

STATES OF JERSEY

SCRUTINY COMMITTEE BLAMPIED ROOM, STATES BUILDING

GOODS AND SERVICES TAX REVIEW

Panel: Deputy Rob Duhamel (Chairman)
Senator Ted Vibert
Deputy Bob Hill

Advisers: Mr Richard Murphy
Mr Paul Frith

EVIDENCE FROM:

MR COLIN POWELL, CBE (Adviser, International Affairs)

on

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DEPUTY DUHAMEL: I will make a few introductions. We have got Mr Frith, one of our advisers, and Mr Murphy.

MR POWELL: Hello.

DEPUTY DUHAMEL: Are you familiar with everybody else?

MR POWELL: I think so, yes.

DEPUTY DUHAMEL: Thank you, Mr Powell, for attending. I have to do a little bit of housekeeping and read you out the warning notice first of all, so if you would bear with me. It is important that you fully understand the conditions under which you are appearing at this hearing. You will find a printed copy of the statement that I am about to read to you on the table in front of you.

Shadow Scrutiny Panels have been established by the States to create opportunities for training States Members and Officers in developing new skills in advance of the proposed changes of government. During this shadow period, the Panel has no statutory powers and the proceedings at public hearings are not covered by Parliamentary privilege. This means that anyone participating, whether a Panel Member or a person giving evidence, is not protected from being sued or prosecuted for anything said during hearings. The Panel would like you to bear this in mind when answering questions and to ensure that you understand that you are fully responsible for any comments you make. So you have been warned.

MR POWELL: Perhaps I should just stay silent.

DEPUTY DUHAMEL: That is right, to stay silent is the safest way. If I could kick off the proceedings, on a general point, perhaps you could give us your comments as to the level of discretion that should be brought to bear in any system, whether it be for exemptions or regulation or whatever in any governmental system which is based on a particular set of legislation.

MR POWELL: Well, that depends. If it is in relation to a particular piece of legislation, then the discretion should be covered by that legislation; in other words, the legislation should make provision for discretion if it is going to be exercised.

DEPUTY DUHAMEL: In essence, what I was trying to get from you, if perhaps I could be a little bit clearer, is the level to which discretionary events should take place. Perhaps could you put a percentage figure on it? Should it happen 5% of the time or 50% of the time, and to what

extent should the legislation be tight enough to actually squeeze out the discretionary instances? That is what I am driving at.

MR POWELL: Well, I think it is a question that is difficult to answer in the sense that it is general and, therefore, I think it will vary according to the legislation. So I don't think you can say, you know, a particular percentage because it will vary according to the legislation concerned as to what discretion might be exercised. I mean, there will be some legislation in place promoted by the States, where the States will be very keen to encourage a considerable amount of discretion because that possibly would be to the benefit of those affected by the legislation. In other cases, the legislature would want to limit the discretion because they have a very clear view as to what they want to happen as a result of that legislation. They don't want it modified by discretion being exercised unduly. So it is in the hands of the States. Surely, the States decide how much discretion they want to see exercised in respect of any legislation that they might enact.

DEPUTY DUHAMEL: Right, okay, thank you.

SENATOR VIBERT: Sorry. How comfortable are you with the situation that the JFSC are actually going to be the body that is going to be licensing these companies and you going to have the discretion to decide whether they fit into this particular category?

MR POWELL: Licensing which companies?

SENATOR VIBERT: The financial services.

MR POWELL: Well, the provision whereby, as you say, the rate of tax at 10% applies to those establishments that are regulated by the Financial Services Commission, I would say in large measure, I would say 99% of those companies that are likely to be affected are already in existence. But the Financial Services Commission in regulating the finance industry won't be in any way affected by the fiscal position. I mean, we will be taking a view on the licensing of financial services according to the statutes under which we operate. So we won't be saying "Oh we must have regard for the fact that this company will or will not be subject to a particular level of tax". If it is an activity which is covered by our regulatory laws, then we will exercise those laws and apply them as the statute requires.

DEPUTY DUHAMEL: Mr Murphy?

MR MURPHY: Is it your understanding that, being licensed by the JFSC will, under the new 0-10 régime, mean paying tax at 10%?

