

Corporate Services Scrutiny Panel

Zero-Ten Sub-Panel

TUESDAY, 7th AUGUST 2007

Panel:

Senator J.L. Perchard (Chairman)
Senator B.E. Shenton
Deputy P.J.D. Ryan of St. Helier
Mr. B. Curtis
Mr. R. Teather (Advisor)
Mr. M. Haden (Scrutiny Officer)

Witnesses:

Jurat P.G. Blampied OBE

Senator J.L. Perchard (Chairman):

Okay, everybody. Welcome, Jurat Blampied, it is lovely to see you back here again and still advising and helping the Panel with this schedule A suggestion to assist the Exchequer to raise a little more to fill the black hole. We have invited you principally to discuss your comments and the OXERA (Oxford Economic Research Associates) paper regarding their views on your original proposal and you have since kindly written back to us with some comments on their paper and it has rattled a few cages at Cyril Le Marquand.

Jurat P.G. Blampied:

It should not do that.

Senator J.L. Perchard:

We thought it would be worth exploring it with you a little deeper this afternoon. I think you know everybody.

Mr. B. Curtis:

You have forgotten me have you, Sir?

Jurat P.G. Blampied:

Yes.

Mr. B. Curtis:

Brian Curtis. We met many, many years ago. We used to do business together.

Senator J.L. Perchard:

Right. I will introduce everybody formally. Senator Shenton.

Jurat P.G. Blampied:

Ben Shenton I know.

Senator J.L. Perchard:

Brian Curtis is an advisor and assistant to the panel; Michael Haden, the Scrutiny Officer; myself; Senator Perchard; Richard Teather, who you have met, the advisor to the panel; and Deputy Ryan, who you know.

Jurat P.G. Blampied:

I know well.

Senator J.L. Perchard:

You know well.

Deputy P.J.D. Ryan of St. Helier:

Probably too well.

Senator J.L. Perchard:

We want to talk, principally, about schedule A, the Treasury's problem with it and your response to the OXERA paper principally. If you feel that there are some areas that we need to extend into regarding schedule A and deemed rent, please do. But we will focus on that, if that is what you had in mind.

Jurat P.G. Blampied:

Yes.

Senator J.L. Perchard:

Do you want to kick off with your position?

Jurat P.G. Blampied:

I do, Sir, yes. I think to call it a deemed rent is misleading. It is bringing back legislation which existed in England and existed in Jersey. It is the assessment of the benefit in kind of the occupation of a property which somebody owns and schedule A existed in England. When income tax was introduced into Jersey they copied the English law and it was virtually the same. England removed schedule A and Margaret Thatcher introduced the poll tax and that was incredibly unpopular and they changed the poll

tax. I think they called it - but I may be wrong - originally, the community charge and it is now council tax. The council tax is used, as I see it and as in fact OXERA say, for expenditure which the States pays for in Jersey and that is the principal reason why it is so much greater in England than the rates are in Jersey. I believe that there are 2 principal reasons for bringing back schedule A, the first is because there is a measure of social justice about it. If you consider somebody who has the same income and one rents a house, his net income is reduced. Somebody who is in the fortunate position of owning his house, there is no reduction for the rent that he pays. So the property owner is in a better position than somebody who has to pay rent. I think that is of some importance because the better off in Jersey are not, I think, taken into account as people who should contribute more by the Zero-Ten proposals. They bear more heavily on the less well off because of the goods and services tax. OXERA assumes that I am suggesting that this should replace the goods and services tax. I am not, because the revenue that would be raised from it, I believe, would be significantly less than the goods and services tax. But it is not possible to know that until somebody in the States Department think it is worthwhile [and does some calculations].

Senator J.L. Perchard:

Can I interrupt you here? Of course, you alerted this panel, and since then the Treasury, as to the possibility of the schedule A as an alternative to the RUDL (Regulation of Undertakings and Development Law) charge, which was to try and recover some taxation from --

Jurat P.G. Blampied:

This was the other reason for suggesting this.

Senator J.L. Perchard:

Now you have taken that a step further. If we can just pull you back to looking at the report --

Jurat P.G. Blampied:

My original paper suggested that schedule A should be applied to every owner/occupier. But it was your panel which highlighted on the commercial aspect of it. That is the second reason, because the company that trades in Jersey and is owned by English resident shareholders or is an English resident company is in an extraordinarily advantageous position compared with Gerald Voisin, for example.

Senator J.L. Perchard:

This is an area I want to develop with you. It is a claim you make that is refuted by Treasury that there is an advantageous position because they are non-locally owned.

Jurat P.G. Blampied:

Yes.

Senator J.L. Perchard:

Can you substantiate that? Why are they in an extraordinarily advantageous position?

Jurat P.G. Blampied:

If you look at the tax take from the whole of a trading company in Jersey, the Jersey resident shareholders will pay a substantial rate of tax. Now, the 2 families that own Romerils, they as a whole will be paying substantially more tax than CI Traders. Normans Limited has been sold and CI Traders has been sold because of the enormous tax advantages to the new proprietors, because they will earn profits in Jersey and pay no tax.

Senator J.L. Perchard:

In Jersey.

Jurat P.G. Blampied:

Pardon?

Senator J.L. Perchard:

In Jersey.

Jurat P.G. Blampied:

Yes, and they will pay no tax in England unless they distribute profits by way of dividend.

Senator J.L. Perchard:

That is right.

Jurat P.G. Blampied:

So they are not going to distribute profits, they will accumulate them.

Senator J.L. Perchard:

How can they possibly not distribute profits?

Jurat P.G. Blampied:

Buy another business. They will pay dividends. But every trading company retains profits. No trading company distributes 100 per cent of its profits. It just does not happen because you have to finance additional stock and debtors. Inflation alone requires that to happen. A lot of them have borrowed money. The borrowed money has to be repaid. So the profit accumulated by the Jersey resident company owned by non-resident shareholders will accumulate profit free of tax. Now, you get an

organisation like Voisins. It did not used to be, and I suspect is still not, a limited liability company. Now, a company like that owned by a family partnership, a business owned by a partnership, will suffer tax at 20 per cent. So you have Voisins 200 yards from de Gruchy's. Voisins paying 20 per cent on its tax and de Gruchy's down the road - owned, I think, now by an Irish company - accumulating profit and on the profit that is accumulated, paying no tax at all. This is the *Evening Post* on 18th July. Mr Kern, who is the Economic Advisor to the British Chamber of Commerce: "Mr Kern also suggests that businesses which will not be contributing any tax to the Island after 2009 when the zero corporate tax is introduced should not be admitted to trade in Jersey, particularly retail groups. He said that these companies would be a burden on existing tax paying businesses and could even result in local firms going out of business." Now, that is the Economic Advisor for the British Chamber of Commerce speaking at a luncheon or a dinner in Jersey. Martin De Forest-Brown, Director of International Finance, the Chief Minister's office, said that: "To refuse to allow non-local firms to come to Jersey would be a slippery road towards protection." I think that is probably right. So these companies are in an advantageous position. There is no doubt at all that Norman's was attractive to the French company that bought it. There is no doubt at all that CI Traders was attractive to the -- I think it is an Irish company that bought it.

