

13 May 2005

Deputy R Duhamel
Goods & Services Tax
Scrutiny Office
States Building
St Helier
JERSEY
JE1 1BA

Dear Deputy Duhamel

Shadow Scrutiny Review - Proposed Goods & Services Tax

- 1.0 Thank you for the opportunity to provide comment on the proposals by the Finance & Economics Committee to introduce a goods and services tax (GST). Our comments are based on the report by Crown Agents reference T23079 and relate solely to Jersey Post's activities.
- 2.0 By way of background to our submissions you will be aware that Jersey Post offers a wide range of services that may be affected by the proposals including:
 - Postal Services, a proposed exempt supply;
 - Financial Services (e.g. banking agency, bureau de change, money transfer products) potentially a combination of zero rated and exempt supplies;
 - Pick and pack export fulfilment services, potentially an exempt supply; and
 - The delivery of goods imported with mail generated off Island, on which GST may be payable.

I will address each area in turn.

3.0 Postal Services

- 3.1 Jersey Post welcomes the decision to make postal services an exempt supply. However, Jersey Post would like to raise the following issues which would need to be addressed with the Finance and Economics Committee.
- 3.2 We have assumed that the use of the phrase "Postal Services" has relevance to the definition contained in the draft Postal Services (Jersey) Law 200-. The two relevant definitions are reproduced below for information:
 - "Postal Service" means the conveyance of postal packets, the incidental services of receiving, collecting, sorting and delivering postal packets, and any other service that relates to any of those services and is provided in conjunction with any of them; and
 - "Postal packet" means anything that weighs no more than 20 kilograms, and is for transmission by post or is transmitted by post.
- 3.3 Essentially postal services in Jersey will be required to be licensed by the JCRA. However, the definition of 'postal services' is broad and may create difficulties for

implementing GST appropriately e.g. will the fee payable for courier and express services be subject to GST? The proposal is clearly not cost neutral for Jersey Post as it would be unable to recover input GST i.e. GST on local purchases and services and will create some administrative costs.

3.4 Jersey Post also believes that these proposals go further than other jurisdictions, e.g. UK, by making any supplier of postal services e.g. including services provided by , say, DHL, exempt from GST. This reduces the potential revenue from other postal services providers, but it does potentially level the playing field between postal services providers.

3.5 Jersey Post suggests that for the purpose of GST the definition of “postal services” is drafted widely in order to reduce costs and the administrative burden.

4.0 Financial Services

4.1 As mentioned above, Jersey Post operates a large range of financial services including:

- Agency service for UK banks;
- Agency service for Jersey banks;
- Agency service for insurance products;
- Agency service for transmission of funds around the World; and
- Bureau de Change.

Many of the products are inter-related and at this time the exact status for GST appears unclear.

4.2 Jersey Post will seek clarity on the status of these products for GST from the Finance & Economics Committee and seek to agree a commonsense approach to the application of the proposed tax and the recovery of input GST.

5.0 Fulfilment Services

5.1 Jersey Post, through its subsidiary Offshore Solutions, and other fulfilment companies, provide third party processing, including pick and pack services, for companies based in Jersey and UK, for the supply of goods via the postal network into UK and, to a lesser extent, also into the rest of Europe. It is Jersey Post’s understanding that these activities would be regarded as “export related supplies” and as such would be zero rated, Jersey would seek confirmation from the Finance & Economics Committee in this regard.

5.2 The proposal that fulfilment goods for export are zero rated is welcomed and, of course, common to treatment elsewhere. However, having to pay import GST on these goods, when they are specifically for export, appears to create an unnecessary administration and cash flow burden for these companies, because it would appear that the import GST paid would simply be reclaimed, albeit at a later date. Whilst we appreciate that it may be difficult to distinguish between goods for import and goods for export we believe this warrants further investigation. This negative impact on fulfilment business cash flow could damage the competitiveness of Jersey for fulfilment companies. Jersey Post suggests that goods imported for subsequent export are zero rated.

6.0 Delivery of Mail Generated off Island

6.1 Jersey Post is concerned that the procedures and GST de minimus limits for the importation of mail have not yet been determined. In other jurisdictions the

responsibility to collect GST on items of mail falls to the postal operator. This has significant cost implications and has in part led to a de minimis level in Europe of between €10 and €22. Jersey Post would welcome detailed discussions regarding the setting of a de minimis limit and the extent and funding of any involvement Jersey Post could have in the collection of GST on imported postal items.

6.2 Royal Mail charge about £4.65 for each mail item on which they collect the VAT, on behalf of HMCE. For low value items this is very significant, as the VAT collected on an item costing, say, £20 would be about £3.50 in the UK, plus £4.65 collection charge. If GST is only 3% in Jersey then the GST collected in Jersey on, say, £20 item for the UK would only be 60p, but the cost of collection is still likely to be over £4 and this cost would need to be covered.

7.0 Summary

7.1 Whilst Jersey Post welcomes Postal Services being exempt GST and exports being zero rated, many of the practical applications of GST need to be determined so that the precise impact on its business can be determined. Jersey Post does not believe that the proposals will be cost neutral, but are likely to have manpower and resource implications, both administratively and in the collection of the tax, particularly on imports sent by mail and subject to GST.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Ridgway', written over a large, stylized 'I' that serves as a signature element.

Ian Ridgway
Finance Director

cc: Patrick Ryan
John Pinel