

**QUESTION TO BE ASKED OF THE PRESIDENT OF THE FINANCE AND ECONOMICS
COMMITTEE ON TUESDAY, 29th APRIL 2003 BY DEPUTY C.J. SCOTT WARREN
OF ST. SAVIOUR**

Question

Would the President inform members of the criteria used in order to provide the estimates of States Income for 2004, 2005 and 2006?

Answer

The estimates of States Income for 2004, 2005 and 2006 are prepared as part of the Financial Forecasts included in the States Resource Plan and Budget. The estimates comprise four main areas of income to the States General Revenues:

- (a) Income Tax
- (b) Impôt duties
- (c) Returns from Trading Areas
- (d) Other Income, primarily investment income

The estimates exclude income received directly by individual Committees in relation to fees and charges for services; this income is part of the individual Committees' cash limits.

The criteria for the estimates of States Income are to provide an assessment of future incomes, as accurate as current information can provide, for the purpose of forecasting the level of funding available to the States in future years.

The current estimates of States Income revised in January 2003, are shown on the attached Table 1.

Income Tax

By far the largest component, at least 85% in the years in question, is Income Tax.

The base for the estimates is the previous year's assessments, and these are broken down between the component areas of -

- sole traders,
- partnerships,
- employees,
- investment holders and
- companies, including International Business Companies and Exempt Companies.

Estimates of the likely percentage increases are then factored in for each of the forecasts years in respect of:

- company profits,
- wages and salaries,
- investment holders, and
- property rentals.

The tax yield for each sector is then calculated by taking the effective rate of tax for that sector for the previous year of assessment and applying this to the new sector charge.

Based on past rates of tax collection, an estimate is made of the likely collection of tax in each sector, year by

year, and similarly for collection of tax arrears and estimates of tax repayments. Finally, an estimate of the level of early assessments, which produce an early receipt of tax revenues, is made in respect of individuals who leave the Island during the year.

The Comptroller will also consider any effects on tax revenues for the relocation or change in profitability of any major institutions, or indeed any new factors of which he becomes aware.

The January estimates are improved in September by reference to the tax assessments for the current year which are largely complete by this time. These improved estimates are used in the financial forecast for the Budget Report.

The procedure generally follows the way tax revenue forecasts are prepared in the UK.

In relation to Income Tax estimates it should be noted that the 2004 Income Tax Revenues will be based on income earned in 2003 and business profits earned in 2002. As a result, a reasonable indication of the levels of tax revenues likely for 2004 can be made through tax assessments prior to the budget being set, due to the timelag in the existing tax structure.

Impôts

The second largest element of States Revenues is from Impôt duties, representing about 10%.

The January estimates of Impôt duties are based primarily on the previous years importation levels which are then applied to the effective duty rates year by year.

By using past trends in consumption levels the effect of increased duty can also be factored in over the forecast years, this is particularly relevant in respect of tobacco and certain alcohol goods. These estimates are used for budget planning and for the financial forecast in the Resource Plan.

Actual Impôt duties from the first six months of the current year are then used to improve these estimates in September, and these revised estimates are used as the basis for the Budget report.

Trading Areas

Income for trading areas reflects the return that the States receives from the various Trading Committees of the States. These trading returns are negotiated on an annual basis by the Finance and Economics Committee, and include a return from the Financial Services Commission.

The returns from the Trading Committees are typically revised annually as part of the submission by these committees in the Budget report.

In future, the return from the newly incorporated Jersey Telecom will comprise a dividend in addition to income tax on their profits. This will replace the current financial return formula. A similar change will take place when Jersey Post is incorporated.

Other Income

Primarily the estimates of other income represent the interest earned on the balances of General Revenues during the year. With interest rates currently very low and expected to stay that way, income is not forecast to increase in this category.

Health Warning

I must conclude with a note of caution. These forecasts of States Income can only be best estimates; one thing is almost certain, and that is that the final figures will be different, even if only slightly. Nonetheless they have been calculated on the basis of all known information and trends both locally and nationally.

Furthermore, our recent work looking further forward suggests that with changes in the global economy along with the international and competitive pressures these forecasts may well be adversely affected, even in the short to medium term. It is less likely that there will be any marked improvement within the current time scale.

Table 1 – January 2003 Estimates of States Incomes for 2003 to 2006

States Income	2003 £m	2004 £m	2005 £m	2006 £m
Income Tax	368	380	390	400
Impôt Duties	47	48	47	46
Trading Areas	9	9	10	10
Other Income	9	8	8	8
Total	433	445	455	464

Note:

These estimates are prepared in January to inform the expenditure planning in the Resource Plan. Revised estimates will be produced in September on which the 2004 Budget will be based.