Deputy P.J.D. Ryan:

Yes, a private equity company.

Jurat P.G. Blampied:

Private equity, yes. De Gruchy's has been sold recently as well. I mean, the zero corporation tax makes a Jersey company attractive to a non-resident investor; no doubt about it. I am pleased your advisor is nodding. He is agreeing with me, it is a comfort to me.

Senator J.L. Perchard:

The Treasury absolutely refute your line on this.

Jurat P.G. Blampied:

Well, they are wrong. It is as simple as that.

Senator J.L. Perchard:

They claim that the schedule A income tax rental would be inflationary. It would add an extra cost to non-locally owned companies over and above their UK (United Kingdom) tax.

Jurat P.G. Blampied:

This is tax payable by somebody who owns and occupies the property in which they trade. The schedule A tax should be - I am trying to pick my words carefully - relatively small in relation to the

total profit that they make. De Gruchy's for example, I do not know what the schedule A tax would be on that, but de Gruchy's must be making substantially more than the schedule A tax.

Senator J.L. Perchard:

We are all in agreement, I believe, even the Treasury, that the schedule A tax would be based on the Parish rateable(?) value. It would bear relationship with that. Yes?

Jurat P.G. Blampied:

Yes.

Senator J.L. Perchard:

You are happy with that?

Jurat P.G. Blampied:

Yes.

Senator J.L. Perchard:

So it is really nothing to do with profits?

Jurat P.G. Blampied:

Nothing to do with profits, no. Schedule A, and this is missed in the OXERA notes as I think it looks at is as a stand-alone tax. It is a tax on income and, looking for a moment at the individual who owns and occupies the house in which he lives, the schedule A income is aggregated. It is added to any other income that he has. It is not a stand-alone separate tax. So looking at it from the point of view of the individual at the moment, if somebody has a house - I have quoted the Clos Du Rivage estate where the rental assessment is £10,580 or £10,480 - if there is a threshold, that individual's income would be increased by £580. That £580 is added to his salary, to any other dividends or income that he has and if it becomes -- he would only pay the schedule A tax if his total income was above the income threshold. Now, dealing with a limited liability company, the schedule A assessment ... It used to be called the net annual value because there was an allowance for repairs and insurance and maintenance. You could put in a claim if your actual costs of repairs exceeded the statutory allowance. That is why it was called the net annual value because the gross annual value was reduced to a net annual value by a statutory allowance. That is really similar to the threshold which I am suggesting. That net annual value on which income tax was payable, that net annual value was deducted from the assessed profits. So if you had profits of £500,000 and you owned the building in which you traded, the net value, £100,000, would come off. You would pay tax under schedule D which lays out the rules on which trading profits are assessed, at £400,000 and you would pay schedule A, £100,000: £500,000. So you would in fact be paying 20 per cent tax on your total income. If the schedule A exceeded the profit there would be a loss

and the loss would be set off against the schedule A, which would mean you would only still pay tax on your actual profits. So the effect disappears. This would be the same for the company owned by non-residents as it would be for the company owned by residents because a tax assessment would have to be calculated in order, so far as the Jersey resident is concerned, that can be imposed on the Jersey resident shareholder. So the same would happen for the schedule A for the company owned by the non-resident. If, by any chance, the schedule A exceeded the trading profit, there would be a theoretical loss and there would be no schedule A payable.

Senator J.L. Perchard:

You make that point very well in your comment to the OXERA paper and it appears that OXERA did not appreciate that when drafting their paper.

Jurat P.G. Blampied:

No. I do not want to be discourteous to OXERA but it was prepared by an economist, not by a taxman; particularly not an aged taxman who has seen the changes over the years that take place. So that is a little dig at it. The talk about it being inflationary is -- I do not think it is a valid point because take a trading company owned by a non-resident which pays rent. It is in a disadvantageous position compared with a company which trades in the building which it owns. The attraction is for non-residents to acquire Jersey companies, and I know this for a fact, so that they can come to Jersey and take advantage in the future of the zero tax rate.

Senator J.L. Perchard:

Is there any other way they can take advantage besides the physical trade that they are doing on the Island or could they see an opportunity to develop their business in a different direction as a result of the zero rate?

Jurat P.G. Blampied:

I would doubt it because tax is generally payable in the place in which you trade. So I do not think that ...

Senator J.L. Perchard:

You do not see some of these businesses becoming a head office for other operations outside the Island?

Jurat P.G. Blampied:

Well, that happens but they have to establish -- and the words in case law are that central management and control would have to be in Jersey. I mean, Fyfe's did it - the banana people - years ago but you have to have the central management and control. I was a director of an international fund over here, which moved to Luxembourg, but they had a dissatisfied employee in London and he said to the

Revenue: "This is managed and controlled in London" and it went to the special commissioners and they ruled that it was managed and controlled in Jersey. They had an office in Jersey and all the fund management was in fact done in Jersey but they got investment advice from London. They had an expensive building and staff and one thing and another. So it [the Revenue case] failed but you cannot have a business trading in England and say that the central management and control is in Jersey. I do not think so.

Mr. R. Teather:

What about, for example, a group finance company that is lending money back to the UK parent company? That would work, would it not?

Jurat P.G. Blampied:

Yes, that could happen. Yes, because you could then have the central management and control in Jersey with English resident shareholders. I hope the States would not encourage that sort of thing because it does not give any credit to the Island. But, yes, I agree with you; that could happen.

Mr. R. Teather:

That could piggyback on top of a Jersey trading company. That could be alongside or part of a Jersey trading company.

Jurat P.G. Blampied:

Yes, it is possible. I mean, to say that this schedule A is inflationary is ...

Senator J.L. Perchard:

Well, the claim is simply that it is because it is in addition to the tax they will pay in the UK.

Mr. R. Teather:

Yes, it is based on the belief that these companies will be paying 30 per cent tax in the UK.

Jurat P.G. Blampied:

But they will not be.

Senator J.L. Perchard:

The Treasury keeps asking us for evidence that they will not be paying tax in the UK.

Jurat P.G. Blampied:

Well, they want to look at the accounts of CI Traders, which is a public company or it was, and they will see how much profit is retained. The States get the accounts of the Waterworks Company. The

Waterworks retain profits each year. It does not distribute all its profits. It needs its profits to extend the public water supply. There is not a trading company which does not retain profits. Recreation Grounds here retains profits. Romerils retains profits.

Senator J.L. Perchard:

They all do. They have to.

