base. The base of personal income tax has been narrowed somewhat due to the availability of allowances, deductions and reliefs. The following example is taken from the 2015 Draft Budget Statement:

> The tax threshold (i.e. the point above which a taxpayer starts to pay income tax) is determined by the taxpayer’s personal circumstances. For example, a married couple,

[22] “A Handbook for Tax Simplification”, The World Bank 2009, page 9
[23] See: http://www.gov.je/Government/Consultations/Pages/Taxation-of-land-and-buildings-in-Jersey.aspx

who are both working and have two children (one at university), paying mortgage interest of £7,500, do not become liable to income tax in 2014 until their income exceeds £46,400. For 2015 this would increase to £46,800 under the current proposals:

| | 2014 | 2015 |
|---|---|---|
| Married Couple Exemption | £22,400 | £22,800 |
| Wife's Earned Income (max) | £4,500 | £4,500 |
| Child Allowance | £3,000 | £3,000 |
| Child Allowance (higher) | £6,000 | £6,000 |
| Child in higher education enhanced exemption | £3,000 | £3,000 |
| Mortgage Interest | £7,500 | £7,500 |
| **Total** | **£46,400** | **£46,800** |

Correspondingly, available data indicates that the majority of personal income tax is being paid by the top 10% of earners.

However before drawing conclusions on whether the distribution of personal income is appropriate, it is necessary to recall that focussing on personal income tax in isolation, rather than the tax system as a whole, is likely to result in sub-optimal analysis. For example, if all of the other taxes in the Island are broadly based; the personal income tax regime becomes the primary mechanism through which to achieve certain distributional effects.

*Potential questions to be addressed:*

- What "blend" of taxes is appropriate for the Island?
- The feedback from the property tax review green paper should be considered in detail and proposals should be brought forward for by the next Council of Ministers.
- Should the base of any of Jersey's existing taxes be further broadened?
- Is the current distribution of personal income tax appropriate within the context of the overall Jersey tax system? If not, how should the distribution be changed?

**<u>Issue 4: hypothecation of tax revenues</u>**

The hypothecation of tax revenues is the dedication of the revenue from a specific tax for a particular expenditure purpose. It is sometimes known as the ring-fencing or ear-marking of a tax. Social security systems often involve the hypothecation of contributions.

Generally the academic literature on what makes a good tax system advises that hypothecation should be avoided where possible:

> “A good tax system should be structured to meet overall spending needs. Earmarking of revenues for particular purposes should be avoided. There is no reason for spending on particular items to be tied to receipts from particular taxes.”[24]

With pure hypothecation, it is highly unlikely that the optimal amount to spend on a particular initiative will be the same as the optimal amount of money raised from a particular tax. The base of the particular tax may be volatile, which would lead to inappropriately volatile spending, or the tax base may erode away over the long term if behaviour changes[25].

Rather than engaging in hypothecation, the advice is that governments should seek to raise tax revenue in the most efficient way possible and then, as a separate exercise, seek to spend the revenue raised in the most efficient way possible.

*Potential questions to be addressed:*

- What is Jersey’s position with respect to the hypothecation of general tax revenues?
- Are there any circumstances in which hypothecation should be considered?

**Issue 5: availability of allowances, deductions and reliefs in the personal income tax regime**

One factor that complicates the personal income tax regime is the number of allowances, deductions and reliefs available, and the way in which these reliefs are given. For example, the fact that certain allowances (e.g. child care tax relief, mortgage interest tax relief, etc.) are only available where a taxpayer is benefiting from marginal relief is one of the main causes of confusion within the personal income tax regime.

*Potential questions to be addressed:*

- Should all of the allowances, deductions and reliefs currently offered within the personal income tax regime be retained?
- Is the amount of each allowance, deduction and relief appropriate?
- How should the effectiveness of allowances, deductions and reliefs be determined?
- How regularly should they be reviewed?
- What threshold needs to be exceeded before a new allowance, deduction or relief is considered?

**Issue 6: understanding/operation of marginal relief**

One area of the personal income tax regime which appears to introduce complication is the availability of marginal relief. For the avoidance of doubt, the availability of marginal relief

[24] “Mirrlees Review – Tax by Design”, Institute of Fiscal Studies 2011, page 471
[25] Noting that at times this change of behaviour is desirable

and the application of the marginal tax rate help those taxpayers on lower incomes, who would pay more tax if the relief were removed without being replaced with a similar relief.

As explained in the Taxes Office's guide to marginal relief[26], the relief works by requiring all personal income taxpayers to complete two separate calculations: the first calculation ("the standard rate calculation") provides the taxpayer a minimal number of potential allowances to offset against his/her taxable income and then taxes the resulting amount at 20%; the second calculation ("the marginal rate calculation") provides the taxpayer with a more generous set of potential allowances, including the exemption threshold, to offset against his/her taxable income and then taxes the resulting amount at the marginal tax rate of 26%. The taxpayer's tax liability is determined by whichever calculation produces the lower amount.

Due to the more generous allowances available under the marginal rate calculation, this dual calculation approach: (i) exempts those taxpayers with the lowest incomes from personal income tax entirely; and (ii) for those taxpayers who are not exempted entirely, brings their average tax rate up to, or close to, the 20% rate applicable under the standard rate calculation in a progressive manner.

Although the availability of marginal relief is beneficial to the majority of taxpayers in the Island, this fact is not widely understood. Instead taxpayer focus is, understandably, placed on the 26% tax rate currently associated with the marginal tax rate system and the fact that it exceeds the Island's headline tax rate of 20%.

*Potential questions to be addressed:*

- How could understanding of the benefits of marginal relief be improved?
- At what level should the marginal tax rate be set?
- Should consideration be given to alternative forms of relief which operate in a similar manner but might be better understood?

## Issue 7: current year payment basis

Currently personal income taxpayers pay their tax in one of three ways:

1. Deducted by way of the Income Tax Instalment System ("ITIS") on a current year basis (i.e. the tax deducted in 2014 primarily goes towards settling the taxpayer's liability in respect of the 2014 year of assessment)
2. Deducted by way of ITIS on a prior year basis (i.e. the tax deducted in 2014 primarily goes towards settling the taxpayer's liability in respect of the 2013 year of assessment)
3. Taxpayers with no employment income, or where the taxpayer's employment income is less than 25% of their total income, pay their tax through two payments, made in the year after the relevant tax year (i.e. the tax payments made in 2014 go towards settling the taxpayer's liability in respect of the 2013 year of assessment)

[26] See: http://www.gov.je/TaxesMoney/IncomeTax/Individuals/AllowancesReliefs/Pages/MarginalCalculation.aspx

Broadly, the prior year basis of ITIS deduction applies to any taxpayer who was resident and in receipt of taxable income on or before 31 December 2005, whilst the current year basis of ITIS deduction applies to all other taxpayers.

The fact that ITIS is applied in different ways depending on when the taxpayer first started paying tax in the Island adds complexity to the tax system. Furthermore, it can result in unusual effects where, for example, taxpayers who have ITIS deducted on different bases get married.

Most importantly however, taxpayers on a prior year basis are often unaware that they have a latent tax liability that needs to be paid, the assumption being that their income tax is being fully settled through their ITIS deductions. In many cases the first time the taxpayer becomes aware of this latent tax liability is when they retire, take a career break or become non-resident; ITIS deductions correspondingly cease and the Taxes Office subsequently issues a demand for the outstanding tax.

Broadly it therefore appears preferable for taxpayers to pay their tax on a current year basis, such that taxpayers are up-to-date with their tax payments and the risk to the Treasury of default on tax bills is minimised. However bringing those taxpayers who are on are a prior year payment basis on to a current year payment basis may be challenging in certain circumstances.

*Potential questions to be addressed:*

- Should all personal income taxpayers be brought on to a current year payment basis?
- If yes, how could this be achieved?
- What options exist for different groups of taxpayers within the prior year payment basis cohort?
- Should reliefs/incentives to accelerate tax payments be considered?
- Should more income streams (e.g. pension payments) be subject to ITIS?

## Issue 8: interaction of income tax and social security

It is acknowledged that a proportion of the population are both income taxpayers and the recipients of benefits from social security.

*Potential questions to be addressed:*

- How should the Treasury and Social Security Department work together to create a coherent and effective tax/benefit system?

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**Issue 9: availability of zero ratings/exemptions in the GST regime**

The model regime advocated in academic literature on what constitutes a good value added tax is:

> "Our starting point for VAT is the presumption that it be applied to all final consumption expenditure by households, but that expenditure on business inputs should be untaxed (which VAT achieves by allowing traders to reclaim VAT charged on their inputs). This means avoiding zero and reduced rates of tax on sales, and avoiding exemptions (which prevent deduction of input costs) as well."[27]

The rationale for this approach is:

> "In a modern tax system, VAT is a poor choice of tax to use to achieve redistribution. VAT should therefore be extended to virtually all goods and services at the full rate, but this should be done in combination with an appropriate package of reforms to the personal tax and benefit system to address the distributional and work incentive effects of broadening the VAT base."[28]

Such a broad base approach also means that the tax is economically efficient and easy to administer, both from the perspective of the Taxes Authorities and registered businesses.

Since its introduction Jersey's GST has been characterised by its broad base and low number of zero-ratings/exemptions. To address some of the distributional and work incentive effects of GST's introduction, the States created the food cost bonus[29] and significantly increased the income tax exemption thresholds in 2007, 2008 and 2009. The end result is an efficient tax, which raises a significant amount of tax revenue with a low level of administrative burden.

