STATES OF JERSEY

GOVERNMENT PLAN 2020–2023 (P.71/2019): ADDENDUM

Presented to the States on 12th November 2019
by the Council of Ministers

STATES GREFFE

Addendum – Proposed Government Plan 2020-2023

Introduction

The purpose of this report is to provide an update on income figures, expenditure and transfers to the Stabilisation Fund included in the 2020 - 2023 Government Plan incorporating the latest assumptions and advice from the Fiscal Policy Panel.

The Government Plan was prepared in early 2019, using the latest economic information available at that time. In September 2019 the Fiscal Policy Panel published updated economic assumptions and forecasts from which the Income Forecasting Group (IFG) have produced a revised forecast of States income from taxation and duty. (The Terms of reference for this Group is attached as Appendix A to this Report). Other income outside of the remit of the IFG (for example investment income due to the Consolidated Fund) has also been reforecast.

The updated assumptions affect both the proposed transfers to the Stabilisation Fund and allocations to cover the effect of pay and non-pay inflation. This Addendum sets out how these updated forecasts change the financial elements of the Government Plan and where appropriate amendments to the Government Plan for 2020 are proposed.

There continues to be uncertainty around the nature of Brexit and the effects upon Jersey's economy, and updated forecasts under a "Day 1 No Deal" scenario are included in Appendix D to this Addendum. The flexibility of the rolling Government Plan enables the Plan to be updated for future years, when necessary, to reflect changing circumstances as more information becomes available.

Revised Income Forecasts for Autumn 2019

Following the release of updated economic assumptions by the Fiscal Policy Panel ("FPP") a revised forecast of income from taxation (including from duties) for the years 2019 – 23, before allowing for revenue measures proposed in the government plan, has been prepared by the IFG. The full IFG report is attached as Appendix E The revised forecast reflects:

- the FPP's economic assumptions of September 2019[1] and other related updated economic data for Jersey;
- relevant outturn data available for the period January to August 2019;
- an update to the accounting treatment for the recognition of personal income tax; and
- intelligence from the IFG affecting future forecasts.

The revised forecast shows a decrease in general tax revenues across each year of the forecast period compared to that produced in spring 2019 and used to inform the development of the Government Plan 2020 - 2023.

The FPP's advice in October 2019[2] sets out a number of risks around Jersey's economy and fiscal position over the short, medium and long term including further analysis of risks to financial services and challenges around productivity and demographic pressures.

The IFG consider that each of these risks result in considerable uncertainty in the income forecasts – with the balance to the downside, but also with some upside potential.

[1]See: FPP Updated Economic Assumptions - September 2019
[2]See: FPP Annual Report - October 2019

The IFG forecast does not include amounts raised through the proposed changes to taxation and duty in the Government Plan. The table below sets out the revised income forecast provided by the IFG for 2019 - 2023, adjusted to include the impact of those measures:

Revised forecast (autumn 2019) for States income from taxation and duty (after proposed revenue measures)

2019 Forecast (£000)		2020 Estimate (£000)	2021 Estimate (£000)	2022 Estimate (£000)	2023 Estimate (£000)
585,000	Income Tax	609,000	638,000	668,000	698,000
94,100	GST	96,700	99,700	102,000	104,000
63,738	Impôt duties	68,263	70,499	72,998	74,698
33,643	Stamp duty	35,401	36,254	37,807	38,974
776,481	**Central scenario**	**809,364**	**844,453**	**880,805**	**915,672**
5.7%	Annual growth %	4.2%	4.3%	4.3%	4.0%
781,090	Government Plan	817,402	854,264	890,633	926,734
(4,609)	Variation	(8,038)	(9,811)	(9,828)	(11,062)
-0.6%	Variation %	-1.0%	-1.1%	-1.1%	-1.2%

The downturn in income from taxation is explained by the following variations:

Personal Income Tax

There is an overall decrease in the forecast ranging from £4 million in 2019 to £11 million in 2023 due to a number of components:

- New economics data for the 2018 outturn of GVA and FTE employment, 2019 outturn data on earnings, and partial employment outturn figures have resulted in a net decrease to the forecast £6 million in 2019 to £9 million in 2023.
- The latest FPP economic assumptions have resulted in a further small reduction to the forecast (£1 million to £2 million per year). This is primarily due to the lower forecast for earnings and employment in 2020 but lower interest rates also have a negative impact by the end of the period, as they reduce the forecast of income from bank interest.
- Following a review of the modelling assumptions applied to High Value Residents an increase of £1 million has been included in the first three years of the forecast.