Jurat P.G. Blampied:

They all do. I was a director of the Guiton Group and the *Evening Post*; they retain profits. I was director of Ann Street Brewery; they retain profits. I was director of Cleveland Garages; Cleveland Garages retain profits. You cannot distribute 100 per cent of your profits. It just does not happen.

Mr. R. Teather:

Tax under Zero-Ten will be based on distributing 60 per cent.

Deputy P.J.D. Ryan:

As far as local people are concerned.

Jurat P.G. Blampied:

As far as local people are concerned.

Senator J.L. Perchard:

Yes.

Jurat P.G. Blampied:

But the English people, I mean that is why I was pleased it was reduced to 60 per cent because it would ... I quoted the Recreation Grounds because I have some shares in that. My father was a director before the war so I have shares in it. They do not change hands. But I will be paying more tax than I had in dividends if 100 per cent of the profit was deemed to be mine. So it is 60 per cent. So these companies that trade in Jersey are bound to retain a substantial proportion of their profits. That applies to trading companies. The position is different for investment companies because the English taxation requires them to distribute their profit, their income, out to have a distributor status. So these fund companies over here have to distribute unless the Revenue is saying they are not distributing enough. But that does not apply to trading companies. So, no, I ... I mean, it is a fact that companies retain a proportion of their profits.

Senator J.L. Perchard:

Yes, and the accounts are available for the Treasury to review. Treasury keep arguing that there is not

the evidence to support the claim that they retain their profits. We know that some of their profits are retained. We know that to be a fact and so ...

Deputy P.J.D. Ryan:

I think their main argument, Peter, is that what would they do with the money if they were to retain it, so what is the point?

Jurat P.G. Blampied:

Well, they would retain borrowed money. They would buy another property. De Gruchy's has spent, I do not know, I think it was quoted to be a few million pounds on the store. They are altering the arcade at the moment. Now, if that is borrowed money, they would retain profit to repay the borrowed money.

Deputy P.J.D. Ryan:

Or they might buy another trading company --

Jurat P.G. Blampied:

They might buy another store somewhere, yes. Inflation requires companies to retain a measure of their profits. Debtors go up with inflation. If the turnover increases, the debtor goes up. Stock tends to increase with inflation.

Senator J.L. Perchard:

They could issue loans, of course, with their profits; other companies outside the Island, loans.

Jurat P.G. Blampied:

Yes. I mean, they might have companies in France. I think I am right that de Gruchy's is now owned by an Irish company and I think CI Traders is owned by an Irish company but I may be wrong. Norman's is owned by a French company. There is a major plumbing business, I think it is called Woolsey(?) but I am not sure, has just come to Jersey.

Deputy P.J.D. Ryan:

So these companies would accumulate these profits and these assets, presumably, either by buying other properties or other trading companies, and they would just grow --

Jurat P.G. Blampied:

Or financing their expansion.

Deputy P.J.D. Ryan:

Yes, and it would grow and grow and grow. What happens to that added value eventually when that

owner that it outside Jersey decides to sell out to maybe another non-resident owner?

Jurat P.G. Blampied:

It depends whether they are resident. I mean, the capital gains tax would ... There would have to be capital gains tax.

Deputy P.J.D Ryan:

If they were UK based and they sold out their Jersey assets that they had --

Jurat P.G. Blampied:

They would still have a Jersey company. There would have to be capital gains tax.

Mr. R. Teather:

But only at 10 per cent.

Jurat P.G. Blampied:

I was just going to say, yes, only at 10 per cent, which is an attractive arrangement for them.

Deputy P.J.D Ryan:

So eventually they are going to end up paying the 10 per cent, one assumes, by growing this Jersey entity.

Jurat P.G. Blampied:

Yes, if the profits accumulate and the value increases and they sell it, they pay 10 per cent on the capital gain.

Deputy P.J.D. Ryan:

Well, that is better than the 20 per cent.

Jurat P.G. Blampied:

There is absolutely no doubt that the Jersey company is of interest and value to the non-resident investor and the reason for that is because it is a zero tax rate.

Senator B.E. Shenton:

How would this affect though the Jersey companies that do not make profits or just about survive, and especially the ones which occupy high value rental property? I am thinking of companies like Hammonds, for example.

Deputy P.J.D Ryan:

Or a farmer or a hotelier.

Senator B.E. Shenton:

Yes, they are struggling to keep the wolf from the door and all of a sudden they get a tax liability but they cannot offset it against anything.

Jurat P.G. Blampied:

No, because the net annual value, the schedule A assessment, is set off against their profit.

Senator B.E. Shenton:

Yes, but I am saying they are not making any profit.

Jurat P.G. Blampied:

Well, then there is a loss and there is no tax payable.

Senator J.L. Perchard:

Because schedule A is part of the income tax. Jurat Blampied touched on it 10-15 minutes ago but he has also mentions it in his paper which --

Mr. R. Teather:

You can set a trading loss off against a schedule A profit.

Jurat P.G. Blampied:

If you have a profit -- you cannot show a profit of £100,000 and the schedule A assessment is £200,000. That is, the £100,000 is the adjusted profit before tax, before deduction, of the net annual value, the schedule A. So you have a profit of £100,000, £200,000 to come off; it means you have £100,000 loss. So £100,000 loss, I think it is section 341 of the Jersey Tax -- I am talking about England now, I think. Section 341 is English, is it not? Yes. The loss is set off against -- I am pleased somebody is here to watch me. It is the same in Jersey, England is 341, but the schedule D loss is set off against the schedule A so they do not pay any tax at all.

Senator J.L. Perchard:

If you have not made any profit, you do not pay any income tax at the moment. Schedule A is simply a mechanism of the Income Tax Law to allow you to tax a -- you do not pay a tax if you have not made profit. It is part of the Income Tax Law. So it is just --

Jurat P.G. Blampied:

If you have accounts and you own the property which you trade and that shows a profit of £100,000 and the schedule A is £200,000, the schedule A is set off against the ...

Senator J.L. Perchard:

I think we have that now. What about if you are a tenant of a property and the schedule A is added to the annual rental because the owner of the property would be liable for the schedule A rather than the person who operates from that property?

Jurat P.G. Blampied:

You are talking about a trader who does not own the property which --

Senator J.L. Perchard:

A Jersey company, Jersey owned, operating in a building that is rented, operating his business.

Jurat P.G. Blampied:

There is no schedule A.

Senator J.L. Perchard:

The schedule A is paid by the owner who I would assume will recover that from the tenant.

Jurat P.G. Blampied:

Schedule A assesses the owner. Now, you have a company trading in Jersey and it pays rent to a Jersey resident, the owner is assessed the schedule A and he pays tax on that.

Senator J.L. Perchard:

Yes. But he will recover that tax or the schedule A from the tenant by an increased rental.

Jurat P.G. Blampied:

No.