MR POWELL: My understanding (and it is not an area that I have been involved in, as I think I have indicated in my correspondence) is that for the agreement that has been entered into, the 0-10, in satisfying or in putting forward the proposal to the European Union, the 10% rate has been identified as being a rate which would apply to those companies or financial institutions that are regulated by the Financial Services Commission, but that is a decision that those who are responsible for the fiscal affairs of the Island -- that is not me but those who are responsible for that -- have made and have decided that that produces the boundaries as far as that provision is concerned. As I say, as far as the Financial Services Commission is concerned, we shall carry out our duties as a financial services regulator and we will not be influenced in exercising those regulatory powers by whether or not the institution should or should not be subject to 10% tax.

It follows the other way round. We regulate. We produce, in effect, a category of company or institution which other parties can use if they so wish. I mean, it could be applied under any statute. I mean, the States could decide that they wanted to apply a particular statute to a group of companies and they might use our list of regulated entities as the basis for that. That would be a decision of Parliament. It wouldn't influence the regulator as to whether an institution was regulated or not. That flows from the regulatory laws. We can't say: "Here is a regulatory law which says that such and such should be regulated, but we are not going to regulate them because, if we regulate them, they will then be subject to 10% tax." Likewise, we are not going to take a regulatory law and say: "Here is someone who is not covered by that law, but we are going to force them, as it were, into the regulation so that they become a regulated entity so they will pay 10% tax." The two are totally separate.

SENATOR VIBERT: Was there any consultation with the JFSC that they would use that situation, or is it just a matter that, if Parliament says that is what you must do, that is what you must do?

MR POWELL: Yes. That was a decision which was taken by the authorities, the Island

authorities. It wasn't something that they needed to consult us on. I mean, we produce a list of regulated entities. What people do with that list of regulated entities is up to them.

SENATOR VIBERT: Up to us.

MR POWELL: Up to you, yes.

DEPUTY DUHAMEL: Mr Murphy?

MR MURPHY: Would you be surprised to be told that two hours ago Senator Le Sueur said that that was not going to be the case and that in fact your list of regulated companies would not be the basis for charging people tax at 10%? Would that be news to you?

MR POWELL: Well, as I say, I am not directly involved, but, from what I have seen in the *Jersey Evening Post* (and, I suppose, one has to accept what is in the *Jersey Evening Post* as true) has told me that that is the basis. If it is not, then that is the decision of the authorities. I mean, if the Finance and Economics Committee or whoever decide that they want to apply it, then they could. I mean, I can imagine that they might, for example, do more than that. I mean, they could have other categories. They could, for example, say that all the public utility companies would be affected or they could say that all listed companies. I mean, there are different definitions. If you could actually produce boundaries around a particular group of companies, then presumably those who are involved in the fiscal measures would be able to use those. So that would be their prerogative. It wouldn't be anything to do with us.

MR MURPHY: But you would share my surprise about this?

MR POWELL: Yes. I share the surprise in the sense that I haven't read anything in the *Jersey Evening Post* which suggests otherwise, but that doesn't mean it is not the case.

SENATOR VIBERT: Okay on that, or do you want to move on? Paul?

MR FRITH: I think it would be helpful if you could give an example, if you like, of the line where the exercise of the discretion employed within the licensing is drawn. Is it possible that, for example, you can give us an indication? Let us take a company that is established, let us say, to issue debt securities. Where is the line drawn in determining whether or not that company ought to be licensed?

MR POWELL: This is -- and this is where I was really making the point in response to the

Chairman's question -- where you are faced with a situation where discretion will vary according to the legislation. With the regulation of financial services, there is no discretion in the sense that we make our mind up day by day as to whether something is covered or not. What is covered by the regulatory laws is set out in those laws. So if an activity falls within the scope of the Financial Services Law, if it is an investment business, if it is a trust or company service business, if it is a banking business or insurance or what-have-you that falls within the definition within that law, then that is the basis upon which the regulation is fixed. As I said, we can't say: "Well, notwithstanding what it says in the law, we have got discretion to say that it is something else."

MR FRITH: Do you not find that sometimes there are grey areas?

MR POWELL: I cannot recall a situation where someone was engaged in an activity where there was doubt as to whether it fell within the law. I mean, there maybe. There may be right at the very extremes, but it is more that, if there is a grey area in the area of regulation within the definitions, it is sometimes where you have what I call professional business activity and non-professional business activity. If I can give you an example of that, it is someone who operates as a trustee privately, as a private trustee. I mean, he may be asked to be a trustee by a family and he is not in business as a trustee, just as an individual. Anybody round this table could be a trustee. That individual acting as a trustee in a kind of family relationship normally would not be subject to a licence under the legislation.