The forecast includes a significant increase in personal tax in 2019, when compared to the 2018 outturn, reflecting the recent change in accounting policy for the recognition of personal tax (described further on page 154 of the Government Plan. The difference between the 2018 outturn and the 2019 forecast reflects two years of growth in taxable income. The impact of this change was not included in the opening Consolidated Fund balance in the Government Plan, and as the Treasury is planning to progress the adjustment to the in 2019, this opening position is expected to improve by £12 million.

Corporate Income Tax

IFG's established approach to forecasting corporate tax is to assume that tax grows in line with the FPP economic assumption for financial services profit growth as most corporate tax is raised from financial services firms.

Updated data from Statistics Jersey shows a 9.6 per cent increase in 'gross operating surplus' ("GOS" – a national accounts measure of profits) in 2018 for financial services. After applying this growth rate to the forecast and utilising in-year data from Revenue Jersey the IFG agreed an additional £3 million of corporate tax should be included in the forecast from 2019 onward. This is on top of the additional £9 million included in the Budget 2018 for the extension of corporate tax and definition of financial services.

GST, International Services Entities and import GST

Following analysis by the Government of Jersey's Economics Unit an updated model, approved by the IFG, has been produced for the forecasting of "normal" and import GST. Compared against historical outturns the new model has an error rate of 1% whereas the previous methodology had an error rate of 3%.

The updated forecast is solely based on the new methodology and provides a slight (£0.7 million) increase to the spring forecast for 2019 used in the Government Plan

Impôts duties

In-year data indicates a decline in the importation volumes of items subject to duty, particularly tobacco. The reduced volumes and the updated economic assumptions result in a decrease of around £2 million in each year of the forecast.

Stamp duty

A decline in property transactions subject to stamp duty, and a decrease in the FPP assumption for housing transactions in 2020 has resulted in a reduction in the estimated income due from stamp duty of around £2 million for each year of the forecast.

Other Income (outside the remit of IFG)

Other income outside of the remit of the IFG (for example investment income of the consolidated fund) has also been reforecast. Based on the updated assumptions and the latest information available these forecasts have also reduced, by £2 million per year.

Revised Expenditure Forecasts and Transfers to the Stabilisation Fund for Autumn 2019

Inflation Provisions

Since the lodging of the Government Plan additional information has become available including the September 2019 RPI figure and updated assumptions on inflation endorsed by the Fiscal Policy Panel[3], both of which are lower than those used in the Plan. The Treasury has taken the opportunity to revisit calculations for estimates of amounts required in centrally held reserves for 2021-2023 for inflation on expenditure.

The pay deals agreed and proposed for 2020 are based upon the September RPI figure. That rate is now confirmed at 2.7%, less than the 3.1% provided in the Government Plan.

The table below shows the impact of the reduced amounts required for inflation over the Government Plan period:

	2020 (£000)	2021 (£000)	2022 (£000)	2023 (£000)
2019 RPI (2.7%) Impact on 2020 Pay Award	(1,400)	(1,400)	(1,400)	(1,400)
Updated Inflation provisions 2021-2023[4]		(3,800)	(6,400)	(11,000)
Total Change	**(1,400)**	**(5,200)**	**(7,800)**	**(12,400)**

[3] Fiscal Policy Panel Update September 2019

[4] Inflation for non-pay costs in the Government Plan for 2020 have not been revised in the forecast as they are equivalent to an efficiency proposal and so any change in one would result tin an equal and opposite change in the other and no net change to the overall plan.

Transfers to the Stabilisation Fund

The advice from the FPP (as below) to address the estimated reduction in income is that expenditure plans should not be cut, but rather the scale of surplus and transfers to the Stabilisation Fund should be adjusted downwards:

> *"The updated economic forecasts should not result in any significant deviation from the draft Government Plan, though the automatic stabilisers should be allowed to work. This would be preferable to cutting expenditure to account for a cyclical reduction in income forecasts - which could lead to government reducing its positive impact on demand at a greater rate than is appropriate to the economic conditions. It would be pro-cyclical and weaken growth further to cut spending when the economic outlook is slightly weaker."*[5]

The level of in-year transfers to the Stabilisation Fund included in the lodged Government Plan was proposed on the basis of the assessment by the FPP of the capacity in the economy for 2020 at that time. This resulted in a proposed transfer of £16 million for each of the years of the Plan with an additional £20 million proposed to be transferred in 2020 from accumulated balances in the Consolidated Fund. In their Annual Report in October, the FPP advised:

> *"Should these fiscal forecasts be weaker than those underpinning the draft Government Plan, it may be appropriate to run slightly smaller surpluses to respond to the weaker economic conditions and make a smaller contribution to the Stabilisation Fund"* [6]

The FPP provided an updated estimate of the cyclical position of the economy and on the appropriate level of transfers to the Stabilisation Fund. Reducing the 2020 in-year transfer to these levels from £16 million to £8 million is consistent with the FPP's analysis and advice.