Mr. R. Teather::

Schedule A just replaces the tax he is paying on the rent now. It is not an additional tax.

Jurat P.G. Blampied:

It is no different from the position at the moment.

Senator J.L. Perchard:

All right, yes. Yes, I have it. Sorry, I am a little bit daft but --

Jurat P.G. Blampied:

If somebody owns a property and they let it out, the lessee pays the rent to the owner and the owner pays schedule A tax. The Treasury think that this is -- I do not quite know what they think but the organisation trading in Jersey which pays rent is in an advantageous position compared with a trader in Jersey which owns and occupies its property. It has a benefit in kind.

Mr. B. Curtis:

Just one question and I will go back to the Voisin and de Gruchy scenario if we may. I did not realise Voisins was a partnership. I thought it was a company. So if we could --

Jurat P.G. Blampied:

I cannot tell you what it is now but I retired in June 1978 and I can tell you then it was owned by Tim Voisin and it was not a limited liability company.

Mr. B. Curtis:

Okay, so that is quite clearly --

Jurat P.G. Blampied:

I do not know what it is now.

Mr. B. Curtis:

It is quite clearly disadvantageous for the Voisins and indeed de Gruchy's but let us for a moment assume that they are both limited companies. So Voisins Limited will not pay tax as such but it will be recovered from Joe Voisin and family members. De Gruchy's will not pay any tax whatsoever in Jersey. One of the arguments, to simplify it, that Treasury are putting up is that: "Okay, they do not pay any tax but they will repatriate their profits to, say, the UK." Now, I know we are all agreed about how one can minimise that but ultimately there will be a distribution of a dividend in part, whether it be 10 per cent, 20 per cent, whatever it may be. The Treasury argument, therefore, is that if it does repatriate to the UK on that portion 30 per cent tax will be paid, whereas in Jersey it will ultimately be 20 per cent. So the UK company is at a disadvantage still to a local company.

Jurat P.G. Blampied:

It is better off than it is now.

Mr. B. Curtis:

Because?

Jurat P.G. Blampied:

At the moment it is paying 20 per cent on its profits and those dividends that are paid to an individual shareholder in England, there is no double taxation. The double taxation between England and Jersey extends to all income other than dividends and debentures. So if you own shares as an individual in a Jersey company at the present time, that profit will suffer 20 per cent tax. The individual gets it in England, less 20 per cent. He then pays 32.5 per cent on the net Jersey dividend.

Mr. B. Curtis:

Which therefore shoots this comment out of the water.

Senator J.L. Perchard:

Which comment?

Mr. B. Curtis:

The 30 per cent, first paragraph.

Mr. R. Teather:

It depends whether it is a corporate shareholder or an individual.

Jurat P.G. Blampied:

Corporate shareholder is different. If the corporate shareholder has 90 per cent, he will get relief at the moment on the 20 per cent that is being paid.

Mr. B. Curtis:

So he will be in the same position.

Jurat P.G. Blampied:

If he earns more than 90 per cent, there will be a small downside except for the fact that the tax that is paid in England is on the dividend and not on the total profit. It is unilateral if it is given by England. In Jersey, if you get something from England you do not get any relief, even if you own 100 per cent of the English company.

Mr. B. Curtis:

So, of course, that could be different in France or wherever.

Jurat P.G. Blampied:

Yes, that is right, wherever. If a company in Jersey owned by a wholly owned subsidiary in England, if it pays tax at the moment, it pays 20 per cent tax on its total profit. If it then declares a dividend, that

dividend is then taxed in England but they get unilateral relief so the 20 per cent that is paid in Jersey comes off. If, under the Zero-Ten proposals, if there is a schedule A tax, that will be deducted. The profit will be reduced by 20 per cent on the schedule A assessment. They then declare a dividend. They will not get credit for it. I read the BDO paper with interest. There is a suggestion in it that there will have to be a ruling as to whether the tax was the same tax as would be payable by the English parent company but they think probably the ruling would go against the applicant and I think that is probably right. But the advantage would be that the Jersey company would not be paying any tax except for schedule A and it would retain part of its profits. So the profit available for distribution to England would be increased and I think, if you take into account the saving from the retained profit and compared that with the schedule A tax from which there was no relief ... I do not want to argue in favour of my case unless I am sure but it [the revenue ruling] could go either way. There could be a net saving or there may be a net loss in the tax but it is marginal.

Mr. B. Curtis:

It is marginal. That is the important thing, is it not, marginal?

Jurat P.G. Blampied:

It is very marginal and I think that these companies which are non-Jersey owned will strive to retain as much of their profit in the Island as they can. They are bound to. It is logical. They are not going to distribute and pay English tax on it.

Deputy P.J.D. Ryan:

Are they retaining Jersey tax now? They are paying 20 per cent on a Jersey tax. So an English company that owns a Jersey company, de Gruchy, paying 20 per cent on their profits in the current scenario, are they submitting dividends to the UK now, Peter, typically?

Jurat P.G. Blampied:

Yes.

Deputy P.J.D Ryan:

They would be?

Jurat P.G. Blampied:

Yes, they are.

Deputy P.J.D Ryan:

But they are not worried about the extra 10 or ...? Why would they not be worried about that?

Jurat P.G. Blampied:

If it is a wholly owned subsidiary, it does not have an enormous effect. I mean, the Guiton Group is now owned by the Wolverhampton Press and -- I think it is the Wolverhampton Press.

Mr. R. Teather:

I did not realise it had been sold.

Jurat P.G. Blampied:

Whoever it is it is UK owned, yes, and it is not owned by Jersey any more.

Deputy P.J.D Ryan:

So they would be 100 per cent distributing their profits?

Jurat P.G. Blampied:

No, not necessarily, because they want to expand. I mean the Guiton Group is now spa shops and CI newsagents and Itext. So they retain profits in Jersey.

Deputy P.J.D Ryan:

Is that evidence available to us?

Jurat P.G. Blampied:

No. I mean, the Guiton Group was owned by Jersey families, principally the Harrison family and Frank Walker, but it has all been sold.

Senator J.L. Perchard:

But the case is pretty compelling without the actual -- CI Traders, Patrick, we know as a Jersey public company will make a profit. Their accounts are available. Those profits would be either used as a dividend or retained in the company. We know that to be a fact and now it has been bought by a UK company, a private company, they will still make profits --

Jurat P.G. Blampied:

They will not distribute them.

Senator J.L. Perchard:

The profits will not all be distributed because they need some to trade. So the fact that Ian Black, the Treasurer, categorically says the 30 per cent tax will be paid on their profits is wrong. It has to be wrong. That is wrong.

Jurat P.G. Blampied:

It is as simple as this --

Senator J.L. Perchard:

It is a case of how much they retain and you are suggesting, Jurat Blampied, that they will retain even more as a result of this opportunity.