So there would be circumstances, but, normally, the legislation again tends to seek to carve out people specifically. One tries to avoid the grey areas because, if you get into grey areas, then you get into arguments about application of the laws, and that is something that I think the legislature should avoid, if possible. You know, it should be black and white. People should know where they stand rather than be somewhat unsure as to whether they stand one side or the other of the line.

SENATOR VIBERT: Is that not difficult to achieve when there is a wide discretionary power granted to a particular body, that there are bound to be inconsistencies in the decision making?

MR POWELL: If you give discretionary power, if as a legislature you give discretionary power, then you do introduce that element of uncertainty. I mean, I think, within the context of

the matter with which this Panel is concerned, let us say the Goods and Services Tax, as you know, with indirect taxes, the experience of other countries is that if you start to carve out particular goods and services, then you run into all sorts of definitional problems. The typical kind of situation is, is a bar of chocolate a food or not a food.

SENATOR VIBERT: Is a wedding cake a cake or is it sugar on the cake?

MR POWELL: That is right. So if you introduce dividing lines within the statute, then you do introduce arguments as to whether something is covered or not. So I think it is important, certainly so far as the regulatory areas are concerned, that we try to avoid that.

MR MURPHY: The reason why I guess this line of questioning has come up is because we have some concerns about the use of the JFSC list as the basis for determining who pays tax at 10% or not. The reason why is that the EU Code of Business Conduct says: "*When assessing whether a measure is harmful, account should be taken of*", and No. 5 on that list is "*Whether the tax measures lack transparency, including where legal provisions are relaxed at an administrative level in a non-transparent way.*"

Now, if the JFSC list was used, I went to (what was it) Part 2 of Schedule 2 of the Jersey Finance Act of 1998 and looked at the definition of what a Special Purpose Vehicle was, because obviously one of the very important points about the 0-10 is that SPVs are meant to be taxed at 0%. It appears to be within your authority's discretion to decide what is and is not an SPV. Included within that list of what makes something an SPV or not is, under subsection E: "*Any other transaction the Commission may approve for the purposes of this paragraph.*" Now, that to me seems to fall bang fair and square into category B5 of the harmful tax practices provision, because there is discretion in that paragraph apparently to decide that any transaction may be an SPV or not at your discretion.

It would then follow that, if you had made a decision about a transaction for financial services' purposes and probably wouldn't disclose your reasons, because I don't think you are obliged to disclose your reasons publicly, then a taxation consequence would follow. Would you think that is a reasonable interpretation? It may never happen, but is it a possibility?

MR POWELL: Well, I am not sure it is in the area that you are focusing on because Special

Purpose Vehicles, even if they are accepted as Special Purpose Vehicles, are not regulated.

MR MURPHY: Yes, but this is the decision as to whether something is a Special Purpose Vehicle or not, isn't it?

MR POWELL: Yes, but the issue as to whether it is a Special Purpose Vehicle is not material to the 0-10, is it, because it is not a regulated entity? A Special Purpose Vehicle would only fall into the category of a regulated entity if that Special Purpose Vehicle was then engaged in activities which were subject to licence. Simply because it is a Special Purpose Vehicle does not make it a regulated entity.

MR MURPHY: So why does the Act require a definition of a Special Purpose Vehicle to say that those are not licensed?

MR POWELL: A Special Purpose Vehicle is looked at in the context of the setting up of the Special Purpose Vehicle in the same way as the setting up of companies, and so it goes through a process of approval, rather like a collective investment fund. But the fact that someone needs permission to establish themselves is not the same as saying that that is then a regulated entity. A regulated entity is something that is subject to ongoing supervision; and a Special Purpose Vehicle is not subject to ongoing supervision.

MR MURPHY: But therefore that decision about which you have discretion as to whether something is an SPV or not is actually a decision about whether they are regulated or licensed or not, is it not?

MR POWELL: No, no. As I say, something could be identified as an SPV. That means that, to actually be formed, it has to meet certain requirements at the present time which might be different to those of an ordinary company being formed. But that does not take it into a regulated position. It is not a regulated entity. Regulation under the financial services legislation is identified as being something that is an entity which is subject to ongoing supervision, ongoing monitoring, subject to on-site examination, subject to regular and frequent reporting back to the Financial Services Commission.

