



**Corporate Services Scrutiny Panel
2014 Budget Review Hearing with the
Assistant Minister for Treasury and Resources**

FRIDAY, 11th OCTOBER 2013

Panel:

Senator S.C. Ferguson (Chairman)
Deputy R.J. Rondel of St. Helier
Mr. M. Oliver (Adviser)

Witnesses:

Deputy E.J. Noel of St. Lawrence (The Assistant Minister for Treasury and Resources)
Ms. L. Rowley (Treasurer of the States)
Mr. D. Peedle (Economic Adviser, Chief Minister's Department)
Mrs. W. Martin (Director, Tax Policy)
Mr. D. Le Cuirot (Comptroller of Income Tax)
Mr. S. Le Marquand (Director, Legal Status and Revenue, Customs and Immigration)

[09:30]

Senator S.C. Ferguson (Chairman):

This is a hearing on the Budget of the Corporate Services Scrutiny Panel. There is a health warning there, which refers to the conduct of the meeting. If anyone has not read it, if they could read it before we get going. If you could please all say who you are and what your position is for

the purposes of the transcribers. Right, if we can look at the economic context of the Budget. Given the poor performance of G.V.A. (Gross Value Added) for 2012/13, how much new fiscal stimulus is there in the Budget for 2014?

Assistant Minister for Treasury and Resources:

Chairman, if you regard fiscal stimulus as items coming through the capital programme, then, as you know, we have some £88.9 million of capital proposed for 2014.

Senator S.C. Ferguson:

Yes, but how much of that is brought forward from 2015 and 2016? Because I think in the F.P.P. (Fiscal Policy Panel) recommendations they recommended bringing them forward, did they not?

Assistant Minister for Treasury and Resources:

No. As you know, Chairman, we have kept the capital spend for 2014 in line with what was proposed and debated and agreed upon in the M.T.F.P. (Medium Term Financial Plan) so the actual overall figure has not changed. What has happened is we have managed to squeeze more capital programmes into that £90 million that are at sort of “shovel-ready” state, so to speak.

Senator S.C. Ferguson:

Yes. Are you aware that the success of the deficit-reduction programme in the U.K. (United Kingdom) has led some to question the usefulness of fiscal stimuli? What is your reaction to that?

Assistant Minister for Treasury and Resources:

I think our track record on fiscal stimulus has proved that it has got merit.

Senator S.C. Ferguson:

How do you know?

Assistant Minister for Treasury and Resources:

How do we know that it has got merit?

Senator S.C. Ferguson:

Has merit? Have you measured it? Where is the report on the economic effects of the fiscal stimulus?

Assistant Minister for Treasury and Resources:

As you know, Chairman, there was a full report done on the fiscal stimulus programme and that has been published ...

Senator S.C. Ferguson:

No, that was not an economic report. It was an accounting report, with respect. It said, yes, there was a fiscal stimulus, so much was spent and it was spent when. It was an excellent report but it was not an economic report.

Assistant Minister for Treasury and Resources:

Okay. In the report itself, it included the outputs of the fiscal stimulus exercise, which included the reference to the amount of employment that had been saved or generated, among other indicators.

Deputy R.J. Rondel:

Could I just ask, in the F.P.P. report, it did comment that it was too early to judge whether stimulus will be provided to the economy in 2014/15 by capital expenditure or one-off receipts would be warranted. A contingency plan should be made as to what measures could be implemented. What contingency plans?

Assistant Minister for Treasury and Resources:

Deputy, as I referred to before, that was part of the F.P.P.'s report of last year, I believe, where they said that we should be giving thought to bringing forward as many capital programmes that are "shovel-ready" as possible. That is exactly what we have done, you know, and we are eagerly awaiting the F.P.P.'s report for 2013, which should be coming out between now and the time that the Budget is debated so we will have up to date information by the time the Budget is debated.

Senator S.C. Ferguson:

Have you revisited the fiscal stimulus programme to see whether it was a continuing stimulus or whether it was just a one-off?

Assistant Minister for Treasury and Resources:

The original fiscal stimulus project, the £44 million, was obviously a one-off exercise. There are other automatic stabilisers in the economy that are ongoing through the income support system et cetera.

Senator S.C. Ferguson:

Yes. I know. I am not talking the stabilisers. I am talking about the effect of the stimulus. Was there a continuing effect or was it just a spike in the economy? Perhaps Dougie Peedle can tell me.

Assistant Minister for Treasury and Resources:

It kept people in jobs and meant that we continued to create employment for those people as opposed to them losing their jobs and coming on to the income support system.

Senator S.C. Ferguson:

Yes, but the economists are saying that fiscal stimuli are spikes. They do not provide any long-term...

Assistant Minister for Treasury and Resources:

To some degree, Senator, I would agree with you that they are injections of capital into the economy but there are some legacy factors that come out of that.

Senator S.C. Ferguson:

Do we know what they are? Have you got a report on that?

Assistant Minister for Treasury and Resources:

There are legacy factors, not necessarily in pure economics terms but there are legacy factors in that we have infrastructure that is up to date and has been improved. For example, we now have a double capacity size of our hospice unit. We have a new visitor centre at Durrell so there are non-economic legacies as well as the fiscal stimulus at the time to support the economy at the time.

Senator S.C. Ferguson:

Excellent. Right. How will the stated aim that the Budget should stimulate growth and job creation be quantified and measured?

Assistant Minister for Treasury and Resources:

Senator, that is difficult to actually do. Maybe if we can get some help from...

Treasurer of the States:

Chairman, we have done a piece of work for the Fiscal Policy Panel already where we have looked forward to 2015 and looked at the capital spending in particular, so we have been able to distinguish as between the capital allocations that are made each year for capital and the actual cash flow, because of course, what the Fiscal Policy Panel are interested in is when does the cash hit the economy rather than when do we allocate the Budget for a particular scheme. We have done a piece of work for the Fiscal Policy Panel which shows when the cash has hit the economy from our schemes and they are happy to take account, interestingly, of schemes once the tender is awarded, not just when the Budget is spent because they regard the impact on the economy as

being the award of the tender, because that gives certainty to the local businesses as to the work that they have got forthcoming. We would be happy to share that with you. We can send it to William.

Economic Adviser, Chief Minister's Department:

Just to add, in terms of the economic impact, we recognise the risks that there are with fiscal stimulus but F.P.P.'s advice is to do stimulus in a way that met the 3Ts (timely, temporary and targeted) which I am sure you all are all familiar with, but also if we do investment that is needed anyway, we are just bringing forward stuff that you need to do, which has got economic value in its own right, then any of the concerns about fiscal stimulus are largely put to one side. In terms of assessing the impact of the last fiscal stimulus programme, it was a very detailed assessment in terms of were the projects meeting the 3Ts? Was there success in that area? The F.P.P. seemed very happy and reported so in their annual report at the time. I think in terms of maximising the economic impact going forward, it is exactly the same issue, timeliness, doing things that you need to do and have got economic value in their own right. The legacy, as the Assistant Minister has just said, is really in terms of the investment that has been made, the returns that you get from doing stuff that you need to do anyway has got economic value. That is the real issue.

Senator S.C. Ferguson:

Yes, but if we can get back to the aim that the Budget should stimulate growth and job creation, how are we going to measure it in economic terms?

Treasurer of the States:

Another way, Chairman, in which the Budget is stimulating economic growth is very clearly by the tax measures that are being taken, which I am sure you approve of because it is leaving more money in the economy, so reducing the 27 per cent marginal rate to 26 percent marginal rate leaves £7.8 million in the economy that would otherwise be taken out in tax so people are able to spend that as they wish and that will in itself provide fiscal stimulus as will other measures that we are taking like increasing the higher education child allowance and increasing the exemption thresholds.

Senator S.C. Ferguson:

Will you measure it, you know, for instance, by looking at employment rates? What measures are you going to take? Employment rates? Economic growth? G.V.A.? We would just like to know.

