

## Minister for Treasury and Resources

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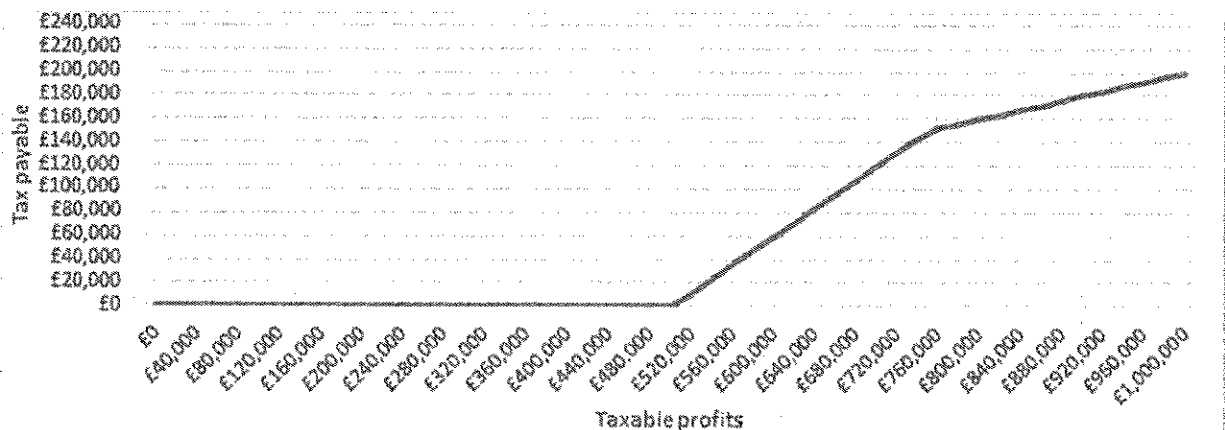
Our Ref: SP/KH

Dear Deputy Morel

### Retail Review – Request for Written Submission

Thank you for your letter of 4th September requesting information and observations regarding any matters relevant to my remit within this review. I have largely confined my comments to point 5 of your Terms of Reference, namely: To determine what effect the 20% tax on retail profits above £500,000 has had on the retail sector. I understand that officers from the Taxes Office have arranged a briefing for your Panel on 18th October.

To help prevent any misunderstanding, the measure adopted by the Assembly in the Budget 2018 does not subject all retail profits above £500,000 to tax at 20%. To avoid the creation of a “cliff-edge effect” (where £1 of additional profit results in a £100,000 tax liability – see Guernsey model) a tapering mechanism was introduced such that a large corporate retailer needs profits of £750,000 (or more) to pay 20% on all of its profits. This tapering mechanism introduces the tax once profits exceed £500,000 and is charged at 20% on all profits only when profits reach £750,000 (or more), as shown in the diagram below:



The Panel are reminded that an economic and distributional analysis of the proposed extension of corporate tax in Budget 2018 was included in Appendix 11 of the 2018 Budget Statement



(see:[https://statesassembly.gov.je/assemblypropositions/2017/p.90-2017%20full%20budget%20statement.pdf?\\_ga=2.39402787.146958590.1538082549-265348004.1503384601](https://statesassembly.gov.je/assemblypropositions/2017/p.90-2017%20full%20budget%20statement.pdf?_ga=2.39402787.146958590.1538082549-265348004.1503384601)).

It is likely to be too early to come to a conclusion on the impact the tax measures adopted by the Assembly in the Budget 2018 has had on activity and employment in the sector (the tax changes first apply for the 2018 year of assessment and hence the first tax payments by large corporate retailers will not be made until 2019). However, the available data to date do not suggest any significant impact and it should be remembered that only a small proportion of firms in the sector are affected. The Business Tendency Survey does not suggest that the retail and wholesale sector has lost significant confidence in 2018 to date. In the June 2018 survey the sector recorded its highest ever reading on business activity and profitability with expectations for future employment turning positive in the most recent quarter. There is no evidence that the wholesale and retail sector reduced hiring in anticipation of the tax, with December 2017 employment slightly higher than December 2016.

