STATES OF JERSEY

DRAFT BUDGET STATEMENT 2012

DRAFT

PROPOSITION

DRAFT BUDGET STATEMENT 2012

THE STATES are asked to decide whether they are of opinion –

to approve the estimate of total taxation revenue in 2012 of £574,778,000 as set out in summary table A on page 48 of the Budget Statement, with the sum to be raised through existing taxation measures and the proposed changes to income tax, goods and services tax, impôts duty, and land transaction tax and stamp duty court fees for 2012 as set out in the Budget Statement.

MINISTER FOR TREASURY AND RESOURCES

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Part A

Introduction and Background

1. Foreword

MINISTER FOR TREASURY AND RESOURCES

I have been Treasury and Resources Minister now for almost three years. Within a few weeks of my appointment, the storm clouds of the global meltdown gathered.

G10 Leaders and their finance ministers met in London for unprecedented co-ordinated action. They were intent upon avoiding an even worse recession, which had already begun to affect every man, woman and child on our planet. From London to Dublin, Athens, Lisbon, Madrid, Reykjavík, Paris, Washington, Auckland and Sydney, the pressure on finance ministers, struggling with deficits, needing to increase taxes and cut spending whilst sustaining their economies, has been immense. The lesson has been learned that, at some point, putting decisions off only makes the pain greater in the future.

I understand the difficulties that the economic climate has created over the last three years and particularly the last twelve months for every household in Jersey. I understand that almost every Islander has seen costs go up, taxes raised, uncertainty in the jobs market increasing and the value of any savings and property stagnate. This has been one of the most difficult times we have experienced in a generation.

As a responsible Treasury Minister, faced with writing some of the most unpleasant and unpopular Budget prescriptions, the last three years have been the most difficult of my working life so far. I would like to say a very sincere and heartfelt thank you to States Members for supporting the difficult decisions I have been called to make.

It has not been easy. As I propose this Budget Statement the world continues to be in economic turmoil. In contrast, I believe that as a result of the wise decisions we have taken together Jersey is a granite rock of stability and certainty which can continue to have a sound, robust, caring and prosperous future.

I am glad to say that this Budget does not contain any further unpleasant prescriptions. It is a positive, solid, consolidating Budget, which in a world of turmoil is designed to start the process of unifying the Island, giving to those that need it and preparing for and investing in our future.

JERSEY'S FINANCIAL POSITION IS STRONG

In a world of uncertainty, and despite having had to make some difficult decisions over the last 12 months, it is easy to forget just how strong a position we are in.

- Jersey has a creditable and strong balance sheet.

- The States' balance sheet includes a safety net of close to a year's spending set aside in the Strategic Reserve.
- The States' land and property, in its current use, is valued at more than £1.7 billion, and would be more if we were to consider development potential.
- The Island's infrastructure such as the Airport, Harbour, sewers and roads is valued at a further £1 billion.
- In total States' fixed assets are valued in excess of £2.7 billion in their current use.
- The States also wholly or partly owns utilities with a valuation in current use of £254 million.

In addition, Jersey has funds to help meet the future cost of the old age pension entitlement for Islanders. Most countries meet such costs from current revenues. Jersey, in contrast, has a financial buffer to cope with an ageing population.

The States also has fully invested pension funds accumulated for all public sector workers. This contrasts with other European countries that are meeting all of the pension costs of former employees from current resources, placing an increasing strain on their resources.

The States' balance sheet is strong, perhaps stronger than any non-oil producing country in the world. It has taken a generation to get to this position and the current generation must protect the legacy.

APPROVAL OF THE BUSINESS PLAN 2012

I said in my statement in support of the Business Plan that this strong position could be irreversibly weakened with imprudent spending. We are now managing our spending carefully. The States is following a fiscal strategy that is sustainable for the long term benefit of the Island.

Two years ago, we set out revised estimates for public finances as a result of the global economic downturn. We forecast that if we did not take action by 2013 we would have a deficit of up to £100 million. We did not take the easy path and avoid dealing with this deficit. We resolved to tackle it with a three part plan: reducing spending, boosting economic growth and some increase in taxes.

Two years on, I am pleased to report that we have delivered both on the changes necessary to our tax regime and on reducing spending. We have stimulated the economy through the targeted use of fiscal stimulus monies.

The approval of the 2012 Business Plan by the States in September 2011 underlines the savings target for the second year of the three year plan. The States stuck with the commitment to reduce spending and approved all of our savings targets. The decision made will ensure that balanced budgets will be achieved by 2013.

Balanced Budgets Will Be Achieved By 2013

States of Jersey

	<--------- Forecasts	------------->	
	2012	2013	2014
	£m	£m	£m
States Income	613	642	681
States Expenditure			
Departmental Expenditure	593	586	611
Central Reserves/Contingencies	23	29	39
Net Revenue Expenditure	**616**	**615**	**650**
Net Capital Expenditure Allocation	16	21	22
Total States Net Expenditure	**632**	**636**	**672**
Revised Surplus/(Deficit)	**(19)**	**6**	**9**

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As planned, we are using the balance on the Stabilisation Fund to manage the predicted deficit of £19 million in 2012. That measure, taken together with a return to a balanced budget in 2013, will see the Consolidated Fund increase to our target working balance of around £20 million by 2014.

The Consolidated Fund Will Reach The Surplus Targeted for 2014

States of Jersey

2011 £m	Consolidated Fund	<------------ Forecasts 2012 £m	2013 £m	-------------> 2014 £m
54	**Opening Balance**	**24**	**7**	**13**
(66)	Forecast Surplus/Deficit for the year	(19)	6	9
36	Transfer from the Stabilisation Fund			
-	Other Fund adjustments	2	-	-
	Estimated Consolidated Fund Balance			
24	**Central scenario**	**7**	**13**	**22**

2011 £m	Stabilisation Fund	<------------ Forecasts 2012 £m	2013 £m	-------------> 2014 £m
46	**Opening Balance**	**10**	**10**	**10**
(36)	Transfer to Consolidated Fund	-	-	-
	Estimated Stabilisation Fund Balance			
10	**Central scenario**	**10**	**10**	**10**

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In other words, unlike anywhere else in the world, we will have funded our deficit from within our own resources. We have not resorted to borrowing as an alternative to making the difficult choices in our three part plan.

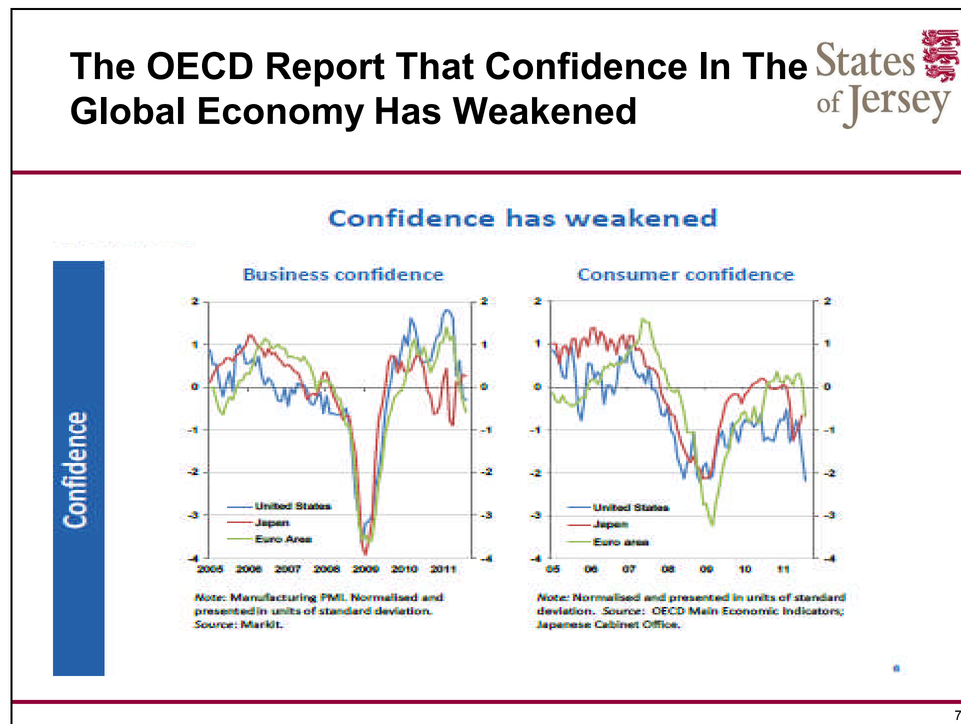
Furthermore, we had expected to draw down all of the Stabilisation Fund in 2012 but we are instead in a position to allow around £10 million to remain in the Fund from 2012.

Our plan is working.

Jersey's position stands in stark contrast to that of other countries but the global prospects for economic growth continue to be of great concern.

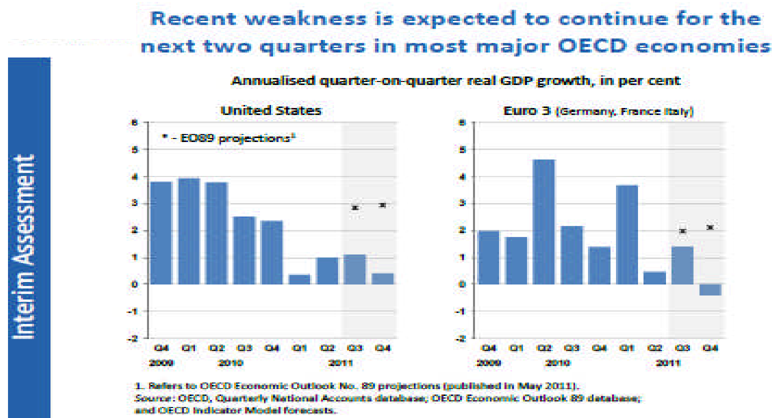
THE ECONOMIC RECOVERY FOR DEVELOPED COUNTRIES IS ALMOST AT A HALT

The OECD reports that economic recovery appears to have come close to a halt in the major industrialised economies. Falling household and business confidence are affecting both world trade and employment.



This weakness is expected to continue for the next two quarters in most major OECD economies

States of Jersey



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Whilst growth remains strong in most emerging countries, albeit at a more moderate pace, economic growth in the G7 economies excluding Japan will remain at an annualised rate of less than 1% in the second half of 2011. The debate over fiscal policy in the United States, the sovereign debt crisis in some countries of the Euro area and the fact that governments have fewer options to boost growth are driving both business and consumer confidence downward. The extent of bank deleveraging, due to the impact of regulatory changes, may also have been underestimated. The OECD reports that earlier improvements in the labour market are now fading, and there are greater risks that high unemployment could become entrenched. On the upside, a number of OECD countries are taking serious fiscal and structural reform measures, which could boost confidence. The OECD recommends that central banks keep policy rates at present levels, and barring signs of recovery, consider lowering rates when there is scope.

THE ECONOMIC OUTLOOK FOR JERSEY IS IMPROVING; GLOBAL UNCERTAINTY REMAINS A RISK

Despite this global uncertainty, there are positive signs in the Jersey economy. In the summer, responses from finance companies to the Business Tendency Survey showed higher business activity and an improvement in profitability. The States also saw a significant improvement in GST forecasts between June and July.

