

STATES OF JERSEY



BUDGET 2008 (P.164/2007): SECOND AMENDMENT (P.164/2007 AMD.(2))– COMMENTS

**Presented to the States on 3rd December 2007
by the Minister for Treasury and Resources**

STATES GREFFE

COMMENTS

The Minister for Treasury and Resources strongly opposes the amendment of Deputy Breckon as there is clearly great potential for the impact on the economy to be more significant than the additional revenues earned, and this must be fully researched and understood to enable an informed decision to be made.

Background

The current arrangements for Stamp Duty on Probate were established in the Budget 2005 whereby the previous cap of £100,000 on personal estates over £13,360,000 was removed. The current rates are such that all personal estates above £100,000 are now subject to a rate of duty of 0.75% with no cap.

Deputy Breckon's proposals are to significantly increase these rates and also to introduce a minimum charge of £100 for even the smallest of estates, as below:

Net Value of Personal Estate (£)	Current Stamp Duty (%)	Proposed Stamp Duty (%)
Not to exceed 10,000	Nil	£100
10,001 to 100,000	0.5%	1%
100,001 to 500,000	0.75%	1.5%
500,001 to 1,000,000	0.75%	2%
1,000,001 to 5,000,000	0.75%	3%
5,000,001 to 10,000,000	0.75%	4%
> 10,000,001	0.75%	5%

Financial Implications

The brief report of Deputy Breckon refers to the potential additional revenue that could be raised of £3 million. It should be stressed that this figure is only a simple extension applying the proposed rates to the last 2 years' transactions for probate or letters of administration. This crude estimate takes no account of the real possibility that significant non-resident estates would be withdrawn from the Island as a result of the up to six-fold increases in duty and must therefore be considered as at best only indicative.

The following table illustrates the significant increase in duty that would apply to all levels of Personal Estates if the amendment were approved:

Net Value of Personal Estate (£)	Current Stamp Duty	Proposed Stamp Duty
£1,000	Nil	£100
£100,000	£500	£1,000
£500,000	£3,500	£7,000
£1,000,000	£7,250	£17,000
£5,000,000	£37,250	£137,000
£10,000,000	£74,750	£337,000
£15,000,000	£112,250	£587,000

Potential Implications

The Minister for Treasury and Resources has already received strong representation from within the Island's finance industry and from Jersey Finance, despite the amendment only being lodged for a matter of days.

Unlike Stamp Duty on Property, which only affects owners of local property assets, Stamp Duty on Probate will affect individuals around the world, for some of whom the only connection with Jersey is that they own assets in some way registered here. As is evident from the comments of Jersey Finance and others, these activities form an important area of business for the local financial services industry and could in fact be described as an inheritance tax in another form.

At the rates of duty proposed by Deputy Breckon, it is highly likely that much of this business would move elsewhere with considerable loss of revenue to the Island. It is claimed by the financial services industry that a high proportion of the transactions in any year represent probate applications from the U.K. and abroad, and statistics from the Judicial Greffe confirm that this is indeed the case.

By comparison the Isle of Man charges a nominal sum for all values of estate and has no stamp duty or inheritance tax, and Guernsey has a much lower level of stamp duty on probate at the rate 0.35%. Whilst Jersey's current duty rates of between 0.5% and 0.75% are slightly higher they appear broadly competitive. However, the swingeing increases proposed by Deputy Breckon will almost certainly destroy any element of competitiveness.

It is important that when we consider tax changes in Jersey that we are able to consider the impact on the finance industry and their customers (who can choose between undertaking their business here and in other jurisdictions). To be sure that changing probate in the manner suggested does not just raise revenue from residents, but also does not lose more revenue from non-residents, further detailed consideration must be given to the proposal.

It is also very important that we consider the possible effect on the confidence of doing business on the Island if it is to be subject to sudden fiscal changes without proper consultation. We believe there is significant benefit in presenting a stable and professional environment in which to do business and have consulted widely, phased in any proposed measures and adopted a responsible approach throughout the Fiscal Strategy, and conversely there is a serious risk in 'off-the-cuff' proposals such as this amendment. This amendment is clearly not the right way forward.

Recommendation

The Minister for Treasury and Resources would therefore strongly recommend to States members that the amendment is rejected.