	2020 (£000)	2021 (£000)	2022 (£000)	2023 (£000)
Government Plan Transfer (in-year)	16,000[7]	16,000	16,000	16,000
FPP Update Autumn 2019	8,000	14,000	16,000	17,000
Difference	**8,000**	**2,000**	**0**	**(1,000)**

Summary of Revised Position

The table below summarises the impact of applying the updated assumptions highlighted above to the the lodged Government Plan.

	2020 (£000)	2021 (£000)	2022 (£000)	2023 (£000)
Forecast operating surplus - Lodged Government Plan	**16,020**	**16,108**	**16,127**	**23,613**
Changes to IFG Income Forecast, and impact on GP Revenue Measures	(8,038)	(9,811)	(9,828)	(11,062)
Changes to Other Income Forecast	(2,000)	(2,000)	(2,000)	(2,000)
Update to Inflation Provision	1,400	5,200	7,800	12,400
Revised Forecast Surplus	**7,382**	**9,497**	**12,099**	**22,951**
In-year transfer to Stabilisation Fund	(8,000)	(14,000)	(16,000)	(17,000)
Forecast (Shortfall)/Excess after transfers	**(618)**	**(4,503)**	**(3,901)**	**5,951**

[5] Fiscal Policy Panel annual report October 2019
[6] Fiscal Policy Panel annual report October 2019
[7] Additional £20 million transfer is planned in 2020 from accumulated balances

Following these assumptions the Plan continues to deliver surpluses throughout the period, and remains broadly in balance in 2020 after the revised transfer to the Stabilisation Fund. In each of 2021 and 2022, the surplus is insufficient to meet the recommended transfers to the Stabilisation Fund. It is proposed that these shortfalls be addressed in the Government Plan 2021-2024.

The following table shows the revised forecast over the period for the Consolidated Fund, assuming that amendments with respect to 2020 are approved by the Assembly.

	2019 (£000)	2020 (£000)	2021 (£000)	2022 (£000)	2023 (£000)
Closing Balance -Lodged Government Plan	160,951	99,747	60,254	32,682	25,035
Cumulative Impact of:					
Changes to IFG Forecast	(4,609)	(12,647)	(22,458)	(32,286)	(43,348)
Changes to Other Income Forecast		(2,000)	(4,000)	(6,000)	(8,000)
Accounting Treatment – Personal Tax Recognition (2019)	12,000	12,000	12,000	12,000	12,000
Update to Inflation Provision		1,400	6,600	14,400	26,800
Revised Forecast Balance	**168,342**	**98,500**	**52,396**	**20,796**	**12,487**
Cumulative Impact of Changes to Transfers to Stabilisation Fund		8,000	10,000	10,000	9,000
Adjusted Forecast Balance	**168,342**	**106,500**	**62,396**	**30,796**	**21,487**

Summary of Proposed Amendments

The Council of Ministers proposes amendments to the Government Plan to reflect the impact of these latest forecasts as follows:

Page 2, Paragraph (c) –
After the words “of the Report” insert the words –

"except that, in Summary Table 3(i) the Head of Expenditure for Reserve for centrally held items should be decreased by £1,400,000, with other affected lines in Summary Table 3(i) to be amended accordingly”

Page 2, paragraph (g)
After the words “to the Report” insert the words -
"except that, in Summary Table 7 the transfer from the Consolidated Fund to Stabilisation Fund should be amended to £28,000,000, with other affected lines in Summary Table 7 to be amended accordingly”

These amendments are as a result of changes to economic assumptions and data and in line with advice from the FPP. They do not relate to policy changes or impact upon the amounts available for investment in 2020.

Key tables which are referred to in the Government Plan Proposition and the Government Plan are included in Appendices B and C respectively.

Appendix A

Terms of Reference for the Income Forecasting Group

Purpose

The group is established as an advisory function on the forecasts of all States income from taxation and social security contributions which will be informed by economic assumptions produced by the Fiscal Policy Panel.