While it is still too early to gauge the impact of the recent financial market turmoil on local economic prospects, one thing is clear: if the weakening in the large economies seen over the summer continues, future rises in interest rates will be delayed. We do not expect interest rates to increase until 2013 at the earliest - significantly later than was previously expected. One of the

biggest impacts of the global recession on Jersey's finance industry has been the low interest rate environment and its impact on the profitability of our banking sector. If market expectations do not change, this will hold back the expected improvement in banking profitability. Whilst the depressed outlook for interest rates may affect our banks, it will not cause us to deviate from a steady and sustainable course to balance budgets.

Retail sales volumes in the first quarter of 2011 were 5% higher than a year ago, and in the second quarter were 4% higher, with sales higher in both food and non-food stores. Footfall in shops so far this year is higher than last year.

Employment in Jersey has remained close to the highest level for at least 15 years. Nevertheless, unemployment in Jersey remains high relative to past levels. Young people are most affected and long-term unemployment is increasing, so we need to continue to be vigilant.

Fiscal stimulus monies that we have put into the economy have made a measurable difference. Young people have taken advantage of Advance to Work. Older age groups have been helped through Advance to Work Plus. We are continuing with this support in 2012 and 2013.

Fiscal stimulus has supported training through:

- Advance to Work – 200 people have found employment after the programme.
- 21 States apprenticeships have been filled.
- Advance to Work Plus – 70 people are now back to work, a 64% success rate (twice that of the UK).

Fiscal stimulus has supported employment in the local construction industry, for example:

- Le Squez Housing improvement – 49 new homes for rent.
- Improvements to the hospice.
- The creation of a new entrance for Durrell.
- Fossil fuel heating systems replaced in 1,500 homes.

It is encouraging that inflation in Jersey remains lower than in the UK. The latest forecasts from the Economics Unit suggest that underlying inflation will remain more subdued at 3.0-3.5%.

It is important that higher inflation is not factored into wage and price decisions, or else these temporary price increases could become permanent. This would damage the Island's competitiveness, the local economy and job prospects. The States has underlined its own commitment to avoiding a wage-price spiral with the measures taken to meet a CSR savings target for salaries and wages in 2012 by freezing the pay bill.

The pound in people's pockets will go further as a result of the competitive tensions within the local economy. The focus has to be on ensuring that we

can improve economic performance going forward and secure more and better paid jobs for Islanders. The draft Economic Growth Strategy published by the Economic Development Minister has started the debate on how this can be achieved and the focus must be on improving the competitive position of all Island businesses.

The latest Fiscal Policy Panel forecasts for economic growth in Jersey were published in their Annual Report in July and show subdued growth of between 0-3% in 2011 and 0-4% in 2012.

ADVICE OF THE FISCAL POLICY PANEL

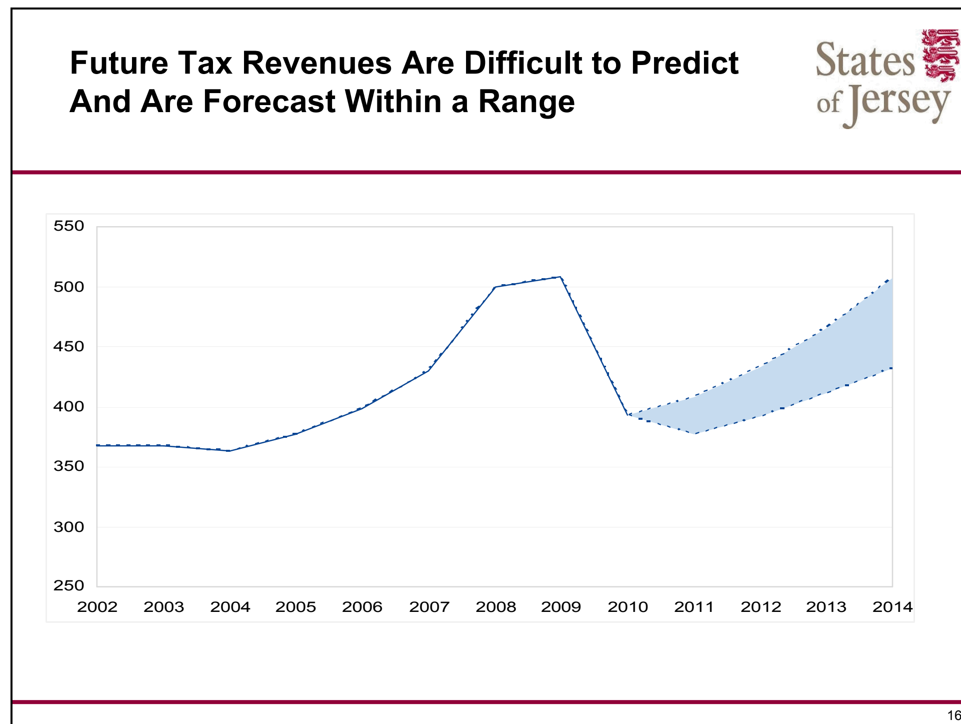
The advice of the Fiscal Policy Panel is that "Jersey should continue to plan on the basis of a fragile and drawn-out global recovery".

The FPP's view is that "the pace and nature of fiscal consolidation in the near-term remains broadly appropriate given the current economic outlook".

This is an encouraging endorsement of our plan.

The FPP will publish an update to their annual report in October which will give the latest independent assessment of the local and global economic outlook in more detail and in advance of the Budget 2012 debate. This will take into account any further downside risks to these forecasts from the recent financial market turbulence.

OUR INCOME TAX FORECASTS IN THE BUSINESS PLAN HAVE BEEN REVIEWED AND SUSTAINED



Before setting out the Budget measures for 2012, I think it important to comment on whether the income forecasts in the 2012 Business Plan need to change based on the latest available information.

States Members will appreciate that this is an exceptional year with only a matter of weeks between lodging the 2012 Business Plan and lodging the 2012 Budget.

The income tax forecasts set out in the Business Plan earlier this month were estimated within a range and have been reviewed. This latest review suggests that no material changes have occurred that would take the forecast outside the range, and so no change to the tax forecast is needed.

PROGRESS MADE IN TAX POLICY OVER THE YEAR

In last year's Budget Statement I promised that we would develop new tax policy in a number of areas. I am pleased to report on the progress that we have made. We have had some notable successes in tax policy development, in particular with zero/ten and 1(1)(k)s.

The Tax Policy Unit has issued a report on the outcome of the Business Tax Review. Based on all of the evidence, which includes a full public consultation, independent economic impact advice and detailed technical research, the recommendation was to maintain the zero/ten regime for companies while ensuring compliance with the EU Code of Conduct.

During this review, I proposed, and the States then agreed, legislative amendments which aimed to remove elements of our tax legislation that were considered harmful by the Code Group. States Members will be aware that at their meeting on 13th September, the Code Group took the view that our rollback proposal would remove the harmfulness of our regime. This has to be ratified by ECOFIN in December at the end of the Polish Presidency.

This is excellent news for Jersey, and confirms the consistent stance maintained by myself and the Chief Minister over a long period. We must not underestimate the assistance of Senator Cohen, Assistant Chief Minister for External Relations, who has been invaluable in communicating the Island's position with the UK.

This brings certainty and stability to the business community which is essential for economic growth.

This year the Assembly also approved a new 1(1)(k) tax regime for wealthy immigrants. This new regime is designed to attract more people to come to Jersey, particularly those who want to bring their business here, boosting economic growth and employment.

In these challenging times it is good to be able to present Members with some very positive news which should serve to significantly strengthen confidence in our Island's future.

Now that we have resolved the main issues around zero/ten, I will consult on a mechanism for raising additional revenues from non-financial services companies.

SPECIFIC BUDGET MEASURES FOR 2012

In this year's Budget I am able to provide substantial additional support to those families with young children. Conscious that families are feeling the pinch, I am proposing to almost double the amount of childcare relief available from £6,150 per year to £12,000 per year for children up to the time when they become eligible for States-provided early years education. This is the biggest targeted improvement in taxation for families with young children that the Island has had. Families will benefit by in the region of £1 million compared with last year. This is a substantial benefit which not only helps those Island families struggling to meet the cost of child care but will also go some way to helping the Island attract and retain essential workers such as nurses.

In addition, I propose extending the tax relief for child care to States-run nurseries as well as private nurseries.

I also propose increasing income tax exemption thresholds in line with inflation, an increase of 4.5%. This is a £7 million benefit which will positively affect most households.

I committed last year to increase the revenues raised from International Services Entities. I propose in this budget to increase the fees paid by banks from £30,000 to £50,000. That represents a 67% increase in line with the increase in GST introduced this year. This should raise in the region of £600,000. I will be looking to make further changes next year and will issue a White Paper early in 2012.

Jersey has always been significantly more generous than its key competitors by exempting all payments on the termination of employment from tax. I therefore propose restricting tax-free termination payments to £50,000 except in the case of death, injury and disability where the payments will remain fully exempt. It is not possible to estimate the amount this might raise as the level of termination payments cannot be predicted. Based on recent experience however this could raise in the region of £500,000.

In addition, relief for pension contributions will be restricted for those earning over £150,000 per year. This should raise approximately £1.2 million.

There are some minor administrative changes to the Income Tax and GST laws which are set out in the Budget Statement. They are not revenue raising measures but are introduced to make our rules clearer to practitioners.

I am pleased to announce that there will be no increase in fuel duty in 2012.

I propose the following increases:

- 35 pence on packet of 20 cigarettes.
- 50 pence on a litre of whiskey.
- 6 pence on a bottle of wine.
- 1 penny on a pint of beer but 2 pence on a pint of strong beer.
- Vehicle Emissions Duty will increase by 5% for all categories.

These increases are in line with the policies of my colleague, the Health Minister, and are supported by the Economic Development Minister.

The increases in impôts and VED should raise an estimated £2 million.

As I set out at the beginning of this statement, this is a Budget of consolidation, with no unpleasant prescriptions, giving to those who need it and preparing for and investing in our future.

IMPROVING SERVICES TO THE PUBLIC AND MAKING EFFICIENCES

As well as having a clearly understood tax policy that sustains the Island's economic competitiveness, we must collect the tax that is due efficiently and fairly.

The Taxes Transformation Programme is a major initiative aimed at improving our tax administration. The Taxes Office is transforming from a department which traditionally has operated separately from other departments, to a department which maximises its use of I.T. systems and sharing ways of working so as to further improve our public facing service.

We are making it easier for all taxpayers to pay electronically (planned for mid-2012) and to file returns electronically.

The Taxes Office will make more use of the investigative and penalty powers it already has so as to ensure that everyone pays the tax that is rightly due. Powers will be strengthened or modified where necessary. We will also be making more use of external information sources, such as banks and other third parties, to reduce tax evasion.

When fully implemented the Transformation Project recommendations could achieve annual increases in tax revenues of up to £10 million. Furthermore, the introduction of risk-based assessment and other efficiencies will help to achieve the CSR expenditure savings required by 2013. Simplification of the personal tax system and self-assessment for business and personal taxes will be achievable and will also save administrative costs. Greater use will be made of data sharing. The Comptroller of Taxes already has a data sharing agreement with the Social Security Department on an anonymised basis. A

further agreement is now being drawn up, with the agreement of the Data Protection Commissioner, which will allow sharing of tax information with Social Security for the calculation of contribution liability. The Comptroller is able to share data because of the power already contained in Article 13A of the Income Tax Law.