Jurat P.G. Blampied:

I am convinced of it.

Senator J.L. Perchard:

How can we prove that?

Jurat P.G. Blampied:

Logic. I mean, CI Traders was listed on AIM and they were shareholders dotted all around the place: Jersey and Guernsey and England, and they would distribute -- they probably covered their dividend a couple of times by the profit but they would have retained a third of their profits.

Deputy P.J.D. Ryan:

We can see that on the public domain account, and what they do with their policy would have been --

Jurat P.G. Blampied:

Yes, I mean, I can show you some of the accounts of these public companies before they ...

Senator B.E. Shenton:

Although I think we should bear in mind that CI Traders in the new form rent a majority of their buildings, and Norman Limited rents its buildings.

Deputy P.J.D. Ryan:

Yes, the profits are being retainable by the --

Senator B.E. Shenton:

So they will not get caught by schedule A.

Jurat P.G. Blampied:

They will not get caught by the schedule A.

Senator J.L. Perchard:

There is a good chance - private equity purchases - the profits will be used to fund the purchase, so everyone is a winner except the UK Treasury.

Jurat P.G. Blampied:

The schedule A only has an effect - and it is Ben Shenton's point if I may say so - on companies trading in Jersey which own and occupy the business in which they trade. One of my suggestions was that tax should be deducted from the rent when it is paid in the same way as if you pay annual interest in Jersey; you are required to deduct tax. So, the French company paying tax to the Norman family would deduct tax at 20 per cent. I mean, it is a simple thing to do.

Mr. B. Curtis:

Jurat Blampied, may I ask one other thing that just goes with it, because the way we are talking - indeed, the way we were talking prior to you coming here - it seems to us that looking to the medium long-term Jersey companies and individuals will be at a disadvantage, and a lot of these foreign-owned companies will be able to purchase huge chunks of Jersey business because the Jersey equivalent to, say, Voisins, again as an example, really cannot compete. So they have hit the real fear which, I think, is perhaps in itself inflationary.

Jurat P.G. Blampied:

There is a real fear. I mean, that is why Mr. Kern, the Economic Advisor for the British Chamber of Commerce says that when the zero corporate tax is introduced that businesses who will not be contributing should not be admitted to trade in Jersey. I mean, he is saying we should bar them. I mean, I think that is a leap too far; a bridge too far. But it is a problem and ...

Mr. B. Curtis:

Which is going to increase in the coming years.

Jurat P.G. Blampied:

It will increase and you will find that there will be more businesses being purchased by non-residents.

Mr. B. Curtis:

So that in itself is more inflationary than what we have been talking about.

Jurat P.G. Blampied:

Yes. I do not know whether you want me to talk on the OXERA paper.

Senator J.L. Perchard:

Yes, if we can confine ourselves to your comments on that paper, particularly with regards to the

schedule A.

Deputy P.J.D. Ryan:

Can I just confirm one thing though before we move on to that?

Senator J.L. Perchard:

Okay.

Deputy P.J.D. Ryan:

The trend of the UK companies buying whole tracks of Jersey-owned business therefore will lead to diminishing look-through tax revenues over a period of time?

Jurat P.G. Blampied:

Yes, it will.

Senator J.L. Perchard:

Of course.

Jurat P.G. Blampied:

Yes, it will. It is bound to. I mean, the Island revenue has lost the tax that would be paid by Norman's on its trading profits. While it was owned by the Norman family, they would have paid tax up to 60 per cent of profit; that is gone. CI Traders was largely owned by Jersey families: Le Riches and Ann Street merged; that is gone. The Guiton Group: 3 major trading companies; that is gone. De Gruchy's; that is gone. So that the Island take will go down.

Mr. B. Curtis:

One must not forget those Jersey businesses such as certain building companies that have been put out of business because of competition from non-Jersey builders whose profits also --

Jurat P.G. Blampied:

Yes, I mean, Dandara.

Mr. B. Curtis:

Yes, I did not name it, but that was the one I was thinking of. Yes, certainly.

Senator J.L. Perchard:

Just picking up on the point made by Deputy Ryan, in your opinion would a deemed rent or a schedule A tax on commercial property stop this trend?

Jurat P.G. Blampied:

No.

Senator J.L. Perchard:

No, it would not, would it? It is not sufficient.

Jurat P.G. Blampied:

It is something that I believe is worth doing because there will be revenue obtained from it. It does mean that those companies owned by non-residents trading in Jersey will be contributing something to the Island revenue. That is why I think it is worth doing.

Senator J.L. Perchard:

Yes. But it is not going to reverse the trend.

Jurat P.G. Blampied:

But as Ben Shenton says it will not affect those which pay rent. But those that own and occupy their properties are in a better position than those who pay rent. Well, their profit is enhanced by the rental value.

Senator J.L. Perchard:

But, as you know, we discussed the sale of the Normans' business to a French company. They have bought the business; they have not bought the property.

Deputy P.J.D. Ryan:

Does this not lead us full circle back to RUDL charges as the only way?

Jurat P.G. Blampied:

Well the trouble with the RUDL charge is that it had to be imposed to comply, as I understand it, with the OECD (Organisation for Economic Co-operation and Development) requirements. It has to be charged generally. So you cannot --

Deputy P.J.D. Ryan:

Yes. Were we not going to offset the RUDL charge against local income tax?

Jurat P.G. Blampied:

Yes.

Senator J.L. Perchard:

You cannot. It is a different charge. That was the problem with it, Patrick. That is where we started.

Jurat P.G. Blampied:

It is not an income tax charge. It is an expense, so the profit is reduced. But it is not income tax, so you cannot.

Senator J.L. Perchard:

Yes.

Jurat P.G. Blampied:

All the small businesses in Jersey would suffer immeasurably.

Mr. B. Curtis:

There was going to be an exemption, was there not, on a level of numbers?

Deputy P.J.D. Ryan:

Where I am coming from here is to try and reverse this trend of Jersey businesses being owned by ... is there anything else that we can do? That is the question.

Senator B.E. Shenton:

I mean, could you counter-argue the fact that it makes more sense for them to reinvest in the Island? If de Gruchy's is owned by a foreign shareholder, does it not make more sense for them to retain profits on the Island and to reinvest into the business than if they could take the money out less easily?

Jurat P.G. Blampied:

Yes, that is what I think they will do.

Senator B.E. Shenton:

So is that necessarily a bad thing for the Island, the fact that the money will stay on; the profits will stay on the Island for reinvestment?

Jurat P.G. Blampied:

I do not know, but I guess there is an argument that it develops the Island economy.

Senator J.L. Perchard:

Well it does not worsen it, because that is effectively what happens at Voisins. The profits stay on the Island to develop the business and will be spent by the shareholders.

Deputy P.J.D. Ryan:

How does the Island gain out of that kind of reinvestment?