Objectives

To produce an absolute minimum of two forecasts each year

- A full review of states tax, social security contributions and duty revenue forecasts will take place following the provisional outturn and no later than March of each year.
- A further forecast to inform the Budget debate, no later than September, including any revised economic assumptions and experience from the current year actual revenues.
- In an MTFP year, a further update will be considered between the full review in March and the actual lodging of the MTFP.

To produce reports on the forecasts of states income from taxation and social security contributions, including:

- Forecasts for income tax revenues
- Forecasts for goods and services tax and ISE Fees
- Forecasts for impots duties
- Forecasts for stamp duties
- Forecasts for social security contributions
- Economic assumptions used; and
- Factors and risks that should be considered

The forecasts will cover a period of at least four years and include a range within which a central forecast can be applied

Reporting

The reports will be presented to the Treasury and Resources Minister in advance of the Council of Ministers consideration.

Once a report is approved by the Treasury and Resources Minister it will be published alongside the Medium Term Financial Plan and the Budget.

Other reports can be prepared on the request of the Treasury and Resources Minister.

Administration

All meetings will be minuted with agreed actions.

Quorum – at least six of the ten members be present for the meetings to be considered quorate

Quarterly internal review meetings will also be held.

Any variations to the group membership once established to be agreed by the Treasury and Resources Minister or Chief Minister.

It will be the responsibility of the Chief Executive and Treasurer of the States to ensure that the group has sufficient resources to fulfil its responsibilities.

Group Membership

The members of the group are:

- Treasurer of the States of Jersey (Chair)
- Comptroller of Taxes
- Director of Financial Services
- Chief Officer, Economic Development
- Chief Officer, Social Security
- Adviser, International Affairs
- Deputy Comptroller (Tax Policy)
- States Economic Adviser
- Up to two external members appointed by the Treasury and Resources Minister

The meetings of the group will be attended by the following officers in a supporting role:

- Head of financial planning (secretary)
- Finance director, Income Tax
- Economist

The group will invite other officers and external advisers to attend as appropriate which will be documented.

The group will operate independent of any political influence.

Appendix B: Revised Summary Tables for Proposition

Figures impacted by the changes to forecast are highlighted in italics.

Summary Table 1A – Estimate of total States income to be paid into the Consolidated Fund for 2020

2019 Forecast (£000)		2020 Estimate (£000)
	Income Tax	
475,000	Personal Income Tax	*497,000*
113,000	Companies	*115,000*
(3,000)	Provision for Bad Debt	*(3,000)*
585,000	**Income Tax Total**	***609,000***
	Goods & Services Tax (GST)	
79,299	Goods & Services Tax (GST)	*80,996*
5,801	Import GST	*6,704*
9,000	ISE Fees	*9,000*
94,100	**GST Total**	***96,700***
	Impôt Duties	
6,375	Impôt Duties Spirits	*7,268*
8,442	Impôt Duties Wine	*8,795*
796	Impôt Duties Cider	*834*
6,339	Impôt Duties Beer	*6,628*
15,081	Impôt Duties Tobacco	*15,720*
23,557	Impôt Duties Fuel	*26,088*
200	Impôt Duties Goods (Customs)	*200*
2,948	Vehicle Emissions Duty (VED)	*2,730*
63,738	**Impôt Duties**	***68,263***
	Stamp Duty	
28,080	Stamp Duty	*29,568*
2,400	Probate	*2,400*
3,163	Stamp Duty on Share Transfer (LTT)	*3,433*
33,643	**Stamp Duty**	***35,401***
776,481	**Central Scenario**	***809,364***
5.70%	Annual growth %	*4.2%*
2,000	Increased collections - Domestic Compliance	*7,000*
778,481	**General Tax Revenue**	***816,364***
13,460	Island Rate Income from Parishes	*13,800*
19,370	Other States Income - Dividends	*11,200*
11,727	Other States Income - Non-Dividends	*10,195*
29,948	Other States Income - return from Andium Homes and Housing Trusts	*30,900*
74,505	**Other Government Income**	***66,095***
852,986	**Total States Income**	***882,459***