One of the difficulties that people perhaps sometimes have with the Financial Services Commission is that we, unlike Financial Services Commissions in other authority, also act as the

Company Registry. So it is sometimes thought that what goes on in the Company Registry is part of our regulatory activities. That is not the case. What goes on in the Company Registry is what goes on in the Company Registry. That is not part of our regulatory activity.

SENATOR VIBERT: It is purely registration.

MR POWELL: It is registration, and there are different requirements of registration. A Special Purpose Vehicle would be something that would need to satisfy certain requirements to be registered, but it is not the subject of ongoing regulation. It doesn't fall within the scope of the Financial Services Law.

MR MURPHY: Sorry, I am really quite confused. I make it clear that I am actually registered as a financial adviser in the UK, so I am fairly familiar with areas of financial regulation. I read the Act, and I have read the Act, and section 2 of the Act defines what financial services are pretty comprehensively.

MR POWELL: Yes.

MR MURPHY: And then section 3 offers exemptions from the definition. It does so by referring to Schedules 1 and 2. I went to Schedule 2, and what I have quoted to you is actually from section 18 of Schedule 2, and it defines that a Special Purpose Vehicle is exempt not because you have made an application to register it but because it is simply exempt.

MR POWELL: It is exempt because we have taken the view that Special Purpose Vehicles, as a description, as a category, should not be covered. To avoid any misunderstanding, Special Purpose Vehicles, as you say, in that legislation it is made very clear to all concerned that they are exempt.

MR MURPHY: Right.

MR POWELL: But that is a decision and they are therefore not regulated.

MR MURPHY: Can I come back to that? That is not a decision being taken by you in your rôle as the Company Registry, that is a decision taken by you in your rôle as financial services registration, because that is the Act that I referred to.

MR POWELL: The legislation that went to the States specifically exempts the Special Purpose Vehicle from regulation.

MR MURPHY: And there is, of course, amongst the six categories of reason why you may decide that something which is undertaking financial services, categories A, B, C and D don't specifically describe financial services transactions by any normal definition. Indeed, there has to be a provision to exempt them because they are otherwise financial services transactions. Then section E gives you discretion to decide.

MR POWELL: Well, a Special Purpose Vehicle may or may not be engaged in a financial services transaction, but, to make it clear to the public and to those who want to form SPVs, the legislation makes it clear that SPVs are exempt.

MR MURPHY: But you have got discretion about deciding what an SPV does and that would therefore imply that there is discretion over the tax.

MR POWELL: We don't have discretion to make an SPV subject to the law unless the SPV for some reason is engaging in activities which are subject to the law. The simple fact that it is an SPV is not something that we are able then to say: "Well, this is an ... Well, discretion, in my mind, is something where you exercise a discretion on the basis of: "This SPV we will make regulated and that SPV we won't simply because it is an SPV." There has to be something extra. It has to translate and transpose itself into a financial service activity to be regulated. So I come back to the point that SPVs, as you have spelt out, SPVs per se are exempt. In other words, they are not a regulated entity.

MR MURPHY: But because you have had the discretion to decide they are not.

MR POWELL: It is not a discretion; it is in the statute. The statute says that they are exempt. That is not my definition of discretion. Discretion would be if it didn't say that SPVs were exempt and we decided or we were given discretion as to whether an SPV was exempt or not. That is not what the statute says, is it?

MR MURPHY: I don't agree with you. Quite simply, I don't agree with you. I think the statute gives you absolute discretion to decide whether something is an SPV or not. As far as I can see, you have absolute right to decide if you wanted to that HSBC is an SPV, if you wanted. I think it is very unlikely you would, but that is what that section says.

MR POWELL: No.

MR MURPHY: *“Any other transaction may be approved for the purposes of this paragraph.”*

MR POWELL: I am trying to say that you are taking it very selectively, because if HSBC, you say that we have discretion to say that HSBC can be a Special Purpose Vehicle, but what I am saying is that if whoever, however they describe themselves, if they are engaging in an activity which comes within the scope of the financial services legislation, in other words they are engaged in banking or they are engaged in trusts and company service activity or they are engaged in investment business, then it is immaterial as to how they describe themselves. They then become subject to the law. That is what determines whether someone is regulated or not, as to whether they fall within the scope of those matters that are covered by the Financial Services Law.