Economic Adviser, Chief Minister's Department:

It is very hard. You need know what the counter factor would be if you are going to do a detailed assessment but secondly, you probably need more detailed economic data than we have in

Jersey. You would need detailed national accounts, probably input/output table as well but in terms of the individual interventions, yes, you can assess the impact. You know, Advance to Work, what is the impact there? They are monitoring the people that go through Advance to Work, that enter employment. That is monitored on a monthly basis. In terms of an economic growth and diversification strategy, the enterprise strategy has got smart objectives in there. The Innovation Fund has got an assessment framework to see the impact of that. In terms of the overall macro implications of the Budget, as I said before, getting the capital investment right, meet the 3Ts, then you are minimising the risk. Yes, you can look at the amount of money that you put into the economy. Unfortunately we do not have detailed model where we can say: "Okay, if the Government did this, this would be the impact. If it did that, that would be the impact" because we do not have the detailed information but we can look at it.

Deputy R.J. Rondel:

Do you measure the success or otherwise of these schemes...?

Economic Adviser, Chief Minister's Department:

They can be measured against their individual objectives, sure, yes.

Deputy R.J. Rondel:

Do you measure them?

Economic Adviser, Chief Minister's Department:

Me, personally? Not always but I see the information. For example, the Advance to Work team does the monitoring. Their policy, similarly on the economic growth and diversification strategy, the individual elements of that have got their objectives and Economic Development will be measuring those.

Senator S.C. Ferguson:

But Strathclyde University used to run a set of input/output tables on Jersey. What has happened to that?

Economic Adviser, Chief Minister's Department:

They had a set of input/output tables, I think, for 1998, which were not approved by the Statistics Unit. They are informative, but as you can imagine, well out of date. They do not provide enough information certainly to look at the impact of fiscal stimulus.

Senator S.C. Ferguson:

Right. Is there any reason why they got abandoned then? That we did not keep them up?

Economic Adviser, Chief Minister's Department:

Just difficulty in doing it. I mean, I talk to the head of Statistics quite a lot in terms of whether we can get input/output tables, whether it is possible to do that at the moment. I think his advice is that it is not possible to do that given the amount of information that he is already gathering from businesses. Clearly we would like the input/output tables. It would help but I am not sure it would give us detailed information on the impact of, say, fiscal stimulus.

Deputy R.J. Rondel:

Are you saying it is not possible due to the workload of the Statistics Unit or...?

Economic Adviser, Chief Minister's Department:

I do not want to speak for Duncan. I am sure you can ask him separately. I think it is not just workload but also the burden that it would place on businesses in terms of complying or providing further information on top of all the surveys and information that he gets at this point in time.

Deputy R.J. Rondel:

Additional bureaucracy.

Economic Adviser, Chief Minister's Department:

I think he thinks it might be one step too far to be asking financial services firms, for example, for information, for a financial institutions survey, a G.V.A. business tendency survey. He is getting additional information, I think, from an annual business inquiry so it is really about the demands he places on businesses and whether it would affect the response rate to other surveys or other evidence.

[09:45]

Senator S.C. Ferguson:

Yes, pity that, because they were very useful things to have.

Economic Adviser, Chief Minister's Department:

They are, yes. I mean, certainly the top 3 or 4 pieces of information that we would like to have on the Jersey economy.

Senator S.C. Ferguson:

Right. Now last year's budget was widely accepted as boring despite the F.P.P. urging the Treasury to act now, in 2012/13 with fiscal stimulus. This budget has been billed as: "A budget for

economic growth and job creation.” Given the state of the economy, as reflected in the G.V.A., why has the Minister taken so long to respond to the recommendations of the F.P.P.?

Assistant Minister for Treasury and Resources:

The Treasury, the Minister and myself have not waited. The budget for 2013 did take some measures. We had from memory, I think it was £75 million worth in the capital programme. We have increased it this year, along the lines of the M.T.F.P. up to almost £90 million. The tax measures last year, we did increase the exemption limits for marginal rate taxpayers, what I would consider modest increases in the Impôts last year, in line with the Council of Ministers policy were measures that meant that last year was a stable budget as opposed to a budget signalling change.

Senator S.C. Ferguson:

Yes, because a lot of our capital spending has been catching up on capital matters that have been neglected in the past.

Assistant Minister for Treasury and Resources:

I agree, Senator, there have been issues in the past with backlog maintenance, et cetera. We have taken steps to address that. There was an extra £27 million injected into the Housing Department in May 2012 to help assist in bringing their stock up to minimum standards and to invest into new stock.

Senator S.C. Ferguson:

But this budget is going to provide economic growth and job creation. How?

Assistant Minister for Treasury and Resources:

By the measures. We are going to leave more money in people's pockets and Government are going - with an eye to the 3Ts in terms of its capital programmes - to pump some £90 million into the economy through the capital programmes.

Senator S.C. Ferguson:

I was waiting for you to pass it on. Right. The F.P.P. reported in 2012 that it had to make significant adjustments to the financial forecast and it recommended that in future the presentation of States finances would be more informative if such adjustments were included already. Have you done that?

Assistant Minister for Treasury and Resources:

Yes, that has been done for them this year.

Senator S.C. Ferguson:

What was the quantum of the adjustments?

Assistant Minister for Treasury and Resources:

If I can ask the Treasurer to deal with that because it is ...

Treasurer of the States:

That is the information, Chairman, that we offered to share with you earlier in the meeting so we will send that do you.

Senator S.C. Ferguson:

Which was?

Treasurer of the States:

These are the adjustments that we have done for the F.P.P. to our accounts to take account of cash flows rather than budget allocations, for example, so that they can have a better understanding of when money is hitting the economy rather than when it is just being allocated.

Senator S.C. Ferguson:

When the tenders are made. Yes?

Treasurer of the States:

Yes.

Senator S.C. Ferguson:

Okay. Right. Richard.

Deputy R.J. Rondel:

How does the 2014 budget contribute to the reform of the Jersey tax regime and the overall tax policy?

Assistant Minister for Treasury and Resources:

As you know, it is a long-term aim for us to have independent taxation assessments. However, the down side of that would mean that it would be several thousand additional computations and additional people coming in, having a tax coder on their account. But the Budget in terms of reducing the marginal rate from 27 per cent to 26 per cent helps towards our overall aim, as does the increasing of the exemption limits.

Deputy R.J. Rondel:

Okay, but what would the implications be if the income forecasts are not met?

Assistant Minister for Treasury and Resources:

The Government would have less money.

Deputy R.J. Rondel:

Yes, but what would the implications on our spending be?

Assistant Minister for Treasury and Resources:

The implications on our spending plans, particularly with capital et cetera ... you know, there would not be. We have set the spending limits for departments now, for 3 years so those would not change. What would change is that we would flip from a break-even position to a slight deficit.

Deputy R.J. Rondel:

If income does not come in as forecast, is there a plan B?

Assistant Minister for Treasury and Resources:

Well, the plan is already set, Deputy.

Deputy R.J. Rondel:

But you would still spend...

Assistant Minister for Treasury and Resources:

We have the Medium Term Financial Plan. It is a 3-year plan. Departments have been given their budgets for 3 years. What we can say is that our income forecasts are even more robust than in prior years and continue to be refined and developed to make sure that our forecasting is as accurate as possible. As you know, we have started a piece of work on long-term forecasting of both capital spend and revenue spend but also on long-term income to the States.

Deputy R.J. Rondel:

Okay. So you are more confident than ever before that your income forecasts are...

Assistant Minister for Treasury and Resources:

Treasury does not rest on its laurels. Every year we try and improve our forecasts.

Senator S.C. Ferguson:

Yes, and one of the things that we noticed is the proposal to look at independent taxation for, for instance, married couples. But we have not had the overall debate on should we perhaps encourage marriage by giving better allowances for married couples, all this side of it. Are we not going to have that opportunity?