JERSEY HAS EFFECTIVE WORKING RELATIONSHIPS WITH A GROWING NUMBER OF JURISDICTIONS

Jersey has a robust and respected regulatory framework for financial services. Our officials have effective working relationships with a growing number of jurisdictions. Jersey now has 24 Tax Information Exchange Agreements. Of these, 15 are now in force. There have been 73 requests made to the Comptroller of Taxes, as Jersey Competent Authority, under various TIEA's since the first TIEA was signed with the USA. 47 requests were for criminal cases and 26 were for civil cases. The Comptroller handles all these requests quickly to ensure Jersey complies with our international obligations.

This helps build Jersey's reputation as a safe place for depositing funds and for doing business.

FUTURE PLANS FOR THE DEVELOPMENT OF TAX POLICY

Whilst I have described some important advances in tax policy with zero/ten and 1(1)(k)s, there is much more to do.

A dedicated Tax Policy Unit was established during 2011 within Treasury and Resources. The primary objective of this unit is to advise on an appropriate long term tax policy for Jersey which aligns with the fiscal policy of economic stability and growth and to develop tax legislation to support that policy. The progress described earlier in this statement demonstrates the value that the team is already adding. Our key principles are ensuring Jersey remains internationally competitive, whilst delivering a tax regime that works for Jersey's businesses and individuals.

Specific areas of focus over the next 2-3 years will include:

- Considering the feasibility of moving to independent taxation and current year taxation for all individuals.

- Seeking to replace the 27% marginal rate of personal income tax with a simpler regime, which retains the low effective tax rates that most Jersey taxpayers enjoy.

- Continuing to review ways in which additional revenues can be obtained from non-financial services companies.

- Reviewing opportunities to go further with “20 means 20” for those with the highest incomes, for example through the withdrawal of child allowance, with a view to reducing if possible the tax burden for “middle” Jersey.

- Reviewing ways in which the tax regime may be considered to create unfair practices, particularly in relation to property ownership and development.

- Aligning the operation of social security and income tax.

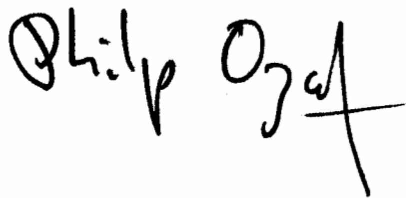
- Continuing the review of tax relief for childcare and education costs to ensure that sufficient assistance is provided to those who need it most.

- Reviewing the policy driving the domestic tax legislation on pensions relief and consideration of new legislation to allow internationally mobile individuals to use Jersey pensions.

- Considering ways to use the personal tax regime to encourage our talented youth to stay in or return to Jersey.

We have already taken the difficult measures needed to close the fiscal gap and return to balanced budgets by 2013.

The tax raising measures in this Budget are broadly neutral and work in tandem with the States’ objectives to promote good health, prosperity and growth. I commend this Budget to you.



Senator Philip Ozouf
Minister for Treasury and Resources **September 2011**

2. Executive Summary

Introduction

There are no significant tax raising measures proposed in this Budget, but those which are proposed enable additional support to be given to working families and those on lower incomes.

Income Tax proposals

The proposals in the 2012 Budget are as follows:

- Increase income tax exemption thresholds by 4.5% in line with the annual increase in inflation for the year to June 2011 and retain tax allowances.
- Introduce measures to support working parents by providing significantly more generous tax relief for childcare costs.
- Introduce measures for higher earners including a restriction of pension relief and a cap on the level of termination payments that may be made tax-free.
- Abolish the International Business Company status in line with Jersey's commitment to the EU Code of Conduct on Business Taxation.
- Introduce a further transitional measure to the repeal of the deemed distribution rules.
- Bring the taxation of Jersey property development income generated by Incorporated Limited Partnerships and Separate Limited Partnerships in line with the tax treatment applying to Limited Partnerships.
- Introduce some administrative changes to the pension rules to provide clarity and simplification.
- Update the ITIS provisions to take account of the new Social Security Insolvency Benefit.

Goods and Services Tax proposals

The proposals in the 2012 Budget are as follows:

- Increase the fees charged to banks which elect to be International Services Entities from £30,000 to £50,000, reflecting the increase in the general rate of GST in 2011.
- Introduce a number of administrative amendments relating to States-provided nursery fees and the definition of "aircraft".

Impôts Duty proposals

The impôts duty proposals are as follows:

- No increase in fuel duty for 2012.

- Increase the duty on alcohol and tobacco by 5% and 10% respectively representing:
    - 50 pence on a litre of spirits;
    - 6 pence on a bottle of wine;
    - 1 pence on a pint of ordinary beer;
    - 2 pence on a pint of strong beer; and
    - 35 pence on a packet of 20 cigarettes.
- Increase all rates of Vehicle Emissions Duty by 5%.

Stamp Duty proposals

The Minister proposes to increase court fees under the Stamp Duties and Fees and the Land Transaction Tax Laws.

Financial forecasts

The financial forecasts have been reviewed for the 2012 Budget Statement. The forecasts remain in line with those set out in the 2012 Annual Business Plan. The forecasts show that:

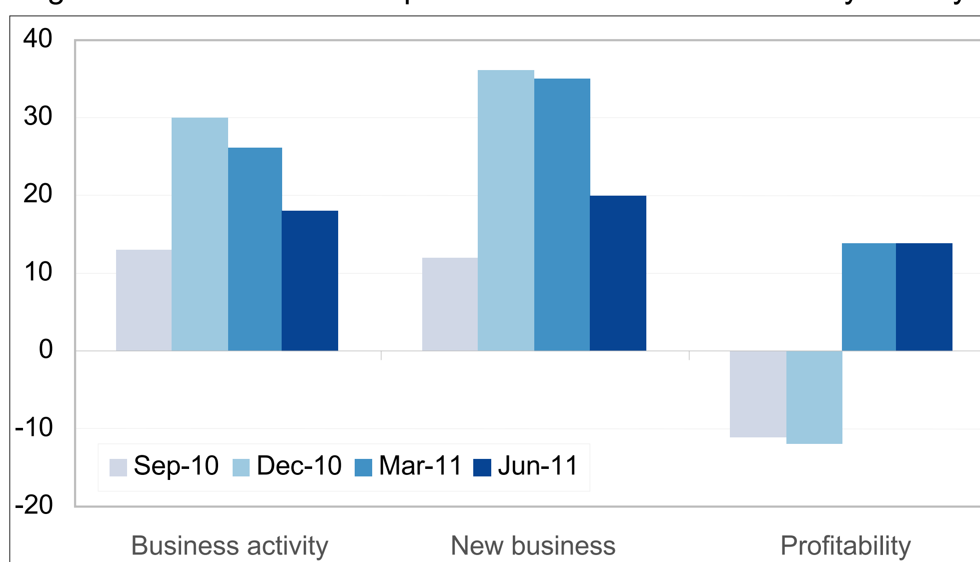
- The increase in income tax revenues, of £15 million above the forecast in 2010, is expected to translate to a recurring improvement of around £10 million per annum.
- The revised forecasts and the improvement in the 2010 outturn allow the Treasury Minister to reduce the 2011 transfer from the Stabilisation Fund from £46 million to £36 million.
- There remains a significant range of possible outcomes within the revenue forecasts increasing from +/- £20 million in 2011 to +/- £50 million by 2014.
- The States is on target to deliver a small deficit in 2012 and achieve a return to balanced budgets with a small surplus in 2013 in line with the Council of Ministers' three part plan.
- The Consolidated Fund would have a balance of £7 million at the end of 2012, increasing to £22 million by 2014.
- The Stabilisation Fund would have a balance of £10 million at the end of 2012.

3. Economic Outlook

Over the summer the global economy has suffered another bout of turmoil in the financial markets. This has been driven by uncertainty over the fiscal position in the US, the sovereign debt crisis in some eurozone countries and concerns about future growth prospects in the larger economies. Stock markets have fallen and consumer and business confidence has suffered. The OECD has reported that "economic recovery appears to have come close to a halt in the major industrialised economies"[1].

Despite this global uncertainty, there are positive signs in the local economy. In June 2011, responses to the Business Tendency Survey from finance companies showed higher business activity and new business in the second quarter and, for the second quarter in a row, a net balance of companies reported an improvement in profitability (Figure 3.1).

Figure 3.1: Signs of optimism in the finance sector
weighted net balance* of respondents to Business Tendency Survey



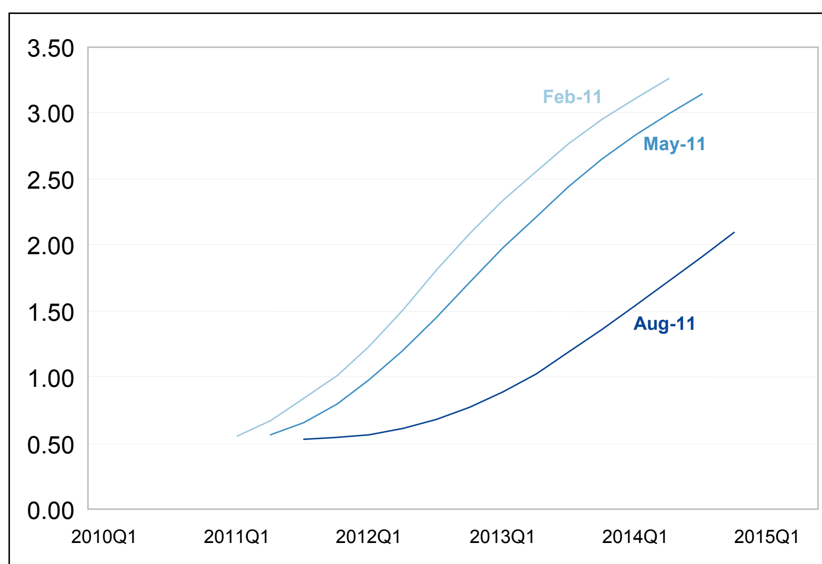
* Balance = % of firms reporting increase less % reporting decrease
Source: States of Jersey Statistics Unit

Conditions in the non-finance sector as a whole were already challenging before the recent financial market turmoil. The June 2011 Business Tendency Survey suggests that business activity, new business and profitability were still falling for non-finance businesses, with conditions in the construction sector particularly weak. Nonetheless, retail sales volumes in the first quarter of 2011 were 5% higher than a year ago with volumes higher in both food and non-food stores, and footfall on the high street so far this year higher than last year. However, with the global recovery stalling, the prospects for the non-finance sector may have weakened over the summer as they are very dependent on the outlook for the finance sector.

[1] OECD's September Interim Economic Assessment

While it is still too early to gauge the impact of the recent financial market turmoil on local economic prospects, one thing is clear: if the weakening in the large economies seen over the summer continues, future rises in interest rates will be delayed. Figure 3.2 below shows that in August 2011 the UK financial markets did not expect interest rates to increase until late 2012 or early 2013, significantly later than had been previously expected.

Figure 3.2: Financial markets' interest rate expectations
% bank base rate



Source: Bank of England

One of the biggest impacts of the global recession on our finance industry has been the low interest rate environment and its impact on the profitability of our banking sector. If market expectations do not change and prove to be correct then this will hold back the expected improvement in banking profitability. The September 2011 Business Tendency Survey will give an indication of how sentiment in our financial services sector has been affected by the recent turmoil.