*Potential questions to be addressed:*

- Should all of the existing zero ratings/exemptions offered within the GST regime be retained?
- How should the effectiveness of zero ratings/exemptions be determined?
- How regularly should they be reviewed?
- Should new zero ratings/exemptions be considered?
- What threshold needs to be exceeded before a new zero rating/exemption is considered?

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[27] "Mirrlees Review – Tax by Design", Institute of Fiscal Studies 2011, page 476
[28] "Mirrlees Review – Tax by Design", Institute of Fiscal Studies 2011, page 484
[29] See: http://www.gov.je/Benefits/Allowances/Pages/FoodCostsBonus.aspx

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# Tax Administration

## Section Five: explanation of the basic principles of generic tax administration

Definitions

Tax is: "A compulsory contribution to state revenue levied on employees income and business profits and added to the cost of goods and services and transactions"

A Tax Administration is: "The division(s) of government who receive their mandate by law and are tasked with collecting taxes by implementing and enforcing tax laws and regulations".

Administering the tax laws of a country should serve the public interest (i.e. it should meet the needs of the government and the people of the country served by the government). In order for the revenue agency charged with administration of the laws to serve the public interest properly, the agency and its employees must have the confidence and esteem of the public they serve. The primary responsibility of a Tax Administration is to collect the proper amount of tax due to the government at the least possible cost to the public.

The intrinsic link between tax policy and administration

A Tax Administration should play an important part in the development and amendment of tax policies. Policy outcomes depend very much on how the policies are administered. How a tax system is administered affects its yield, its incidence and its efficiency. The tax administration should closely monitor, analyse and report positive or negative impact of tax policy (and the enabling legislation) on its operations and be involved in making and formulating further recommended change.

The best tax policy will amount to very little if it cannot be implemented and administered effectively. Any tax policy reform or redirection should aim to simplify and strengthen tax administration in the most efficient manner. The imposition of any new tax instrument and major change must be influenced by the capacity of the regime to administer the system efficiently and effectively.

Organisational structures and mandate

Most countries have a single body responsible for the administration of direct and (most) indirect taxes, but there are still countries with separate organisations responsible for collecting direct and indirect taxes.

Many countries have separate organisations responsible for Taxes and Customs. In some countries, the Customs Administration is tasked with administering excise duties; in others, this is also the task of the Tax Administration. The responsibilities for collecting taxes and operating customs are integrated in other countries within a single revenue authority (includes tax and customs).

Different institutional arrangements may also exist for the collection of social security contributions. In many countries, collecting social security contributions is a responsibility of one or more separate bodies, but in a growing number of countries this task is also being integrated within a single revenue agency.

In some federal-based countries, the Tax Administration is also tasked with the collection of local taxes or state taxes for all states or for a limited number of states. In other countries, central Tax Administrations have no involvement in collecting local or state taxes

There does not appear to be a single "ideal" model to follow and the differences in approach can be explained by different legal, economic, governmental and cultural traditions and histories. A common trend appears to be the merging of similar functions into a single organisation and integrating different processes with similar characteristics and purposes. This enables the Tax Administrations to effectively achieve their objectives in a more cost-efficient way and also to provide better services to taxpayers.

The most cost-effective means of collecting taxes is through the voluntary compliance of all taxpayers with the tax laws. The more compliance/enforcement activities necessary, the more expensive the administration of the tax system will be. In order to encourage taxpayers to comply with their tax-paying responsibilities voluntarily, it is important that the Tax Administration assists them in understanding their obligations and legal responsibilities. This can be done through a taxpayer assistance programme that utilises all forms of contact – telephone, correspondence, face to face and /or electronic communication tools such as website technology and e-mail, or through taxpayer education activities. It is essential for the Tax Administration to establish procedures and processes that provide easy to understand guidance to all types of taxpayers.

Also critical to the concept of voluntary compliance is the belief on the part of the tax-paying public that the Tax Administration respects the rights of taxpayers and operates on the principles of integrity and honesty. For there to be confidence in the tax system, people must believe that it is fair and administered in an even-handed manner.

To achieve the high level goal of "right tax at the right time" (by high levels of voluntary compliance) it is important for the Tax Administration to provide the proper balance of customer service and fair enforcement of the tax laws.

Operating environment

The "operating environment" in which the tax administration conducts its business processes includes a country's economic and technological development, the business enabling environment, the complexity of the diverse range of taxpayers that a tax administration needs to manage, and the tax administration's relationships and coordination with other government institutions and private sector groups (including tax professionals) that are engaged in various activities related to tax administration.

Activities of Tax Administration – Core Business and Support functions

Tax Administrations, like private companies and other organisations, have core business functions / activities. The core business of Tax Administration is the levying and collection of taxes imposed by law. It is important that Tax Administrations establish a clear definition of their core business from the outset and make it known to their stakeholders. The core functions of a Tax Administration include: -

- Taxpayer database – identification, collection and recording of basic taxpayer information in a master database, amendments to information and detection of non-registration and false registration

- Tax returns – issuing blank forms and receiving completed declarations in a range of formats to enable taxpayers to file their returns for prescribed periods and by specific (due) dates

- Payment and refunds – receiving and processing payments from taxpayers and making refunds/repayments in a timely manner when due

- Tax return processing – vetting and processing of tax returns, withholdings and third-party information; verification and examination of the correctness and completeness of tax returns

- Audit/assurance visits – used as a routine method of monitoring taxpayer compliance particularly those which are subject to self assessment. Visits are conducted at taxpayer premises and can be for different purposes. All visits involve an element of education and offer the opportunity of checking details on the taxpayer database. Selection is increasingly influenced by a risk based approach which determines resources required; frequency and duration of the visit.

- Collection/debt management – processes to collect taxes that are due and have not been paid by the prescribed date in law: involves reminders; agreeing formal agreements for time to pay; visits to taxpayer premises; levies/distraint and legal proceedings

- Taxpayer appeal/objection – handling of formal appeals and complaints both by internal review and through a formal external and independent review body (Tribunal/Tax Court/Commissioners Appeal)

- Taxpayer services – provision of assistance to taxpayers by providing easy to understanding information (by telephone, correspondence; and face to face; website; publications) to help taxpayers understand their obligations in a manner that demonstrates taxpayers are valued customers

- Investigation – detection of financial transactions which the tax administration has reasonable cause to believe/suspect that a taxpayer has committed an offence. The cases usually involve tax evasion, or when taxpayers subject to tax do not register,

file, and/or pay. Work can involve preparation of cases for court action or financial settlement out of court.

In addition a Tax Administration has functions that provide the resources, guidance and support to the operational staff that perform the above core functions/activities. The main support functions are as follows:

- Information technology – most administrations have fully computerised systems and business processes which are integrated to reflect a single view of a taxpayer covering all tax types. The type of system, the cost, maturity and level of sophistication varies greatly throughout the world' revenue agencies;

- Human resources – personnel management involving recruitment/retention, training and development, promotion and integrity and conduct of individuals;

- Finance – annual expenditure budget, forecasting, planning and resource management;

- Strategic planning – formulation of long term strategic plans, drafting and implementation of annual work plans for all departments/divisions linked and consistent with objectives of a higher level strategic plan; and

- Internal/external audit – conducting periodic reviews to ensure that regulations, operations, and internal procedures conform to standard and are being administered effectively and efficiently.

Taxpayer expectations

The above core and support functions are generally performed by three categories of staff – a) management; b) technical; and c) clerical/administrative. Taxpayers have the right to expect that employees of the Tax Administration will be well trained in their area of technical responsibility. Employees should also have an overall understanding of the Tax Administration's operations so taxpayer problems can be resolved without forcing taxpayers to make numerous contacts.

It is a valid expectation on the part of the public that the Tax Administration will have procedures and processes in place on how the law should be applied and how employees should conduct themselves in performing their duties. Proper attention must be paid to the training of employees in order to ensure that the Tax Administration has a technically proficient and professional workforce as well as one that respects the rights of taxpayers.

All tax administrations hold and have access to information which is highly sensitive and confidential. Disclosure of tax information should be within strict guidelines established in the law and only for the purpose of the proper administration of the tax laws. Taxpayers should be able to expect that their tax information will remain confidential and there should be legal and employment-related consequences for improper disclosures by any employee of the Tax Administration. Every employee of the Tax Administration should be trained