Assistant Minister for Treasury and Resources:

Well, my own view, and it is a personal view, Senator, is that Government should not interfere with people's personal choices in terms of how they define their relationships, whether or not they decide to be a co-habiting couple or a married couple. That is an individual's choice and Government policy should not interfere with that so I believe that we are doing the right thing by an evolution process to move to independent taxation.

Senator S.C. Ferguson:

But is that what the general public feels?

Assistant Minister for Treasury and Resources:

I believe the general public have a right of choice and our tax system should not interfere with that right of choice in terms of whether or not they co-habit or get married or go into a civil partnership.

Senator S.C. Ferguson:

But you do not feel that that is perhaps a debate that we should have?

Assistant Minister for Treasury and Resources:

Personally, as I have already stated, Senator, no, I do not.

Senator S.C. Ferguson:

All right.

Deputy R.J. Rondel:

With regards this budget, who do you consider the winners and the losers are? What sectors of the population?

Assistant Minister for Treasury and Resources:

I would like to think that there are no losers in terms of those on the higher earning bands are not made any worse by this budget and those on what we deem to be (it is a definition) "middle Jersey", we are trying to help those because over the past 5 or 6 years, they have taken the brunt

of the tax changes that have gone through, just to try and alleviate some of the pressures on them. I believe that those who are less fortunate have been and continue to be well supported.

Deputy R.J. Rondel:

I mean, some of the sectors I continually get calls from are the pensioners in particular and they feel hard hit, where some have had their own private health pensions and things like that and obviously I have mentioned it before but that has gone. They seem to be finding it particularly difficult. Would you say that sector is probably a little bit more disadvantaged than the working population?

Assistant Minister for Treasury and Resources:

I do not believe so. I believe that we have put measures in place to ensure that those that are not as fortunate in that particular sector are protected, but there are many pensioners who are, shall we say, comfortable in their retirement.

Deputy R.J. Rondel:

I mean, it might be helpful that you provide different sectors and different examples, for the public as well, on what it means to them.

Assistant Minister for Treasury and Resources:

If I can bring in the Comptroller here. We have some data on that particular sector of our community. Perhaps the Comptroller can share that.

Deputy R.J. Rondel:

I think it is important as well from a public point of view that people are made aware of how they will benefit, in pounds, from a PR point of view as well.

Assistant Minister for Treasury and Resources:

If we can get the Comptroller to give us some data?

Comptroller, Income Tax:

The key measures are the increase in exemption thresholds by 1.5 per cent and also the reduction in marginal rate will benefit pensioners as well as non-pensioners. In addition, I can also remind you that the pensioners have a higher exemption threshold than non-pensioners so the pensioners will benefit by these key tax measures. The number of single persons above the age of 63 for the year assessment 2011, because that is all we can measure it at the moment, is about 2,900 people. They are winners. As regards married couples over the age of 63 would benefit by higher exemption thresholds and these measures, is approximately 3,000 and they are winners as well.

Deputy R.J. Rondel:

That is out of a total of how many? Would you have that figure?

Comptroller, Income Tax:

The ones that will not benefit by these measures, pensioners in the 20 per cent band are 560 single pensioners above the age of 63 and approximately 560 married couples that are on high incomes.

Deputy R.J. Rondel:

Okay. They will be worse off because of this? But they are on higher incomes.

Assistant Minister for Treasury and Resources:

They will not be worse off.

Comptroller, Income Tax:

They will not be worse off. They just will not benefit by these 2 key measures, the reduction in the marginal rate and the increase in the exemption thresholds.

Deputy R.J. Rondel:

Okay. Might be useful to have some of that information if possible.

Assistant Minister for Treasury and Resources:

We can forward that information up to the Panel.

Deputy R.J. Rondel:

And other sectors as well? The younger generation, single person and married couple, 2.2 children...

Assistant Minister for Treasury and Resources:

There are examples in the Budget document that were issued but we can provide a pack.

Deputy Comptroller, Income Tax:

I can give you these figures.

Senator S.C. Ferguson:

Yes, although we are getting quite exposed, are we not? Because the number in the 20 per cent range is falling. The number in the marginal range is falling and the number who do not pay tax is

falling but our expenditure is going up so, you know, there is a balancing act going on here, is there not?

Treasurer of the States:

There are 16 per cent of taxpayers in the 20 per cent range, Chairman, and 84 per cent of taxpayers are marginal rate taxpayers.

Senator S.C. Ferguson:

No. That is only 84 per cent of the people who pay tax.

Treasurer of the States:

Yes, 84 per cent of the taxpayers, Chairman.

Senator S.C. Ferguson:

That is something in the order, I think, of 55 per cent of the people who might pay tax if they had sufficient income.

Treasurer of the States:

Of the taxpayers...

Senator S.C. Ferguson:

I think we need to look at the whole population, do we not?

Treasurer of the States:

Of the taxpayers, Chairman, 16 per cent of the taxpayers pay at 20 per cent and...

Senator S.C. Ferguson:

Yes, and provide something like 45 per cent of the tax collected.

Treasurer of the States:

... 84 per cent of the taxpayers pay at the marginal rate.

Senator S.C. Ferguson:

Yes, but you are not including the people who do not pay tax.

Assistant Minister for Treasury and Resources:

Chairman, what we will forward to you is the answer to Deputy Southern's question of either last year or the year before, which set out the quintiles.

Senator S.C. Ferguson:

I do have the figures back to 2008 which Malcolm very kindly gave to me, because it has worried me that in 2008, 29 per cent of taxpayers paid no tax, 53 per cent - these are people who are eligible to pay tax if their income was sufficient - paid at the marginal rate and paid 41 per cent of the tax. Eighteen per cent pay at 20 percent and paid 59 per cent of that tax collected. Those numbers are going down and I am thinking...

Assistant Minister for Treasury and Resources:

Chairman, I think we are singing off the same hymn sheet because one of the reasons why we are proposing to drop the marginal rate from 27 per cent to 26 per cent is to help those people paying tax without taking more people out of the tax net.

[10:00]

If we made it an equivalent measure in terms of value of the £7.8 million, by increasing the marginal limit then we would have taken a substantial number of people out of the tax net and so we are singing off the same hymn sheet, Senator, because we do not want to do that.

Treasurer of the States:

The other thing, Chairman, is that you are thinking of proportions and the total number of taxpayers has gone up.

Senator S.C. Ferguson:

Yes, but if we are gradually moving everybody down and fewer people are paying at the full 20 per cent range...

Assistant Minister for Treasury and Resources:

Senator, as I have just said, these proposals that we are making are doing the reverse of that. That is what would have happened if we had continued...

Senator S.C. Ferguson:

But you are not putting more people into the 20 per cent rate, are you?

Assistant Minister for Treasury and Resources:

Can I finish, Senator? No.

Treasurer of the States:

We can give you the most current figures as soon as we have finished this year's assessment.

Assistant Minister for Treasury and Resources:

But we are making sure that we maintain the number of people who pay tax.

Senator S.C. Ferguson:

So you are putting a bigger burden on the people who pay at 20 per cent?

Treasurer of the States:

No, we are not, Chairman.

Assistant Minister for Treasury and Resources:

Their tax bills will not be going up. Their tax bills are linked to the amount of their income. We are not saying that the standard rate is going to 21 per cent, which... that would not be the case.

Senator S.C. Ferguson:

No, I do not think do but if you have got fewer people paying at 20 per cent, you are spreading the rest ... if you drop from the 20 per cent range into the marginal rate, then your tax bill is going to go down.

Assistant Minister for Treasury and Resources:

Not necessarily, Senator. It depends on your personal circumstances. Your tax bill might stay steady, or your tax bill might go up but you are still in the marginal rate. What we are aiming to do is to make sure that people do not drop out of the tax net altogether.

Senator S.C. Ferguson:

That is cunning. How does your tax bill go up if you stay in the marginal rate?

