



Deputy Moz Scott, Chair  
Economic and International Affairs Scrutiny Panel  
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**By email**

9 November 2023

Dear Deputy Scott

Thank you for your letter dated 7 November 2023 regarding the Government Plan's announcement of a RegTech Super-Deduction. I appreciate the Assembly's interest in the economic implications of this initiative and provide answers to your questions below.

**1. What analysis has been undertaken to quantify the productivity increases to be gained through the deduction for both financial services organisations and in regulation of the industry?**

The decision to introduce a RegTech Super-Deduction was informed by industry surveys and reports, alongside consultations and case studies with stakeholders.

- **Industry surveys and reports.** Revenue Jersey and the Financial Services Unit of the Department for the Economy relied on research such as [Jersey Means Business: Ready to Support Greater Productivity](#), commissioned by Jersey Finance and delivered by the Centre for Economics and Business Research (CEBR). CEBR's analysis reported that as financial institutions have devoted more staff resources to non-revenue generating compliance functions, average output per worker (productivity) has declined. Freeing staff resources to focus on revenue generating functions could slow or reverse the trend. The current state of underinvestment in RegTech in Jersey and scope for a tax incentive to encourage adoption was confirmed by research such as [RegTech in Jersey: Closing the gap between ambition and reality](#), commissioned by the Jersey Financial Services Commission (JFSC) and delivered by RegTech Associates. RegTech Associates' survey reported that a lack of available budget for RegTech investment and its high cost were some of the most common barriers to adoption.
- **Consultations and case studies with stakeholders.** Throughout the policy development process, Revenue Jersey and the Financial Services Unit of the Department for the Economy met with key stakeholders from local financial services companies. Officials also sought the input of Digital Jersey and the JFSC to better understand how RegTech could increase productivity and how a tax incentive could best target support. Most recently this included attending sprint workshops that brought together industry with local RegTech providers to identify needs and solutions. The potential for government support was first identified in 2022, when the Financial Services Unit and the JFSC jointly consulted industry to identify barriers to adopting Digital ID systems. One of the main barriers to adoption reported by industry was the cost of RegTech.

Formal economic modelling was not undertaken, as Jersey's economic statistics are not available in sufficient detail to simulate the effects of RegTech adoption on the workflows, operating costs, prices and outputs of financial services businesses and associated interactions with the broader economy.

Revenue Jersey and the Financial Services Unit will monitor the outcomes of the Super-Deduction closely and continue to engage with stakeholders to track RegTech adoption and productivity gains. The Government will make any adjustments necessary to support our businesses in navigating an evolving regulatory framework so they can focus on growth, innovation, and resilience.

**a. What research has been undertaken regarding the impact of similar actions in other jurisdictions on the economic productivity of businesses receiving the benefit of similar deductions?**

While developing the policy, officials reviewed primarily:

- the super-deduction offered in the UK on most new plant and machinery between 1 April 2021 and 31 March 2023,
- the experience of the United States in offering full expensing under the Tax Cuts and Jobs Act of 2017 for asset classes with lives of 20 years or less that were put in service between 27 September 2017 and 1 January 2023,
- accelerated investment incentives and tax credits for operating and capital expenses related to mining and mineral exploration in Canada.

The experiences in these countries were mixed but resulted in some increase in investment and business profitability. Productivity is difficult to measure on an aggregate basis and empirical evidence from the incentives is limited; however, economic theory strongly suggests that well-designed tax incentives can increase technological investment and productivity growth.<sup>1</sup>

Enhanced allowances in other countries tend to be offered to wider classes of goods and industries, often targeted at manufacturing and other capital-intensive sectors. However, Jersey has little heavy industry or domestic goods production. Further, a broad offering of enhanced allowances across sectors in Jersey would provide little tax benefit to most businesses, as most businesses pay corporate income tax at the 0% rate.

The Government's intention was to be guided by the experiences of other jurisdictions but ultimately to design a made-in-Jersey incentive that would be appropriate for the Island's context. This meant targeting enhanced capital allowances where they could be used: the largest group of business taxpayers—financial services—for their highest investment priority—RegTech.