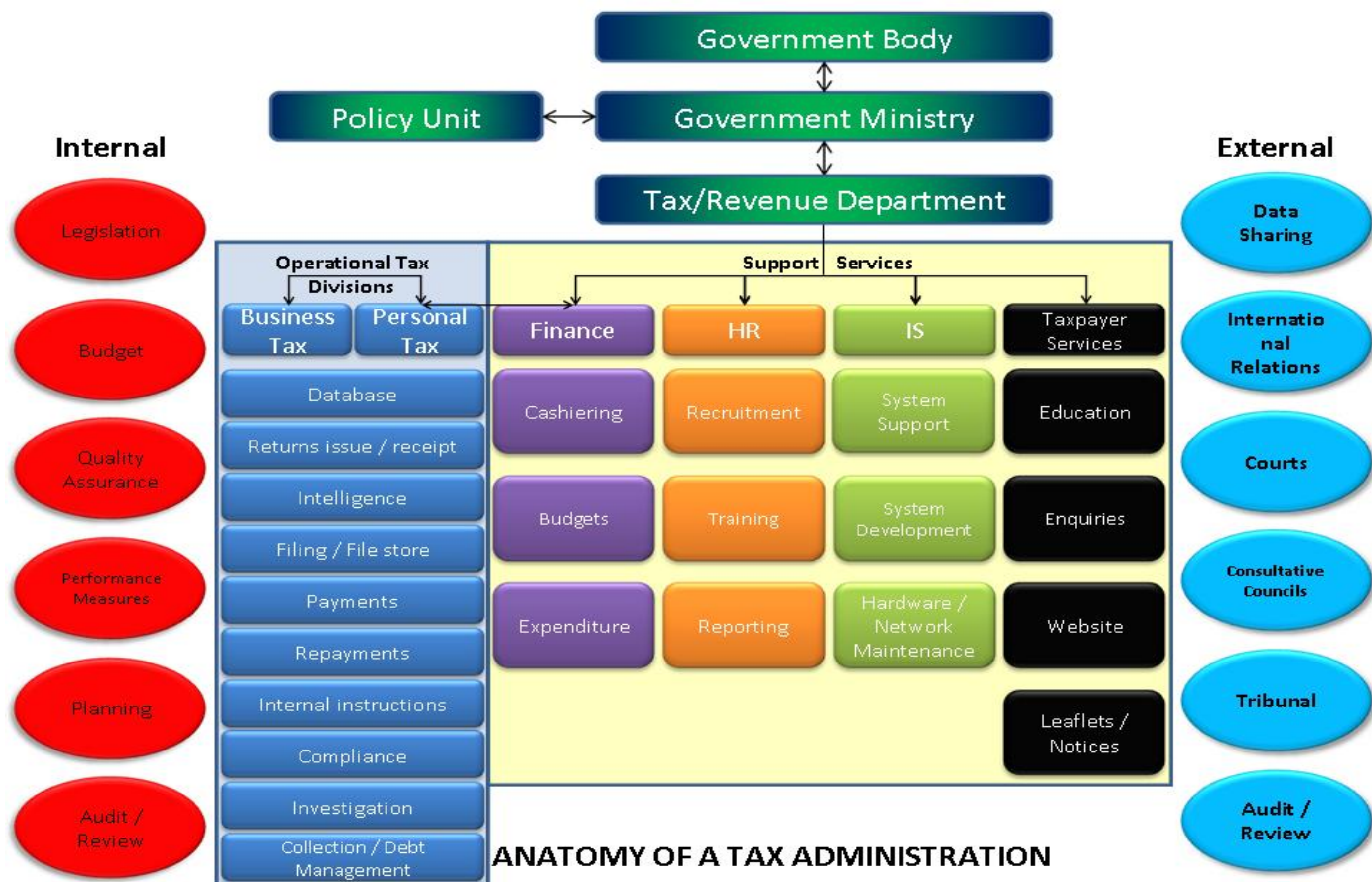
regarding the confidentiality of tax information and the consequences for improper disclosures.

A public expectation that the Tax Administration will have a management information system in place to provide information necessary for proper decision making by the leaders of the organisation is a valid one. These systems should also provide sufficient information so the Tax Administration can be responsive to inquiries by government bodies charged with supervisory responsibility as well as to internal organisations charged with review and evaluation of Tax Administration procedures, processes and practices.

The complexity of Tax Administration

Taxation in general is regarded as a difficult subject and tax administration is considered a challenging task even given the best of circumstances. One cannot assess how well an administration is performing, let alone how to improve it, without taking into account the environment in which it has to function, the laws it is supposed to administer and the institutional infrastructure with which it has been equipped.

The figure below attempts to illustrate the core business and support functions which are described above and also the complex set of inter relationships/inter dependencies and influences – both internal (red) and external (blue).



With the range of recent developments there is no doubt that tax administrations throughout the world are becoming more complex in their responsibilities and operations. There is now constant pressure on senior tax administrators to be seeking and maintaining maximum efficiency and effectiveness. Corporate management groups must be agile in terms of management performance measures and be prepared to review/revise/benchmark all aspects in the light of what is considered to be international best practice.

International best practice

Tax Administrations operate in regimes that are rapidly changing and have to fulfil increasing demands and growing expectations from their stakeholders, including new demands from taxpayers for sophisticated government services (mainly electronic). Rapid economic developments and ever-higher expectations on the part of taxpayers make it necessary for a Tax Administration to regularly review and revise their activities and strategic course/plans.

Fortunately a number of international organisations have grown/emerged that provide both technical assistance and attempt to promote co-operation between tax administrations by the sharing of information. As a result of their experience and research guidance is now available to outline what is considered to be best international practice. The main organisations involved are the International Monetary Fund ("IMF") (Fiscal Affairs Department); Organisation for Economic Co-operation and Development ("OECD") (Centre for Tax Policy and Administration); Intra European Organisation of Tax Administrators ("IOTA"); International Bureau of Fiscal Documentation ("IBFD"); Commonwealth Association of Tax Administrators ("CATA"), Inter American Center of Tax Administration ("CIAT") and World Bank ("WB").

The European Commission first produced their Fiscal Blueprints in 1999 which consisted of eleven chapters. The original version was reviewed in 2007 and re-issued as a collection of fourteen chapters which include the concept of measurement by a scorecard system. The purpose of the Fiscal Blueprints is to:

- Provide a set of best practice and recommendations for tax administration; and
- Serve as a tool for any administration to identify their strengths and weaknesses

They were originally intended to provide prospective accession member countries with guidance on the essential requirements to establish robust, modern and efficient tax administration and are now regarded as providing the baseline for international best practice benchmarking.

The Fiscal Blueprints are structured as follows:

- Framework, Structure and Basis
    - Overall framework of tax administration (FB1)
    - Structure and organisation (FB2)

  - Tax legislation (FB3)

- Human and Behavioural issues
  - Ethics (FB4)
  - Human resource management (FB5)

- Systems and functioning
  - Revenue collection and enforcement (FB6)
  - Tax audit (FB7)
  - Administration and mutual assistance (FB8)
  - Tax Fraud and avoidance (FB9)

- Taxpayer services
  - Taxpayer rights and obligations (FB10)
  - Systems for Taxpayer management (FB11)
  - Voluntary compliance (FB12)

- Support
  - Information technology (FB13)
  - Communications (FB14)

In October 2013 the IMF introduced their own version of the EC Fiscal Blueprints under the title Tax Administration Diagnostic Assessment Tool ("TADAT") which is intended to enable any country to measure and assess the outcome performance across the essential tax administration functions.

This is part of the IMF's wider agenda to help the international community strengthen their tax administrations to better mobilise domestic revenues they need to provide essential goods and services to their citizens in a sustainable and economically sound way.

The Blueprints and TADAT provide key indicators to enable Tax Administrations to measure if, and to what extent, they would meet the requirements and to conduct self-assessments of their organisations' strengths and weaknesses. This can provide a significant input into the objectives, design, sequencing and prioritisation of any revenue reform/change/modernisation programme.

Recent "modernisation trends" in international Tax Administration

OECD Tax Administration publish comparative information on the many developments and trends covering the world's major revenue bodies both advanced and emerging economies. The most recent document was published in October 2013 and involved contribution from 52 countries. The main trends in modernisation over the last ten years can be summarised under the following headings:

- Establishment of autonomous and integrated bodies – countries have evolved a variety of institutional arrangements for the administration of their tax laws. More recently many have established unified and semi autonomous bodies with a broad

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range of powers that are responsible for most (if not all) national / federal taxes including social contributions and report to a government minister sometimes through a board.

*Current status in Jersey – the States has adopted a traditional approach to revenue administration with three separate departments under three separate ministries. Not identified by Deloitte as a major issue in their review and therefore not included in TTP. The focus to date has been more on the internal organisational structure of the Taxes Office and integration of some functions.*

- Integration – merging of different similar functions into one single organisation and integrating different processes with similar characteristics and purposes enables Tax Administrations to effectively achieve their objectives in a more cost-efficient way and also to provide better services to taxpayers.

*Current status in Jersey – mentioned by Deloitte and included in their review. Within the Taxes Office the merging of GST and Business Tax started from January 2014 and will be phased over the medium term. Externally the potential for integrating support services (mainly investigation and debt management) is being explored by "closer working" initiatives between TO and SSD.*

- Segmentation – most tax administrations over the last decade have created specialised units to deal with certain types of taxpayers. This trend has been supported and encouraged by the IMF based on the rationale that different types of taxpayers present different revenue risks and service requirements. Segmentation usually starts with the creation of a Large Taxpayer Unit (LTU) that manages the most complex and important taxpayers in terms of their revenue contribution. The large taxpayers are usually selected by turnover; number of employees; total revenue paid or combinations of all three. It is common for the taxpayers selected to represent only 5-10% of the total number but 70-80% of the total revenue collected by the administration. Conversely the smallest taxpayers can represent 80% of all taxpayer numbers but collectively account for as little as 10% of total revenue collections. Between the two extremes (large / small) are the medium sizes taxpayers who commonly represent 20-30% of the taxpayer population and contribute a similar share of the total tax collections. The above three segments are not only identifiable by their revenue contribution / importance but invariably they differ greatly in their characteristics. Segmenting taxpayers in this way allows tax administrations to better understand the compliance risks presented by each segment and to develop their services and compliance strategies accordingly.

