

# **STATES OF JERSEY**



## **GOODS AND SERVICES TAX: EXEMPTION OR ZERO-RATING FOR FOODSTUFFS AND DOMESTIC ENERGY (P.103/2008) – COMMENTS**

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**Presented to the States on 8th September 2008  
by the Council of Ministers**

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**STATES GREFFE**

## COMMENTS

The Council of Ministers is prepared to accept the Deputy of Grouville's proposal to zero-rate food, but is putting forward alternatives to zero-rating fuel which it believes are more appropriate and better targeted to those on lower incomes.

The Council of Ministers has always opposed the zero-GST rating of food because Ministers wanted a low, flat rate of tax that was as simple as possible to administer. That aim remains as relevant today as it has always been.

However, the economic climate has changed. In common with people throughout the world, Islanders have been hit by unprecedented global increases in food prices. Ministers now believe that a response is required and that removing GST on food is the appropriate response in the current circumstances.

It has also now been possible to update the estimate of GST income based on the receipt of the first returns. The initial estimate is that the annual yield from GST could be about £50 million, which is £5 million more than the original target. Ministers have always maintained that they will only raise the taxes that are required, and it is clear that GST could be removed on food without having to increase the rate of 3%.

Ministers are also proposing to maintain the current rates of income support, including the allowance for GST on food, and the scheme for people who do not receive income support but are below the tax threshold. This means that the full benefit of GST reductions on food will be passed on to people on lower incomes who have already received support to cover those costs.

In relation to fuel, Ministers are proposing a comprehensive package which they are confident is better targeted at those on lower incomes.

This package includes proposals to –

- Freeze fuel excise duty;
- Increase income support to cover food and fuel inflation;
- Increase the Winter Fuel Allowance by 20%;
- Defer until October 2009 any reductions in income support for households on transitional relief;
- Allocate £1 million for home insulation grants and energy efficiency advice;
- Improve the bus service and cap bus fares;
- Accelerate the programme for insulation of States social rented housing.

Ministers believe that zero-rating domestic fuel would have most benefit for people with large houses, those with swimming pools and other high energy-consuming facilities, but would have much less effect for people on low incomes who cannot afford to properly heat their homes.

Instead, Ministers maintain that the proposed increase in winter fuel allowance and investment in home insulation and energy efficiency will directly help those who are least able to afford the increased costs of heating.

For States tenants it is proposed to accelerate the currently planned programme of insulation and double-glazing. This will help them reduce the cost of keeping their homes warm and comfortable.

Taken together, the Council of Ministers believes that this is a good balanced package which will help all Islanders, and specifically target those who need most help. The approach is also good for our environment as it will aim to reduce fuel use at the same time as improving people's comfort and well-being.

These proposals are in addition to the measures which have already been put in place to reduce the impact of GST on low to middle income groups –

- Extra uprating of income support by 3% to cover GST;
- Increase in winter fuel allowance by extra 3% to cover GST on fuel;

- Interim GST grant to cover cost of GST on food for those who don't pay tax or receive benefits;
- Increase in income tax exemption limits by 6.5%;
- 20% increase in income tax child allowance.

## **Summary**

The Council of Ministers supports paragraph (a)(i) of P.103/2008, as part of this overall package to address food and fuel inflation.

However, Ministers recommend that the States rejects the zero-rating of domestic energy (paragraph (a)(ii) of P.103/2008). The proposal is poorly targeted, as the majority of the tax break goes to the better-off and is contrary to States environmental objectives. Instead, in order to address increased fuel costs, Ministers are putting forward what it believes is a more appropriate package targeted at those on lower incomes.

Finally, Ministers believe that in the light of improved GST forecast revenues, paragraph (b) of the proposition is unnecessary, and furthermore that given the current commitment to no new taxes other than those necessary to deliver environmental benefit, it is not a subject to be pursued at this time.