Summary Table 3A (i) Proposed Revenue Heads of Expenditure

	Income (£000)	Expenditure Allocation (£000)	Head of Expenditure (£000)
Departments			
Chief Operating Office	742	38,446	37,704
Children, Young People, Education and Skills	17,422	165,059	147,637
Customer and Local Services	9,761	100,381	90,620
Growth, Housing and Environment	37,975	102,377	64,402
Health and Community Services	22,401	233,788	211,387
Jersey Overseas Aid	0	12,431	12,431
Justice and Home Affairs	2,320	56,439	54,119
Office of the Chief Executive	648	19,599	18,951
Strategic Policy, Performance and Population	50	12,558	12,508
Treasury and Exchequer	5,814	135,577	129,763
Departments total	**97,133**	**876,655**	**779,522**
Non-Ministerial States bodies			
Bailiff's Chamber	68	2,290	2,222
Comptroller and Auditor General	64	921	857
Judicial Greffe	1,291	8,765	7,474
Law Officers Department	288	8,945	8,657
Office of the Lieutenant Governor	107	864	757
Official Analyst	53	638	585
Probation	214	2,327	2,113
States Assembly	31	7,573	7,542
Viscount's Department	806	2,630	1,824
Non-ministerial States bodies total	**2,922**	**34,953**	**32,031**
Total Departments and Non-Ministerial States bodies	**100,055**	**911,608**	**811,553**
Revenue Reserves Heads of Expenditure			
Reserve for centrally held items	0	*32,172*	*32,172*
General reserve	0	11,650	11,650
Total Revenue Reserves Heads of Expenditure	**0**	***43,822***	***43,822***
Total Revenue Heads of Expenditure	**100,055**	***955,430***	***855,375***
Efficiencies to be allocated	0	(33,000)	(33,000)
Total income/expenditure after efficiencies	**100,055**	***922,430***	***822,375***

Summary Table 7A 2020 Proposed Transfer of Monies between States' Funds.

Transfers to/from Consolidated Fund	**(£000)**
From Consolidated Fund to Stabilisation Fund	*(28,000)*
From Consolidated Fund to Climate Emergency Fund	(5,000)
Total transfers	***(33,000)***

Appendix C: Updated Key Tables from the Government Plan

Figures impacted by the changes to forecast are highlighted in italics.

Table 2 - Overall position (financial forecast) – Page 126

	2020 (£000)	2021 (£000)	2022 (£000)	2023 (£000)
General Revenue Income	*882,459*	*919,402*	*959,662*	*998,010*
Net departmental expenditure	*(822,375)*	*(853,495)*	*(887,784)*	*(911,451)*
Depreciation	(52,702)	(56,410)	(59,779)	(63,608)
Forecast operating surplus	***7,382***	***9,497***	***12,099***	***22,951***
In-year transfer to Stabilisation Fund	*(8,000)*	*(14,000)*	*(16,000)*	*(17,000)*
Forecast surplus	***(618)***	***(4,503)***	***(3,901)***	***5,951***

Table 5 - Government Expenditure – Page 134

	2020 (£000)	2021 (£000)	2022 (£000)	2023 (£000)
Opening base budget	**734,845**	**822,375**	**853,495**	**887,784**
New investment in CSP priorities	80,693	27,753	20,712	6,357
Inflation and Legislative Decisions	*39,837*	*20,767*	*31,277*	*36,210*
Efficiencies	(33,000)	(17,400)	(17,700)	(18,900)
Total net departmental expenditure	***822,375***	***853,495***	***887,784***	***911,451***
Capital programme	90,640	91,801	87,478	78,868
Total Government Net Expenditure	**913,015**	**945,296**	**975,262**	**990,319**

Table 28: Consolidated Fund Forecast – Page 170

	2020 (£000)	2021 (£000)	2022 (£000)	2023 (£000)
Opening balance	***168,342***	***106,500***	***62,396***	***30,796***
General revenues income	*882,459*	*919,402*	*959,662*	*998,010*
Departmental expenditure	*(822,375)*	*(853,495)*	*(887,784)*	*(911,451)*
Forecast operating surplus	***60,084***	***65,907***	***71,878***	***86,559***
Major projects				
Capital Programme	(90,640)	(91,801)	(87,478)	(78,868)
Transfers				
Consolidated Fund to Stabilisation Fund	*(28,000)*	*(14,000)*	*(16,000)*	*(17,000)*
Consolidated Fund to Climate Emergency Fund	(5,000)	0	0	0
Loans Fund to Consolidated Fund	0	5,700	0	0
Allocation for Assisted Home Ownership Scheme	0	(10,000)	0	0
Capital financing				
Criminal Offences Confiscation Fund to Consolidated Fund	1,714	90	0	0
Closing balance	***106,500***	***62,396***	***30,796***	***21,487***

Table 34 - Stabilisation Fund – Page 173

	2020 (£000)	2021 (£000)	2022 (£000)	2023 (£000)
Opening balance	50,000	*78,500*	*93,300*	*110,500*
Return on investments	500	*800*	*1,200*	*1,400*
Transfers	*28,000*	*14,000*	*16,000*	*17,000*
Closing balance	*78,500*	*93,300*	*110,500*	*128,900*

Appendix D: Updated Forecasts under a "Day-1-No-Deal" (D1ND) Brexit Scenario

The Government continues to closely monitor the potential impacts of Brexit, including on the financial elements of the Government Plan.