It is difficult to isolate the impact on prices given that inflation is driven by a large number of factors. While RPI inflation reached a 6 year high of 4.5% in June 2018 this was largely driven by housing costs, household services, motoring costs and leisure services – most of which are unlikely to be affected by the tax on large corporate retailers. Analysis carried out for the 2018 Budget suggested the impact on inflation was likely to be limited for a number of factors:


- Only a small number of retailers are affected and they will often be competing against smaller retailers and against off-island retailers, neither of whom will face the tax.
- Some of the retailers affected are likely to be branches of large UK corporate retailers with national pricing structures.
- Locally-owned large retailers will have less incentive to increase prices as local shareholders will be able to offset the corporate tax against any personal tax they would otherwise have paid on the distribution/dividend of those profits.
- Profits are generally a small part of the price of retail goods.

The Treasury has previously agreed to monitor the impact of the large corporate retailers tax as relevant data becomes available.

In terms of your question regarding how much potential GST is lost annually because of the use of a de minimis level of £240 for imported goods, I have attached a briefing note prepared by the Taxes Office.

I hope this information is of assistance to your review. Please contact me or my officers if we can help further.

Yours sincerely



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# **GST de minimis threshold**

## **Scrutiny Panel briefing paper**

### **1. GST de minimis threshold – background**

- 1.1. Where individuals import goods that are worth not more than £240, the goods can be imported into the Island without incurring GST.
- 1.2. Strictly the de minimis threshold is set by reference to the amount of GST that is not collected (i.e. up to a maximum of £12 of GST is waived<sup>1</sup>), this explains why the de minimis threshold automatically reduced when the GST rate increased from 3% to 5%; however the general public is understandably more interested in the value of goods that can be imported without suffering GST, hence the more common reference to a £240 de minimis threshold (the GST on a good worth £240 being £12).
- 1.3. Goods worth more than £240 are detained on importation and cannot be released to the individual until the GST due on them has been paid (unless a pre-arrival declaration is made or Approved Trader Status is applicable).
- 1.4. Costs are incurred when goods are detained, including: someone has to identify the relevant goods, store them, contact the customer, arrange payment of the GST, authorise release of the goods and then ultimately deliver the goods/arrange collection.
- 1.5. These costs are borne by government (i.e. the Jersey Customs and Immigration Service (“JCIS”)), Jersey Post and the fast freight/courier businesses.
- 1.6. The de minimis threshold is therefore a balancing act between (i) maintaining a level playing field/maximising tax revenues from the existing tax system; and (ii) minimising the administrative and compliance costs associated with detaining goods.
- 1.7. If the de minimis threshold were to be lowered additional GST would be collected, in addition more goods would be detained and the associated costs would increase. It is noted that, utilising the current method of collecting GST on imported goods, at some level it would actually cost more to collect the GST on the goods being imported than the additional GST collected – this would be an undesirable position to reach.
- 1.8. The de minimis threshold of £12 in Jersey was set in 2007<sup>2</sup> following consultation with businesses and representative bodies – it was considered to achieve an appropriate balance (noting that, because GST was introduced at 3%, the appropriate balance was initially determined to be achieved at goods worth not more than £400, whereas now the value of goods that can be imported without incurring GST has reduced to £240). It is acknowledged that shopping habits have changed since the de minimis threshold was set in 2007.

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<sup>1</sup> Strictly it is a maximum of £12 of GST and duties that is waived on importation, however currently in the majority of cases the goods being imported are only subject to GST.

<sup>2</sup> In preparation for the introduction of GST.

1.9. The decision to set the de minimis threshold at £12 was made by the States Assembly in P171/2007<sup>3</sup>.

## 2. Data relating to GST de minimis threshold

2.1. Table A summarises the total number of consignments which were imported into the Island (excluding goods imported by Approved Traders and goods where the individual had made a pre-arrival declaration whereupon the goods are not detained by Customs). This table demonstrates the increasing amount of consignments that have been imported into the Island in the circumstances described above:

Table A - total number of consignments which were imported into the Island (excluding goods imported by Approved Traders and goods where the individual has made a pre-arrival declaration)

<b>Year</b>	<b>Total number of consignments</b>	<b>% increase from prior year</b>
2013	348,565	N/A
2014	506,705	45.37%
2015	573,915	13.26%
2016	650,034	13.26%
2017	761,390	17.13%

Source: TPU analysis of JCIS data

2.2. Table B summarises the total number of consignments detained by JCIS over the period 2013-2017 and the amount of GST collected on those detained consignments (throughout this period the GST de minimis threshold has been £240):