SENATOR VIBERT: Do I take it that that is not a discretionary position? In other words, you have no discretion over that. If they are engaged in financial services, they ----

MR POWELL: If they engaged in a matter that is defined in the law as being subject to regulation, then we regulate them.

MR MURPHY: Can I, I am afraid, ask a couple more questions which follow on from that? On the basis of the evidence that we have been sent, first of all, this decision by you is actually made in advance of the SPV undertaking an activity, isn't it? It is an application in advance.

MR POWELL: Yes, in the same way as any company that is incorporated. A company could be incorporated in Jersey and its memorandum and articles would perhaps be very general, as they often are. We wouldn't say that that company is then a regulated entity. It only becomes a regulated entity if that company then decides to engage in the activities which are subject to the Financial Services Law.

MR MURPHY: But an SPV would make an application and say: “We intend to be an SPV” and you would decide that it was, but do you ever go back and ask subsequently: “Did you do what you said you were going to do because ----

MR POWELL: In the same way that we monitor the position in respect of the companies, any activity -- and we obviously have our intelligence -- if any activity is presented to us in one guise and then it subsequently changes its nature and becomes something different which brings it

within the scope of the financial services legislation, then we take action against it to bring it within the scope. So, yes, that is part and parcel of being a regulator, to try and maintain that vigilance. If someone forms a company and says that they are going to run a butcher's shop and then starts to take deposits, then they are in a different situation and they need to be regulated. If an SPV says that it is doing something which is totally disconnected with the Financial Services Law and subsequently changes its complexion, then it would be so covered.

Of course, the legislation, as you know from reading it, places responsibilities on those who aid and abet and, therefore, any financial service administrator in Jersey, any lawyer or accountant who is handling the affairs of an SPV or a company, who finds that those that they are acting for are moving into areas that are subject to the Financial Services Law, if they weren't to, as it were, make that known to us, then they themselves could possibly be subject to prosecution at some future date.

So when we talk about intelligence, the regulator is normally assisted by the legislation in ensuring that, in most cases, if those changes take place, that information is made known to us. So it is usually fairly straightforward in that respect. I am not saying that there will not be occasions where people are doing something the other side of the world about which we are unaware, but that tends to come to our knowledge one way or another.

MR MURPHY: How often does that happen? How often has somebody come to you and said: "This SPV is now not what it said it was, it is now something else?"

MR POWELL: Well, now you are asking a question of me as Chairman of the Financial Services Commission that can only really be answered by the Executive, because only the Executive would be involved with that information really in a sense. But I cannot recall it ever having been brought to the Board of Commissioners any case where that applied.

MR MURPHY: So there has never been a recategorisation that you know of?

MR POWELL: Well, if the situation with the Board of Commissioners (and this is where you say not an element of discretion, but, in a sense, an element of discretion in decision making) is that if an SPV was then moving into a situation where it required a licence as an investment business and the activities and everything else satisfied the policy laid down by the Board of

Commissioners and the answer was going to be yes, then that matter wouldn't come to the Board, because the Executive are empowered to give positive decisions of that nature if they are working within the policy framework. If an SPV was moving into an area of activity which required a licence and the Executive were of the opinion that it didn't meet the criteria to be licensed and, therefore, required a negative, then they would bring that to the Board for the Board's decision.

DEPUTY DUHAMEL: Right, that is useful. Any further questions?

MR MURPHY: Can I ask a further one?

DEPUTY DUHAMEL: Sure.

MR MURPHY: I am sorry, but I have another one. Jersey Finance wrote a submission on 3rd December last year, and it wasn't to this Panel, I think it was to somebody and it doesn't actually say. It just says "*Tax Proposals*", but it was with regard to GST.

SENATOR VIBERT: It was sent out to all States Members.

MR MURPHY: It was sent to all States Members, was it, right. In that, they talked about the SPVs and their importance to the Jersey economy. Quite specifically, they were talking about SPVs in the paragraphs that I am referring to. They said in that that "*the activities of these vehicles are broad and often complex*", which I think is a fair summary.

MR POWELL: Hmm hmm.

MR MURPHY: "*It is commonplace for such vehicles to transact with each other. Many provide services to themselves and for many it is increasingly important for the activities to be undertaken from within the Island.*" Now, Paul and I have had some discussion about what a transaction is, because, as two accountants, we looked at the range of things which a transaction might be. Quite clearly, under the definition of SPVs in the legislation, A, B, C and D are all transactions. They are even described as transactions. So those are outside the scope because SPVs can do those transactions, it says so. But nowhere does it say that an SPV can provide services inside the exemption.