The Fiscal Policy Panel endorsed economic assumptions[8] for a no-deal Brexit as at October 2019, and these have been used to produce illustrative forecasts to highlight the scale of adjustments on the Government's finances.

Key differences in assumptions compared to the base forecast are:

- Inflation expected to increase significantly, because of a depreciation in the value of sterling;
- Employment expected to fall in 2020 with no growth in 2021;
- Earnings growth lower than the base case in nominal terms in both 2020 and 2021, and significantly lower in real terms;
- Interest rates could fall to zero and remain there until 2022. Financial services profits are expected to grow more slowly as a result;
- House price growth could be significantly weaker, such that by the end of the forecast house prices are 15 per cent lower than the base case.

A D1ND Brexit could impact the financial position in a number of ways:

- Reduced Income Forecasts;
- Increased Inflationary pressures on expenditure;
- Increased expenditure on benefits if unemployment increases.

The FPP acknowledge that in the event of a no-deal Brexit it is likely the transfers to the Stabilisation Fund would have to be halted or reversed. This was noted in the Government Plan as a mechanism to provide flexibility to adjust as economic circumstances dictate. The rolling aspect of the Government Plan also allows us to adjust both income and spending to react to economic information as it becomes available.

The analysis is that a D1ND Brexit would result in deficits throughout the the Government Plan. An illustrative analysis is shown in the table below.

	2020 (£000)	2021 (£000)	2022 (£000)	2023 (£000)
Forecast operating surplus (GP)	**16,020**	**16,108**	**16,127**	**23,613**
Changes to IFG Income Forecast, and impact on GP Revenue Measures	(13,356)	(21,481)	(23,623)	(26,112)
Changes to Other Income Forecast	(2,000)	(2,000)	(2,000)	(2,000)
Update to Inflation Provision	(1,400)	(9,801)	(17,292)	(11,097)
Impact on Benefits	(5,500)	(12,400)	(10,700)	(7,900)
Revised Forecast Deficit	**(6,236)**	**(29,574)**	**(37,488)**	**(23,496)**
In-year transfer to Stabilisation Fund	0	0	0	0
Forecast Shortfall after transfers	**(6,236)**	**(29,574)**	**(37,488)**	**(23,496)**

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[8] Fiscal Policy Panel Update September 2019

These deficits would also erode the Consolidated Fund balance through the period, even without transfers to the Stabilisation Fund and it may therefore be necessary to use the £50 million balance currently in the Stabilisation Fund to address deficits.

	2019 (£000)	2020 (£000)	2021 (£000)	2022 (£000)	2023 (£000)
Closing Balance - Gov Plan	160,951	99,747	60,254	32,682	25,035
Cumulative Impact of:					
Changes to IFG Forecast	(4,803)	(18,159)	(39,640)	(63,263)	(89,375)
Changes to Other Income Forecast		(2,000)	(4,000)	(6,000)	(8,000)
Accounting Treatment – Personal Tax Recognition (2019)	12,000	12,000	12,000	12,000	12,000
Update to Inflation Provision		(1,400)	(11,201)	(28,493)	(39,590)
Impact on Benefits		(5,500)	(17,900)	(28,600)	(36,500)
Revised Forecast Balance	**168,148**	**84,688**	**(487)**	**(81,674)**	**(136,430)**
Changes to in year transfers to Stabilisation Fund		16,000	32,000	48,000	64,000
Halt/reverse additional transfer to Stabilisation Fund in 2020		20,000	20,000	20,000	20,000
Adjusted Forecast Balance	**168,148**	**120,688**	**51,513**	**(13,674)**	**(52,430)**

These figures are intended to be illustrative of the scale of the changes, and this remains a high level of uncertainty over the actual impact of Brexit. The Government will continue to monitor this closely and can use the flexibility of the new Government Plan to react as appropriate.

