

STATES OF JERSEY



DRAFT BUDGET STATEMENT 2018 (P.90/2017): FOURTH AMENDMENT (P.90/2017 Amd.(4)) – AMENDMENT

**Lodged au Greffe on 22nd November 2017
by the Minister for Treasury and Resources**

STATES GREFFE

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PAGE 2 –

For all the inserted text after the words –

“except that –”

substitute the following –

- “(i) subject to a review carried out during 2018 of the benefits and impacts arising if the inbound duty-free allowance for cigarettes were reduced to 40 (and, for tobacco products, to 50g), to agree in principle that reductions in the duty-free tobacco allowance be introduced with effect from 1st January 2019,
- (ii) subject to a review carried out during 2018, to agree in principle that Class 1 bookmakers are subject to a positive corporate income tax rate from the 2019 year of assessment with legislative changes to be included within Budget 2019, and,
- (iii) subject to a review carried out during 2018, to agree in principle that the new income tax charge levied on large retailers is applied to large liquor vendors from the 2019 year of assessment with legislative changes to be included within Budget 2019;”.

MINISTER FOR TREASURY AND RESOURCES

REPORT

The Council of Ministers opposes sub-paragraphs (iv) and (v) within Senator P.F.C. Ozouf's fourth amendment ([P.90/2017 Amd.\(4\) \(re-issue\)](#)), and will present appropriate comments to the States in due course.

Additional corporate tax measures – gambling and large liquor vendors

The Council of Ministers is not fundamentally opposed to the changes proposed in sub-paragraphs (iv) and (v) within Senator Ozouf's amendment; however, consistent with the proposed changes to the taxation of large corporate retailers, the Council of Ministers strongly recommends that an economic and distributional impact analysis (similar to that contained in Appendix 11 of the [Draft Budget Statement 2018 \(P.90/2017\)](#), completed in the context of the large corporate retailers' tax) is completed before any such changes are proposed to help States Members to fully understand the implications. Subject to the findings of this analysis and any potential impact on the Island's corporate tax regime, the Council of Ministers proposes that relevant legislation is brought to the Assembly as part of Budget 2019, with any tax charge applying from the 2019 year of assessment.

Duty-free tobacco allowance

As the following extract from the [States of Jersey Tobacco Strategy 2017–2022 \(R.129/2016\)](#) highlights, this Council of Ministers has already recognised the potential health benefits of reducing the duty-free tobacco allowance.

“2.3. Reduce the affordability of tobacco products

Smokers are no different to other consumers when spending money: price dominates decision-making. Consequently, increasing the price of tobacco through taxation remains the single most effective way of reducing smoking rates (Wilson et al, 2012). Economic models show that a 10% increase in price leads to a 4% drop in smoking prevalence across the population with higher quit rates among lower income smokers and younger smokers (Jha & Chaloupka, 2009).

Higher tobacco taxes reduce smoking and smoking-related disease and early death as people cut down, stop smoking, or never start because of the high cost. As effective tobacco taxes lead to lower smoking rates this contributes to the reduction of governments' expenditures for the health care costs associated with preventable illness caused by tobacco consumption. Increasing tobacco taxes is particularly important and effective for protecting young people from initiating or continuing tobacco consumption (WHO, 2015c).

However, if smokers respond to price rises by switching to cheaper products, the effect of the price rise is lost. This is most obvious when smokers switch from cigarettes to hand-rolled tobacco. Since rolling tobacco is less expensive than cigarettes, previous year on year percentage increases have opened up the cost differential between cigarettes and rolling and other forms of tobacco, resulting in many young people using 'cheap tobacco' (loose rolling tobacco) (ASH, 2015a).

The influence of tobacco price on numbers of cigarettes smoked and stopping smoking is also likely to be influenced by the accessibility of duty free tobacco on the Island. This differs from other jurisdictions where counterfeit tobacco can be more cheaply available.

We intend to take action that strikes a balance between making tobacco products more expensive whilst reducing the availability of duty free tobacco to deter people from starting to smoke, and to encourage adults and children to stop.

Actions:

- Agree with the Treasury and Resources Department an appropriate minimum annual above inflation price/tax escalator over the next five years.
- Make rolling tobacco proportionately more expensive, reducing the differential by increasing the RPI by a greater degree than tobacco over the next five years.
- Investigate the costs and benefits of hypothecation of tobacco taxes to support a range of tobacco control programmes.
- Explore the costs and benefits of reducing the amount of duty free allowances both outbound and inbound at Jersey's borders.
- In partnership with States of Guernsey, investigate options for restricting the tobacco duty allowance between Channel Islands.”