Assistant Minister for Treasury and Resources:

Well, there could be circumstances where your income increases, and so you were in a 20 per cent band but you drop and say you have a child in higher education, and you drop into the marginal rate, your overall tax bill could be slightly more but because your income has gone up more you still drop into the marginal rate. There are so many different permeables that that could happen.

Deputy R.J. Rondel:

That is why we need a list of different examples.

Assistant Minister for Treasury and Resources:

We will provide examples to you.

Deputy R.J. Rondel:

You have sort of part answered this but how did you decide what to do in respect of the thresholds, to exempt thresholds? How did you...

Assistant Minister for Treasury and Resources:

The marginal relief thresholds?

Deputy R.J. Rondel:

Yes.

Assistant Minister for Treasury and Resources:

It was a combined package between the desire to release the pressure on Islanders, on the 84 per cent of taxpayers so it was a balancing act between increasing the thresholds. We thought by increasing them at the June inflation rate was the correct thing to do in combination with a drop from 27 to 26 per cent.

Deputy R.J. Rondel:

Had this ever been considered in the past?

Assistant Minister for Treasury and Resources:

I believe it had many, many years ago, I think. The reduction in marginal rate was considered many years ago.

Comptroller, Income Tax:

I do not have the actual years but the marginal rate has been reduced on a previous occasion and it has gone back up again. I mean, it was as high as 30 per cent. I do not have the actual details of the history of it.

Deputy R.J. Rondel:

You might remember that, Senator.

Senator S.C. Ferguson:

Yes, if the Comptroller could - going back to the marginal rate stuff - let us have an example of a marginal rate where the person being taxed falls down from 20 per cent to marginal, but their tax bill goes up, I would be interested. We would be interested, certainly. If you would like to get back to your computer in due course, it would be appreciated. Right. What are the economic implications of reducing the marginal rate?

Assistant Minister for Treasury and Resources:

The economic implications?

Senator S.C. Ferguson:

Yes.

Assistant Minister for Treasury and Resources:

Is that we leave £7.8 million in the economy.

Senator S.C. Ferguson:

Yes. The trouble with that is what is going to happen to it when it is in the economy? Have we any ideas? What usually happens? What happened on previous occasions?

Economic Adviser, Chief Minister's Department:

Again, we struggle because we do not have information on saving rates and things like that. But you would expect if you give money back to people after many years when their real incomes have been squeezed, and you alleviate some of that squeeze, hopefully a proportion of it will be spent in the local economy. There is no cast iron guarantee but I would not recommend using an assumption that it is all saved or that it is all spent outside the Island.

Deputy R.J. Rondel:

They all go on the Internet and buy things?

Senator S.C. Ferguson:

No. Has the experience in the bigger economies not been that people reduce their debt rather than spending it?

Economic Adviser, Chief Minister's Department:

That can depend on individual circumstances and the amount of personal debt but we cannot compare the level of personal debt in Jersey relative to the larger economy so we should not just follow what has been the experience elsewhere on that basis.

Senator S.C. Ferguson:

But you cannot get a feel for that from the banking industry and so on?

Economic Adviser, Chief Minister's Department:

Not really because, obviously, people have credit that comes from outside the Island. There is a big chunk of credit on credit cards that they are not familiar with.

Deputy R.J. Rondel:

My concern is that people more and more are obviously buying outside of the Island through the Internet and even local shops and franchises that come over, they are spending, fitting out shops is happening, but that money is going back to the U.K. and not staying in the local economy. Do you see that as a trend continuing and therefore concerned that any advantage to money circulating in the Island is not really happening like it used to?

Assistant Minister for Treasury and Resources:

I think there is an irreversible flow happening in the retail sector where people are moving from what they call bricks to clicks. It works both ways. If local retailers can have an online presence then they can be generating income from outside the Island and bring it into the Island.

Deputy R.J. Rondel:

Do you see any evidence of that though?

Assistant Minister for Treasury and Resources:

There are some local businesses that have been very successful in the past. Play.com was one such business this way.

Deputy R.J. Rondel:

But looking forward?

Assistant Minister for Treasury and Resources:

There are businesses that do have an online presence that do still sell their products outside of the Island.

Senator S.C. Ferguson:

But have we any measures to say how much more, for instance, we are spending online compared to 30 years ago when it was mainly through the catalogues? We have always had a lot of catalogue business over here. You know, GUS's, these big mail order firms. Have we any idea how much has gone Internet as opposed to catalogue?

Economic Adviser, Chief Minister's Department:

Again, we have anecdotal information but I do believe the head of Statistics is looking at getting information that he can put alongside the retail sales information in terms of the trend in online purchases. We have got information from the U.K.. You would expect from that perspective that Jersey is probably moving in line with the U.K., perhaps maybe even to a great extent. I do not know. But I think in terms of your question around the sort of economic impact and the tax cut, I

think once you look at the economy and decide, okay, if you are doing everything possible in terms of capital expenditure to support the economy, and I think it is fair to say there is a significant amount of capital expenditure in the Budget looking forward and that, you know, really is going to help support the economy, then if you are looking at supporting it through a reduction in taxation of some form, because you feel you need to do more, give a signal to consumers, help restore consumer confidence then income tax is the right tax to cut. The States has taken a number of decisions over many years to move from direct taxation to indirect taxation. That is an economically sound move so if you have the ability to reduce taxation, then reducing income tax for 84 per cent of taxpayers would be quite an effective way of reducing taxation.

Senator S.C. Ferguson:

I think we are going to have a big discussion over this 84 per cent, are we not?

Assistant Minister for Treasury and Resources:

But Senator, the 84 per cent...

Senator S.C. Ferguson:

I think you are going to give us the up to date figures, are you not, Mr. Le Comptroller.

Comptroller, Income Tax:

Yes, I will, Senator. Hopefully next week, to reflect the entire base, I think is what you are looking at, the tax base and the non-tax base.

Senator S.C. Ferguson:

Yes, we have already asked how many people will be affected by the proposal to reduce the marginal rate. How is aligning the marginal and standard rates of tax a first important step towards independent taxation, which is a quote from the...

Assistant Minister for Treasury and Resources:

Well, it is an important step. It is one step of many and it is going to be a long process because it is quite a complex thing to do, because at the end of the day, to realign, to have effectively one system, which is say the marginal rate at 20 per cent as well as the normal rate at 20 per cent, there will be some winners and losers in that. It is a fine balancing act to bring it in. You could not bring it in in one fell swoop because it would be too much of a shock to the economy. Because, at the end of the day, some taxpayers are either going to have to pay more or the States are effectively going to receive less income. It is how you get that balance and you cannot do that in a short period of time.

Senator S.C. Ferguson:

Yes, because, of course, marginal tax was brought into provide a taper from nothing to 20 per cent.

Assistant Minister for Treasury and Resources:

Yes, it was designed to alleviate those on low incomes.

Senator S.C. Ferguson:

You know, how are you going to keep a taper? It is all right saying that is a first important step but is there a better way of tapering?

Assistant Minister for Treasury and Resources:

We think it is the most appropriate lever to use, tool to use, in our tool box at the moment but it is a long process.

Senator S.C. Ferguson:

How long do you reckon?

Assistant Minister for Treasury and Resources:

I would not hazard a guess but we are probably talking closer to 10 years than we are to 5.

Senator S.C. Ferguson:

Right. Now the half-year report stated that income tax returns were down at the end of June 2013 by £18.2 million and that this could be explained in part by the fact that tax returns can be submitted at varying times. Basically, you know, are you suggesting that the returns not yet processed will yield better revenues than the ones you have already processed?

Comptroller, Income Tax:

We send out the tax returns in January of each year, then they come back and the assessors assess them but they are obviously coming back faster than they can keep up with. You know, they do their best to turn them around as quickly as possible. You have to file your personal tax return by the end of May, but if you employ the services of a tax agent then you have got until the end of July to file your tax returns. I think it is fair to say that those tax returns that are filed by agents generally and in the round would involve taxpayers who generally pay a higher amount of tax. Generally.

Senator S.C. Ferguson:

If you can afford an accountant then you have obviously got more income.