*Current status in Jersey – some segmentation within individual tax types – GST audit programme influenced by large taxpayers and in personal tax all 1(1)(k) casework is allocated to a specialist assessor. Concept accepted as offering potential but yet to be fully developed.*

- Functional structure – allocation of casework to tax officials was traditionally "client based" with each officer (assessor) being given an equal number of taxpayers using blocks of numbers or alphabetical ranges. The officials tended to keep their allocated taxpayers and the "one fits all approach" did not take into account the size / importance of the taxpayer or the competencies / skills of the officials. This traditional method of allocation is increasingly being replaced by segmentation and specialisation (often by income / activity type) within segmentation.

*Current status in Jersey – not mentioned by Deloitte as a major issue in their review / report.*

- Risk based approach – has wide application within tax administrations but greatest impact has been when applied to taxpayer compliance measures. The "one fits all approach" was recognised as being resource intensive and not cost effective. Risk management programmes have gradually been introduced based on research into behaviour and compliance interventions. It has now become common practice to allocate taxpayers into risk profiles (sometimes just high; medium and low) and to concentrate compliance measures against the high risk taxpayers. This allows an administration to focus limited resources on most significant threats to the tax system / revenue yield. As a result the tax administration can adopt on "light touch" (sometimes "no touch") approach to compliant taxpayers by the removal of unnecessary interventions.

*Current status in Jersey – risk based approach has been used in GST since the tax was implemented. All registered taxpayers are allocated a risk banding and this has been used to influence the annual audit visit programme. Some limited usage in business tax and personal tax. Risk based approach was mentioned by Deloitte in their report and initiatives to extend for compliance work are being undertaken as part of TTP.*

- Self assessment – the traditional method of collecting tax from taxpayers was to require them to submit a return providing information which then enabled the tax administration to assess/compute the net tax liability – known administrative assessment. The preference for all tax types now is to adopt the self assessed type of return that has been used for many years in indirect tax systems. The taxpayers still submits a return and provides information but also calculates the amount of tax payable / repayable. The adoption self assessment for direct taxes has gathered momentum when tax administrations have promoted online submission of returns rather than hard copy.

*Current status in Jersey – GST and ITIS returns have always been submitted on the basis of being self assessed by taxpayers. Extension of the concept to other tax types was included in the Deloitte review / report. This forms part of the initiatives planned for the future starting with business tax and then moving to personal taxpayers.*

- Deployment of e-business facilities – over the last two decades most revenue agencies have taken the opportunity to exploit the use of modern information technology to reform their operations. This replicates the way in which the business community

(particularly the banking sector) has transformed their services and customer relations. If the e-business facilities are implemented effectively the benefits are fairly obvious: faster and more accessible services for taxpayers and tax professionals and a reduction in both compliance and administrative costs.

*Current position in Jersey – mentioned by Deloitte in their review / report and some progress has been made under TTP with electronic payments and online filing for business taxpayers. Further extension of online facilities planned as part of future initiatives.*

## Section Six: summary of tax administration in Jersey

Organisational structures

Until recently the main revenue legislation and tax instruments deployed in Jersey and their administrative structures followed very traditional lines and well-tried principles as follows:

- a single Tax Administration for direct and (most) indirect taxes
- a separate organisations for Customs (tariff) and excise duty; and
- a separate organisation for collection of social security contributions

The above are separate departments working to three different ministers responsible for three different ministries.

The Income Tax Office changed its name to the Taxes Office in 2008 when GST was implemented and it became responsible for the administration of an indirect tax.

Customs & Immigration was formed from two separate departments

Taxes Office – Vision, mission and values

The Taxes Office has for over 10 years published the following statement to represent its Mission and Vision. The Values are taken from those adopted by the States of Jersey in general:

**OUR MISSION**

The effective administration of the Income Tax Law, the Goods and Services Tax Law and all our international tax agreements, together with the efficient assessment and collection of tax whilst delivering excellent service to our taxpayers and other customers.

**OUR VISION**

We are an Office:

STRIVING

AFTER

EXCELLENCE

**OUR VALUES**

Our Core Values reflect the values of the States:

- We put the customer at the heart of everything we do;
- We take pride in delivering an effective public service for Jersey;
- We relentlessly drive out waste and inefficiency;
- We will always be fair and honest and act with integrity;
- We constantly look for ways to improve what we do and are flexible and open to change; and
- We will achieve success in all we do by working together

Legislation

Income Tax was first introduced in Jersey in 1928 and the enabling legislation was revised and consolidated in 1937 and then again 1961 (the current version). The legislation has been subject to change on an annual basis ever since but in many ways still reflects the policies and practices of that time.

Further separate legislation was prepared in 2007 for the implementation of GST from May 2008. At the time thought was given to the inclusion of GST with Income Tax in a more modern style of Tax Code but the implementation timescale prevented this.

Main changes to date

The Taxes Office for many years enjoyed relative stability and buoyant revenue inflows. The Taxes Office is still responsible for 80% of States revenues in the form of Income Tax and GST.

The period of stability ended in the early 2000s due to both internal and external (international) pressures. Since such time reform and modernisation has been inevitable and constant. The significant changes over the last 5-10 years include the following:

- Changes to the corporate income tax regime
- Collection of income tax by employers for employees, directors and labour only sub-contractors under the Income Tax Instalment System ("ITIS")
- Introduction of "20-means-20" for Personal Taxpayers
- Implementation of a completely new indirect consumption tax system ("GST")
- Responding to the rapid expansion of international obligations – mainly requests for information under TIEAs
- Responsibility for Long Term Care ("LTC") contributions acting as agents on behalf of the Social Security Department – now scheduled to start January 2015
- In 2010 the States conducted a major review which focused on the Taxes Office but included the two other revenue raising departments (Social Security and Customs & Immigration). The Taxes Transformation Programme ("TTP") started in late 2011 to implement the review recommendations which are aimed at modernising and increasing revenue inflows
- In early 2012 it was agreed that the Taxes Office would administer the new LTC Contributions and all necessary preparations were allocated to TTP as the number one priority
- TTP was originally planned as a 4 year modernisation programme. As a result of LTC the work programme has been rescheduled and some of the project sub components delayed by up to 18 months.

International co-operation

Traditionally the Taxes Office has compared/benchmarked itself with similar/equivalent regimes in Guernsey and the Isle of Man and takes part in regular co-ordination meetings. The Taxes Office has also maintained strong links with HMRC (International Assistance) and has from 2008 secured the services of four members of staff on long term secondments and benefited from access to technical training courses usually delivered in Jersey.

International dimension

Over recent years one of the biggest changes the Taxes Office has had to embrace has not directly benefited Jersey in terms of generating internal revenue. But from a reputation point of view Jersey has had to rapidly respond to international pressure and comply with agreements on data sharing with individual countries.

Jersey's network of international tax agreements has grown rapidly and during the period 2010 to 2014 over 30 separate agreements with countries around the world have been

concluded. These have resulted in nearly 200 individual information requests being received over the same period. The number of request received each year was in low single figures up to 2009. This has increased to an average number of 42 for the period 2010 to 2013.

In addition to Tax Information Exchange Agreements ("TIEAs") and Double Taxation Agreements ("DTAs"), the convention on Mutual Administrative Assistance in Tax Matters came into force on 1 June 2014. This will add a further 38 jurisdictions with which Jersey can exchange tax information. The list is expected to grow further over the coming years.

There are further international obligations in the form of the EU savings directive, intergovernmental agreements with the US and UK (FATCA), and the anticipated Common Reporting Standard, currently being developed by the OECD.

The French blacklisting in 2013 highlighted the importance of a well resourced information exchange unit. With the global financial crisis shifting more attention to generating tax revenues, Jersey must be seen to be taking an active role in the development and implementation of the new global standards relating to tax information exchange.

This has had a significant impact on the workload of the Taxes Office and required additional and dedicated resources. With FATCA being implemented from 2015 the demands, although difficult to predict, are likely to further increase.

## Section Seven: Taxes Transformation Programme ("TTP")

Introduction

Deloitte was contracted by the States of Jersey in 2010 to undertake an independent review of the tax functions within the States. A final draft of Deloitte's review report was issued in December 2010 and accepted by the main stakeholders in early January 2011.

At the end of their review Deloitte recommended that the States of Jersey embark on a TTP, to be supported by a dedicated implementation team to deliver what is a major 4 to 5 year modernisation and reform project of the Taxes Office.

In July 2011 the Treasurer made a decision to move forward with a 4 year TTP programme which included the continuation and enhancement of the existing IT system(s).

TTP started in October 2011 with a 3 month inception phase intended to mainly cover scoping, mobilisation and planning of the transformation programme but included some immediate work related tasks which will have a major impact on the future shape of programme.

The inception phase was just about concluded in early 2012 when a decision was made for the administration of the LTC charge to be transferred from the Social Security Department ("SSD") to the Taxes Office (working on an agency basis).

The Taxes Office amended its 2012 business plan to include "Working in partnership with Social Security to implement LTC scheme" and the project was absorbed / subsumed by TTP as its number one priority. At this point in time the target implementation date for LTC was January 2013. It was recognised by all concerned that this represented a major change to the TTP and a challenge for the implementation team, even after the LTC contribution start date was revised firstly to January 2014 and then to January 2015.

Inevitably the insertion of LTC into the agreed TTP roadmap has had a significant impact on the timetable. A business case addendum was prepared to reflect the inclusion of LTC and this indicated that most of the major project components expected for delivery in 2012 to 2014 would be significantly delayed (by up to 12 to 18 months).