Table B – consignments detained and GST collected

<b>Year</b>	<b>Total number of consignments detained</b>	<b>% increase from prior year</b>	<b>Total GST collected</b>	<b>% increase from prior year</b>
2013	73,376	N/A	£1,851,000	N/A
2014	82,426	12.3%	£2,023,000	9.3%
2015	74,261	(9.9%)	£2,242,000	10.8%
2016	83,569	12.5%	£2,579,000	13.7%
2017	101,980	22.0%	£3,074,000	19.2%

Source: TPU analysis of JCIS data

2.3. Table C summarises the number of additional consignments that would have been detained and the additional GST that would have been collected on consignments imported in 2017 if the de minimis threshold had been set at various lower levels.

<sup>3</sup> See: <https://statesassembly.gov.je/assemblypropositions/2007/40766-42239-19112007.pdf>

Table C: number of additional consignments that would have been detained and the additional GST that would have been collected on consignments imported in 2017 if the de minimis threshold had been set at various lower levels

<b>De minimis threshold</b>	<b>Total number consignments that would be detained</b>	<b>Increase in detained consignments</b>	<b>% increase in detained consignments</b>
£240	101,980	N/A	N/A
£180	126,868	24,888	24.4%
£120	169,634	67,654	66.3%
£60	284,945	182,965	179.4%
£0	761,390	659,410	646.6%

<b>De minimis threshold</b>	<b>Total GST that would be collected</b>	<b>Increase in GST collected</b>	<b>% increase in GST collected</b>
£240	£3,074,000	N/A	N/A
£180	£3,377,000	£303,000	9.9%
£120	£3,723,000	£649,000	21.1%
£60	£4,229,000	£1,155,000	37.6%
£0	£4,851,000	£1,777,000	57.8%

Source: TPU analysis of JCIS data

- 2.4. Attached in Appendix A is the source data available from JCIS which supports the tables produced above.
- 2.5. For the avoidance of doubt this data only includes those consignments which are manifested at importation and therefore excludes those goods which are not manifested (e.g. goods which are delivered through the normal mail). Therefore the data will underestimate both the amount of GST that could be collected and the number of consignments that could be detained at each de minimis threshold modelled.

### **3. International developments on GST de minimis thresholds**

- 3.1. The level playing field concerns raised by domestic retailers are not unique to Jersey; they are being raised in many countries with comparable GST/VAT systems because historically the globally accepted approach to addressing the issue of the importation of low value goods has been to implement a de minimis threshold.
- 3.2. Consequentially other countries and supra-national bodies are looking at changing the basic rules of GST/VAT so that online retailers with no physical presence in a jurisdiction would charge and remit GST/VAT based on the fact that their customer is located in that jurisdiction (known as a vendor collection model).
- 3.3. Australia is currently the furthest advanced country; with relevant legislation enacted in 2017 which came into effect on 1 July 2018. However despite the size of the Australian economy, concerns have been raised about Australia's

ability to implement and enforce its legislation<sup>4</sup> and Amazon have recently announced that, as a result of the change in the Australian rules, they will not be selling from Amazon.com into Australia and will only sell from the more limited Amazon.au range<sup>5</sup>.

- 3.4. The EU Commission meanwhile has proposed changes to EU VAT that will remove the availability of the EU's VAT de minimis threshold from 2021. The broad plan is that the current approach of detaining goods on importation will be replaced with a vendor collection model, although detailed plans on how it is going to work in practice are not currently available.

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<sup>4</sup> See: [http://www.thecie.com.au/wp-content/uploads/2016/04/CIE-Final-Report\\_GST-and-IPCs-on-low-value-imports\\_7-April-2016.pdf](http://www.thecie.com.au/wp-content/uploads/2016/04/CIE-Final-Report_GST-and-IPCs-on-low-value-imports_7-April-2016.pdf)

<sup>5</sup> See: “Amazon can't or won't collect sales tax in Australia – How much can a koala bear? Aussies forced to shop in inferior Amazon AU” [https://www.theregister.co.uk/2018/05/31/amazon\\_blocking\\_australia/](https://www.theregister.co.uk/2018/05/31/amazon_blocking_australia/)

And: “Amazon to block Australians from using US store after new GST rules”