Comptroller, Income Tax:

I think it is fair to say that not all agents leave it to the last minute at the end of July but, you know, if they have got a final deadline, they will go to it. So it is difficult to stagger equally the turnaround or process the tax returns.

Senator S.C. Ferguson:

How are they running at the moment?

Comptroller, Income Tax:

The tax returns for 2012 year assessment?

Senator S.C. Ferguson:

Yes. Well, the tax returns for 2013 whether they are prior year or current year. How are they running?

Comptroller, Income Tax:

We have just about finished processing the tax returns for the year of assessment 2012. We are just down to a few hundred or a thousand, something like that.

Senator S.C. Ferguson:

Are they looking good, bad, indifferent?

Comptroller, Income Tax:

How do you mean good, bad, indifferent?

Treasurer of the States:

In terms of the income, Chairman, we are doing better on the income than we had anticipated. Our Medium Term Financial Planning assumptions are holding up well. That is the overall position. There are some variations within that but on the income tax we are doing better than our Medium Term Financial Plan assumptions.

Senator S.C. Ferguson:

What happens if you do not include the £10 million one-off company tax payment?

Treasurer of the States:

We are still doing better. We are still doing better than our Medium Term Financial Plan targets, even after allowing for that £10 million one-off.

Senator S.C. Ferguson:

And the £3 million and the utility dividend?

[10:15]

Treasurer of the States:

What about the 3... I am not sure what your question is there, Chairman.

Senator S.C. Ferguson:

If you take the overall income, you know, if you take out the one-offs of £13 million you are saying that total income is still ahead of the M.T.F.P.?

Treasurer of the States:

On tax, yes, Chairman. On stamp duty, no. But on tax and overall, we are still ahead of our targets. Thankfully, our tax income is stronger than we anticipated. Where we are on stamp duty at the moment, at the August position, we were almost £9 million under on stamp duty so that is the area where we are most struggling. But the information that we have from the construction industry, which is very interesting for us, is that our first quarter position showed an under achievement of income projected forward of around £8 million and at the time the construction industry was showing a third reduction in the level of activity that they were anticipating for the whole year. At the end of the second quarter they were expecting an 11 per cent reduction and now they tell me, because, of course, they see the current position, they are only 2 per cent below in September. So the construction industry have been monitoring flows through the Royal Court and the flows have gone from an expected minus a third down to minus 11 per cent down to only minus 2 per cent down so we are very much hoping that - needless to say our stamp duty will lag that - it will follow the same pattern and that our stamp duty position will improve by the time we get to the end of this year and certainly into next.

Deputy R.J. Rondel:

Which sectors of the economy are improving the most? Is it mainly finance, for the income tax return receipts? Is it better than...

Treasurer of the States:

I have not got that analysis with me. We do have some analysis. Unless Kevin has got that?

Deputy R.J. Rondel:

I am just interested to know which sectors are performing better than you anticipated.

Treasurer of the States:

I can let you have that outside the meeting, Deputy.

Deputy R.J. Rondel:

That would be useful, thank you. You mentioned the income tax returns submitted by agents in July, is it not? July?

Assistant Minister for Treasury and Resources:

Yes. Their deadline is the last Friday of July.

Deputy R.J. Rondel:

Deadline in July. Are you satisfied with that deadline or is there flexibility to bring that forward, that could help?

Assistant Minister for Treasury and Resources:

It is a sort of conflict of interest here. Until recently I was one of those tax agents. It would be difficult for some tax agents to bring that deadline forward but it is really an administration matter. It is not really a policy matter. It is more of an administration matter between the Comptroller and the tax agents.

Treasurer of the States:

Deputy, if I could go back to your previous question where you were asking about the variation between different parts of tax? Personal tax is up. Company tax is down. G.S.T. (Goods and Services Tax) is marginally lower than we were anticipating and other areas are broadly as we were anticipating. So the personal tax is up and company tax is down.

Deputy R.J. Rondel:

What date is that information?

Treasurer of the States:

This is our August position.

Deputy R.J. Rondel:

August. Okay.

Treasurer of the States:

But the increase in personal tax is above the reduction in company tax.

Deputy R.J. Rondel:

It would be nice to know what sector of the industry within that...

Treasurer of the States:

Within that. Yes.

Assistant Minister for Treasury and Resources:

We will get that information to you, Deputy.

Deputy R.J. Rondel:

That is quite important. Sorry.

Assistant Minister for Treasury and Resources:

Sorry, to the Comptroller on the feasibility of bringing forward the cut-off date from July.

Deputy R.J. Rondel:

Are you satisfied you are...

Comptroller, Income Tax:

It would be nice to have an earlier date for the agents but as the Deputy has pointed out, those tax returns tend to be more complicated and require additional information over and above what an ordinary taxpayer might have...

Deputy R.J. Rondel:

For their own clients.

Comptroller, Income Tax:

...so the agents would not be particularly amenable to moving the deadline dates forward.

Deputy R.J. Rondel:

Okay. Thank you.

Senator S.C. Ferguson:

How much difference to collecting the tax information do you think doing the returns online will make? How much difference will it make?

Comptroller, Income Tax:

From an administrative point of view of the taxes, it will make a huge difference. I mean, processing tax returns electronically within the Taxes Office is far simpler and more effective, would cost less than scanning in tax returns and then processing them electronically.

Senator S.C. Ferguson:

Have you got any idea of the sort of cost-benefit?

Comptroller, Income Tax:

I do not have anything with me. Certainly postage costs would be an immediate benefit. I mean, the cost of sending out personal paper tax returns is quite high so having a facility to file online would immediately cut that cost if everybody decided to file online.

Senator S.C. Ferguson:

Presumably it means you would get your money in earlier.

Assistant Minister for Treasury and Resources:

People are generally paying their money through the I.T.I.S. (Income Tax Instalment System) system so it would not necessarily affect that. What it would do is mean the department would be able to issue the percentage...

Senator S.C. Ferguson:

It would affect the pensioners. They pay half yearly, do they not?

Assistant Minister for Treasury and Resources:

There is no intention to change the current system whereby as soon as the assessment is issued, the tax is due. It would get money in quicker if we could issue the assessments quicker, yes.

Senator S.C. Ferguson:

Yes. Now, the exemption thresholds for parents with children in higher education. Who is going to benefit? Only those at the marginal rate or would all taxpayers benefit?

Assistant Minister for Treasury and Resources:

It is only those that come into the marginal rate, so currently that would be those 84 per cent that have children at university or in higher education. Some on the margins, some families that are currently are means 20 per cent, some of those that are close to the margins will be drawn into the marginal rate system and we are talking, I think, from memory, about 1,000?

Comptroller, Income Tax:

Something like that.

Assistant Minister for Treasury and Resources:

It is about 1,000 families that would be brought into the marginal rate system.

Comptroller, Income Tax:

But not all of those, I have to say, would necessarily have children at further education.

Assistant Minister for Treasury and Resources:

Yes.

Senator S.C. Ferguson:

Yes, because under the new sort of exchange of information between departments, will there be some information exchange between Tax and Education as to verifying the means testing applications of parents putting in for grants?

Assistant Minister for Treasury and Resources:

I believe parents already have to prove their incomes with the Education Department if they are looking to get financial assistance from the Education Department in terms of grants for higher education so it does not come into Treasury and into the provisions that we have made in the Budget. The 2 are completely decoupled. There is no need for us to have an automatic information system in place.

Senator S.C. Ferguson:

All right. Because, I mean, I know there are cases where ex-husbands do not get included in the calculations and the ex-husbands could probably pay for the education without any problem.

Assistant Minister for Treasury and Resources:

You may well be right, Senator, but it is not a question for Treasury. It is a question for the Minister for Education, Sport and Culture.

Comptroller, Income Tax:

The Taxes Office has had for many, many years, a process, what we call education certificates, so in other words if you are applying for a grant to Education for your son or daughter at university, you have got to complete a form and that form has to be stamped by the Taxes Office. We check what has been declared on the grant application form with the tax return that has been submitted by the parent or parents.