The main focus and effort of the project team from 2012 to date has been directed to the successful implementation of LTC and at the time of writing all enabling legislation is in place and the project is more or less on target for contributions to start with effect from 1 January 2015.

Status of TTP recommendations

The original Deloitte Report contained around 140 recommendations covering the five main work streams of their report. These were analysed by the project team in terms of work stream, type, priority and timescale during the planning phase in late 2011.

The inclusion of the implementation of LTC contributions as a project component had a major impact on the proposed TTP deliverables. The initial uncertainty and sheer scale of LTC project has resulted in a limited number of the original TTP recommendations being delivered to date.

Reviews were carried out at the start and mid-point of each year to identify which (if any) of the non LTC project components could be delivered on as / when basis without having a negative impact on the main priority of LTC.

A summary of the initiatives / recommendations delivered by TTP since 2012 is provided in the table below:

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What has been achieved under TTP

The table below identifies the main project components, in Deloitte work stream order, that have been delivered to date; with status, completion date and comments on the benefits involved.

| ***Ref*** | ***Description*** | ***Priority*** | ***Started*** | ***Completed*** | ***Comment*** |
|---|---|---|---|---|---|
| Not part of original Deloitte report | Implementation of LTC in partnership with SSD | High | 2012 | Likely to be finalised in 2016 | Added to TTP in 2012 – implementation date of LTC 2014 – contributions start from Jan 2015<br>Must do project and number priority of TTP |
| WS 1 | Establishment of a TPU within T&R | High | 2011 | 2011 | Intended to improve policy work and increase TO efficiency by reducing senior management time spent on policy and thereby increasing time on administration |
| WS 1 | TO CSR savings – delivered under TTP | High | 2011 | 2011 /13 | Unilateral savings based on reducing cost base / expenditure by fixed percentages |
| WS 1 | Review of data control and PEST (receipt of documents / payments) | Medium | 2012 | 2012 | Report produced with recommendations – most implemented (some o/s for PEST) |
| WS 1 | TO senior management structure | High | 2013 | from Jan 2014 | Instigated when new Comptroller was appointed in 2013. Senior management group recommended by Deloitte included a new post of Tax Service Director created and responsibilities re-allocated |

| | | | | | |
|---|---|---|---|---|---|
| WS 1 | Internal TO organisational structure | High | 2013 | from Jan 2015 | Linked to above Creation of a new Domestic Business Tax Department from GST and Business Tax under a single Director (new post) |
| WS 2 | Risk based approach to compliance | Medium | 2012 | Likely to be completed across all tax types in 2015 / 16 | Used in GST for audit / visit selection. Some limited usage in Personal and Business Tax in identifying casework – systems workflow produced for business tax |
| WS 2 | Risk based approach | Medium | 2014 | 2014 | Separate LEAN project looking at feasibility of using risk profiles to identify taxpayers not required to returns |
| WS 3 | Data sharing (internal) | Medium | 2013 (first phase) | 2014 | Report produced with recommendations – accepted and being implemented. Umbrella sharing agreement as short term solution |
| WS 3 | Introduce automated assessments for ITIS employers who fail to file returns on the due date | High | 2013 | 2013 | ITIS as a self assessed tax required automatic assessments to improve compliance (involved legal and systems changes) |
| WS 5 | IS scoping analysis | High | 2011 Phase 1 | 2011 | Report produced on integrated IS systems available in the market place – content influenced by independent Gartner report on same subject. |
| WS 5 | Electronic payments | High | 2013 | 2013 | Implemented – project under TTP but also part of a States Treasury initiative |

| | | | | | |
|---|---|---|---|---|---|
| WS 5 | Online filing for Business Tax | Medium | 2011 | 2012 | Implemented in 2012 for 2011 returns |
| WS 5 | Online filing for Personal Tax (taxpayers using agents) | Medium | 2012 | 2013 | For 2102 tax returns<br>[result – used by 12 agents involving 200 returns] pulled in 2014 – delayed<br>Still planning to go live in 2015 but considered vulnerable |

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## Section Eight: initiatives included in the future change/modernisation programme

General

As explained in previous sections of this paper, modernisation usually follows international best practice which is aimed at one, or a combination, of the following:

- Increasing revenue
- Improving efficiency / reducing administration costs
- Simplification / reducing the cost of taxpayer compliance
- Improving the range and quality of services offered to taxpayers

In Jersey further change/modernisation is expected, required and is already planned. For ease of presentation the initiatives involved in the future change/modernisation work programme are described under the work stream headings adopted by TTP.

The programme includes initiatives already scheduled to be delivered under TTP (some started but not completed and others yet to be started) and some others *(in italics)* yet to be finally approved for implementation.

***A.1. Organisation***

A.1.1. Staffing complement

| Approved complement of the TO has remained around 90 to 100 for a number of years. The range of changes planned in the future (extensive use of e-business facilities and move to a greater use of a risk based approach to compliance) could result in a reduction of administrative / clerical grade staff but an increase in higher grades deployed directly on compliance activities. TO should perform resource audits at regular intervals during the reform programme to establish need; numbers and grade and the resulting total number of approved complement.<br>**Priority – Medium; Timing – each year** |
|---|

A1.2. Allocation of casework – client based or segmented / specialism

| Transitional move away from client based allocation of casework to mainly specialism; segmentation under a functional structure and adoption of a risk based approach to compliance.<br>**Priority – Medium; Timing – Medium;** |
|---|

A.1.3. Internal integration – Domestic Business Tax Department

Taxes Office to establish a single department responsible for all business tax types by integrating / merging the GST and Business Tax sections. This initiative started with effect from January 2014 with a top down approach by the appointment of a new Director and Deputy Director post which itself was linked to changes in the Senior Management Team. Will require a period of further transition and development.
**Priority – Medium; Timing – Medium; Benefit – Efficiency**

A.1.4. External integration – involving other States Departments

Potential for further integration opportunities starting with support functions provided by other revenue departments – mainly SSD and C&I. For example: centralising debt management and investigation capabilities. Soft launch in 2014 with joint best practice workshops and staff exchanges.
**Priority – Medium; Timing – Medium; Benefit – Efficiency**

A.1.5. Taxes Office to collect / administer other States tax and non tax revenue streams

In many countries the collection of tax and non-tax revenue instruments are centralised in a single collection body. From 2015 the TO will administer and collect a non-tax revenue in the form of LTC contributions. This could be treated as a pilot and provide useful experience as to whether the TO collection responsibilities could / should be extended further.
**Priority – Low; Timing – Long tem; Benefits – Efficiency gains and simplification for taxpayers**

*A.1.6. International relations*

*Continue traditional cooperation with other agencies (Guernsey and IoM) – liaison meetings and technical assistance. Potential for arranging staff exchange / programmes and designing / delivering joint training courses.*
***Priority – Medium; Timing – Medium; Benefits – efficiency gains and cost savings***

*A.1.7. Public awareness programme*

*Important for the general public to understand the why; what and how of taxation. Why do we pay taxes; what taxes exist; how to comply; how to complete a tax return. To help improve future voluntary compliance start by educating the young – arrange office open days; staff to visit educational establishments (schools and Highlands). Same for States members and business associations. Meetings with professional bodies to continue. Work to widen the process of regular consultation with broad involvement under the concept of Joint Consultative Council ("JCC").*
***Priority – Medium; Timing – Medium; Benefits – efficiency gains by improving voluntary compliance***

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## A.3. Operational Compliance

A.3.1. Self assessment

Taxpayer returns are already submitted under the principle of self assessment for ITIS and GST. Usage must be extended on a progressive basis to other tax types: business tax and then personal tax. Success will be linked to simplification and provision of online filing. Likely that automatic assessments will be implemented first for personal taxpayers until the tax system is easier to understand.
**Priority – High; Timing – Short term to start but will continue over a number of years; Benefits – efficiency gains**

A3.2. Risk based approach

Compliance measures have traditionally been applied on a "one fits all" basis. Generally all taxpayers are required to complete and submit a return irrespective of their tax contribution and the risk they present in complying with their obligations. The move to a more risk based approach to compliance has started under TTP and this requires a progressive roll out to all tax types.
**Priority – High; Timing – already started but completion will be long term; Benefits – efficiency and revenue gains**

A3.3. Statutory based interest regime for unpaid amounts of tax

Punitive measures for outstanding tax payments under the current legislation are based on fixed penalties and do not take into account the amounts involved. The modern approach involves the use of a commercial type of interest regime under which interest is applied to the amount outstanding. The interest rate would be linked to base lending rate, calculated and notified on a monthly basis and compounded if the amount of interest charge remains unpaid. This change would be a major undertaking but could be introduced under a transitional approach with business taxes first.
**Priority – Medium; Timing – Long term; Benefits – improved compliance and potential revenue gain**

*A3.4. Training of officials*

*Conduct a training needs analysis to determine the technical and soft skills and competencies required for each job description in the TO; what training has been already given to staff and what training courses are needed. This to include the training of officials to conduct simple prosecution cases (absolute offences for non submission of returns and no payment*
***Priority – Medium; Timing – Medium term; Benefits – efficiency gains***

A.3.5. Freedom of Information

Fulfil obligations resulting from Freedom of Information legislation.
**Priority – High; Timing – Medium Term**

A.3.6. Data / information sharing - Internal exchange (within States Departments)