<https://www.theguardian.com/australia-news/2018/may/31/amazon-to-block-australians-from-using-us-store-after-new-gst-rules>

And: “Amazon attacks Coalition's plan to impose GST on all online purchases”

<https://www.theguardian.com/technology/2017/apr/18/amazon-attacks-coalitions-plan-to-impose-gst-on-all-online-purchases>



## Appendix A

### Latest available data regarding impact of setting GST de minimis at various lower thresholds

<b>a) £9 (£180 value);</b>							
	<b>Year</b>	<b>Total number of consignments actually detained</b>	<b>Additional number of consignments that would have been detained</b>	<b>Percentage increase in consignments detained</b>	<b>Proportion of increase in consignments detained</b>	<b>GST collected on consignments actually detained</b>	<b>GST raised on additionally detained consignments</b>
	2013	73,376	13,702	18.7%	15.7%	£1,851,052.56	£186,374.65
	2014	82,426	21,460	26.0%	20.7%	£2,023,295.22	£253,958.78
	2015	74,261	25,242	34.0%	25.4%	£2,242,457.15	£288,773.85
	2016	83,569	26,521	31.7%	24.1%	£2,579,071.18	£313,749.03
	2017	101,980	24,888	24.4%	19.6%	£3,074,363.80	£302,728.92
	<i>1st half</i> 2018	61,387	12,329	20.1%	16.7%	£1,597,372.42	£162,222.44
<b>b) £6 (£120 value);</b>							
	<b>Year</b>	<b>Total number of consignments actually detained</b>	<b>Additional number of consignments that would have been detained</b>	<b>Percentage increase in consignments detained</b>	<b>Proportion of increase in consignments detained</b>	<b>GST collected on consignments actually detained</b>	<b>GST raised on additionally detained consignments</b>
	2013	73,376	38,752	52.8%	34.6%	£1,851,052.56	£386,350.52
	2014	82,426	56,356	68.4%	40.6%	£2,023,295.22	£529,728.41
	2015	74,261	67,705	91.2%	47.7%	£2,242,457.15	£614,730.59
	2016	83,569	72,391	86.6%	46.4%	£2,579,071.18	£666,893.12
	2017	101,980	67,654	66.3%	39.9%	£3,074,363.80	£648,359.39
	<i>1st half</i> 2018	61,387	33,484	54.5%	35.3%	£1,597,372.42	£338,841.67

<b>c) £3 (£60 value);</b>							
	<b>Year</b>	<b>Total number of consignments actually detained</b>	<b>Additional number of consignments that would have been detained</b>	<b>Percentage increase in consignments detained</b>	<b>Proportion of increase in consignments detained</b>	<b>GST collected on consignments actually detained</b>	<b>GST raised on additionally detained consignments</b>
	2013	73,376	95,663	130.4%	56.6%	£1,851,052.56	£642,968.38
	2014	82,426	144,661	175.5%	63.7%	£2,023,295.22	£921,231.88
	2015	74,261	175,429	236.2%	70.3%	£2,242,457.15	£1,081,742.10
	2016	83,569	186,276	222.9%	69.0%	£2,579,071.18	£1,161,114.01
	2017	101,980	182,965	179.4%	64.2%	£3,074,363.80	£1,154,655.01
	<i>1st half</i> 2018	61,387	94,128	153.3%	60.5%	£1,597,372.42	£607,849.21
<b>d) £0 (£0 value)</b>							
	<b>Year</b>	<b>Total number of consignments actually detained</b>	<b>Additional number of consignments that would have been detained</b>	<b>Percentage increase in consignments detained</b>	<b>Proportion of increase in consignments detained</b>	<b>GST collected on consignments actually detained</b>	<b>GST raised on additionally detained consignments</b>
	2013	73,376	275,189	375.0%	78.9%	£1,851,052.56	£870,133.61
	2014	82,426	424,279	514.7%	83.7%	£2,023,295.22	£1,295,820.20
	2015	74,261	499,654	672.8%	87.1%	£2,242,457.15	£1,519,397.45
	2016	83,569	566,465	677.8%	87.1%	£2,579,071.18	£1,665,780.41
	2017	101,980	659,410	646.6%	86.6%	£3,074,363.80	£1,776,849.06
	<i>1st half</i> 2018	61,387	530,630	864.4%	89.6%	£1,597,372.42	£1,075,416.18

Source: JCIS data