Deputy R.J. Rondel:

I think that was brought up in the Assembly a few months ago.

Senator S.C. Ferguson:

Yes, but they were changing it, but as I say, the question of ex-husbands not meeting their...

Deputy R.J. Rondel:

Or wives.

Senator S.C. Ferguson:

...well, possibly... not meeting their maintenance requirements. Right. What have you done, sorry, getting on to Impôts. What have you done to determine how much tobacco consumed in the Island is purchased duty-free? We hear the figures going around. How do you know?

Assistant Minister for Treasury and Resources:

There are some figures that have been published by the industry, which indicate 41 per cent, yes. But they are industry's figures. They are not Government figures.

Deputy R.J. Rondel:

Are they reliable?

Assistant Minister for Treasury and Resources:

I would not actually know. I have not analysed them, Deputy. Perhaps if I can bring in the Director here? He will be able to give you some more background detail about what the department does in terms of monitoring.

Director, Legal Status and Revenue, Customs and Immigration:

They are industry figures. We cannot verify those. What we do know, obviously, is that in the last 2 years, we have stopped just over 1,000 people who have been in excess of their duty-free allowance, specifically in relation to tobacco. We are also aware that there are more people than that... I mean, there are more people coming through than we stop but to be able to put a specific figure on it, it is just not possible.

Deputy R.J. Rondel:

Are these mainly stopped at the airport or harbour or...?

Director, Legal Status and Revenue, Customs and Immigration:

It is a combination of the airport and the harbour.

Deputy R.J. Rondel:

Combination of the airport ... and do you have to physically look into people's cases or is there an X-ray machine that...

Director, Legal Status and Revenue, Customs and Immigration:

No, there is no X-ray machine. When we say, looking physically, yes, sometimes we do but I mean, to be quite honest, people who are buying these goods in duty-free shops or on the boat or whatever, they tend to come through with clear bags so sometimes it is not that difficult.

Deputy R.J. Rondel:

Have you been able to challenge the industry's figures or verify them?

Director, Legal Status and Revenue, Customs and Immigration:

No.

Deputy R.J. Rondel:

Would you be able to?

Director, Legal Status and Revenue, Customs and Immigration:

No, we would not.

Senator S.C. Ferguson:

Given the fact that the growth in Impôts on the controversial ones, the tobacco, the alcohol and the road fuel, given that they are pretty well flat lining, why do we keep putting the Impôts up when you are not going to get much more money out of them?

Assistant Minister for Treasury and Resources:

That is a good question, Senator, and the main reason is to reduce consumption. Providing we maintain our revenues, then from a Treasury point of view we balance our budget, so to speak but, if increasing duty helps people change their behaviour and reduce consumption of both alcohol and tobacco then that is a good thing for our Island and the knock-on effect for our colleagues at Health and Social Services is that they see less people with less disease coming through their facilities.

Senator S.C. Ferguson:

Perhaps. But I have had an email from a constituent saying that, you know: "The Treasury is deaf to the entreaties of the tourism and leisure sector. One of the most damaging things it could do is to impose above inflation increases on alcohol duty. This demonstrates a cavalier attitude to

Jersey's need for a strong and growing tourism sector. I am aware of the strength of the health lobby but what did their nannying ever do to help us...struggling economy?"

Assistant Minister for Treasury and Resources:

Senator, I am sure if...

Senator S.C. Ferguson:

You are penalising a lot of people....

Assistant Minister for Treasury and Resources:

Senator, can I actually answer?

Senator S.C. Ferguson:

I have not finished my question.

Assistant Minister for Treasury and Resources:

Okay. I thought you had, Senator.

Senator S.C. Ferguson:

You are penalising a lot of people who just like a pint with their cigarette in the evenings or something like that.

Assistant Minister for Treasury and Resources:

I do not believe they are being penalised. There is a very modest duty on what we call standard beers and ciders, lower alcohol content ones of something like 2 pence per pint. I think that is quite a modest increase. If someone drank 2 pints a night for 7 nights a week, that would only be 28 pence. I think that is a quite modest increase in duty.

Senator S.C. Ferguson:

Depends on your income level. The other comments made are, you know, a *cris de coeur* about the income tax bills going up over the last 5 years and then this just adds to it.

[10.30]

Assistant Minister for Treasury and Resources:

Well, from what you read out in that letter, the letter appeared to be more concerned about the tourism industry and my challenge to that stance in the letter would be, you know, who actually chooses their holiday destination based on the price of the cigarettes and the alcohol at that

destination? Most people are a bit more sophisticated when they come to choosing their choice of where they take their vacations by what is on offer to see and do in those locations. I think that is where our tourism industry has to concentrate its efforts, to making sure that we are a destination because of what we have to offer here, not the price of our cigarettes and our alcohol.

Senator S.C. Ferguson:

Admittedly, and as your Minister says the J.C.R.A (Jersey Competition Regulatory Authority) should be looking at the base cost of products, yes.

Assistant Minister for Treasury and Resources:

There does appear to be some anomalous...

Senator S.C. Ferguson:

We have been hearing that for a few years. Why has nobody asked them?

Assistant Minister for Treasury and Resources:

Work has been undertaken there and you will see that the margins have, I believe, reduced, certainly with fuel over the last few years by the efforts that C.I.C.R.A. (Channel Islands Competition and Regulatory Authorities) have put in place and the conditions they have put on retailers by showing the amount, the price of the fuel along the roadside, so you know how much it is going to cost you before you pull in and purchase that fuel. So, measures have been taken by C.I.C.R.A. and they appear to be working.

Deputy R.J. Rondel:

The main concern for me... and I am getting feedback from mainly restaurants and that who sell wine and perhaps some pubs who sell beer, so I know you have put a huge amount percentage-wise on it. But, what is the actual percentage of duty on a bottle of wine, together with G.S.T. and any other...?

Assistant Minister for Treasury and Resources:

You can have an expensive bottle of wine, you can have a cheap bottle of wine; they will carry the same duty, so it is pretty meaningless to put it in percentage terms. You have to put it in absolute terms. The Director will probably have those figures to hand.

Director, Legal Status and Revenue, Customs and Immigration:

I have certainly got it for beer. The percentage of duty and G.S.T. on a pint is 13 per cent.

Deputy R.J. Rondel:

Does that include the G.S.T.?

Director, Legal Status and Revenue, Customs and Immigration:

Yes. I am just seeing if I can find it for the wine, but I do not think I have it here. No, I have not.

Assistant Minister for Treasury and Resources:

No, for wine it would be very difficult, because you have...

Deputy R.J. Rondel:

I know any impact to restaurant sector at the moment - they are suffering enormously, many, many restaurants and quite a few have closed down - is not having a good effect.

Assistant Minister for Treasury and Resources:

Again, most restaurants do offer a good range of products just for their clientele. So, I imagine what is happening is the general economy is sort of being felt by their customers and instead of having a more expensive wine they are probably choosing a cheaper wine.

Deputy R.J. Rondel:

Absolutely, yes.

Assistant Minister for Treasury and Resources:

This effect on duty does not have an impact on those numbers, because of the disparity between a cheap bottle of wine and an expensive bottle of wine; they carry the same amount of duty.

Senator S.C. Ferguson:

What work have you undertaken to assess the impact of V.E.D. (Vehicle Emissions Duty) on consumers' decisions on vehicle purchases?

Assistant Minister for Treasury and Resources:

Hopefully consumers will buy more environmentally friendly vehicles. That is the whole purpose of Vehicle Emissions Duty. The modest 5 per cent increase, although above inflation, has very limited impact to the cost of a typical family vehicle, in the overall cost of that purchase.

Senator S.C. Ferguson:

In view of the fact that most exhaust systems work efficiently and that engines are working more efficiently and that the intention of cutting down carbon dioxide has been frankly discredited, why are we still charging it?