Routine and requested exchange of taxpayer data and operational information mainly between revenue departments. Phase I started under TTP in 2013 and recommendations are being implemented to improve exchange within current legislation. Longer-term solutions will require changes to current legislation or new exchange law. This initiative is linked to the e-government "Tell us once" project which involves limited data but a wider scope.
**Priority – High; Timing – Medium Term; Benefits – efficiency; better quality service to taxpayers/citizens**

A.3.7. Data / information sharing - External exchange with business community (mainly finance sector)

Involves TO obtaining taxpayer data from third parties (e.g. amounts of interest paid on deposits and charged on loans / mortgages). Now linked to implementation of FATCA.
**Priority – High; Timing – Long Term; Benefits – efficiency and revenue gains**

## A4. Taxes Office computer system (ITAX)

A4.1. Systems migration

Move from the old alpha platform to modern PC based software
**Priority – High; Timing – Long term**

*A4.2. Paperless office*

*Replace current hardcopy taxpayer files with electronic versions – linked to use of e-filing and other electronic business facilities - current usage limited (mainly GST) and based on customised Document Management System (DMS)*
***Priority – High; Timing – Long term***

A4.3. Self Assessment (Business Tax)

*Replace current hardcopy taxpayer files with electronic versions – linked to use of e-filing and other electronic business facilities - current usage limited (mainly GST) and based on customised Document Management System (DMS)*
***Priority – High; Timing – Medium term***

A4.4. Online filing (Personal Tax – Agents)

| Replace current hardcopy taxpayer files with electronic versions – linked to use of e-filing and other electronic business facilities - current usage limited (mainly GST) and based on customised Document Management System (DMS)<br>**Priority – High; Timing – Medium term** |
|---|

A4.5. Online filing (Personal Tax – the Rest)

| Replace current hardcopy taxpayer files with electronic versions – linked to use of e-filing and other electronic business facilities - current usage limited (mainly GST) and based on customised Document Management System (DMS)<br>**Priority – High; Timing – Medium term** |
|---|

A4.6. Self Assessment (Personal Tax)

| The personal tax system is regarded as complicated and as such it would be difficult to move immediately to self assessment. More likely to be a series of steps linked to a process of simplifying the system. Possible steps would be i) online filing; ii) online filing with automated assessment; and finally iii) self assessment<br>**Priority – High; Timing – Long term** |
|---|

A4.7. Taxpayer online enquiries

| Provide taxpayer access online to their activities and affairs – most recent activity and ledger/statement<br>***Priority – Medium; Timing – Long term*** |
|---|

## ***A5. "Other" - potential initiatives***

A.5.1. Taxes Office relations with organisations promoting international best practice

| TO should engage with, or join, international organisations to gain recognition and reputation and benefit from attending workshops and training programmes. Given Jersey's unique position we can provide a valuable contribution to the international debate / dialogue on information exchange. Perhaps start with Commonwealth Association of Tax Administrations ("CATA") – (IoM joined in 2012).<br>**Priority – Medium; Timing – Short term** |
|---|

A.5.2. Taxpayer Charter

| TO should introduce a formal taxpayer charter – this will clearly set out a balance between the basic rights of a taxpayer (what they are entitled to) and their basic obligations (what the TO expects from taxpayers). This will build on, and replace, the current mission / vision / values.<br>**Priority – High; Timing – Short term** |
|---|

A.5.3. Replace current Tax Laws by a modern style of integrated Tax Code or Tax Administration Act

Currently the TO administers two separate sets of statute for Income Tax and GST. The IT law was enacted in 1961 and has been subject to numerous amendments since and its style and terminology are dated. The legislation is complex and presents difficulties for both tax professionals and tax officials. It is almost incomprehensible for most citizens. The aim of modern tax administration is to introduce a single integrated tax code which covers all tax instruments; would include international data exchange (FATCA) regulations and has common administrative provisions. The intention is to make the document much easier to read and understand with explanatory "notes on clauses". In this way it should be possible to reduce the cost of compliance for all taxpayers.
**Priority – High; Timing - Long term; Simplification**

A.5.4. Independent mechanism for taxpayer appeals

Taxpayers must have a basic right of appeal (as listed in the Taxpayer Charter) – this should be to an impartial body that is totally independent of the Taxes Office (in terms of funding and administration). The body would only deal with taxpayer disputes not capable of being resolved by internal review. This new body would replace the current appeal mechanism enshrined in the Income Tax Law. As a result the timing of the change could be linked to 5.3. above.
**Priority – Medium; Timing - Long term;**

A.5.5. Tax Gap

The TO, working with the TPU, should present and prepare on a regular basis an estimate of the tax gap – for a given period the difference between the total potential tax that should be paid and the tax that has been paid. It would reflect individual totals for all tax types and a gross total. Such an estimate has never been prepared in Jersey before but is seen in other regimes as essential information to better inform Political / States questions; the taxation debate at all levels and decision making on both tax policy and tax administration.
**Priority - Medium; Timing – Long term;**

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How the future initiatives will be delivered

The initiatives/activities described above can be listed under the following 3 main headings:

- Outstanding recommendations from the Deloitte review which were delayed due to LTC
- "Must do" projects that are already underway but will not be completed by the end of 2014; and
- Other initiatives that have emerged since TTP started and were not identified by Deloitte – some of which still require formal agreement / approval

LTC and FATCA are examples of initiatives that have emerged since the Deloitte review although their final report did touch on improving internal data/information sharing mainly within the three core revenue departments. This was aimed mainly at improving efficiency and effectiveness and not the quality of service provided to taxpayers.

But there is a natural link between what the Deloitte review recommended in terms of external data sharing (obtaining taxpayer information from Jersey financial service providers) and what is being proposed under FATCA.

Both LTC and FATCA are "must do" projects for the TO with very high political and reputational implications and specific legal implementation deadlines as follows:

- LTC – the new care system starts in 2014 but contributions will be implemented with effect from January 2015 and with a rate change due in Jan 2016. Personal Tax Division staff will be directly involved from November 2014 (issue of 2015 effective rate notices) but it is unlikely this initiative will transfer from project status to "business as usual" until a complete activity cycle has been completed (around mid-2016).

- FATCA - from information currently available (full and final details are yet to be established) the first year of reporting (2014) must be submitted to US IRS by mid-2015 and will continue every year with increased levels of data. The first year under the UK FATCA agreement will be 2015 to be submitted in 2016 and the other countries under CRS will require 2016 to be submitted in 2017. To meet the above deadlines the TO system developments must commence in 2014 and will be spread over the period 2014 to 2017.

The TTP started in late 2011 and is due to terminate at the end of 2014. Ideally to provide the necessary continuity, governance structure and project management all initiatives described in the section should be managed / implemented by TTP which would require extending for a further three year period (2015 to 2017).

The TTP steering group includes high level representation from Treasury, TO; C&I; SSD and the project team is headed by a full time Director and supported by internal resources seconded on a "call down" basis with external expertise when required.

## Appendix A – "long term tax policy" for Jersey taken from appendix eleven of the MTFP 2013-2015

### Introduction

1453. The Tax Policy Unit has been asked to consider Jersey's long-term tax policy. In this case, "long-term" is taken to mean longer than five years. Advice from the Fiscal Policy Panel is that fiscal policy needs to be focussed on the medium term. The same should apply to tax policy, which forms part of the overall fiscal policy.

1454. It is difficult to be certain about Jersey's long term economic needs and hence tax policy, particularly in such an unstable economic environment. Further, tax policy should be designed to support rather than drive economic and political policy. This paper is therefore based on the current economic and political desires, further details of which are set out in the background section.

1455. It is not the place of a long-term tax policy in itself to be highly prescriptive about the types and proportions of taxes applied. Even in less economically uncertain times, it would be impossible to be able to determine precisely what taxes Jersey should apply in a decade's time. As such, it would be unhelpful to stipulate, for example, the percentage of States revenues which should come from different types of taxes. The policy should set out the principles and objectives on which future tax reform, if any, should be based to achieve the economic and political aims. The policy must also be flexible enough to deal with unexpected future changes.

1456. This paper looks at the recommended principles and objectives of Jersey's long term tax policy, as shaped by economic and political policy objectives. It also goes further to recommend the way forward based on those principles and objectives.

### Background

1457. Jersey is a small island economy on the periphery of a large economic power, the European Union. Traditional industries have been agriculture and tourism, and since the mid-1960s, the provision of financial services. As both agriculture and tourism are relatively low value added, successive States have decided that the Island's economic well-being is best served by focussing resources on the financial services industry, on the basis that this is one of the few industries which is high value added with a low requirement for geographical resources. As such, it is suited to a small island with a small population.

1458. In the immediate future it seems unlikely that the balance of industries in the Island will shift dramatically away from finance as it currently exists. This is of course barring any external events which caused the industry to leave, but in such case the Island's economic base would be so fundamentally altered as to render current policy obsolete.

1459. Although Jersey's tax system was, until the zero/ten reform, stable and unchanged over a long period of time, this is unusual. Economic theory on tax has evolved over time – for example the gradual, but inexorable, move away from taxes on income only, to taxes on income and capital including inheritance and capital gains taxes (direct taxes). More recently, globally, states are moving away from a reliance on taxes on income and capital towards taxes on consumption (value added taxes such as GST) and immovable resources (such as taxes on land), known as indirect taxes.

Tax bases are broadening rather than narrowing and having a mix of direct and indirect taxes is now considered to make revenues more stable.