**2. What representations from the financial services industry, or wider stakeholders, have been made to you regarding the estimated economic impact of the deduction?**

The RegTech Super-Deduction was the product of a consultative process. It was informed by submissions and feedback from Jersey Finance's Fiscal Strategy Group (FSG), representing the interests of the finance industry in Jersey. Officials engaged with the FSG on the incentive beginning in May 2023, both as a whole and as part of a smaller, focused working group. Individual consultations were also undertaken throughout the summer months with

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<sup>1</sup> Reducing the effective tax rate lowers the user cost of capital, which in turn increases the expected rate of return on investment, leading to more capital per worker and higher output per worker. Further, according to endogenous growth theory, higher investment in technology will spur higher research and development, leading to new products, processes, organisational innovations and knowledge spillovers.



representatives from the trust industry, heads of tax from accounting and law firms, and Jersey Finance's FinTech and RegTech specialist. Digital Jersey also played a crucial role in providing input on the wider economic benefits of the anticipated impact on digital innovation.

The representations were mostly qualitative. There was a consensus that a targeted incentive would encourage technological upgrades and innovations with long-term economic benefits, particularly in addressing the skilled labour shortage. All felt that automating processes such as client onboarding and Know Your Customer (KYC) monitoring would free up resource capacity to be redeployed to higher value-added business areas, boosting efficiency and profitability, lowering operational costs, and improving competitiveness abroad.

Following the announcement of the Super-Deduction in the Government Plan, I have received positive feedback from executives of targeted firms that the Super-Deduction will assist them in making the case for investments in RegTech sooner rather than later, enabling them to reduce manual efforts and benefit from operational efficiencies.

**a. What estimates of the likely cost savings arising from the deduction have been volunteered by members of industry?**

Currently, financial services companies can reduce their tax bill by 10 pence for every £1 of investment they make through deductions for expenses and capital allowances (the latter spread over time at 25% a year). With the Super-Deduction this will rise to 15 pence which will be immediately available in the first year of expenditure for both operating and capital spending.

From industry surveys, the average spending on technology by Jersey Finance members is about £300,000 per year, of which around 35% is expected to be on technologies related to regulatory compliance. Eligible businesses with taxable profits therefore stand to save over £5,000 per year from their tax bill once the enhanced allowances have been fully adopted and reach a steady state (there will be an initial period where savings are even higher as the firm transitions from the current policy of 25% annual write-downs).

**3. What impact would its removal from the Government Plan have upon the financial services industry and wider economy?**

The proposed RegTech Super-Deduction is a forward-looking measure designed to stimulate innovation and enhance productivity within Jersey's financial services industry. Its removal could increase uncertainty and potentially slow down the adoption of RegTech, which in turn may affect the industry's competitive edge and reputation as a well-regulated jurisdiction in which to do business.

The deduction also aims to support financial firms in keeping pace with global regulatory standards, thereby indirectly supporting the wider economy through sustained financial stability and growth. The absence of such a stimulus might lead to a reduction in the sector's attractiveness to both local and international businesses, with associated effects on employment and the economy at large.

**4. How will you be tracking the benefit of the deduction to the financial services industry and wider economy?**

To track the benefits of the RegTech Super-Deduction, we plan to review the pilot using administration data from tax returns and tax computations. We will also discuss with industry groups ways to collect data from case studies and surveys.

Performance indicators would include the amount of investment in RegTech that has been claimed at the 150% rate and the overall fiscal impact (and therefore the cost savings realised by financial services entities). The JFSC will monitor improvements in complying with regulatory processes.


Additionally, Revenue Jersey will consult with the Department for the Economy to assess the feasibility of a wider economic impact assessment of metrics such as gross value-added per worker in the financial sector, job vacancies, and expansion of activity in the domestic tech industry.

**5. What consideration has been given to the possibility that the deductions may delay consolidation within the industry by enabling less successful businesses to trade longer than they might without the deduction, while retaining staff?**

The objective of this measure is to promote RegTech adoption and reward firms that invest in innovation and improve efficiency. A company will receive a significant financial benefit only if it spends significantly and if it is profitable enough to make use of deductions. The amount of the incentive (£5,000 a year for each firm on average) is not expected to materially influence a company's prospects as an ongoing concern or decisions related to mergers and acquisitions.

I am prepared to discuss these questions further and provide more detail as the Panel wishes.

Yours sincerely

A handwritten signature in black ink, appearing to be 'I. Gorst', written over a horizontal line that extends across the page.

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