Assistant Minister for Treasury and Resources:

We are charging it to encourage people to buy vehicles that have a lesser impact to the environment.

Senator S.C. Ferguson:

Considering the performance of a 4x4 nowadays is considerably better than at the time we started, is it not time to take it off?

Assistant Minister for Treasury and Resources:

No, because you would then reverse the behaviour that has been learned, Senator. It is a charge to encourage people to buy more environmentally friendly vehicles when they are replacing their existing vehicle for a new one.

Senator S.C. Ferguson:

No, they will buy ones that run economically. That has been shown by the fact that the number of cars on the road over the last 10 or 15 years has gone up something like 27 per cent, but the amount of fuel that we import has gone up by 5 per cent in the same period. So, people are buying more efficient cars as well as them being more efficient technically. So, the market is making the choice not the environment. So, is it not time to take off an outdated environmental tax which is irrelevant?

Assistant Minister for Treasury and Resources:

I do not think it is outdated, because it has only been in existence for a relatively short period of time. So, I disagree with you there, Senator.

Economic Adviser, Chief Minister's Department:

Can I just add, it is also about the emissions as well?

Senator S.C. Ferguson:

Yes, but the emissions from exhaust... the emissions from diesels, yes...

Economic Adviser, Chief Minister's Department:

But, the total emissions.

Senator S.C. Ferguson:

Yes, not from...

Economic Adviser, Chief Minister's Department:

From the car pool in Jersey has got to be reduced if we are going to meet the Kyoto requirements...

Senator S.C. Ferguson:

Kyoto is dead. Kyoto died on 31st December.

Economic Adviser, Chief Minister's Department:

We have an energy plan that sets out what the Island is trying to achieve in reducing its emissions and meeting its international requirements. That requires significant reduction in emissions from vehicles.

Senator S.C. Ferguson:

The only people in the world who are trying to meet those emissions targets are the European Union and us through that. Surely it is time we just sort of said: "This is rubbish"?

Assistant Minister for Treasury and Resources:

You can say that, Senator, but I disagree with you.

Senator S.C. Ferguson:

Nigel Lawson says it. He does have a certain amount of standing. It is not just me. Anyway, I still think it is an extra tax that we do not need, frankly. Is it not time we reviewed all our taxes and said: "Do we need them all?"

Assistant Minister for Treasury and Resources:

Overall, we need to meet our revenue targets, which we are doing.

Senator S.C. Ferguson:

Why do we need them all? Because we are spending too much. But that is another story.

Assistant Minister for Treasury and Resources:

For providing very much needed services to Islanders.

Senator S.C. Ferguson:

But, are all the services that we are doing essential or are some of them nice to haves? That work has not been done yet.

Assistant Minister for Treasury and Resources:

I think you need to ask the population that, Senator.

Senator S.C. Ferguson:

Right. The M.T.F.P. assumed that duty generated from Impôts would be broadly flat over the next 3 years, taking into account increases above inflation. What evidence do you have that raising the rate of duties, as outlined in the Budget, will generate additional revenue, in line with the forecasts made at the time of the M.T.F.P.?

Assistant Minister for Treasury and Resources:

If I can bring in the Director on that, because he has the detailed information.

Director, Legal Status and Revenue, Customs and Immigration:

What we do is on a quarterly basis. We look at the trends over the previous 5 years and then we base the forecasts on those trends. That is what was done at the end of June. The forecast was based on the 5 year trend. I think it is fair to say that in recent years the quantities are reducing. That is clearly evident. It is the duty increases that are keeping the revenue yield at the level that the Treasury want. Whether the quantities will continue to fall year on year a crystal ball would tell. In the last 2 years it is clear that the economy has been suffering and certainly for people spending alcohol or cigarettes or whatever has become a lesser priority. If you ask the trade that, they would say that, you know, alcohol is more a last resort now. Whether that continues as the economy picks up, as I say, we will have to wait and see.

Senator S.C. Ferguson:

Yes, and how much has just gone down because people are buying duty-free?

Director, Legal Status and Revenue, Customs and Immigration:

I think, in relation to cigarettes... I do not think that applies in relation to alcohol. We have no evidence that there is a problem with people bringing in alcohol significantly in excess of their duty-free allowances. We get the occasional person that does it, but it is nowhere near the level that we have with cigarettes. There is no question about that.

Senator S.C. Ferguson:

Yes. Obviously our level of duty-free, I think, is under an E.U. (European Union) requirement, is it not?

Director, Legal Status and Revenue, Customs and Immigration:

It is the World Trade Organisation that sets the duty-free allowances, but countries are allowed to set their own level below that if they wanted to. They could not get rid of the duty-free allowance full stop and say: "You cannot bring any cigarettes in or you cannot bring in any alcohol" but you could have it less than the level that the W.T.O. (World Trade Organisation) say. Australia, for example, have done that with cigarettes. They have reduced theirs to 50.

Deputy R.J. Rondel:

Does this lead to black market imports?

Director, Legal Status and Revenue, Customs and Immigration:

Well, it could do. Certainly when you look at the prices of duty-free tobacco. They are significantly lower. I was looking at Jersey Airport recently. If you bought 400 cigarettes, you could get a packet that would cost you £2.25. Now, if you are buying it in town, I think, the average is about £6.80. So, certainly that is going to encourage people to buy in duty-free outlets. We are seeing that. But what we are not seeing is we are not seeing commercial tobacco smuggling. We are not seeing that and there is no intelligence to suggest that that is happening.

Deputy R.J. Rondel:

How much of the £6.80 a packet is actual duty? I do not know if you have given us those figures.

Director, Legal Status and Revenue, Customs and Immigration:

A packet of 20, if you take duty and G.S.T. together that represents 68 per cent of the price. Someone like the U.K. duty and V.A.T. (Value Added Tax) on a packet is 77 per cent.

Senator S.C. Ferguson:

Considering their V.A.T. is 20 per cent.

Director, Legal Status and Revenue, Customs and Immigration:

Yes. But, again, that is when the Minister goes back to pricing...

Senator S.C. Ferguson:

They have been saying that ever since I joined the States. You know, that is 10 years.

Deputy R.J. Rondel:

So, the importer has got to obviously pay for the product, import it and distribute it in the balance of that market?

Director, Legal Status and Revenue, Customs and Immigration:

Yes.

Deputy R.J. Rondel:

Would it be possible to have those figures?

Director, Legal Status and Revenue, Customs and Immigration:

Yes, certainly.

Deputy R.J. Rondel:

Thank you.

Senator S.C. Ferguson:

What will be the economic impact of the increase in Impôts? Has anyone done any work on it?

Director, Legal Status and Revenue, Customs and Immigration:

I have the effect on the R.P.I. (Retail Price Index) if that is...

Assistant Minister for Treasury and Resources:

The general effect is it is raising just over £3.5 million in revenue.

Director, Legal Status and Revenue, Customs and Immigration:

The overall impact of all the Impôts increases on the R.P.I. is plus 0.25 per cent.

Senator S.C. Ferguson:

So, a quarter of a per cent?

Director, Legal Status and Revenue, Customs and Immigration:

Yes.

Senator S.C. Ferguson:

Right, thank you. Richard.

Deputy R.J. Rondel:

Yes. G.S.T., did you consider at all about reducing G.S.T? Have you considered it?

Assistant Minister for Treasury and Resources:

The problem, Deputy, with say, for example, reducing G.S.T. and not doing the reduction in the rate of the marginal rate of tax from 27 per cent to 26 per cent is that it is untargeted, whereby the reduction at the marginal rate targets 84 per cent of taxpayers.

Deputy R.J. Rondel:

What the general public seem to be struggling with is the price of food, the price of various products.

Assistant Minister for Treasury and Resources:

Again, this is my own personal view, Deputy, but if we reduce G.S.T. from 5 per cent down to 4 per cent, would retailers follow suit and pass that reduction on to their customers? Would, for example...