Appendix E – Income Forecast Group ("IFG") Report on the Revised Forecast of States Income from Taxation and Duty for autumn 2019, before revenue measures proposed in the Government Plan

1. Purpose

1.1. To provide the revised forecast of States income from taxation and duty as at autumn 2019. The forecasts reflect:
- the Fiscal Policy Panel's ("FPP") economic assumptions of September 2019[9] and other related economic data for Jersey;
- information from data available for the period January to August 2019;
- the latest accounting treatment regarding the recognition of personal income tax;
- intelligence from the IFG affecting future forecasts; and
- additional economic assumptions for a no-deal Brexit scenario

2. Background

2.1. The agreed Terms of Reference for the IFG (see **Appendix A**) require that at least two forecasts are produced each year. This is the second forecast and provides an additional forecast based on a no-deal Brexit.

2.2. The forecast period covers the years 2019-2023 in order to cover the whole of the Government Plan period.

2.3. The next scheduled revision of income forecasts by the IFG will be in spring 2020. These will include adopted measures from the Government Plan and further information relating to Brexit.

3. Summary of Revised Forecasts of States Income from Taxation and Duty

3.1. The revised forecast has been prepared by officers and reviewed by the IFG and is now considered as the central scenario for 2019-2023.

Uncertainties and range of forecasts

3.2. The FPP's advice in October 2019[10] sets out a number of risks around Jersey's economy and fiscal position over the short, medium and long term. These include further analysis of a no-deal Brexit scenario, risks to financial services and challenges around productivity and demographic pressures.

3.3. The IFG consider that each of these risks result in considerable uncertainty in income forecasts – with the balance to the downside, but also with some upside potential.

3.4. Productivity and demographic pressures are likely to be more long-term risks, but Brexit and risks to financial services have more potential to cause uncertainty over the forecast period to 2023.

[9] See: FPP Updated Economic Assumptions - September 2019
[10] See: FPP Annual Report - October 2019

3.5. A number of specific factors could affect the income tax forecast, in particular:
- Variations in employment numbers/earnings both in level and distribution;
- Impact of unforeseen changes in interest rates on investment incomes and on banking profits;
- Uncertainty in yield forecasts due to a large number of component factors;
- Uncertainty regarding the amount of shareholder income arising in a particular year;
- Impact of unforeseen events and potential regulatory impacts on the financial services sector;
- The possibility of the UK leaving the European Union without a deal, potentially resulting in a further depreciation of sterling (and potential spike in inflation) and knock-on effects from any resulting downturn in the UK economy; and
- Broader risks to the global economy, including potential trade disruption.

3.6. The IFG continues to emphasise the need to include flexibility within future financial planning given the risks above.

Income forecasts for autumn 2019

3.7. This forecast from the IFG follows the forecast prepared in spring 2019 to inform the Government Plan 2019-2023. Since that time the IFG has received further information based on:
- Updated FPP economic assumptions, as contained in their "Updated Economic Assumptions" report published in September 2019.
- In-year data for impôts and stamp duty transactions that inform the 2019 forecast and adjusts the base for the following years.
- Initial data on personal and corporate income tax for YOA 2018 from Revenue Jersey.
- Further analysis of High Value Residents ("HVR") which has resulted in the income tax forecasting model being updated to provide additional consideration of this segment.

3.8. A summary of the revised forecasts for taxation and duty for autumn 2019 are shown in **Figure 1**, together with a comparison against the spring 2019 forecast.

Figure 1: Revised forecast (autumn 2019) for States income from taxation and duty

States Income from Taxation and Duty	Actual	Autumn 2019 base case forecast				
	2018 £'000	2019 £'000	2020 £'000	2021 £'000	2022 £'000	2023 £'000
Income Tax	544,444	585,000	609,000	638,000	668,000	698,000
GST	92,937	94,100	96,300	98,900	101,200	103,200
Impôt Duties	62,463	63,738	63,738	63,631	63,705	63,830
Stamp Duty	34,502	33,643	35,401	36,254	37,807	38,974
Central Scenario	**734,346**	**776,481**	**804,439**	**836,785**	**870,712**	**904,004**
Annual Growth %		*5.7%*	*3.6%*	*4.0%*	*4.1%*	*3.8%*
Spring 2019 Forecast	734,346	781,090	812,378	846,345	880,214	915,672
Variation to Spring 2019 Forecast		(4,609)	(7,939)	(9,560)	(9,502)	(11,668)

Summary of variations in the autumn 2019 update compared to spring 2019 forecast

3.9. Estimated revenue has reduced for each year of the Government Plan. Fuller explanations are provided later in this report, but the key aspects to note are:

3.9.1. The forecast for personal tax has been reduced for each year of the forecast. The main driver for this is the lower than expected earnings growth in 2019.

