# STATES OF JERSEY

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# GOODS AND SERVICES TAX: EXEMPT OR ZERO RATED ITEMS

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**Lodged au Greffe on 16th August 2005**
**by Senator S. Syvret**

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**STATES GREFFE**

# PROPOSITION

**THE STATES are asked to decide whether they are of opinion** −

to refer to their act dated 13th May 2005 in which they approved the introduction in 2008 of a broad based Goods and Services Tax (GST) at a rate of 3% fixed for 3 years, and to agree to vary that decision in order to exempt or zero rate the following items –

(a) basic foodstuffs;

(b) children’s clothing;

(c) medical services and products;

(d) books and newspapers.

SENATOR S. SYVRET

## REPORT

When this question was last debated, the Assembly rejected the policy of including exemptions or zero rating for certain essential items when the Goods and Services Tax (GST) is introduced. I believe that was a badly flawed decision for a number of reasons. Jersey already has an extremely high cost of living. With many people struggling to live in Jersey, can it be remotely considered an ethical approach to raising revenue to begin taxing basic food stuffs, medicines and health care bills whilst, for the wealthy, paying tax in Jersey remains an entirely voluntary exercise?

Perhaps members were influenced by many of the wholly wrong assertions and exaggerated claims in the Comments prepared by the Finance and Economics Committee. It is worth revisiting some of those desperate and weak arguments.

For example, a central feature of the Finance and Economics Committee's argument was the repeated scare that deciding questions such as what constituted a basic foodstuff would be so complex and controversial as to make the administration of the tax immensely difficult. For example, at paragraph 5.3, the Committee claim – as one of their key arguments, let us not forget – that deciding whether a 'Jaffa Cake' would qualify as a basic foodstuff, was such an immensely difficult and insurmountable problem, that we just had to put tax on bread, meat, fruit, vegetables and milk instead, rather than risk such a debate.

The arguments put forward by the Committee are clearly mendacious for two reasons. Firstly, the Committee repeatedly return, throughout their comments to the argument that exemptions are too complex to introduce. What is not stated in their comments is that the systems for running a sales tax with exemptions are already tried and tested in the U.K. Business systems are available off the shelf. The legal case law already exists in which disputes such as the 'Jaffa Cake' argument were settled many years ago. Rarely have I seen a Committee dredging up such a travesty of overblown scaremongering and obsolete arguments to support their case.

Secondly, it is generally argued by Finance and Economics that 'complexity' is bad and avoiding complexity must be a key objective in taxation policy. Setting aside the fact that exemptions need not be complex and work perfectly well in other jurisdictions, how seriously can this claim be treated coming from a Committee which proposes the nightmarishly complex 'look-through' provisions; a system of taxation that not even the department has yet been able to produce a detailed legal description as to how it will work in practice, for example, applying 'look through' to the beneficiaries of trusts?

The fact is that the argument of this Committee – that we must put a tax on apples and bananas and medicines – because it's too difficult to do otherwise, can be seen for what it is: ideological extremism, rather than a just and fair approach to taxation.

For further evidence of this fact we need only consider the frankly shocking citing of the International Monetary Fund as an authority on fair taxation. Let us be clear about this. The IMF is a poisonous organisation controlled by a collection of placemen, stooges and ideologically fanatical market fundamentalists. Although originally established as a kind 'credit union' from which national governments could draw short-term loans when they were in balance of payment difficulties, it has evolved into little more than an enforcement agency, tasked by western governments to force countries into adopting macroeconomic policies that suit the interests of western transnational corporations. The U.S.A. directorate of the IMF Board carries 17.14% of the vote. By way of contrast sub-Saharan Africa has just 2 directors with 4.43% of the vote between them. The IMF has imposed upon developing countries "structural adjustment programmes" which have caused untold harm to the world's poorest people. The rapid imposition of marketisation upon developing countries has caused or exacerbated mass redundancies, currency devaluations, massive inflation, deregulation, increased poverty, the sale of countries assets to corporations, environmental destruction and famine, as land owning elites turn to the profits of the international cash crop markets rather than growing staple foodstuffs. This is the organisation that the Finance and Economics Committee cites as an authority on what constitutes a "proportional tax on consumption".

The Finance and Economics Committee cite the IMF to suggest that sales taxes "are not regressive at all." Although the Committee just about steps back from endorsing such lunacy, they nevertheless only concede to a slight regressivity, probably un-avoidably as Crown Agents state this in their work.

The Committee state that GST is to be viewed as a proportional tax upon consumption. As such, they claim that it is, at worst, only slightly regressive. They are simply wrong in this claim.

1: Regressiveness is measured in relation to the proportion of income taken in tax, not consumption;

2: Consumption as a proportion of income always falls (when measured across populations as a whole) as income rises, because people with higher incomes save, when those on lower incomes tend not to save, or even spend in excess of their earnings.