The increased uncertainty about local economic conditions will not help the labour market situation which was already expected to be weak going forward as it tends to lag behind economic activity. Despite the fact that employment has remained close to the highest level for at least 15 years, unemployment in Jersey remains high relative to past levels (although well below that in the larger economies), with the young disproportionately affected and long-term unemployment increasing.

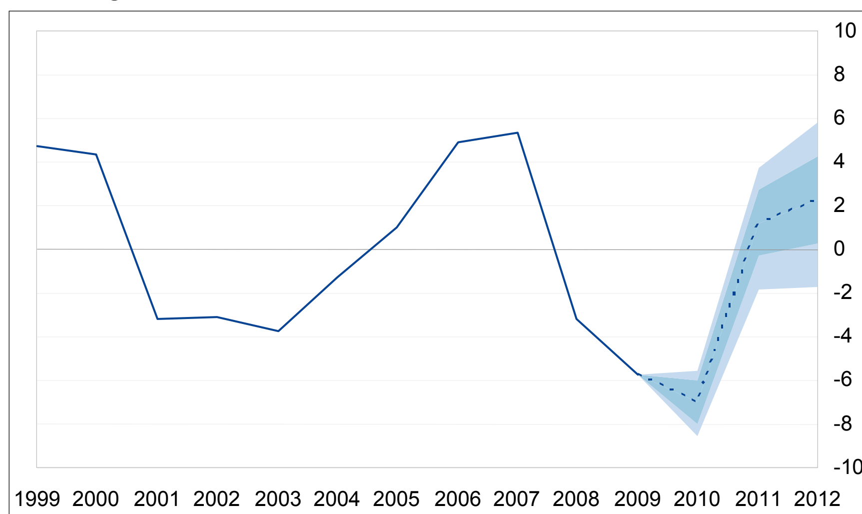
It is encouraging that inflation in Jersey remains lower than in the UK, despite the fact that the rise in GST in June from 3% to 5% has added about 1.3% to headline inflation. However, this impact should be temporary and the latest forecasts from the Economics Unit suggest that underlying inflation will remain more subdued at 3.0-3.5%. It is important that higher inflation is not factored into wage and price decisions, or these temporary price increases could

become permanent, which would damage the Island's competitiveness, the local economy and job prospects.

Assuming that wage restraint is operated, RPI inflation is likely to exceed increases in wages and salaries this year and that, as a result, household finances for many Islanders will be squeezed. The focus must now be on ensuring that we can improve economic performance going forward and secure more and better paid jobs for Islanders. The draft Economic Growth Strategy published by the Economic Development Minister has started the debate on how this can be achieved and the focus must be on improving the competitive position of all Island businesses.

The latest Fiscal Policy Panel forecasts for economic growth are shown in Figure 3.3. These were published in their Annual Report in July 2011 and show an estimated contraction in Gross Value Added (GVA) of about 7% in 2010, subdued growth of between 0-3% in 2011 and 0-4% in 2012. The Fiscal Policy Panel will publish an update to their annual report in October which will give the latest independent assessment of the local and global economic outlook in more detail and in advance of the Budget 2012 debate. This will take into account any further downside risks to these forecasts from the recent financial market turbulence.

Figure 3.3: Jersey economic outlook
% change in real GVA



Source: Fiscal Policy Panel

4. Financial Forecast

Background

The last published financial forecast was produced for the 2012 Annual Business Plan in July 2011. Only a short time has elapsed since the Business Plan forecasts were produced, but a review has been conducted of all areas of States income. No changes are required to the forecasts for the 2012 Budget.

Income Tax forecasts

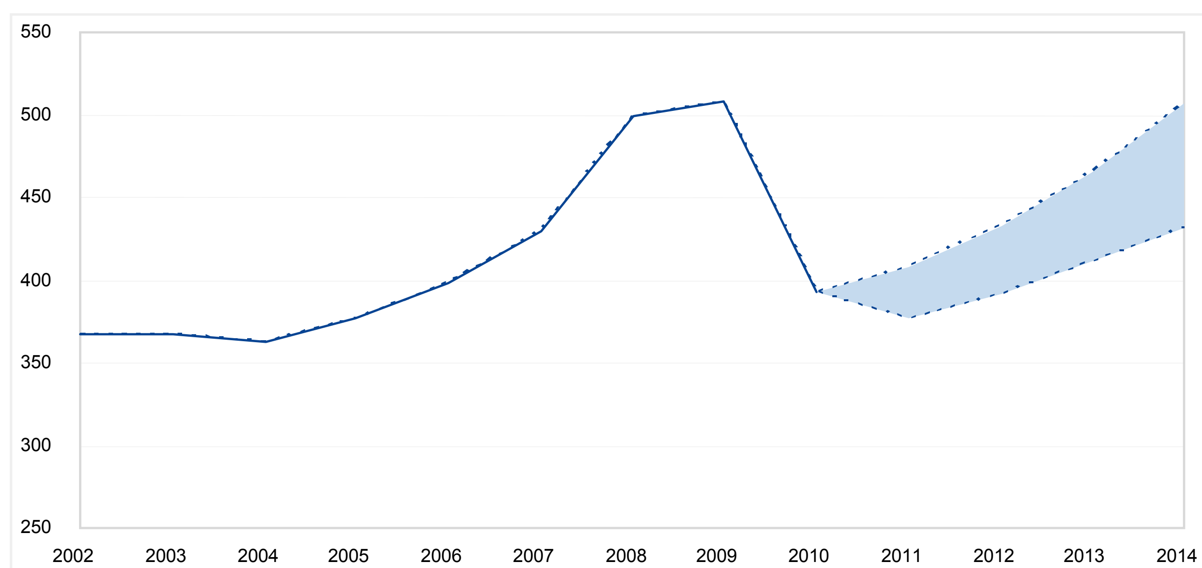
The Income Tax Forecasting Group (ITFG) has met a number of times to consider the financial forecasts. The ITFG provided initial forecasts to inform the Council of Ministers' consideration of the tax and spending envelope. These forecasts were based primarily on the updated 2010 outturn figures. The ITFG concluded that to the extent that the 2010 income tax variation is thought to be permanent, it in turn increased the baseline from which the forecasts are calculated. An assumption has been made that around £10 million of this increase will stay in the base going forward. The justification for this is that while there is no reason to exclude the small variances from the baseline, the ITFG considered that uncertainty around future tax revenues given the current economic climate would make it imprudent to build all of the variance into the baseline.

The other changes which have been considered relate to updated economic assumptions. The main change is to the forecast for interest rates, which have been revised downward. Real GVA assumptions have been revised slightly as a consequence of small revisions to inflation forecasts and revisions to GVA data.

In summary, the main variation to the income tax revenues is a forecast ongoing improvement of approximately £10 million per annum. There are a number of other variables, but taken together they have no overall effect on the forecast.

Forecasting tax revenues is notoriously difficult, even in jurisdictions with substantially more data and resource than Jersey. The most recent information available from the Taxes Office following the completion of a substantial number of assessments at the end of August indicates that no changes are required to the forecasts made in July. The forecasts are presented as a range, and the judgement of the ITFG is that the probability that the outturn could fall in the upper half is about equal to the probability that it could fall in the lower half of this range. The mid-point numbers (rounded to nearest £5 million) for 2011-2014 are £390 million, £415 million, £440 million and £470 million. The range for 2011 is +/- 5% (c.£15 million) of the mid-point, growing to +/- 9% (c.£40 million) by 2014. It should be noted that these numbers represent mid-points in a range only and not specific forecasts.

Figure 4.1: Forecast range of outcomes for income tax revenues



Outturn 2010		Range of Forecast for States Income Tax Revenues 2011 £m	2012 £m	2013 £m	2014 £m
394	Range	375 - 405	395 - 430	410 - 465	430 - 510
394	Central	390	415	440	470

Other areas of States income

Goods and Services Tax revenue in 2010 was £3 million lower than forecast. The principal reasons for this were an increase in bad debt provisions at the year end, lower than expected return values for the period after the forecast, and the impact of a small over-recognition of income in the prior year on current year revenues. With limited historic trend data the most recent figures are seen to be the most robust for forecasting. The forward forecasts therefore assume similar returns in 2011 onwards, taking account of the one-off adjustments in 2010, inflating for the agreed increase to a 5% rate from June 2011 and the impact of forecast inflation in future years.

The forecasts for impôts duties were close to outturn for 2010 with the main variation being an underachievement of the new vehicle emission duty. This trend is forecast to continue.

Stamp duty continues to be fairly depressed reflecting the current housing market and borrowing conditions. Assumptions are made within the period of the forecasts for an improvement in activity as economic growth returns and the possibility of greater flexibility and availability in borrowing over time. The figures also reflect the increases in stamp duty for properties over £1 million from June 2011, as agreed in the 2011 Budget.

The forecast for other income in 2010 was reduced in the 2011 Budget to reflect lower than expected interest rates, which affects both the returns for investment income and European Union Savings Tax Directive (EUSD)

income. These areas did see marked drops but this was offset by a better than expected surplus in the currency fund (£1 million) and receipt of more dividends than forecast (£1 million).

With little immediate prospect of any significant increase in interest rates similar projections of other income are maintained for future years with the exception of EUSD income where the initial forecast 2011 yield has been reduced to just over £1 million.

Figure 4.2: Revised financial forecast for 2011-2014

		<---------- Forecasts	------------->	
2011 £m		**2012 £m**	**2013 £m**	**2014 £m**
	States Income			
390	Income Tax	**416**	**441**	**471**
65	Goods and Services Tax	**80**	**82**	**84**
53	Impôts Duty	**55**	**55**	**56**
21	Stamp Duty	**24**	**27**	**30**
24	Other Income	**23**	**21**	**23**
11	Island Rate	**11**	**11**	**12**
564	**States Income**	**609**	**637**	**676**
3	**Increase in CIF asset value**	**4**	**5**	**5**
567	**States Income plus increase in CIF value**	**613**	**642**	**681**
	States Expenditure			
592	Departmental Net Revenue Expenditure	**584**	**577**	**602**
9	Central Reserve/Contingency	**9**	**9**	**9**
-	Additional Central Reserves/Contingency	**4**	**4**	**4**
6	Restructuring Provision	**10**	**2**	**3**
	Items offset by Restructuring Provision			
-	- Net Impact of P72 Fee Paying schools	**-**	**6**	**5**
-	- Skills & Training	**-**	**2**	**2**
13	Underspend Carryforward to 2011			
-	Revised FSR Proposal - Social Security	**9**	**9**	**9**
-	Growth Allocation	**-**	**6**	**16**
13	Net Capital Expenditure Allocation	**16**	**21**	**22**
633	**Total States Net Expenditure**	**632**	**636**	**672**
(66)	**Forecast Surplus/(Deficit) for the year**	**(19)**	**6**	**9**

The forecasts at Figure 4.2 represent the best estimate of the States financial position within the range of assumptions.

Assumptions:

There are a number of assumptions behind the financial forecasts in Figure 4.2.