Now, if these Special Purpose Vehicles are providing services from one to another within the Island, and that is what Jersey Finance say they are doing, and all the transactions in question

appear to relate to the financial services industry, why are SPVs in the position to provide services rather than undertake transactions? I think there is a clear legal distinction between the two. In this context, in the context of your exemption scheme in particular, why can they do that and yet not be regulated? How can they provide services and not be regulated?

MR POWELL: If they were providing financial services within the definition of financial services in the law, then, if they were engaged in the provision of financial services, then they, as I understand it, would be within the scope. But not every service is a financial service. Providing services doesn't mean that it has to be a financial service.

MR MURPHY: No, but nonetheless these are Special Purpose Vehicles within the financial services industry. On the balance of probabilities, they may well be providing them.

MR POWELL: They might, but, as I say, if they are providing financial services which come within the scope of the law, then they will be subject to the law.

MR MURPHY: But they are nonetheless at the moment, Jersey Finance says, SPVs. That is the distinction I am drawing here quite specifically.

MR POWELL: Well, if SPVs as a category, as I have said, if they engage in activities which are subject to the Financial Services Law, then they will be treated accordingly. But the fact that they engage in the provision of services does not mean that it is necessarily a financial service.

MR MURPHY: Can you give me an example of the services that might not be, provided by an SPV to another one?

MR POWELL: Well, I mean, if one ... I'm not sure of the activities of every SPV, but if, again, you take as an extension to a company's activity, which is not dissimilar, then if, for example, there was any engaging in what one might call administrative services or invoicing services or the like, those would not be financial services within the scope of the law because otherwise 101,000 or more companies, you know, would fall foul of that in terms of their administration. So there could be many administrative services that might be provided that wouldn't fall within the scope of financial services. If you want, I think to be fair to the Panel, following on from your line of enquiry, it obviously would be helpful to the Panel no doubt to have this documented, and I will document it accordingly.

MR MURPHY: I think it would be helpful, because, I mean, I don't understand how this can be the case. It is a genuine confusion.

MR POWELL: I think the essence of it (and this is something that I am trying to, as it were, convey to the Panel) is that anyone engaged in financial services which are subject to the law is so subject. In other words, as I understood it, that was the kind of starting point of the conversation and that is the distinction as to who is regulated. What we are saying is that if anybody engages in an activity which falls within the scope of the law which is subject to regulation, they will be so subject.

DEPUTY DUHAMEL: I think that is clear.

SENATOR VIBERT: I understand that quite clearly, thank you.

DEPUTY DUHAMEL: Any further lines of questioning?

SENATOR VIBERT: I take it that it would be difficult in fact to ask many questions relative to going back to when you were an economic adviser in relation to the decisions in Europe relative to Jersey and 0-10? Would you have considered that outside your sort of parameters?

MR POWELL: I think the 0-10 exercise ----

SENATOR VIBERT: It came after your time.

MR POWELL: It came after I left my position as Chief Adviser. As I said in my letter to you, as Adviser on International Affairs, I have been involved in the negotiation of the agreements with the EU Member States on the Savings Tax and also the OECD agreements, but not on the 0-10.

SENATOR VIBERT: Right. I thought that was the case.

DEPUTY DUHAMEL: Perhaps I could maybe push a little bit on one question. You made a comment in your submission to the effect that you supported Jersey having a wide tax base, and this was something that you felt during your office as Chief Executive or Chief Adviser to the States. Perhaps you could give us some comments as to why you think it has taken us you so long to actually achieve it?

MR POWELL: Can I draw a parallel on that? As you saw from my letter, I made this comment about the need for the broadening of the tax base and the suggestion that we might have taken, at

that stage, a 2½% turnover tax in Ireland, which was rather similar to a 3% now, but coincidentally. I said that in 1969. What I would say is that, when I came to the Island in 1969, one of the first jobs I was asked to do as Economic Adviser was to sit on a committee which was concerned with the redevelopment of the Island Site out of town there. So you might say that perhaps this time span is not unusual.