1460. Indirect taxes are generally considered to be more efficient for a number of reasons:

- *Difficulty of avoidance. Indirect taxes are more difficult to avoid than taxes on income because they are charged at the point of transaction. There is no onus on the taxpayer to record and report the taxable event.*
- *Ease of collection. Revenue is assessed on and collected by a small number of businesses and not from the population as a whole. There is no onus on the taxpayer to record and report the taxable event.*
- *Broad tax base. Indirect taxes are paid by the whole population, unlike other taxes. As such, rates can be lower because they are more broadly applied. However, where territories exempt a wide range of goods or services, then the tax base shrinks and the rate applied may have to increase in order to raise sufficient revenues.*
- *Less distortionary. Indirect taxes are considered to be less distorting than direct taxes in that they have less of an impact on taxpayer behaviour.*

1461. However, indirect taxes may be considered by some to be less equitable than direct taxes, as those on lower incomes may spend more of their annual income on taxed items and may pay a similar or slightly greater proportion of that income in tax than those on higher incomes. Indirect taxes tend not to contain the progressive element that is contained in most income tax structures. This was a factor Jersey was aware of when introducing GST and as a result the States took steps to minimise the impact on those on lower incomes through increases in Income Support and the introduction of the GST Food Bonus for those on lower incomes but not in receipt of Income Support.

1462. Recent reforms in Jersey have changed the mix of taxes away from reliance on direct taxes following the introduction of GST. Given the generally accepted view that a broad based tax regime which includes a mix of direct and indirect taxes is more efficient, stable and sustainable, GST, income tax and social security are likely to remain key to Jersey's revenues into the future. It should be noted that not all taxes in every category are necessarily required or desirable for every jurisdiction and economic model.

**What is tax for?**

1463. At its most basic, the purpose of tax is to raise sufficient revenues to meet government spending commitments. (A discussion of the relative merits of meeting spending commitments through tax, borrowing or disposal of capital assets is outside the scope of this paper, as is any discussion of how government should spend its revenues.) Governments of developed countries provide policing, a legal system, health, education, basic infrastructure such as roads and sewerage systems, social housing, a social welfare system etc. Different governments will have different priorities but some or all of the above will typically be provided.

1464. Taxes can also be used for other purposes:

- *Fostering a sense of communal identity. There is an argument that making a financial contribution to the society in which one lives helps individuals to feel more connected to that community, and to hold their government to account.*

- *Redistributing wealth. Taxation is a basic method of taking money from the wealthy and distributing it to the less-well off, whether directly through payments of pensions, child allowances, income support etc, or indirectly through the provision of public services which the wealthier tend to make less use of, such as public health services.*
- *Influencing taxpayer behaviour. Taxes can be used to encourage certain actions or discourage undesirable actions. Examples are duties on health-damaging products such as alcohol or tobacco products or environmental taxes. However, tax is a blunt instrument and its effects are unpredictable. Higher taxes which make, for example, imported goods more expensive than their domestically-produced counterparts can make the imports appear of a higher cachet and therefore more desirable.*
- *Discouraging avoidance of other taxes. Some taxes are introduced not so much to raise revenue as to discourage avoidance of others. For example, Capital Gains Tax was introduced in the UK to discourage taxpayers from avoiding income tax by converting taxable income into untaxed capital, although in itself raises comparatively little revenue.*
- *Supporting government fiscal policy. Tax policy does have a role, in conjunction with other fiscal policies, in helping getting the balance right for the economic conditions, support counter cyclical policy and possibly to strengthen automatic fiscal stabilisers.*
- *Supporting government social policy. Tax policy can have a role in supporting social policy such as through the provision of tax reliefs and incentives. As with influencing tax behaviour, this can be a blunt instrument unless properly and effectively targeted.*

**Jersey's long term economic and political policies**

1465. As a small island economy, Jersey's tax policy should support the economic and political aims of the States.
1466. There is no single comprehensive statement which sets out the long term economic and political aims and so these have had to be drawn from a number of sources. Reference has been made to the following in determining the current long term economic and political aims:
    - *Recommendations of the Fiscal Policy Panel on Jersey's fiscal policy.*
    - *The States approved Strategic Plan 2012 entitled 'Inspiring Confidence in Jersey's Future'.*
    - *The draft States Economic Growth and Diversification Strategy.*
    - *The States decisions in recent months and years on tax reform including:*
        - *Introduction and defence of the zero/ten tax regime for companies.*
        - *Introduction and retention of a low and broad GST regime, with limited exemptions but with direct measures to protect those on the lowest incomes.*
        - *Introduction of '20 means 20' ensuring those on the highest incomes pay tax at the highest rate*
        - *Retention of the 20% personal tax rate.*

- *Introduction of a new tax regime to encourage inward migration of wealthy individuals and their businesses.*
- *Introduction of enhanced child care relief to support working families.*
- *A desire, as indicated in States debates, to modernise and simplify the personal tax regime, for example through independent taxation and other measures described in recent Budget Statements.*

- *The outcomes of the Fiscal Strategy and Business Tax reviews undertaken in 2010.*
- *Jersey's commitment to comply with international standards on tax matters.*
- *Current financial forecasts.*

**Jersey's tax policy must support these aims.**

1467. The policy objectives indicated by each of these sources are summarised below.

1468. The key message from the Fiscal Policy Panel relating to tax policy, based on the current state of the Island's finances and the economic climate, is that any change which permanently reduces taxation or increases spending should be accompanied by a compensating measure.

1469. The most urgent priority of the Strategic Plan is getting people into work. This will require economic growth to assist job creation and continued inward investment. It is important that the tax regime encourages economic growth and inward investment and also does not create disincentives for people to take up work when it is available, for example through high marginal rates and in particular where income tax interacts with income support.

1470. The recently published draft States Economic Growth and Diversification Strategy contains the following strategic aims:

- *Encourage innovation and improve Jersey's international competitiveness.*
- *Grow and diversify the financial services sector, capacity and profitability.*
- *Create new businesses and employment in high value sectors.*
- *Raise the productivity of the whole economy.*

1471. The States decided some time ago to focus on the provision of financial services as the Island's main economic activity. Tax reform since then has supported that, through the existence of "corporation tax" companies in the 1970s, the development of the exempt company in the 1980s, International Business Company in the 1990s and currently the zero/ten (0/10) company tax regime.

1472. Until the introduction of 0/10 Jersey was in the fortunate position that a high proportion of its tax revenues came directly from taxes paid by companies. The decision to comply with the European Union's Code of Conduct on Business Taxation, abolish the exempt company and International Business Company regimes and introduce 0/10 has meant that position has had to change. Individual Islanders have been required to contribute more of Jersey's tax revenues, though the introduction of "20 means 20" and GST. ITIS was also introduced which, among other things, allowed tax to be collected from individuals who came to live and work in Jersey for short periods of time and so ensure that more taxpayers paid the tax that was due.

1473. The alternative to introducing 0/10 was either to maintain the former 'non-compliant' regime and face the international consequences or to introduce a single, positive rate of tax for all companies in Jersey. Advice obtained at the time, and subsequently in the 2009 Business Tax Review, concluded that moving to a single, positive rate of tax would have a devastating effect on Jersey's ability to offer a tax neutral vehicle to clients of the finance industry, with a knock-on effect on the industry itself. Maintaining a 'noncompliant' regime would likely have resulted in unilateral action from other jurisdictions which could also have damaged the finance industry. It was estimated that introducing a positive rate of income tax for corporate "clients" of finance industry would result in the loss of up to 12,000 jobs. The financial burden on residents, whether individual or corporate, would have been significantly greater in that circumstance.

1474. This reform has inevitably changed the proportion of revenues raised from the taxation of individuals and the taxation of corporates. As highlighted above, there is a significant risk to the ongoing success of the finance industry, as well as other sectors, and hence a risk to economic activity and employment if there is a shift back in favour of taxation of corporates. Further information on this will be given in the forthcoming report on the taxation of non financial service companies.

1475. The more recent Fiscal Strategy and Business Tax review clearly demonstrated continued strong support to protect the financial industry.

1476. This support for the continued existence of the finance industry in Jersey has appeared to pay dividends. While the finance industry has been adversely affected by the ongoing global economic crisis, its existence still provides the greatest contribution, either directly or indirectly, to Jersey's economy.

1477. However, the risks of being highly reliant on one industry have also been felt. There may be benefit in diversifying the economy but there is also a need to balance diversification with the ability to raise revenues. A strong finance industry which contributes significantly to tax revenues will allow the Island to invest more in diversification.

1478. Current financial forecasts indicate that expenditure can be met from existing revenue sources but without substantial surpluses. This suggests that there is no need to raise any taxes but also there is little, if any, scope to reduce existing taxes. Further, based on the advice from the Fiscal Policy Panel, future surpluses should be used to rebuild the Stabilisation Fund.