Deputy R.J. Rondel:

I am sure some would.

Assistant Minister for Treasury and Resources:

Would, for example, farm shops do that, Deputy?

Deputy R.J. Rondel:

Of course they would, Deputy.

Economic Adviser, Chief Minister's Department:

It is also worth pointing out that food prices are significantly higher than the U.K. Prices are much higher on most things. There is much more to higher food prices than G.S.T.

[10.45]

Deputy R.J. Rondel:

What is that, do you think?

Economic Adviser, Chief Minister's Department:

I am waiting to see what the C.I.C.R.A. say on this. Like everybody else, they have been reviewing food prices. So, it will be interesting to see. But, it has to be a balance of economies of scale, extent of competition in the local market. The fact that we are a small island and there are transport costs and there is a cost base. You know, a combination of all those factors. It will be

interesting to see if C.I.C.R.A. think there is anything more to it than those and what the policy remedies could be. I would be surprised if it was to reduce G.S.T. on food.

Senator S.C. Ferguson:

Super. Why has it been decided to continue the increased maximum threshold of first-time buyer relief?

Assistant Minister for Treasury and Resources:

It is just to help those Islanders get on the property ladder. It is one of government's policies to encourage home ownership, along with the deposit scheme that we introduced this year. It is a way of helping Islanders get on the property ladder.

Senator S.C. Ferguson:

Yes. You did not think of increasing it?

Assistant Minister for Treasury and Resources:

Senator, as I am sure you would have held us to account if we had done as an increasing limit may have put pressure on the housing market and prices may have crept up in lower bands and we want to keep housing as affordable as possible.

Senator S.C. Ferguson:

Right. Of this budget, how much is permanent? There is a certain amount that is relatively permanent. What is the cost of it? What is the cost of the giveaways?

Treasurer of the States:

We have, Chairman, the big measure, £7.8 million for the reduction from 27 per cent to 26 per cent, around £2.5 million for the threshold increase, so that is £10.3 million and £900,000 for the higher Child Allowance. So, those are the 3 big things and the associated cost, Chairman.

Senator S.C. Ferguson:

We can afford to keep it going?

Treasurer of the States:

We can.

Deputy R.J. Rondel:

If the economy does improve, would you see the possibility of reducing that by a percentage point further in the future?

Assistant Minister for Treasury and Resources:

If our revenues continue to be robust then there is always the opportunity of maybe bringing the marginal rate down from 26 per cent to 25 per cent. We have to see how our economy sits at the time.

Deputy R.J. Rondel:

I understand. But, that would be the sort of approach you would...?

Assistant Minister for Treasury and Resources:

Yeah. We would just like to remind the Panel that this is a package of measures. It is not a pick and mix. To be able to achieve the reduction in marginal relief and the uplift of the limit and the introduction of the extra £3,000 Higher Education Allowance for marginal taxpayers, then we do need the increases in the Impôts.

Senator S.C. Ferguson:

Also to maintain the level of income from income tax?

Assistant Minister for Treasury and Resources:

Yes.

Senator S.C. Ferguson:

Which, again, is one of those things that...

Assistant Minister for Treasury and Resources:

The figures...

Senator S.C. Ferguson:

What leading indicators have you got for that? Have you got any leading indicators for the income?

Assistant Minister for Treasury and Resources:

Sorry, Senator, can you explain what you are seeking?

Senator S.C. Ferguson:

You must have economic indicators that have an indication of what the future tax take is likely to be.

Treasurer of the States:

We do have our Income Tax Forecast, Chairman, which you have seen before. We continue to do that.

Senator S.C. Ferguson:

Yes. What indicators are you using?

Treasurer of the States:

We use a whole range of things. We use G.V.A., for example.

Senator S.C. Ferguson:

That has gone down.

Treasurer of the States:

We use employment. We use Jersey inflation. We make assessments as to the total level of activity in the economy, but also the amount that we will recover from tax. So, we calculate the likely margins that we will recover from tax from the income that is generated within the economy. So, we do a range of things. Can I just add something to the previous question you asked me, Chairman, you asked about the cost of the measures?

Senator S.C. Ferguson:

Yes.

Treasurer of the States:

I should say that the net cost, of course, is around the £5 million mark after allowing for the changes in Impôts and for the fact that we have budgeted for a higher level of increase in thresholds than we have brought in. So, the net cost is around the £5 million mark. There is a table within the report that sets that out.

Senator S.C. Ferguson:

If you budgeted for a higher threshold, why did you decide not to put those threshold...

Assistant Minister for Treasury and Resources:

That goes back to the point, Senator, we would take more people out of the tax system and that is not desirable.

Senator S.C. Ferguson:

Right. There is one little wallflower that we have not mentioned today. Where is C.S.R. (Comprehensive Spending Review) in all of this?

Treasurer of the States:

As you know, Chairman, because we reported on this, the savings for C.S.R. amount to around £60 million by 2013 that have been taken out of budgets. There are still some additional savings for C.S.R. which had come out in subsequent years, particularly for education to accommodate for the fee increases that were not brought in. The Minister has previously mentioned the figures approaching £60 million. We have reported the detail on that. I am happy to send you that again if you would like to see it.

Senator S.C. Ferguson:

Thank you, that would be helpful.

Treasurer of the States:

The other thing to say is that the Assistant Minister and the Minister are really keen that we continue to work hard to deliver savings in 2014 and 2015 within this Medium Term Financial Plan period. What we are trying to do this time is to get the cart before the horse. So, we are working on making changes in our systems and procedures and service delivery now with a view to taking those savings out in the next Medium Term Financial Plan in 2016 to 2019. As you know, there were some areas where C.S.R. targets, substantial targets, were identified and then the very detailed work on exactly how they would be delivered. Some of that was left until later. What we are trying to do this time is to do it the other way around. We are doing the detailed work now. Departments are very actively working on changing their systems, procedures and service delivery methods so that they will achieve those changes in time to take the Budgets out in 2016 to 2019. So, we will have more certainty than that those savings targets will be delivered.

Senator S.C. Ferguson:

Working with that, they will also look at something which did not really come through in the last C.S.R., what things are essential and what are nice to have?

Treasurer of the States:

I think departments, especially in recent years and with the C.S.R., have been under a lot of pressure to make savings. I think I would find it difficult to look any of my colleagues in the eye and ask them, do they have any services which are nice to have or are they delivering services which are essential and necessary. I know what their answer would be, that they are delivering

services that are essential and necessary and that they are doing their best to deliver them as cost effectively as they can.

Senator S.C. Ferguson:

I have no doubt about that, but there are certain things that are statutorily required and an awful lot that has been sort of tied on like a Lego model. It is just: have we identified what all these are?

Treasurer of the States:

Do you have any examples of that, Chairman, that we could think about?

Senator S.C. Ferguson:

For a start, I do not know whether it has been transferred yet, there is the fact that a certain amount of housing that is administered by the Health Department.

Treasurer of the States:

We are transferring that to Property Holdings, Chairman.

Senator S.C. Ferguson:

Yes, but when?

Treasurer of the States:

We are doing that.

Assistant Minister for Treasury and Resources:

It will be going to the Housing Department, because it is housing stock.

Senator S.C. Ferguson:

That is absolutely right. It should be.

Treasurer of the States:

Do you have any others, Chairman, because those things are useful for us to tackle?

Senator S.C. Ferguson:

No, but I am sure I will have a list. I will come back to you on that.

Assistant Minister for Treasury and Resources:

That would be most useful.

Senator S.C. Ferguson:

Yes, because there is a statutory list and there is what has been added. It is a question of going through the law, setting up certain things. We will come back to you on that one. Richard.

Deputy R.J. Rondel:

I think that is it, Chairman.

Senator S.C. Ferguson:

Super. Thank you very much indeed, ladies and gentlemen.

Deputy R.J. Rondel:

Thank you very much.

Senator S.C. Ferguson:

We look forward to a fruitful exchange of information in due course.

[10.55]