STATES OF JERSEY

GOODS AND SERVICES TAX: ZERO-RATING OR EXEMPTION FOR BASIC FOODSTUFFS AND DOMESTIC ENERGY

Lodged au Greffe on 4th June 2008
by the Deputy of Grouville

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

(a) to refer to their Act dated 13th May 2005 in which they approved the introduction of a broad-based Goods and Services Tax (GST) at a rate of 3% fixed for 3 years and to their Act dated 18th April 2007 in which they approved the Draft Goods and Services Tax (Jersey) Law 200-, and to agree to vary those decisions in order to exempt or zero rate the following items –

(i) basic foodstuffs;

(ii) domestic energy;

and to request the Minister for Treasury and Resources to bring forward for approval the necessary legislation to give effect to the decision; and

(b) to request the Minister for Treasury and Resources to bring forward for approval progressive taxation measures to restore the revenue forgone under paragraph (a).

DEPUTY OF GROUVILLE

REPORT

The Goods and Services Tax has now been introduced; after a great deal of debate, GST is now in place. So why revisit the subject of exemptions now?

I have always supported exempting a range of essential items from GST. However, the Assembly did not support those proposals, which originally included such items as medical products and services, children's clothing, education fees, child care costs and books and newspapers.

Since the Assembly made those decisions however, the world's economy is in a very different state to that which it was – even 6 months ago.

Oil prices – and consequently *all* energy costs – have sky-rocketed.

And because the production of food is energy-intensive, the cost of food has likewise risen dramatically.

Because of the dramatic increases in energy and food costs, I believe it would be quite wrong, indeed foolhardy, to maintain a tax on food and domestic energy consumption. I am limiting the proposed exemptions or zero-ratings to these two commodities because people have to eat – and they have to heat their homes.

There can be no arguing other than that people must avoid hypothermia and malnutrition.

It is difficult to overstate the disturbing scale of the increase in oil prices. In around 6 years, crude oil has increased in price from around US$20 per barrel – to a recent peak of over US$135 per barrel.

Oil prices have fallen away a little from this peak. At the time of writing this report, the price of Brent crude is US$126.16 per barrel. I don't believe either that high oil prices are a mere spike or in some kind of economic bubble.

The experts don't think so either. One such expert is Argun Murti of Goldman Sachs, as quoted by the BBC on 7th May 2008, his opinion reads as follows –

> ***"Price of crude oil could soar to $200 a barrel in as little as six months, as supply continues to struggle to meet demand" a report has warned.***
>
> ***"Goldman Sachs energy strategist Argun Murti made the warning as benchmark US light crude passed the $123 mark for the first time."***
>
> ***"Surging demand was increasingly likely to create a "super-spike" past $200 in six months-to-two years' time", he said. Oil prices have now risen by 25% in the last four months and 400% since 2001."***

When the above-quoted story was published, oil hitting a price of US$123 per barrel was considered to be a seismic event. Yet a matter of weeks later, oil prices exceeded $135 per barrel. Although there has been a slight drop from that price-point – and there will, undoubtedly, continue to be fluctuations – the medium and long-term trend is set.

Oil has seen a 25% increase in cost in a 4 month period– and a 400% increase over 7 years.

This market data of recent times reveals the price of oil has fluctuated – hitting highs, then declining somewhat – but the overall trend in oil costs are set to rise and keep on rising.

And the dramatically increasing price of oil is hitting the production of food. On 29th May 2008, the BBC reported on food costs and I reproduce two quotes from that article here –

> ***"In its annual Outlook report, the FAO (the UN Food and Agriculture Organisation) predicted beef and pork prices might be 20% higher by 2017, wheat could be up to 60% more expensive and the cost***

of vegetable oils might rise by 80%. World prices for wheat, maize and oilseed crops doubled between 2005 and 2007, and while the FAO expects these prices to fall, the decline may be slower than after previous spikes.

"As well as key factors such as weather, supply and demand and energy costs, speculators are also to blame for making commodity prices more volatile, the FAO says."

But these views of the UN Food & Agriculture Organisation are regarded with great scepticism by some commentators. The same BBC article went on to say –

"But even then, its (the FAO's) outlook may be too conservative", says BBC international development correspondent David Loyn, "since predicting future oil prices is a near-impossible task".

"One key assumption made is that crude oil prices will peak at $104 a barrel by 2017" says our correspondent. But as he points out, the price is already well above that, and some reputable analysts are now predicting oil will go to $200 a barrel.

And he added that while there may be a drop in food prices in coming years, "there is a sting in the tail".

"Prices will level off at a far higher average level than seen before the crisis erupted" he said. "The long era of cheap food is over."

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The fact of huge increases in energy and food costs, places, in my opinion, a very different complexion on the issue of whether we should tax food and domestic energy. Whilst it may have seemed to some that not exempting these items would make GST a more "efficient" tax – we now face dramatically altered circumstances. And only people with their heads in the sand would stick with a decision which was no longer compatible with a significantly different set of issues.

I have deliberately not included all energy costs as we need to actively look to 'greener' measures for other energy consumption. I have therefore just limited the proposition to domestic energy.

Basic foodstuffs and domestic energy are inescapable purchases. The cost of these two commodities is rising astronomically. The question we should ask ourselves as a responsible Government is should we, the States of Jersey, still be adding a new taxation burden *on top* of these huge price-rises, and thus be making an already deeply difficult situation even worse for ordinary people? The answer to that question has got to be 'no'.

Part (b) of the proposition requests that the Minster for Treasury and Resources bring forward for approval alternative, progressive, tax measures in order to recover the revenues forgone. Any number of taxes could fulfil this role, for example, land value tax, windfall taxes on commercial property speculation, or recovering the lost revenue by reducing Social Security supplementation by the same amount, and recovering this loss by closing social security avoidance loopholes.

Financial and manpower statement

There will be some additional administrative costs – but as was demonstrated convincingly by Scrutiny, claims of excessive administration cost associated with exemptions or zero-rating were grossly over-stated.

There will also obviously be the taxation revenue loss incurred through exempting these two items. But this might encourage Treasury and Resources to look more vigorously at more progressive taxation measures to make up the lost revenue.

The figures quoted here for lost tax-revenue were produced in 2006 – these being the most recent the Treasury were able to produce at short-notice. Obviously, inflation will have increased these figures somewhat – but they serve as an indicative.

Basic foodstuffs:

Taxation forgone per annum – £2.9 million

Domestic energy:

Taxation foregone per annum – £1 million

The two exemptions would, therefore, have an approximate tax cost of £3.9 million.