<u>Income Tax</u>

- *The forecasts have been reviewed since the 2012 Annual Business Plan was lodged but no changes to the forecast are considered necessary.*
- *The income tax forecasts in the 2012 Annual Business Plan have improved from those in the Budget 2011. The forecasts draw on the improvement in the 2010 outturn, primarily on personal tax, and also reflect the current year assessments which suggest that company tax revenues will be down in 2011.*
- *The Income Tax Forecasting Group (ITFG) has again stressed the high level of uncertainty in the forecasts and emphasised the wide range of possible outcomes from which the mid-point forecasts are taken.*
- *The income tax forecast model is used to apply the range of economic assumptions to the current data from the different income tax schedules to estimate a range of future tax revenues.*
- *The range of the income tax forecast from optimistic to pessimistic is £30 million in 2011 to £80 million in 2014.*

<u>Goods and Services Tax</u>

- *The 2010 outturn showed a slightly lower (by £3 million) than expected return but included one-off adjustments for accruals. After allowing for the one-off adjustment the 2010 outturn has been taken as the base for future forecasts.*
- *The future forecasts assume there will be some growth in these revenues as the economy recovers and include the impact of the proposed increase in ISE fees from 2012.*

<u>Impôts Duty</u>

- *The forecast for 2012 includes the proposed increase in this Budget for alcohol, tobacco and Vehicle Emissions Duty.*
- *The forward forecasts reflect the predicted trends in consumption, which include a drop off for some goods, but also include an assumption that there would be annual increases in duty at a level equivalent to the Island RPI, which for alcohol and tobacco is broadly consistent with States policies.*
- *There is an economic assumption that impôts duties do not fluctuate significantly with the economic cycle.*

<u>Stamp Duty</u>

- *The forecast assumes that the activity levels seen in 2010 will continue with the possibility of some growth in the latter half of 2011 with prices predicted to pick up in 2012.*
- *The forecasts take into account the increase in stamp duty for properties over £1 million from June 2011, as approved in the 2011 Budget, and the estimated impact of the new Land Transactions Tax.*

<u>Other Income</u>

- *The impact of much lower interest rates and the reduction in cash balances arising from future deficits has had a significant impact on the investment income forecasts.*
- *The level of EUSD retention tax has been lower than expected in 2011 and is forecast to withdraw entirely during 2012.*
- *The assumptions from States advisors are for a slow recovery in investment returns.*

<u>Island Rate</u>

- *The Island Rate will increase annually according to the Island RPI (March) as prescribed in the Rates Law and the proposed rate is reported annually to the States by the Comité des Connétables.*
- *There should be no effect of the economic downturn on Island Rates.*

<u>Increase in CIF asset value</u>

- *In 2010 a Common Investment Fund (CIF) was launched to provide a simple cost-effective way of pooling funds for investment purposes.*
- *Income previously recognised as investment income of the Consolidated Fund is now recognised as an increase in the CIF asset value and as an increased value of the Consolidated Fund forecast.*

<u>Total States Net Revenue Expenditure</u>

- *The forecasts for total States net expenditure have been updated for the proposals in the 2012 Business Plan as amended – this includes the revised FSR proposal, proposed additional provision for central reserves and the new growth allocation in 2013 and 2014, but excludes depreciation which is a non-cash item.*

<u>Net Capital Expenditure Allocation</u>

- *The forecast of capital allocations for 2012 to 2014 reflect the agreed programme from the 2012 Annual Business Plan.*

<u>Revised Forecast Surplus/(Deficit)</u>

- *The financial position shows a return to balanced budgets by 2013 in line with the Council of Ministers' three-part plan. The forecast relies on the delivery of the remainder of the £65 million CSR savings in 2012 and 2013.*

The figures should be thought of as indicative cumulative forecasts and are only as accurate as the assumptions on which they are based. The forecast financial position is the midpoint of the central range of forecasts and in 2012 this range amounts to +/- £25 million.

Summary

The revised financial forecast shows that the States is still on track to return to balanced budgets by 2013, based on the current profile of CSR savings and the revised FSR proposals. The improvements in the 2010 outturn allow £10 million to remain in the Stabilisation Fund in 2012. The closing balance of the Consolidated Fund at the end of 2011 is estimated at £24 million.

Figure 4.3: Revised forecasts of fund balances for 2011-2014

		<------------ Forecasts		------------->
2011 £m	**Consolidated Fund**	**2012 £m**	**2013 £m**	**2014 £m**
54	**Opening Balance**	**24**	**7**	**13**
(66)	Forecast Surplus/Deficit for the year	(19)	6	9
36	Transfer from the Stabilisation Fund			
-	Other Fund adjustments	2	-	-
	Estimated Consolidated Fund Balance			
24	**Central scenario**	**7**	**13**	**22**

		<------------ Forecasts		------------->
2011 £m	**Stabilisation Fund**	**2012 £m**	**2013 £m**	**2014 £m**
46	**Opening Balance**	**10**	**10**	**10**
(36)	Transfer to Consolidated Fund	-	-	-
	Estimated Stabilisation Fund Balance			
10	**Central scenario**	**10**	**10**	**10**

<u>Assumptions:</u>

<u>Consolidated Fund</u>

- *The transfers from the Stabilisation Fund enabled the Consolidated Fund to maintain a positive balance through the downturn in 2010 and 2011. The remainder of the proposed CSR savings are required to achieve a return to balanced budgets by 2013 and to maintain a positive balance on the Consolidated Fund.*
- *The Other Fund adjustments of £2 million comprises the return of Fiscal Stimulus and Pandemic Flu monies of £3.6 million and £3.8 million respectively. It was agreed in the 2012 Annual Business Plan to use £3.6 million for the Phillips Street shaft and £1.766 million for Clinique Pinel, resulting in a net £2 million being returned to the Consolidated Fund.*

<u>Stabilisation Fund</u>

- *The Stabilisation Fund was set aside to provide funding for fiscal stimulus. This comprised £44 million for projects to stimulate the economy during the downturn and the balance of £114 million to fund the predicted deficits in 2010 and 2011.The forecasts*

assume that £104 million will be drawn down in 2010 and 2011, leaving a small balance of £10 million in the Fund.

- *The forecasts are however the mid-point of a range of outcomes which in 2011 is +/- c.£20 million and by 2014 +/- c.£50 million. With a balance on the Consolidated Fund of only £7 million at the end of 2012 this highlights the need to control spending and to maintain flexibility within both the tax and funding proposals.*
- *At the end of 2011 the Stabilisation Fund will have a balance of £10 million. It must be a priority of this and future Councils of Ministers to follow the current fiscal framework and principles and strive to provide for future transfers to replenish the Stabilisation Fund in preparation for any future economic downturn.*

Part B

Draft Budget Statement 2012

5. Income Tax Proposals

Background

2011 has already seen some significant changes to the tax regime, specifically relating to the zero/ten (0/10) company tax regime and the taxation of wealthy immigrants.

The 0/10 corporate tax structure remains the stable basis of Jersey's business tax regime.

To address specific concerns raised by the EU Code of Conduct Group during their review of Jersey's business tax regime, the States agreed that the personal tax measures known as the deemed distribution and full attribution rules will be repealed with effect from 1 January 2012. The Code Group met on 13 September 2011 to consider the action taken and concluded that this action had removed the harmful element of the tax regime. This has to be ratified by ECOFIN in December 2011.

The review of the 1(1)k tax regime was completed in 2011.The tax law has been changed to provide Jersey with a regime that is easier to understand, more transparent in its application and intended to encourage a greater number of wealthy individuals to move to the Island and bring with them their wealth and business.

The majority of amendments in this year's Budget are administrative or intended to move to an effective tax rate for higher earners which is closer to 20%, in line with the spirit of "20 means 20". There are also measures designed to assist those on lower incomes or with childcare commitments.

Exemptions and Allowances

Exemption thresholds

The Minister proposes to increase the income tax exemption thresholds for the year of assessment 2012 by 4.5% in line with the increase in inflation for the year to June 2011. This will decrease the tax liabilities of most people and increase the number of residents who are not subject to income tax. Figure 5.1 shows the amount of the increase in exemption limits and Figure 5.2 shows the tax savings for some sample households.

Figure 5.1: Exemption thresholds for years of assessment 2011 and 2012

	2011	2012
Single Person	£12,790	**£13,370**
Single Person (aged 63+)	£14,270	**£14,920**
Married Couple	£20,510	**£21,440**
Married Couple (aged 63+)	£23,480	**£24,540**

Figure 5.2: Impact on households

Household	Income	2011 tax liability	2012 tax liability	Tax saving
Single, no children	£15,000	£596	£440	£156
Married, 2 children, wife not working	£35,000	£2,292	£2,041	£251
Married, no children, wife working	£65,000	£10,797	£10,546	£251
Married, 1 child, £150k mortgage	£40,000	£2,427	£2,176	£251
Single pensioner (aged 63+)	£20,000	£1,547	£1,372	£175
Married pensioner (aged 63+)	£25,000	£410	£124	£286

Allowances

2011 was the fifth and final year of the withdrawal of the majority of tax allowances for those on higher incomes. The following allowances will remain in place. It is proposed that these will remain unchanged for the year of assessment 2012,as shown in Figure 5.3.

Figure 5.3: Allowances for years of assessment 2011 and 2012

	2011	2012
Child Allowance	£3,000	**£3,000**
Child Allowance (higher education)	£6,000	**£6,000**
Additional Allowance*	£4,500	**£4,500**
Wife's Earned Income Allowance**	£4,500	**£4,500**

**   for people with sole responsibility for children*
*** for those taxpayers in the marginal band*

Detailed Proposals for 2012

Enhanced childcare tax relief

It is proposed to increase the maximum childcare tax relief which marginal rate taxpayers can claim in respect of children below school age from £6,150 per year to £12,000 per year. The enhanced tax relief will be available from year of assessment 2011 and for each year of assessment up to and

including the year in which the child is entitled to States support in respect of early years education (typically, the year before the child starts primary school).

It is also proposed that childcare tax relief is extended such that fees paid to States-provided nursery schools, which began to be charged in September 2011, will be eligible for relief, aligning the treatment of fees paid to States provided nursery schools with those paid to private nurseries.

Restriction of pension relief from high earners

Tax relief is currently available for pension contributions made by an individual up to a maximum of £50,000 per year, provided that the individual has sufficient relevant earnings (broadly, income from employment or carrying on a business). It is proposed to restrict the relief available to individuals whose income is £150,000 or more. The relief will be phased out for those earning more than £150,000 so that one pound of relief will be withdrawn for every one pound of income above £150,000.

Termination payments

An amendment to the Income Tax legislation is proposed regarding the taxation of termination payments. At present most termination payments are tax-free by concession. Most other countries provide for some relief, but not full exemption. The proposal introduces a cap on the level of genuine redundancy payment that an employee may receive tax free. The proposed cap is £50,000 and therefore should only affect higher paid individuals. Payments received above this level will be taxable in the normal way.

The amendment also provides more clarity on the taxation of different types of termination payments (e.g. payment in lieu of notice and compromise agreements) to reflect the fact that they are coming under more scrutiny in the current economic environment than in the past.

International Business Companies (IBC)

As part of the commitment made under the EU Code of Conduct on Business Taxation Jersey agreed to abolish the IBC tax status. It was agreed that IBCs which existed at 31 December 2005 could be retained until 31 December 2011. It is proposed that those parts of the Income Tax Law which set out the rules for the taxation of IBCs should be repealed with effect from 1 January 2012.

Definition of "relevant dividend"

The repeal of the deemed distribution regime has created a potential opportunity for taxpayers to avoid tax properly due in respect of the final year of the deemed distribution regime. It is proposed that the definition of "relevant dividend" is altered to prevent this avoidance opportunity arising. In addition,

changes are proposed to the law to prevent the double taxation of deemed distribution in certain circumstances.