3: It follows that consumption taxes are regressive. If you are spending all, or in excess of your income, as many of the poor have to do, you pay a significantly greater proportion of tax upon your income. GST must, by definition, be regressive.

Given the fact that poorer people will often have to spend all of their income – or indeed, in excess of their income, thus going into debt – the GST will be highly regressive upon this cohort. By contrast as income increases, the amount taken in tax as a proportion of income will decrease given the significant opportunities for saving enjoyed by those on higher incomes. Thus GST meets the classic test of regressiveness. The attempts by the Finance and Economics Committee to deny or play down this fact simply cannot be taken seriously.
The Committee claim that the Low Income Support scheme will alleviate adverse impacts upon poorer people. This might be the case with the very poorest in our society – it remains to be seen how effective this will be in practice. However, let us not delude ourselves. The very reason GST is being introduced is for it to raise a very significant amount of tax. If this were not the case, we wouldn't be doing it. Therefore, even if we accept, for arguments sake, that the very poorest will be protected by Low Income Support, the new tax will be a new and additional burden upon the great majority of people in our society. Proportionately, its impact will be smaller upon the wealthy, as they save a far larger proportion of their income, yet the impact upon the great majority of ordinary working people in our society will be larger. Whilst we might successfully protect the very poorest, we must also recognise that people who will not even be close to qualifying for benefits, often struggle financially in Jersey. It is not uncommon for couples to do 3 or 4 jobs between them in order to make ends meet. Even if we protect the poorest, let us not pretend that this tax will not add to the burden of the less well off. It certainly will.

The fact - for it is a fact – must be faced that the rate of GST will be increased. Anyone who believes it will stay at 3% once the initial resistance to its introduction is overcome, is living in a dream world. It is not, in fact, even possible for this Assembly to guarantee that the rate will remain at 3% for the first 3 years. A future Assembly could cast aside such a commitment if it so chose. As experience elsewhere shows, sales taxes are one of the easiest taxes for a government to increase. So whilst 3% might not seem too much at present, it needs to be considered how rates 6, 8 10 15 or 17.5% are going to seem when people pay this tax upon the nursing home fees of their loved ones, or reflect upon the bill for bread, milk and meat for their family.

The Finance and Economics Committee asserts that putting in place the exemptions would be administratively expensive, and that a significant amount of the tax take would be lost. I am far from persuaded of the Committee's claims as to the size of any additional administrative cost, but let us reflect upon the measures that could be taken to raise additional taxation revenue. The Committee accuse me of not having suggested alternative ways of raising tax revenue. Inconveniently for the Committee this is simply not true. I suggested a variety of potential ways of raising new or additional tax, and of many areas of useful investigation in the report and proposition 'Taxation Policies: A Transparent Enquiry' (P.41/2004 lodged au Greffe on 9th March 2004). The Committee's response to this was a slovenly and frightened rejection, that even involved hiring a Partner from PriceWaterhouseCoopers, an organisation that had participated in informing the Committee's own policies in the first place – and then trying to pretend that the resultant commentary was an "independent" analysis. In fact, when reflecting upon the taxation debates of the last few years, the picture that emerges is not one of a lack of alternatives to explore; rather it is of a Committee pursuing its own narrow ideological view, whilst offering only the most cursory acknowledgment that other possibilities even exist.

Let us reflect upon just how extreme and misguided this Committee is. It would have us put a tax upon beef, bread, milk, apples, bananas, insulin, heart drugs, doctor's bills, care home fees and nursing home fees – in preference to seriously addressing the following possible tax revenue sources –

- A tax surcharge

- Higher sales taxes upon luxury purchases

- Phasing out the ceiling on social security payments, thus ultimately saving approximately £50 million expenditure from central taxation each year

- Development taxes

- Land Value Tax (Incidentally, I am not aware of any published documentation which illustrates that Finance and Economics actually understand what LVT is.)

- Ceasing the practice by which the payment of tax in Jersey by the rich is essentially a voluntary act

- Closing widely abused loopholes such as converting entire wealth streams into capital gains, thus avoiding tax completely

These are just a few of the things we could do instead of taxing basic foodstuffs, medicines, health bills and nursing home fees. Let members of the Assembly realise that there is no hiding place on this issue. There are any number of alternative ways open to us to raise the lost revenue. If States members vote to tax food instead of, for example, property speculation, I am confident they will be judged accordingly by the electorate.

**Financial and Manpower Statement**

I acknowledge that some extra manpower and administrative costs might arise, as I did in the previous proposition. I do not, however, accept the assertions of Finance and Economics as to the scale of those costs. As already pointed out, the relevant administrative and business systems for running a sales tax with exemptions already exist. Finance and Economics, as the body with the budget and departmental resources, must be challenged to demonstrate in full detail how they arrive at their estimate of cost. As explained above, a variety of alternatives exist whereby the forgone revenue could be raised – raised from those who could more afford to pay.