Consistent with the approach outlined in the Tobacco Strategy, the Council of Ministers strongly recommends that a full review is undertaken which explores the costs and benefits of reducing the amount of the duty-free tobacco allowance. Senator Ozouf's proposal represents a significant change in an allowance which has been set at 200 cigarettes since, it is understood, the 1950s and, although the health benefits of increasing the cost of tobacco are well-evidenced, the broader implications require careful consideration before any action could be taken.

The issues that will be considered during this review include –

- A comparison of the tobacco duty-free allowance in jurisdictions across the globe.¹
- The economic and distributional impacts of a reduction of the amount of duty-free tobacco that can be imported into Jersey – including particularly the impact on the tourist industry.
- The administrative implications on Customs: particularly since the relevant duty-free shops (e.g. those based in UK airports) are unlikely to receive sufficient demand to stock cartons of 40 cigarettes, meaning that travellers to Jersey are unlikely to be able to purchase their duty-free allowance – resulting in them having to buy no cigarettes or purchasing cartons of 200 cigarettes and hence tempting them to commit an offence or have to declare the excess and pay the relevant duty on arrival in Jersey.
- Discussions with Guernsey to determine whether a pan-Channel Islands approach to the duty-free limit can be agreed.

¹ The duty-free allowance for cigarettes across the EU is 200 cigarettes; this allowance is also applied in number across the globe (e.g. the US, Norway); however, this limit is not universally adopted, and countries such as Australia and New Zealand apply a lower allowance.

- The impact of any reduction in the amount of outbound duty-free tobacco that can be sold when travellers are leaving Jersey.

This will be a complex review, with a number of interlocking issues, together with the potential for change in the UK's approach to duty-free through the Brexit process and the requirement to liaise with Guernsey. The Council of Ministers is keen for this review to be completed by Budget 2019, but recognise that this is a very challenging timetable.

If it were determined that a change to the duty-free tobacco allowance should be made, in terms of a potential change date it is noted that there is a discrepancy between the date mentioned in Senator Ozouf's amendment (3rd April [2019](#)) and the date mentioned in the accompanying report (3rd April [2018](#)). In order to allow the report outlined above to be completed, the Council of Ministers proposes that the earliest date at which a change in the duty-free allowance could be introduced is 1st January 2019 – the report may of course conclude that a later introduction date would be more appropriate.

Collective responsibility under Standing Order 21(3A)

The Council of Ministers has a single policy position on this proposition, and as such, all Ministers, and the Assistant Minister for Treasury and Resources, are bound by the principle of collective responsibility to support the proposition, as outlined in the Code of Conduct and Practice for Ministers and Assistant Ministers ([R.11/2015](#) refers).

Financial and manpower implications

If approved by the Assembly, this amendment will have the following financial implications –

- (a) The additional tobacco duty of £1,500,000 estimated in Senator Ozouf's amendment will not be received by the States in 2018. Depending on the findings of the review, additional income may be received by the States in 2019 if the tobacco duty-free allowance is changed.
- (b) The additional corporate income of £250,000 from Class 1 bookmakers that would have been accounted for by the States in 2019 (relating to the 2018 year of assessment) will not be received by the States. Depending on the findings of the review, additional income may be received by the States in 2020 if Class 1 bookmakers are brought within the scope of a positive rate of corporate income tax from the 2019 year of assessment.
- (c) The additional corporate income of £450,000 from large liquor vendors that would have been accounted for by the States in 2019 (relating to the 2018 year of assessment) will not be received by the States. Depending on the findings of the review, additional income may be received by the States in 2020 if large liquor vendors are brought within the scope of the corporate income tax rate applied to large corporate retailers from the 2019 year of assessment.
- (d) The estimated £5,600,000 of additional States income, first arising in 2019 (relating to the 2018 year of assessment) from the taxation of the profits of large corporate retailers at 20% would be received as proposed by the Minister for Treasury and Resources.

If the proposed reviews of the tobacco duty-free allowance, the taxation of Class 1 bookmakers and the taxation of large liquor vendors are adopted by the States, any resulting costs which cannot be absorbed within existing departmental expenditure limits will be met from central contingency allocations.