But I think, to respond further to your comment, I think that the answer to that question really is that, when I came to the Island in 1969 and I made that comment in my Budget Report in 1969, as I said in my letter, the States was not that flushed with funds at that time. We had difficulties. We proposed in the Budget of 1969, as a kind of a first step -- it is amazing how these things tend to come round in cycles -- putting a tax on the importation of cars. I received a certain amount of criticism as Economic Adviser at the time, particularly from one motor trader, who said that he felt that, for the high pay that I was getting or receiving, I could come up with better proposals than that, but perhaps he had an interest in the subject. But, anyway, there was a difficulty similar, you might say, to that at the present time in terms of balancing income and expenditure. But thereafter, to some extent, although we had a difficult time perhaps in 1974 with the first oil crisis, again, where there was a difficulty, really, as you are aware, from then on the Island's economy expanded, the revenue stream improved and it is very difficult to persuade politicians to broaden the tax base when the budget surpluses are coming in at the level that they were coming in over that period. When we were putting money into the Strategic Reserve in the 1980s, people were really more concerned with the fact that government was perhaps taking too much money out of people's pockets and it wasn't a time at which you could actually persuade politicians to broaden the tax base.

So, although, if you read my Budget Reports over the years, I quite regularly refer to the fact that I thought it would be to the Island's advantage to broaden the tax base, and that is probably what you would have expected of an economist, because economists tend to take the view -- there may be exceptions, but most economists take the view -- that economic growth is encouraged by people retaining the income that is derived from economic growth and that it is better to tax expenditure; in other words, when people spend the money that they earn, if you

want to generate income. That is the economist's position.

Now, that has been a theme which perhaps explains why just about every country in the world, you might say with the exception of Jersey, has a broader indirect tax base. But other countries have had other reasons for having a broader tax base. So it is not surprising that, as an economist and with those sentiments in mind, from time to time in my Budget Report I return to the theme of broadening the tax base, but the circumstances of the Island were not conducive to that being politically acceptable and I can understand the reasons why that was so.

DEPUTY DUHAMEL: Right, thank you.

SENATOR VIBERT: Would it be possible, if we didn't have the black hole to fill, that we wouldn't need to be doing it now or it would be more difficult to do?

MR POWELL: Well, it might be, although it is interesting. If you are interested in it, I can let you have it. I get sent to me regularly the quarterly bulletin of the *Asian Tax Review* and that is a particularly interesting document at the present time because the latest edition of that has two or three articles on the Hong Kong situation, where they are thinking about introducing a Goods and Services Tax. They are, as a kind of experience, they are looking at Singapore, which has, again, a low rate general Goods and Services Tax. So the articles there are interesting because, both in the case of Singapore -- particularly in the case of Singapore -- a little less so in the case of Hong Kong, although it is still the case, both of those jurisdictions introduced a Goods and Services Tax not because they were short of money but because they felt that they wanted to broaden the tax base. So what they did was to give more attractive tax arrangements, direct tax arrangements, to their inhabitants, to their residents, as a quid pro quo for the introduction of the Goods and Services Tax. If you would be interested in those articles, I would be more than happy to copy them to you.

DEPUTY DUHAMEL: Yes, I think we would be. Mr Murphy?

MR MURPHY: It was just that you mentioned Asia and VAT or GST. Were there any articles on India's experience of introducing a GST recently, because all the reports I have suggest that India has in fact suffered a loss of taxation revenues, massive chaos and an increase in tax avoidance as a result of introducing such a tax.

SENATOR VIBERT: That sounds like India to me.

MR POWELL: Yes. I mean, there have been one or two countries that have failed. Those articles do refer to it, and they refer to the fact that in most cases where they have failed it is because they have not been sufficiently rigorous in their application and have frequently gone for a tax which is only applying to certain areas. They have had too many kind of dividing lines between those who are under tax liability and those who are not. But, yes, those articles do refer to the position of one or two countries, including India. So, yes, I will copy those to you if you would like to see them.

DEPUTY DUHAMEL: Any further questions?

SENATOR VIBERT: No, thank you.

DEPUTY DUHAMEL: Right. In that case, I would like to thank you very much on behalf of the Scrutiny Panel and invite you to make any closing comments, if you would wish to do so.

MR POWELL: No. Thank you. I am grateful to you for inviting me. I will certainly produce those documents referred to, but I will also produce, if you would find it helpful, a note specifically on the subject of SPVs and their position in relation to when and if they provide financial services and what happens to them.

DEPUTY DUHAMEL: Okay. Thank you very much.

MR POWELL: I wish you well with your labours.