Jurat P.G. Blampied:

Well, because capital investment generates an enlarged economy.

Deputy P.J.D. Ryan:

Right.

Senator B.E. Shenton:

Though de Gruchy will spend more money on refurbishments and make this a --

Deputy P.J.D. Ryan:

I am on new ground, I am just trying to think it through, but governments would typically give capital allowances to businesses for reinvesting; one variety or another. But that is usually on the basis that that reinvestment is going to create extra profits upon which they will get corporation tax in due course. But if this is all non-Island only, are you ever going to get to the point where you get ...?

Jurat P.G. Blampied:

No, no. I agree with what Senator Shenton is saying, because de Gruchy's have spent a few million.

Deputy P.J.D. Ryan:

Yes. So they will pay local businesses to --

Jurat P.G. Blampied:

They are paying local businesses, so if you spend --

Deputy P.J.D. Ryan:

Unless those local businesses are all owned by English people.

Jurat P.G. Blampied:

But they are not all owned by English people, no.

Deputy P.J.D. Ryan:

No, no. But in the course of time --

Jurat P.G. Blampied:

Thank goodness for --

Senator J.L. Perchard:

Where does this end up if they all are, because they are all going to be?

Deputy P.J.D. Ryan:

That is the point I am trying to make.

Senator J.L. Perchard:

Well, I do not know, just keep spending.

Jurat P.G. Blampied:

Some of the companies which own and occupy the businesses in which they trade will pay tax under schedule A if they are owned by non-residents. So there will be an increase in the total tax taken, and those companies which are owned by outside shareholders will be contributing something.

Senator J.L. Perchard:

Okay. Any more questions on this particular detail? I think we have grasped this and we have the Jurat's opinion.

Mr. R. Teather:

What would you do about mortgage interest?

Jurat P.G. Blampied:

Pardon?

Mr. R. Teather:

Would you allow mortgage interest to be deducted from the schedule A?

Jurat P.G. Blampied:

Yes, I think it should be. If it is an individual; not a trading company, because the expenses of a trading company are allowed in computing schedule D profits. But for an individual I think they should. I suggested in a paper that I produced for the Judicial Greffe that they should abolish stamp duty on mortgages. They did some of the things I suggested. They increased stamp duty on some things, but they did not abolish the stamp duty on the registration of mortgages. I think it is a pity. If you borrow money in England or in Guernsey you do not pay stamp duty, and the first-time buyer who has to borrow money pays stamp duty in Jersey, and I do not think he should.

Deputy P.J.D. Ryan:

He pays it twice, effectively. He pays it on the mortgage and also on the -- am I right about that? Or do I have that wrong?

Jurat P.G. Blampied:

No, he pays it on the mortgage; the stamp duty. The lawyers always had a standard charge; they do not now. It varies. I mean, buying a property with a mortgage is expensive.

Deputy P.J.D. Ryan:

But do you not pay stamp duty on registering it in the Royal Court at the value that it sells for in the first place, and additionally --

Senator B.E. Shenton:

No, it is separate. No, it is different.

Jurat P.G. Blampied:

It is separate.

Senator B.E. Shenton:

They are separate. If you are buying a house you pay stamp duty on a mortgage as well.

Deputy P.J.D. Ryan:

As well?

Jurat P.G. Blampied:

As well.

Deputy P.J.D. Ryan:

In other words, double stamp duty, effectively, is that right?

Senator B.E. Shenton:

Also, you can only do your bond for a certain number of years, so then you have to re-register so they get more money from you then.

Deputy P.J.D. Ryan:

Yes, you would.

Jurat P.G. Blampied:

Yes, if you re-register, you pay it again. Chairman, do you want me to talk about the OXERA paper?

Senator J.L. Perchard:

Yes, I think it is an appropriate time to move on. I am just gazing through your notes on it there, as we speak. Yes, please.

Jurat P.G. Blampied:

Does everybody have my notes?

Senator J.L. Perchard:

Yes, I think we all have them.

Jurat P.G. Blampied:

Yes. Well, I am not sure I want to waste too much of your time, Chairman. I do not know quite how to put this, but I do not think OXERA fully grasped the implications of the recommendation. It has been written by an economist and he has looked at it, I think, as a standalone charge, which it is not. It is part of the income tax system, and if your income is not sufficient, including the schedule A tax, then you will not pay schedule A tax because your income is aggregated. In the second paragraph in the introduction he says: "A GST (Goods and Services Tax) does not have these shortcomings." Well, I am not really comparing it with the goods and services tax. He says: "The introduction of tax is likely to lead to a less efficient tax system." This is not right, because everybody has to fill in a tax return. You all know what your rental assessment is, and you put that on the tax return. It is no more difficult than putting bank interest and the computer which issues the assessments picks the figure up. I think I would be discourteous if I said the comment was nonsense, but perhaps I can be allowed to be discourteous and say it is a nonsense; it would not lead to a less-efficient tax system. On page 2 he talks about parish rates paid by owners of businesses. Well, of course, he is quite right - and it is a point that I have made - that in England the council tax is used to pay for things that the Island Revenue makes, not the parish rates. He writes here: "However, in general, the profit of the owner-occupier is raised by the value of the notional profit on the notional rental income." Well, I do not know really what he is trying to say. The profit is not raised. I think I have probably covered that.

Senator J.L. Perchard:

Yes, you have.

Jurat P.G. Blampied:

This paragraph is correct, but it should add that the schedule A assessment payable by the owner-occupier of a commercial property would be deducted in completing the schedule D assessment. On the last paragraph on page 2: "When a zero tax company not owned by a Jersey resident is the owner of its

premises, it would not pay tax on its profits, including the notional element of a profit arising from a notional rental of that property.” Well, it is because of the lack of equity that I have suggested that schedule A be repayed by the owner-occupiers. The first paragraph on page 3. As I say, I do not understand this paragraph, unless it is illustrating how the owner-occupiers who have purchased a property not owned by Jersey residents would be assessed if my recommendation is implemented. I think the words adopted by OXERA “notional rental profits” are misleading. The paragraph 211, OXERA says: “It would appear that these tax rates and thresholds would operate independently from the existing personal income tax structure.” This just is not correct; schedule A is an income tax. Paragraph 212: “The proposal appears to be slightly ambiguous about the impact on domestic rental property. However, it is assumed that there is no impact on rental market and that owners are, and will continue to be, taxed at 20 per cent on the profit they receive from the property.” That is correct. The landlord who owns residential property, I would say, would be in no different position from that which prevails at the moment; this is not any change. At the bottom of page 3; K, he says: “In locations such as Jersey with a significant constraint on the supply of land, the value of land is the single largest component, perhaps 75 per cent of the overall property price.” I do not agree. I mean, I know of properties - office buildings - that have been developed in the town where although the cost of the building which has been demolished is substantial, it just does not compare with the cost of the development with the atriums and all the air conditioning and raised flooring, and all those things they have now, it just is not 75 per cent.

