STATES OF JERSEY

EXPENDITURE PROPOSALS FOR 2012 AND 2013 AND DRAFT BUDGET STATEMENT 2011 (P.157/2010): SIXTH AMENDMENT

Lodged au Greffe on 22nd November 2010
by Senator F. du H. Le Gresley

STATES GREFFE

PAGE 2, PARAGRAPH (b) –

After the words "as set out in the Budget Statement" insert the words –

> "except that, in Summary Table B 'States Income 2011' on page 74 the estimate of total income for 2011 shall be decreased by £7.5 million by increasing the rate of Goods and Services Tax to 4% from 1st June 2011 and not to 5% as proposed in the draft Budget Statement;".

SENATOR F. du H. LE GRESLEY

REPORT

The Minister for Treasury and Resources has failed to make the case for a 2% increase in the rate of GST because of the range of uncertainty in the forecast of income tax receipts for the next 3 years. In 2011 the range is from £363 million to £397 million (£34 million), in 2012 £382 million to £429 million (£47 million), and in 2013 £395 million to £462 million (£67 million). Therefore I am proposing that the rate of GST should only be increased to 4% from 1st June 2011. This reduced rate would result in a reduced income from GST of approximately £8 million in 2011 but, as a consequence, there will be additional savings of approximately £500,000 in expenditure on GST compensation.

GST is an unpopular tax but the public would be more accepting of a 33% increase in the rate rather than the 66% increase proposed by the Minister for Treasury and Resources. There is general acceptance that something has to be done about the forecasted deficits, but the public need to be convinced that the Council of Ministers are serious about delivering savings of £65 million under the CSR Part 2 proposals. Raising the GST rate by 2% gives the Council of Ministers a degree of comfort should they be unable to deliver the savings. A 1% increase in GST is adequate, and will concentrate the minds of individual Ministers and their management teams.

A 1% increase in the rate of GST, as opposed to the 2% increase proposed in the budget statement, will enable the Minister for Treasury and Resources to retain a broad-based and simple tax with minimal exclusions. This will minimise the cost of compliance for traders and suppliers and keep the cost of administration low. A 2% increase will increase the pressure to grant further exemptions.

The Minister for Treasury and Resources is carrying out a Business Tax Review and has stated that he is committed to recouping the "corporate tax revenues lost from certain non-finance companies with Jersey based business activities on the introduction of zero/ten". Other options for increased revenue from corporate taxation may emerge from the consultation and the outcome of the assessment of the zero/ten regime by the European Union's Code of Conduct Group.

The Corporate Services Scrutiny Panel will shortly be presenting to the States their review of the Fiscal Strategy Review. Having been a co-opted member of the Panel for this review, I am aware that the Panel will be calling for a more coherent, long-term, fiscal strategy for Jersey and that the short-term measure of increasing revenue by raising GST could see a shift from direct to indirect taxation without public endorsement. The general public have a legitimate concern that raising the rate of GST will become a regular feature of future budgets.

Whilst the burden of paying GST primarily falls on the Island's residents, there are 2 sectors of our economy, hospitality and retail, which will in particular be adversely affected by the proposed 2% increase in the rate –

Hospitality

Hospitality includes hotels, restaurants and bars; and in 2009 the sector contributed £119 million (3.3%) of the total GVA (Gross Value Added) of Jersey's economy. The hospitality sector is also responsible for generating GST receipts of approximately £6 million per annum and, according to the Economic Development Department's Annual Report for 2009, "tourism continues to be a valuable contributor to the Jersey economy for an estimated

£226 million spend on island during 2009". However, to date, probably 80% of the 3% GST charge has been absorbed into prices and tariffs in order to remain competitive with other holiday destinations. This has significantly contributed to room yields and profitability falling to critical levels.

Hoteliers that I have spoken to have left me in no doubt that a GST rate of 5% will contribute to the closure of more hotels and a significant reduction in the current 12,000 beds. Without a vibrant tourism industry, transport links will be drastically reduced and this will have a detrimental effect on the financial services industry and will inconvenience the travel plans of local residents.

Wholesale and Retail

The wholesale and retail sector contributed £257 million (7.1%) of the total GVA of Jersey's economy in 2009. Only retailers with a 12 month taxable turnover in excess of £300,000 are required by law to register for GST. Whilst some retailers were able to absorb the 3% rate of GST into their prices, this is unlikely if the rate is increased to 5%. Significant price increases will only encourage more consumers to shop on-line. The fear is that Jersey will be left with more and more empty shops and only UK franchisees able to survive.

In order to maintain the same amount of income for 2011 from the FSR measures, I recommend that the 2% employees and employers' additional social security contributions, for employees earning above the ceiling, commences in July 2011. This would produce a reduced expenditure for supplementation of £8 million. I consider that 6 months is sufficient time for the necessary changes in legislation to be enacted and for the Minister for Social Security to introduce Regulations for the collection of the additional contributions.

The Minister for Social Security has already lodged P.163/2010 – Draft Social Security (Amendment No. 19) (Jersey) Law 201-, which, if approved, will allow for the collecting of contributions above the current earnings ceiling. The Law will require approval by the Privy Council and registration in the Royal Court. We are told in the Report accompanying P.163/2010 that "this process takes a minimum of several months and can often last a year or more". However, when debating P.125/2010 – Draft Health Insurance Fund (Miscellaneous Provisions) (Jersey) Law 201- on 18th November 2010, the Attorney General advised that if a Law is "not complex" the process should only take "4 to 5 months".

I would consider that the Draft Social Security (Amendment No. 19) (Jersey) Law 201- is not complex as it only has 4 Articles. I appreciate that Regulations will also need to be approved by the States to complete the process, but the Minister has already stated in the Report to P.163/2010 that this Amendment should have "a priority passage through the Privy Council process". Taking all these factors into consideration, I can see no reason why collection of contributions above the ceiling cannot commence from 1st July 2011.

Financial and manpower implications

This Amendment will reduce the forecasted income from GST by approximately £8 million in 2011 but, as a consequence, there will be additional savings of approximately £500,000 in expenditure on GST compensation.

Forecasted income tax receipts have a wide range of uncertainty for 2012 and 2013 and the range is sufficient to allow for a 4% rate of GST for that period. The Minister for Treasury and Resources has other options for raising taxes in 2012, including a complete review of the I.S.E. (International Services Entities) scheme and a new tax on non-finance companies with Jersey-based business activities.

There are no additional manpower implications.