Incorporated Limited Partnerships (ILPs) and Separate Limited Partnerships (SLPs): taxation of property income

There is an amendment proposed to the Income Tax legislation regarding the taxation of Jersey property development profits recognised by ILPs and SLPs. The purpose is to ensure such profits are treated in the same way as those within a limited partnership (i.e. the profits are taxed at the level of the partners).

Administrative changes

Two administrative changes are proposed to the pension rules. The first will provide a degree of flexibility for taxpayers to access the funds held in very small occupational pension funds. The second amendment introduces a statutory definition of “serious ill health”. This is an important definition as it clarifies the circumstances in which an individual can access their pension fund in a tax free lump sum in the event of serious illness.

A change has been proposed to allow the Social Security Department to withhold ITIS on payments of the new Insolvency Benefits, in line with a decision made by the States earlier in the year.

Tax facts

The following tax facts provide an illustration of the existing personal tax structure and also provide relative comparisons against other jurisdictions.

The tax threshold (i.e. the point above which an individual starts to pay income tax) is determined by the individual’s personal circumstances. For example, a married couple, who are both working and have two children (one at university) paying mortgage interest of £7,500, do not become liable to income tax in 2011 until their income exceeds £41,510. For 2012 this would increase to £42,440 under the current proposals, calculated as shown in Figure 5.4.

Figure 5.4: Tax exemption thresholds

	2011	**2012**
Married Couple Exemption	£20,510	£21,440
Wife’s Earned Income (max)	£4,500	£4,500
Child Allowance	£3,000	£3,000
Child Allowance (higher)	£6,000	£6,000
Mortgage Interest	£7,500	£7,500
Total	£41,510	£42,440

Comparisons

The historically generous tax income thresholds in Jersey mean that many Islanders still pay less tax than in most neighbouring territories. Examples are shown in Figure 5.5.

Figure 5.5: Comparisons of tax payable

The income tax payable by a married couple in 2011 with a joint income of £40,000, without children or a mortgage, is as follows:

Isle of Man	£2,180
Jersey	£4,109
Guernsey	£4,380
UK (based on one person having an income of £40k)	£6,705
UK (based on each person having an income of £20k)	£5,410

The income tax payable by married pensioners in 2011 (aged 63+) with an income of £25,000, without a mortgage, is as follows:

Isle of Man	£236
Jersey	£480
Guernsey	£720
UK (based on one person having an income of £25k)	£3,312
UK (based on each person having an income of £12.5k)	£1,204

Impact of the Budget proposals on a 'typical' family unit

In each of the following scenarios, there would be an annual tax saving of £1,830.

Scenario 1
A married couple where both parents work and have a household income of £80,000. They have 2 children, one of which is under the age of 3 and pay £12,000 nursery fees and have a £400,000 mortgage.

Scenario 2
The same scenario as above but this family do not have a mortgage because they live in rented accommodation.

Scenario 3
A married couple where both parents work and have a household income of £55,000. They have one child under the age of 3 and pay £12,000 nursery fees and have a £275,000 mortgage.

Scenario 4
The same scenario as above but this family do not have a mortgage because they live in rented accommodation.

6. Goods and Services Tax Proposals

Background

Following major changes proposed last year and implemented this year, the Minister is not proposing any further significant changes to GST. The changes proposed are to address a commitment made in the 2011 Budget to increase the contribution from International Service Entities and some administrative changes.

International Services Entity (ISE) fees

A Green Paper relating to the ISE regime was launched on 5 August 2011; this consultation closed on Friday 16 September 2011. Based on the outcome of the consultation, it is proposed that the ISE regime should remain as simple as possible. However this must be balanced against the need to ensure that the burden of the regime is spread fairly. Further work is required to identify the best way to charge fees to entities outside the banking industry. As an initial step, it is proposed in this Budget to increase the fee paid by banks in line with the increase in GST in 2011. For 2012 the fee payable by a bank electing to be an ISE will increase from £30,000 to £50,000 per year.

Further consideration is being given to this and other issues arising from the responses to the Green Paper and a White Paper will be issued during 2012.

Treatment of fees charged by States-provided nursery schools

It is proposed to make States of Jersey nursery provisions exempt from GST, so that the treatment is in line with that of private nurseries.

The definition of “aircraft”

It is proposed to amend the definition of an ‘aircraft’ for GST purposes.

The purpose of this amendment is to move away from ‘weight limit’ to ‘usage’ in line with the UK and the EU. With effect from 1 January 2011 the definition of the term “aircraft” was changed in the UK’s VAT law so that it was consistent with EU law. The new definition is focussed on usage of the aircraft rather than the weight of the aircraft. A similar change is proposed to the definition of “aircraft” contained in the GST law.

7. Impôts Duty Proposals

Background

Each year, in advance of the budget, the proposals for impôts duties are reviewed against the prevailing economic conditions, financial position and the States strategies on alcohol and tobacco.

The Minister's proposals for 2012 are consistent with these strategies.

The proposals for 2012 are set out in Figure 7.1.

To help inform his decision the Minister has considered the following:

- The most recent rate of inflation (at the time of writing +4.5%, June 2011).
- Current tobacco and alcohol strategies.
- Informal consultation with the Health and Social Services, Economic Development, Transport and Technical Services and Environment Departments and local motor traders.

As it is now customary it is proposed that this year's increases in duty will not take effect until midnight on 31st December 2011.

Alcohol

The Minister believes that for 2012 the correct basis for duty increases should be with reference to the most recent rate of inflation.

Accordingly the Minister proposes that the duty on alcoholic beverages should rise by 5%. This would raise an additional £830,000 a year.

Tobacco

The policy of increasing duty on tobacco at a level above the cost of living is being continued.

An above inflation increase is in accordance with the Tobacco Control Strategy, presented to the States on 25th October 2010 by the Minister for Health and Social Services.

The Health and Social Services Department consider that the tobacco strategy has been very successful to date, seeing smoking prevalence decrease from 29% to 19% for adults and from 35% to 17% for 14-15 year olds during the last 7 years.

The proposed new duty rates are 10% higher than the current rates, which would raise an additional £1.24 million a year.

The increase in tobacco duty is intended to discourage consumption whilst maintaining revenue yield.

Undoubtedly the high cost of tobacco is playing an important part in reducing consumption but there is also evidence to show that locals and tourists are increasingly turning to duty free sources for their tobacco supplies. The Customs and Immigration Service continue to monitor this activity and personal importations in excess of the allowance are frequently detected.

There is however at this time no evidence or intelligence to suggest that there has been a marked increase in passengers evading impôts duty by exceeding their statutory allowances or that commercial quantities of cigarettes are being smuggled into the Island.

Fuel

The Minister continues to consider all issues regarding the duty for fuel including both the current worldwide price of hydrocarbon oil and the high margins which appear to exist on the retail price of fuel in Jersey.

There still appears to be significant scope to encourage competition to reduce the retail price of fuel in Jersey as can be seen by the relative margins within the retail price between Jersey and the UK in Figure 7.4.

A recent review of the local road fuels market by the Jersey Competition Regulatory Authority found that, once taxes and duties are removed from the pump price, Jersey prices are among the highest in Europe.

The report also found that the road fuels market could be more competitive and that margins in both the retail and wholesale markets are higher than might be expected.

Due to the current high cost of fuel and to encourage competition the Minister proposes to defer an increase in the rate of duty on fuel by maintaining current duty rates for 2012.

Vehicle Emissions Duty

A low level Vehicle Emissions Duty, (VED), was successfully proposed in the 2010 Budget and was introduced in September 2010. VED had an estimated annual revenue yield of £2 million.

For the 2011 Budget the Minister considered that as VED had only been in operation for a relatively short period, no changes to the duty should be proposed at that time, but agreed that an informal internal review of the duty should take place during 2011 to help inform his decisions on proposals for the 2012 Budget.

The review has identified that the number and type of new vehicles registered has not proved consistent with the original modelling used to formulate the

duty banding and it is considered that the total VED yield for 2011 will be considerably below the original £2 million target.

It is not known to what extent the introduction of VED has influenced consumers' decisions on vehicle purchases but the current economic situation must also be a significant contributing factor.

The Minister has carefully examined various options to increase the revenue yield from VED. To minimise the effect on the motor trade industry in the current economic climate it is considered appropriate to propose a modest increase of 5% to the duty rates.

The proposed increase would, if the current trend continues, provide an additional £60,000 yield in 2012.

Detailed Duty Increases for 2012

Figure: 7.1 Duty increases proposed for 2012

	Current duty	Proposed duty	Increase
Litre of Whisky @ 40%	£9.95	£10.45	50 pence (+5%)
Bottle of table wine	£1.19	£1.25	6 pence (+5%)
Pint of beer/lager < 4.9% abv	£0.30	£0.31	1 penny (+5%)
Pint of beer/lager > 4.9% abv	£0.45	£0.47	2 pence (+5%)
20 King Size cigarettes	£3.50	£3.85	35 pence (+10%)

Figure 7.2: Proposed rates of Vehicle Emissions Duty based on CO_2 mass emission figure

CO_2 mass emission figure	LPV 1st registered in Jersey	LPV 1st registered outside Jersey 1 year or less ago	LPV 1st registered outside Jersey more than 1 but 2 years or less ago	LPV 1st registered outside Jersey more than 2 years ago
120g or less	£0	£0	£0	£0
More than 120g but not more than 150g	£42	£42	£26	£21
More than 150g but not more than 165g	£126	£126	£84	£63
More than 165g but not more than 185g	£189	£189	£121	£95
More than 185g but not more than 225g	£315	£315	£205	£158

More than 225g but not more than 250g	£630	£630	£410	£315
More than 250g but not more than 300g	£1,050	£1,050	£683	£525
More than 300g	£1,313	£1,313	£856	£656

Note: LPV means a light passenger vehicle, being a motor vehicle designed and constructed for the carriage of passengers and comprising no more than 8 seats in addition to the driver's seat.

Figure 7.3: Proposed rates of Vehicle Emissions Duty based on cylinder capacity of engine

Cylinder capacity of engine	Vehicle 1st registered in Jersey	Vehicle 1st registered outside Jersey 1 year or less ago	Vehicle 1st registered outside Jersey more than 1 but 2 years or less ago	Vehicle 1st registered outside Jersey more 2 than years ago
1000cc or less	£0	£0	£0	£0
More than 1000cc but not more than 1400cc	£158	£158	£105	£79
More than 1400cc but not more than 1800cc	£263	£263	£173	£131
More than 1800cc but not more than 2000cc	£399	£399	£257	£200
More than 2000cc but not more than 2500cc	£525	£525	£341	£263
More than 2500cc but not more than 3000cc	£788	£788	£515	£394
More than 3000cc but not more than 3500cc	£1,050	£1,050	£683	£525

More than 3500cc	£1,313	£1,313	£856	£656

Comparisons with neighbouring jurisdictions

Figure 7.4: 2011 Retail price margins – comparisons with the UK (June 2011)

	Jersey Retail Price	Jersey Duty	GST	Price net of duty & GST	Duty & GST as % of price	UK Retail price	UK Duty	UK VAT	Price net of duty & VAT	Duty & VAT as % of price
Litre of Whisky	£20.07	£9.95	£0.96	£9.16	54%	£17.00	£10.21	£2.83	£3.96	77%
Pint of standard Beer	£3.45	£0.30	£0.16	£2.99	13%	£3.50	£0.47	£0.58	£2.44	30%
20 King Size Cigarettes	£5.95	£3.50	£0.28	£2.17	64%	£6.84	£4.07	£1.14	£1.63	76%
Litre of Unleaded Petrol	£1.26	£0.43	£0.06	£0.77	39%	£1.36	£0.58	£0.23	£0.56	59%

Note: These figures are before the impact of the budget proposals and the prices shown are based on a narrow range of sources, but are for equivalent products. There will be considerable price variations in each jurisdiction, especially for wine and beer. Fuel prices are also subject to rapid change.