Senator J.L. Perchard:

What is the point he is making with regards to that?

Mr. R. Teather:

He is talking residentially.

Senator J.L. Perchard:

Oh, right. I beg your pardon. Thank you. I have just noticed that the page has been printed twice.

Jurat P.G. Blampied:

This says that land tax and property tax they regard as broadly synonymous. Well, it is not a land tax, and it is not a -- well, you could call schedule A a property tax, but it is the assessment on the benefit in kind of owning and occupying the property. Now the tax has been changed in Jersey so that individuals are now assessed on benefits in kind. If an employer provides accommodation for his employee, or he provides a motor car, that employee is taxed on the benefit in kind. It is a bit hard on that individual to be assessed on the benefit in kind, whereas the larger land owner of the valuable property escapes altogether. On page 5, and I have not mentioned this but: “If the tax threshold is set relative to the property value, couples, sharers occupying the same property, will be worse off compared with the single people each occupying a smaller property. This is likely to introduce some additional inefficiency

into the housing market.” I do not quite know what he is saying there, but if you have a house like the Clos Du Rivage has with an assessment of £10,580 or £10,480 and a threshold of £10,000, they would be paying, if they come within the taxable income, about £100 extra income tax. It is a very small amount and they would have to have sufficient income to be vulnerable to tax. “Property extensions and other enhancements to the house which increase the overall value of the property may be discouraged.” I think he is searching for points to make, because if you want to put a conservatory on it, and you get an extra £30 on your rates on the schedule A assessment, you are not going to be put off by putting a conservatory on the house. “A lack of maintenance or investment of the property which has the effect of reducing its value.”

Senator J.L. Perchard:

As you say, clutching at straws.

Jurat P.G. Blampied:

Yes. I felt reading this that it was struggling to say: “Preserve the GST at all cost, but do not have this.” But this is not an alternative to GST. I am fortunate, I live in a house in St. Clements which assessed at £22,000. My grandfather was a builder; he built it in 1904. I should pay more tax than I do because of the benefit that I have of living in a property which is assessed above the threshold. In the zero/ten proposals - and I recognise the enormous difficulty producing them - the better off do not come off too badly. It is the person who struggles who has to pay the GST, and if you scratch the surface in Jersey ... I became Treasurer of the Blind Society 50 years ago in November this year, and you go around the Island and you will find people - the visually handicapped - and a lot of them have to struggle enormously with an old age pension to make ends meet. I see nothing wrong in the better off in Jersey having to pay a bit more if they live in a ...

Senator J.L. Perchard:

Yes.

Senator B.E. Shenton:

Well, what about the vagaries of the rate assessment system? I mean, they are --

Jurat P.G. Blampied:

Well, they tried to standardise it.

Senator B.E. Shenton:

Yes, but they are still miles out. I mean, you just said what you pay; what your rental value is, and I know mine is significantly more than that, and I am sure --

Jurat P.G. Blampied:

You are probably living in a better house.

Senator B.E. Shenton:

I do not think so. If someone has been in a house for a long time, the rental rate does tend to slip, because they tend to reassess it if someone does not work, or ownership changes hands.

Jurat P.G. Blampied:

Yes, you could be right.

Senator B.E. Shenton:

Yes.

Jurat P.G. Blampied:

In England when they had the schedule A they had a quinquennial valuation every 5 years. I know the problem, because at the Waterworks if you do not have a meter it is based on the rental value. A few years ago they did try to standardise them, and I thought they had them more or less in line.

Mr. B. Curtis:

I spoke to the rates assessor about this, and they have started a rolling programme of re-evaluations and ...

Jurat P.G. Blampied:

Adjusting them, yes.

Senator J.L. Perchard:

But what, of course, complicated it more, you spoke to a rates assessor; each parish has its own --

Mr. B. Curtis:

No, this was the ...

Male Speaker:

I did not think there was such --

Senator J.L. Perchard:

There is not such a person. You go to appeal and there is a body --

Jurat P.G. Blampied:

They have an assessment committee.

Senator J.L. Perchard:

Yes.

Mr. B. Curtis:

I think this was the one from the assessment; the appeal one.

Senator J.L. Perchard:

Yes. Just confining ourselves to looking at commercial property, are you satisfied that with the commercial property, there is equity in the way it is rated?

Jurat P.G. Blampied:

I do not know.

Senator J.L. Perchard:

You do not know? No.

Jurat P.G. Blampied:

I do not know.

Deputy P.J.D. Ryan:

Well, that is a secondary problem. It is not really central to the principles that we are talking about.

Senator J.L. Perchard:

Well, of course, Deputy, though if this is to work, it has to be based on --

Deputy P.J.D. Ryan:

Yes, it will drive equity in that area, I accept that.

Senator J.L. Perchard:

Yes, well it will drive it.

Deputy P.J.D. Ryan:

But in terms of the principles it would be like saying: "Well, we cannot do anything because there is a problem with --"

Senator J.L. Perchard:

Yes, it will drive equity, you are right.

Jurat P.G. Blampied:

If there is any merit at all in this arrangement then there should be some system for making sure they are standard.

Senator J.L. Perchard:

Sure. Okay. How do you feel now? Are you satisfied that we have covered all the bases?

Jurat P.G. Blampied:

I think so.

Senator J.L. Perchard:

Yes.

Jurat P.G. Blampied:

I mean, paragraph 32 --

Deputy P.J.D. Ryan:

That is what I wanted to ask you.

Jurat P.G. Blampied:

“As with all taxes, business themselves do not pay taxes; only consumers, workers or shareholders.” Well, that may be looking to the future, but at the present it is the businesses that pay the taxes. The shareholders do not pay tax on the dividends. The dividend is an appropriation in Jersey - it is slightly different in England - of taxed profit. If you get a dividend from a Jersey company, you pay no tax because it is an appropriation of profit which has suffered tax, so I ...

Deputy P.J.D. Ryan:

This is a standard economic statement from economists that I have come across in several places that businesses do not pay taxes; only shareholders, workers or consumers, and it comes up time and again.

Jurat P.G. Blampied:

But it is wrong. It is wrong in Jersey.

Deputy P.J.D. Ryan:

Would it be right anywhere else?

Mr. R. Teather:

He is talking in economic terms rather than in practical terms.

Deputy P.J.D. Ryan:

Yes.

Mr. R. Teather:

So he does not mean businesses that write out cheques to the Revenue. He means if the business pays the tax --

Deputy P.J.D. Ryan:

They pass it on.

Mr. R. Teather:

It has to be passed on to somebody.

Deputy P.J.D. Ryan:

Yes, it is a secondary effect.

Mr. R. Teather:

Yes.