**What should Jersey's tax policy deliver**

1479. Jersey's tax policy must support the economic and political policy objectives noted in the previous section.

1480. In order to do this Jersey's tax regime should have the following features:

- *Stability. Jersey has a reputation for stability in its tax regime, which is a key feature of its global offering. Investors, whether financial services related or not, considering the use of Jersey need to know how they will be taxed for the foreseeable future.*
- *Certainty. This is linked to the point on stability. Changes should be made infrequently, after careful consideration and consultation.*
- *Revenues. Jersey must raise sufficient revenues to meet its spending requirements.*

- *Flexibility. Where a need is identified, whether to attract new business or to defend existing business, Jersey must be able to move quickly.*
- *Competitiveness. In all things, Jersey must ensure that it does not damage the Island's ability to effectively compete for business. In this, the Island must keep aware of events in its key competitors and in the broader world which may affect it.*
- *Efficiency. Any tax changes should distort taxpayer behaviour as little as possible, unless that is one of the reasons for introducing the tax in the first place.*
- *Cost effective. The Fiscal Strategy Review, and resulting decisions by the States to increase GST and social security and retain a maximum income tax rate, suggest that in addition to the factors noted above, taxes should be cost effective for both the States and for taxpayers.*
- *Fairness and equity. These are extremely difficult to define and mean different things to different people. Recent decisions on introducing '20 means 20', the desire to modernise and simplify the tax regime and the introduction of GST 'protection measures' indicate that fairness and equity includes ensuring that the wealthiest pay a greater proportion of their income in tax while those on the lowest incomes are protected. It has also been recognised in recent decisions that the introduction of a competitive tax regime to encourage wealthy individuals and their businesses to Jersey is beneficial to the economy. In the absence of the direct and indirect revenues raised and economic activity derived from this inward migration the burden on taxpayers would be greater.*

**Key tax policy principles**

1481. With the above in mind, the following principles are recommended:
    - *Taxation must be necessary, justifiable and sustainable.*
    - *Taxes should be low, broad and simple.*
    - *Everyone should make an appropriate contribution to the cost of providing services, while those on the lowest incomes are protected.*
    - *Taxes must be internationally competitive.*
    - *Taxation should support economic development and, where possible, social policy.*

**Taxation must be necessary, justifiable and sustainable.**

1482. Taxes should not be raised for the sake of raising taxes, but with an identifiable spending need in mind. For example if a potential new source of revenues is identified, it should not automatically be adopted without considering whether the States has a specific requirement for more revenues, or if existing taxes should be reduced in response.
1483. It should be clear why any new tax is being introduced, and if any one sector or type of taxpayer is more affected, the reasons behind that should be made clear. Where the tax system discriminates between taxpayers, the rationale behind that should be clear.
1484. Taxes should also be sustainable in the long term. As such, it should be clear that revenues can be projected forward with a reasonable degree of certainty. Taxes should also not affect taxpayer behaviour such that the revenue stream dries up,

unless that is the intention of introducing that tax to change behaviour, for example where a decision is made to intentionally increase the cost of unhealthy items like alcohol or tobacco.

**Taxes should be low, broad and simple.**

1485. Much of the output of Jersey's main industries (finance, tourism and agriculture) is exported. As a result, most businesses in the Island depend directly or indirectly on their ability to sell into the global market place. Jersey faces a high degree of competition in all of these sectors, and must remain competitive in order to continue to attract business. Low rates of tax are a feature of this.

1486. Simplicity is also a key selling point for international business, though this is more important for finance than for other sectors. Where a low or zero rate of tax can be obtained in a competitor jurisdiction with relative ease, international business will not be prepared to achieve the same result in Jersey through a number of complicated steps. Complexity adds cost and risk to a transaction, and business may not be prepared to accept either.

1487. Taxes should also be broad; an economy which relies too heavily on one particular sector or type of taxpayer or tax base for revenues will be at risk if that sector, taxpayer group or tax base falters. A broader based tax system, where as many sectors and individuals as possible contribute over a wider taxable base, is a more stable one.

1488. A broader tax base also supports the principle that tax rates should be low, as the greater the number contributing to revenues, the lower the rate of tax that each will be required to pay.

**Everyone should make an appropriate contribution to the cost of providing services, while those on the lowest incomes are protected.**

1489. The people who live in Jersey should contribute to the cost of the services they receive to the best of their ability.

1490. There have been many debates by the States in recent months, including those relating to the rate of income tax, the tax regime for wealthy individuals and the GST regime. The outcome of those debates suggests that the States broadly supports the current structure.

1491. This principle can be viewed from another equally relevant angle i.e. that all taxpayers should pay the tax which is rightly and properly due. To do this both the tax law and the application of that law must be robust.

**Taxes must be internationally competitive.**

1492. Jersey's tax system must enable it to compete with its key competitors to attract and retain business. This must apply not only to the types of business which currently use Jersey, but also to new business which the Island would wish to attract.

1493. It is important to monitor developments in competitor onshore and offshore jurisdictions and to ensure that there is good communication between government and industry on the best way to ensure Jersey's continued competitiveness.

1494. Compliance with international standards may be needed to ensure that international competitiveness is maintained as to do so can reduce the risk of action being taken against Jersey to deter investment. This is not the only reason for complying with international standards but is an important one.

**Taxation should support economic development and, where possible, social policy.**

1495. While the tax regime cannot create economic growth in itself, it can work to support economic growth and it is important that it does not hinder it.

1496. Tax policy can support economic growth by reducing distortions in taxpayer behaviour, thereby improving economic efficiency. It can act to encourage economic activity to flourish thereby encouraging growth in employment.

1497. Taxes should not serve to deter investment, employment or diversification or act as a barrier to economic development. For example, the tax treatment of new businesses and start ups should not impose an unnecessary cost which again could act to stifle business growth. In this respect, taxes on income, rather than flat fees or charges, may be less economically damaging.

1498. Tax reforms can also remove incentives to act in a way which is not intended or desired. For example, the interaction of the income support system and the personal tax system should not act to deter people from taking up employment.

1499. Similarly the tax system cannot, and arguably should not, define social policy but where there is a clearly defined objective, and where it can be objectively demonstrated that the tax regime can affect taxpayer behaviour, then it may be appropriate to set taxes accordingly. One example of this may be environmental taxes, where taxes are set to encourage or deter a specific type of environmentally damaging behaviour, and the revenue collected is used to further encourage taxpayers to make "good" choices. Another may be the linking of increases in impôts to the States strategy on deterring alcohol abuse.

**The way forward**

1500. A direct comparison of Jersey to other jurisdictions such as the UK or other large jurisdictions is not necessarily appropriate in all cases. Being a small island, Jersey does not have the ability to develop a highly diversified economy which includes sectors with substantial geographical resource requirements such as manufacturing. As such Jersey needs a tax policy suited to the economic activity which it can support. Not all taxes will therefore be suitable for or relevant to Jersey and while global trends should be considered, the relevance and suitability of each should be determined by reference to Jersey's economy.

1501. This section takes the tax policy principles, together with the economic and political policy objectives to develop tax policy objectives and a recommended way forward.

1502. Based on the principles set out above, and taking into account the economic and political objectives, the recommended key tax policy objectives are:

- *Supporting economic growth, and hence employment growth, through providing a simple, stable and certain tax regime.*
- *Further supporting growth in employment by ensuring there are no barriers to people taking up employment.*
- *Maintaining international competitiveness through providing a low, broad and simple tax regime which complies with international standards.*
- *Ensuring taxpayers pay the taxes properly and rightly due to ensure that the current tax regime is sustainable and meets the Island's fiscal requirements. This*

*may require simplification of the personal tax regime, enhancing the robustness of the tax legislation and improving enforcement.*

1503. This is not intended to be an exhaustive list of the objectives but those of primary importance.

1504. To meet these objectives the recommended focus of tax policy development in the medium to longer term, in the absence of any substantial factors which change the current policy objectives, is as follows:

- *No fundamental reform of key aspects of the tax regime. In the absence of any unexpected event, whether external or internal, there should be no fundamental changes to the key aspects of Jersey's tax regime being 0/10, a low, broad and simple GST regime and a stable personal tax rate. Fiscal certainty and stability are critical to encouraging economic growth.*
- *Continuing protection of 0/10 for the foreseeable future. This will include not only ensuring that it remains compliant with international standards but also ensuring that tax revenues are safeguarded so that the provision of a tax neutral environment, which is so important to the success of the finance industry, can be sustained.*
- *Ensuring the tax law applies as it is intended. To ensure that all taxpayers pay the amount of tax rightly and properly due, the tax law has to be robust and be drafted to achieve the policy intention.*
- *Consideration of the relationship between tax and social security contributions and benefits to ensure there are no barriers to people returning to work.*
- *Simplifying the personal tax system. Individuals need to understand their tax affairs in order to understand what they are being asked to pay. As Jersey considers the introduction of self assessment for personal tax, it will be necessary to simplify the current complicated regime. This will also help to safeguard tax revenues which in turn will assist in achieving a number of the economic and political objectives.*
- *Ongoing monitoring of international developments. Jersey does not exist in a vacuum and does not have complete control over the direction its economy takes. International pressures, both governmental and regulatory, will continue to affect the Island and it will be important that these are prepared for, identified and responded to appropriately.*
- *Removal of barriers to competitiveness. Where these are identified, they should be removed. This will continue to be monitored and opportunities to improve competitiveness will be assessed on a regular basis. Flexibility is key. Where opportunities and threats exist, the Island must be alert to identify them and to act quickly in response.*
- *Consideration of the potential to widen the tax base. This would not be undertaken to raise a specific amount of additional revenues but to determine whether there is scope to make Jersey's tax regime more efficient and effective. There may also be opportunities to enhance competitiveness and ensure that everyone makes an appropriate contribution. This will initially focus on the way in which Jersey taxes property as taxes on property are coming under increasing focus globally and is an area which has not been fully explored.*

- *Changes to future tax revenues and States expenditure. The implications of the aging population on Jersey's future revenue and expenditure requirements are an important factor on which a substantial amount of work has already been done. The Tax Policy Unit, as part of Treasury, is linked in to this process and will, if necessary, consider the extent to which tax reform can or should be used to address the funding needs.*