Figure 7.4 illustrates that in all the above examples of dutiable products the proportion of price made up by duty and tax is significantly lower in Jersey than the UK. Even allowing for other cost factors in Jersey there would still appear to be a much greater margin in the retail price of products in Jersey than exists in the UK.

Figure 7.5: A comparison of typical 2011 tax and duty levels for a range of commodities

	Jersey Duty	Jersey GST @ 5%	Guernsey Duty	UK Duty	UK VAT @ 20%	France Duty	France TVA @ 19.6%
Litre of Whisky @ 40%	£9.95	£0.96	£10.01	£10.21	£2.83	£5.02	£3.44
Bottle of table wine	£1.19	£0.29	£1.39	£1.81	£1.00	£0.02	£0.61
Pint of beer/lager @ 4.5% abv	£0.30	£0.16	£0.35	£0.47	£0.58	£0.06	£0.90
Pint of beer/lager @ 5.5% abv	£0.45	£0.18	£0.35	£0.58	£0.62	£0.07	£1.04
20 King Size cigarettes	£3.50	£0.28	£3.13	£4.07	£1.14	£3.74	£0.76
Litre of unleaded petrol	£0.43	£0.06	£0.41	£0.58	£0.23	£0.50	£0.27
Litre of Diesel	£0.43	£0.06	£0.41	£0.58	£0.23	£0.36	£0.24

Figure 7.6: Summary of duty revenues

Impôts Duty	2010 Actual	2011 Revised Estimate	2012 Estimate
	£	£	£
Impôts on Spirits	4,038,000	4,087,000	4,162,000
Impôts on Wines	6,158,000	6,528,000	6,923,000
Impôts on Cider	814,000	846,000	914,000
Impôts on Beer	5,184,000	5,373,000	5,530,000
Impôts on Tobacco	12,638,000	13,303,000	13,609,000
Impôts on Motor Fuel	20,250,000	21,952,000	21,952,000
Impôts on Goods Imported	139,000	150,000	150,000
Vehicle Emissions Duty	192,000	1,200,000	1,260,000
Total Impôts Duty	**49,412,000**	**53,439,000**	**54,500,000**

8. Stamp Duty Proposals

The Stamp Duty rates will remain unchanged throughout 2012. The current rates are shown in Figure 8.1 below.

Figure 8.1: Stamp duty rates

Property value (£)	Rate
0 - 50,000	0.5%
50,001 - 300,000	1.5%
300,001 - 500,000	2%
500,001 - 700,000	2.5%
700,001 - 1,000,000	3%
1,000,001 - 1,500,000	3.5%
1,500,001 - 2,000,000	4%
>2,000,001	5%

Stamp Duty and Land Transaction Tax court fees

The Treasury Minister proposes to increase court fees under the Stamp Duties and Fees and the Land Transaction Tax Laws. The majority of the increased annual income will be retained by the Judicial Greffe and Viscount's Department in order to meet their CSR commitments. Significant consultation on the increases has been carried out.

9. Ongoing and Future Reviews

Developing long term tax policy

A dedicated Tax Policy Unit was established during 2011 within Treasury and Resources. The primary objective of this unit is to advise on an appropriate long term tax policy for Jersey which aligns with the fiscal policy of economic stability and growth and to develop tax legislation to support that policy. Recommendations on the principles of a long term tax policy will be presented to the new Council of Ministers in November 2011.

During 2011 the Tax Policy Unit, in close liaison with the Taxes Office, has:

- developed a new tax regime for 1(1)(k)s with the primary objective of increasing tax revenues and encouraging the growth of business activity;
- advised on the strategy for dealing with the concerns of the EU Code of Conduct Group on Business Taxation, with the repeal of the deemed distribution and attribution rules; and
- developed the tax changes proposed in this Budget Statement, which are in line with the fiscal strategy announced in last year's budget.

In addition to domestic tax matters, the unit has international tax responsibilities which include the ongoing negotiation of Tax Information Exchange Agreements and Double Tax Agreements, as well as ensuring that Jersey remains aware of international developments and compliant with evolving international standards.

Going forward, the unit will focus on developing tax measures which support the simplification of Jersey's tax regime, the economic growth strategy and the fiscal policy of balanced budgets and saving for the future. Underlying this will be the principles of ensuring Jersey remains internationally competitive, whilst delivering a tax regime which works for Jersey's businesses and residents.

Specific areas of focus over the next 2-3 years will include:

- Considering the feasibility of moving to independent taxation and current year taxation for all individuals.
- Seeking to replace the 27% marginal rate of personal income tax with a simpler regime, which retains the low effective tax rates that most Jersey taxpayers enjoy.
- Continuing to review ways in which additional revenues can be obtained from non-financial services companies.
- Reviewing opportunities to go further with "20 means 20" for those with the highest incomes, for example through the withdrawal of child allowance, with a view to reducing if possible the tax burden for "middle" Jersey.

- Reviewing ways in which the tax regime may be considered to create unfair practices, particularly in relation to property ownership and development.
- Aligning the operation of social security and income tax.
- Continuing the review of tax relief for childcare and education costs to ensure that sufficient assistance is provided to those who need it most.
- Reviewing the tax policy on pensions, including a review of the policy driving the domestic tax legislation on pensions relief and consideration of new legislation to allow internationally mobile individuals to use Jersey pensions.
- Considering ways to use the personal tax regime to encourage our talented youth to stay in or return to Jersey.

Taxes Transformation Programme (TTP)

The Taxes Transformation Programme is a major initiative aimed at implementing a range of recommendations following a review of the tax function conducted in 2010.

The Taxes Office is transforming from a department which traditionally has operated in isolation from other departments, to a department which uses modern systems and ways of working and is fully "joined up" with all other relevant departments, sharing information and systems as appropriate.

Most of the TTP recommendations are aimed at "modernising" our tax systems and cover two broad areas:-

- internal changes i.e. Taxes Office processes and systems; and
- external facilities - in other words making it easier for all taxpayers to do business with the Taxes Office. This will include the ability to pay taxes electronically which is likely to happen by mid-2012, and online filing of returns which is also likely to happen in 2012 for businesses.

The Taxes Office will make more effective use of the investigative and penalty powers it already has, strengthened or modified where necessary, and using external information sources, such as banks and other third parties, to reduce tax evasion.

When fully implemented the TTP recommendations could achieve annual increases in tax revenues of up to £10 million, together with the introduction of risk-based assessment and other efficiencies to achieve the CSR expenditure savings required by 2013. Additional efficiency savings should be achievable from 2013 onwards as simplifications of the personal tax system and self-assessment for business and personal taxes are introduced.

The TTP started in 2011 and the first phase of the project will be completed by the end of the year.

Business Tax Review

The Tax Policy Unit has issued a report on the outcome of the Business Tax Review.[2] Based on all of the evidence, which includes a full public consultation, independent economic impact advice and detailed technical research, the recommendation was to maintain the zero/ten regime for companies while ensuring compliance with the EU Code of Conduct.

Legislation repealing the deemed distribution and full attribution rules was approved in July 2011 and will come into effect in January 2012. The Code Group considered the amended law at its meeting on 13 September 2011 and concluded that the rollback proposal removes the harmfulness of the regime. This is subject to ratification by ECOFIN in December 2011.

Taxation of non-financial service companies

The Minister for Treasury and Resources was requested last year to bring forward a new mechanism to raise additional revenues from certain non-locally owned non-finance companies trading in Jersey, but provided that to do so would not jeopardise the integrity of Jersey's business tax regime or its international competitiveness. As described during the 2011 Budget debate, such changes might include increasing the scope of the 10% or 20% rates of corporate tax or introducing some form of charge.

This matter was incorporated into the Business Tax Review and a significant amount of research has been carried out, including a review of the economic impact of the options available. The Minister will consult on a mechanism to raise additional revenues from these companies.

[2] Report on Jersey's Business Tax Regime, Treasury and Resources Tax Policy Unit, 23 September 2011.

10. Financial & Manpower Implications

Financial implications

The financial implications of the Budget proposals are summarised in the financial forecast at Figure 4.2.

The Budget proposals as a whole are revenue-neutral and taken as a whole will deliver income of £575 million, in accordance with the 2012 Business Plan. This will be achieved by:

- increasing the tax relief for childcare costs to £12,000 per year for younger children;
- increasing the income tax exemptions thresholds in line with the annual increase in inflation to June 2011;
- introducing a cap on tax free termination payments;
- restricting income tax relief on pension contributions for high earners;
- increasing ISE fees;
- increasing impôts duty on tobacco and alcohol and increasing Vehicle Emissions Duty; and
- increasing Stamp Duty and Land Transaction Tax court fees in line with costs.

Manpower implications

The proposals within the Budget Statement 2012 will be implemented without any increase to current approved manpower levels.

Summary Tables

Budget Statement 2012

Summary Table A
States Income 2012

States Income Analysis - Sources of Income

2010 Actual £	2011 Revised Estimate £		2012 Estimate £
		Income Tax	
271,627,000	274,000,000	Employees	296,000,000
43,541,000	46,000,000	Self Employed and Investment Holders	48,000,000
83,284,000	74,000,000	Companies	76,000,000
(4,099,000)	(4,000,000)	Provision for Bad Debts	(4,000,000)
394,353,000	**390,000,000**	**Total Income Tax**	**416,000,000**
44,200,000	**65,626,000**	**Goods and Services Tax**	**80,047,000**
		Impôts Duty	
4,038,000	4,087,000	Impôts on Spirits	4,162,000
6,158,000	6,528,000	Impôts on Wines	6,923,000
814,000	846,000	Impôts on Cider	914,000
5,184,000	5,373,000	Impôts on Beer	5,530,000
12,638,000	13,303,000	Impôts on Tobacco	13,609,000
20,250,000	21,952,000	Impôts on Motor Fuel	21,952,000
138,000	150,000	Impôts on Goods Imported	150,000
192,000	1,200,000	Vehicle Emissions Duty	1,260,000
49,412,000	**53,439,000**	**Total Impôts Duty**	**54,500,000**
20,139,000	**20,873,000**	**Stamp Duty**	**24,231,000**
508,104,000	**529,938,000**	**Total Taxation Revenue**	**574,778,000**
10,510,000	**10,912,000**	**Island Rate**	**11,185,000**
		Other Income	
755,000	-	Interest on Cash Balances	-
13,353,000	13,690,000	Dividends	13,417,000
3,658,000	3,700,000	New Company Fees via Financial Services Commission	3,700,000
1,089,000	1,000,000	Income Tax Penalties	1,000,000
2,112,000	-	Currency and Coinage Surplus	-
245,000	199,000	Interest and Repayments on Loans	160,000
2,900,000	2,455,000	Financial Returns from States Trading Operations	2,511,000
2,986,000	2,000,000	Commission from European Union Retention Tax	1,500,000
574,000	482,000	Miscellaneous Income	494,000
27,672,000	**23,526,000**	**Total Other Income**	**22,782,000**
-	3,400,000	**Increase in CIF asset value**	3,800,000
£ 546,286,000	**£ 567,776,000**	**Total States Income plus increase in CIF value**	**£ 612,545,000**