Deputy P.J.D. Ryan:

But is that true at the end of the day? Because you get tax planning going on, and you would think that at the end of the day if the business accumulates in terms of value, turnover, goodwill, and you then dispose of the company or close it down, you avoid the tax at that point?

Jurat P.G. Blampied:

Well, you do not avoid it, because it is not taxed twice. But a Jersey trading company pays 20 per cent on its profit. There are certain adjustments that are made; they cap [the tax law provides relief for capital] allowances, but depreciation is not allowed [as an expense], but basically it pays 20 per cent on its profit, and its profit is taxed. If it is distributed by way of dividend to the shareholder, and it may not be, the shareholder pays no tax at all, because it is profit that has already been taxed. So if it is not distributed by way of dividend, the position is the same: whatever is paid in by way of dividend of a Jersey company, the Revenue do not get any more money at all.

Deputy P.J.D. Ryan:

No. I think the point I am asking is whether this whole economic target - that in the end consumers,

shareholders or workers pay all of the tax - does not hold up in the longer term because you end up with some form of tax-free gain by retaining the profit in the business?

Senator J.L. Perchard:

It is not that relevant, because nobody is going to pay any tax anyway. If Jurat Blampied is right, tax would not be paid.

Deputy P.J.D. Ryan:

No. No, not under Zero-Ten, of course.

Senator J.L. Perchard:

Under Zero-Ten. Trading companies will not pay tax, because they will not be locally owned, and you are suggesting that most of the tax will be avoided.

Jurat P.G. Blampied:

Well, it will not be paid in Jersey.

Senator J.L. Perchard:

Yes. You are suggesting that it will not be paid to the --

Jurat P.G. Blampied:

I mean, what I imagine the Treasury is saying: "But they are going have to pay tax, because they pay it in England." I do not entirely agree with that, but when the zero tax is introduced, it is only Jersey resident individuals who have shares in Jersey companies who will be paying tax. There will be an enormous falling away of tax revenue. The Guiton Group, de Gruchy's, Norman's, British Home Stores; they will not be paying any tax in Jersey at all. So at the moment those are large taxpayers. So that is the reason why you have the goods and services tax. But the people who will be paying tax are all of us sitting in this room who do not have salaries or other income or shares in Jersey companies where we would be paying tax on 60 per cent of the income of the company in which we hold shares. But that is the reason for the goods and services tax, is it not? I believe that if the owner-occupier of a dwelling house in Jersey starts to pay tax it will produce a bit more revenue and perhaps will mean that the goods and services tax might not necessarily be as high as some people hope it might be, but I do not know. If there is any message at all in this, Chairman, somebody with a computer needs to sit down in the Tax Department and see the different bands of rental value and work out the different thresholds; the amount of money that would be collected.

Senator J.L. Perchard:

Okay. Well, thank you. Are there any more questions, gentlemen? No? You are happy? I think we

have covered everything there, Jurat Blampied. One final point, maybe. Would you confirm - and you may have already done this, I cannot remember, but I will ask again in case - if a company trading in Jersey, but owned outside the Island, under the schedule A proposal could offset the rental value against their profits if they rented the property from a company that was solely set up to own the property? Do you understand what I am saying?

Jurat P.G. Blampied:

Yes. If they formed an English company which acquired the property and paid rent, there would be no schedule A. But, of course, they would be remitting the profit to England; the rent would be going to England.

Senator J.L. Perchard:

What would be the position if they set up a Jersey company that owned the property on Jersey, and they paid a rent to that company ...?

Jurat P.G. Blampied:

That company would then pay as the owner. Under the existing law it would pay 20 per cent tax on the rent.

Senator J.L. Perchard:

Yes. My point is they would physically be paying the rental and then that would be deductible against their profits.

Jurat P.G. Blampied:

Yes. It would be a business expense.

Senator J.L. Perchard:

Yes.

Jurat P.G. Blampied:

But the company that they own which received the rent would pay 20 per cent.

Mr. R. Teather:

I think the question he wants to ask is assuming that Jersey company that owns the property is owned by a UK company and pays a dividend up to his parent, would they be able to claim a credit against UK tax on the Jersey tax that they paid into rent?

Jurat P.G. Blampied:

No. Because it would be a different form of --

Mr. R. Teather:

No, if it is a --

Jurat P.G. Blampied:

It would be tax on income. Yes, I think they probably would.

Mr. R. Teather:

Yes.

Jurat P.G. Blampied:

I think they probably would. But they could, of course, form an English company to hold the property and the rent would be paid, but they would get double-taxation relief under the double taxation agreement that covers rental income. But Jersey would get its 20 per cent on the rent which it would not get under the present arrangement.

Senator J.L. Perchard:

I am looking for a mechanism to avoid the inflationary pressure that the Treasury say may come about as a result of UK-owned companies trading on Jersey having the extra expense of a deemed rent.

Jurat P.G. Blampied:

The company that owns its property which it trades is in a better position than the company which rents the property from somebody else. So it has an advantage straight away. Its profit is enhanced by the benefit of the occupation and ownership. I believe that - and we discussed this at some length - because they have been retaining profits in Jersey my guess is that they will, in fact, be better off than they are at the moment.

Mr. R. Teather:

But if they do transfer the property to an English company, then the Jersey tax will become fully deductible, and would it be an expense anyway?

Jurat P.G. Blampied:

It would be an expense, yes. But if tax deducted at source from the rent, which I believe it should be, then Jersey will be getting -- if the trading company owns its property and at the moment it pays under the Zero-Ten proposal, it would pay no tax at all. If it pays schedule A it will pay 20 per cent on the annual value of the rental value of the property. If it says: "Well, we do not want to do that, we will transfer the property to an English company" they pay rent and Jersey deducts 20 per cent from the

rental. Jersey is then getting 20 per cent on the rental that it pays. I suggested that the Comptroller should have the right to assess a company to schedule A if the rent is put through at an artificially low amount; that is in my paper. Because they could say: "We have sold it to an English company. The rent instead of £100,000 is £20,000." Well, the Comptroller should have the right to set that aside. He probably has it at the moment under article 134A, but I think it should be specifically provided.

Senator J.L. Perchard:

Okay. Any further questions, gentlemen? Thank you very much for attending today and providing some clarity to what was an excellent paper and a great help to us.

Jurat P.G. Blampied:

Thank you.

Senator J.L. Perchard:

We will be holding a hearing hopefully with the Treasury where we are going to try and develop this argument with them. There seems to be some reluctance on their part to embrace the idea. Any idea why?

Jurat P.G. Blampied:

No, it puzzles me, because it is so simple to do, and they may not like it because of the better-off individual having to pay a bit more tax. Is that possible?

Senator J.L. Perchard:

Not possible.

Jurat P.G. Blampied:

Not possible?

Senator J.L. Perchard:

Okay. We will wind up this hearing now. Thanks again for your attendance and I will declare the hearing closed. Thank you.