Summary Table B
States Net Expenditure 2012 – 2014

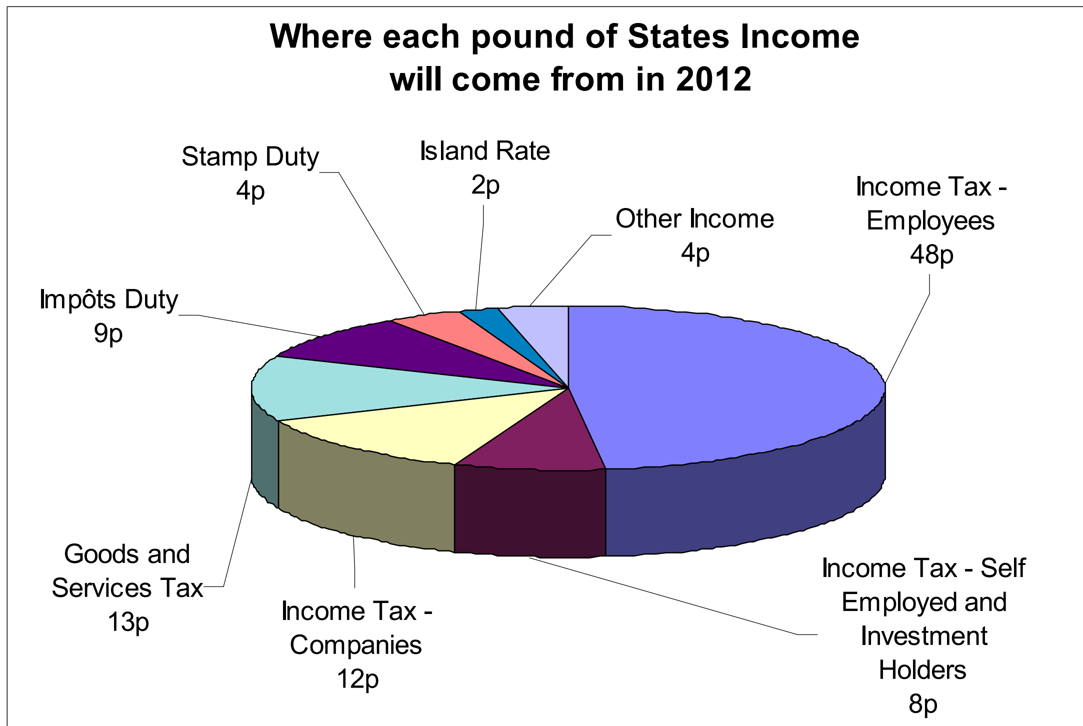
States Funded Bodies	2012 Expenditure Allocation	2013 Expenditure Allocation	2014 Expenditure Allocation
	£'000	£'000	£'000
Ministerial Departments			
Chief Minister	22,951.6		
- Grant to the Overseas Aid Commission	8,880.7		
Economic Development	15,902.0		
Education, Sport and Culture	101,831.0		
Department of the Environment	6,585.8		
Health and Social Services	173,799.4		
Home Affairs	48,584.6		
Housing	(13,911.9)		
Social Security	166,834.6		
Transport and Technical Services	40,665.2		
Treasury and Resources			
- Department Allocation	36,662.4		
- Provision for Central Reserves	12,485.0		
- Provision for Restructuring Costs	10,000.0		
- Corporate Procurement Savings	(3,000.0)		
- Central Pay Provision	7,325.8		
- Terms & Conditions Savings Target	(7,000.0)		
Non Ministerial States funded bodies	22,027.7		
States Assembly and its services	5,296.1		
Net Revenue Department Expenditure Allocation	**655,920.0**	**657,516.2**	**698,035.8**
Capital Expenditure Allocation	**37,582.0**	**38,449.0**	**35,502.0**
Total States Net Expenditure Allocation	**693,502.0**	**695,965.2**	**733,537.8**

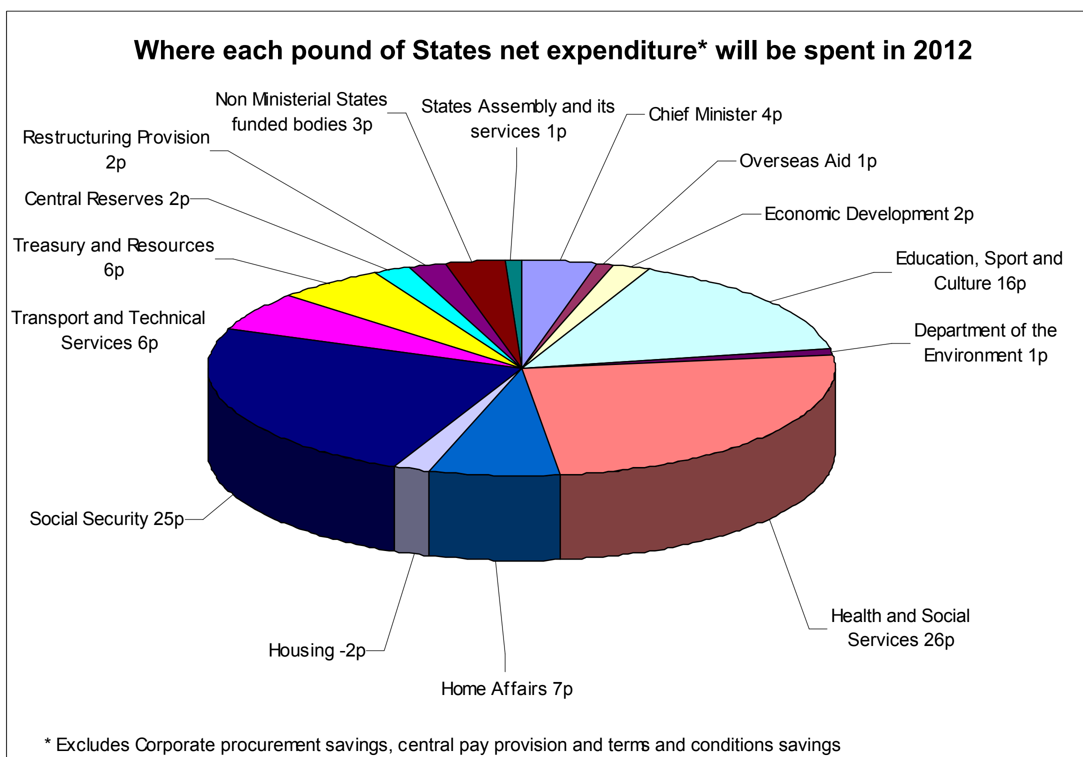
Adjustments to reconcile to Financial Forecasts:			
Net Revenue Expenditure Allocation	*655,920.0*	*657,516.2*	*698,035.8*
Depreciation	*(40,075.0)*	*(42,671.1)*	*(47,690.7)*
Net Revenue Expenditure Allocation (as shown in financial forecasts)	***615,845.0***	***614,845.0***	***650,345.0***
Capital Expenditure Allocation	*37,582.0*	*38,449.0*	*35,502.0*
JPH Asset Disposals Receipts	*(5,500.0)*	*(3,300.0)*	*-*
Earmarked Social Housing Capital Receipts	*(4,989.0)*	*(4,307.0)*	*(3,773.0)*
Other Earmarked Social Housing Funding	*(5,815.0)*	*(9,748.0)*	*(9,929.0)*
Unused Fiscal Stimulus Funding (Philips St Shaft)	*(3,600.0)*	*-*	*-*
Unused Pandemic Flu Monies (Clinique Pinel)	*(1,768.0)*		
Net Capital Expenditure Allocation (as shown in financial forecasts)	***15,910.0***	***21,094.0***	***21,800.0***
Total States Net Expenditure Allocation (as shown in financial forecasts)	***631,755.0***	***635,939.0***	***672,145.0***

Note:

The Overseas Aid Commission expenditure allocation appears as a grant from the Chief Minister's department, solely for the purpose of the expenditure allocations, as it has not yet been established as a States funded body under the Finance Law.

Summary Table C
Summary Graphs for 2012





Summary Table D
Consolidated Fund 2012

The Public Finance (Jersey) Law 2005 requires the balance of the Consolidated Fund at the end of 2012 to be estimated, reflecting the effect of the tax and funding proposals in this Budget, and those expenditure allocations agreed in the Annual Business Plan in September. The States is asked to note the estimated balance of £7,592,000.

		2011 Estimate		2012 Forecast
	£	£	£	£
Estimate of Unallocated Consolidated Fund Balance brought forward - 1st January		**54,000,000**		**24,770,000**
Movements in Year				
Income				
Income Tax	390,000,000		416,000,000	
Goods and Services Tax	65,626,000		80,047,000	
Impôts Duties	53,439,000		54,500,000	
Stamp Duty	20,873,000		24,231,000	
Island Rate	10,912,000		11,185,000	
Other Income	23,526,000		22,782,000	
Income to the States		564,376,000		608,745,000
Increase in CIF asset value		3,400,000		3,800,000
Depreciation		37,073,000		40,075,000
Capital Receipts, vote transfers and other funding sources		25,000,000		21,672,000
Unallocated Funds Available		**683,849,000**		**699,062,000**
Expenditure				
Net Revenue Expenditure Allocation from Business Plan	615,802,000		615,845,000	
Forecast variations	(9,075,000)			
Additional Expenditure Approved	13,130,000			
Depreciation	37,073,000		40,075,000	
Capital Expenditure Allocation	38,149,000		37,582,000	
Total Net Expenditure Allocation to States Funded Bodies		**695,079,000**		**693,502,000**
Transfer to Strategic Reserve		-		-
Proposed Transfer from Stabilisation Fund		36,000,000		-
Proposed Transfer to Stabilisation Fund		-		-
Other Fund adjustments		-		2,032,000
Estimated Unallocated Balance in Hand at 31 December		**24,770,000**		**5,560,000**

SUMMARY

	2011 Estimate	2012 Forecast
	£	£
Unallocated Consolidated Fund Balance brought forward - 1st January	**54,000,000**	**24,770,000**
Forecast surplus/(deficit) for the year	(65,230,000)	(19,210,000)
Transfer to Strategic Reserve	-	-
Proposed Transfer from Stabilisation Fund	36,000,000	-
Proposed Transfer to Stabilisation Fund	-	-
Other Fund adjustments	-	2,032,000
Estimated Unallocated Balance in Hand at 31 December	**24,770,000**	**7,592,000**

The 2012 Budget proposes that the transfer from the Stabilisation Fund in 2011 is reduced from £46 million to £36 million
The 2012 Budget includes the return of Fiscal Stimulus and Pandemic Fu monies of £3.6 million and £3.8 million to the Consolidated Fund of which £3.6 million was agreed for Phillips Street Shaft and £1.768 million was agreed for Clinique Pinel in the 2012 Business Plan.