3.9.2. The increase in the FPP assumption for growth in financial services profit provides an increase in the forecast for corporate income tax of £3 million.

3.9.3. The new forecasting model for "normal" and import GST has increased the GST forecast by around £0.7 million in 2019.

3.9.4. Primarily due to a decrease in the amount of tobacco being imported, Impôts duty has decreased by around £2 million for each year of the forecast. (This does not include the measures proposed in the Government Plan.)

3.9.5. A decline in property transactions subject to stamp duty, and a decrease in the FPP assumption for housing transactions in 2020 has resulted in a reduction of stamp duty of around £2 million for each year of the forecast.

4. Base case economic assumptions

4.1. The central economic assumptions have been updated by the FPP based on the latest local and international developments to September 2019. (see **Figure 2**)

4.2. The main variations to the economic assumptions used in spring 2019 reflect the additional releases of local data and include:

- Outturn data for 2018, showing GVA grew by 1.4 per cent in real terms. Statistics Jersey has also revised 2017 growth up slightly, to 0.8 per cent. Nominal GVA in 2018 grew by 5.9 per cent, driven by 9.6 per cent growth in financial services profits.
- Earnings grew significantly slower than forecast in 2019.
- Employment growth is expected to be stronger this year but weaker next year.
- Financial services profits are expected to grow more slowly in 2020 due to the extended uncertainty of Brexit.
- Inflation is forecast to be lower this year and next, due to outturn inflation falling a little faster than expected.
- Growth in residential property transactions has been revised up for 2019, due to strong performance in the first two quarters. The growth rate in 2020 has been reduced, as the starting level of transactions is higher.
- In line with market expectations, interest rates are not expected to increase over the forecast period.

4.3. The IFG have considered the economic assumptions from the FPP and have agreed that these assumptions be used as the basis of the income forecast modelling for autumn 2019.

Figure 2 – FPP Revised Base Case Economic Assumptions as at October 2019 (% change except where stated)

% change unless otherwise specified	2017	2018	2019	2020	2021	2022	Trend 2023+
Real GVA	0.8	1.4	0.9	1.0	1.3	0.8	0.6
RPI	3.1	3.9	2.8	2.4	2.6	2.7	2.6
RPIY	3.2	3.5	2.6	2.3	2.5	2.6	2.5
Nominal GVA	4.1	5.9	3.5	3.3	3.8	3.4	3.1
GOS (including rental)	-0.3	7.5	3.3	3.0	3.5	3.2	3.2
Financial services profits	-6.4	9.6	2.0	2.0	3.1	3.3	3.4
Compensation of employees	8.1	4.6	3.6	3.5	4.0	3.5	3.1
Employment	2.3	1.4	1.0	0.2	0.8	0.5	0.4
Average earnings	2.6	3.5	2.6	3.3	3.2	3.0	2.7
Interest rates (%)	0.3	0.6	0.7	0.6	0.5	0.5	0.5*
House prices	2.9	7.1	6.3	5.4	4.5	3.6	2.7
Housing transactions	6.7	7.2	7.0	3.0	3.2	2.3	1.5

*Interest rate assumption for 2023 only

Figure 3 – Variations in FPP Base Case Economic Assumptions between March 2019 and October 2019

	2017	2018	2019	2020	2021	2022	Trend 2023+
Real GVA	+0.4	-0.2	-0.1	-0.4	0.0	0.0	0.0
RPI	0.0	0.0	-0.3	-0.2	+0.1	+0.1	0.0
RPIY	0.0	0.0	-0.3	-0.2	+0.1	+0.1	0.0
Nominal GVA	+0.5	+0.8	-0.4	-0.6	+0.1	+0.1	0.0
GOS (including rental)	+0.4	+1.7	+0.1	-0.6	0.0	0.0	0.0
Financial services profits	+0.2	+5.6	0.0	-0.9	0.0	0.0	0.0
Compensation of employees	+0.5	+0.1	-0.9	-0.7	+0.1	+0.1	0.0
Employment	0.0	+0.4	+0.5	-0.5	0.0	0.0	0.0
Average earnings	0.0	0.0	-1.4	-0.2	0.0	+0.1	0.0
Interest rates (%)	0.0	0.0	-0.1	-0.3	-0.5	-0.6	- 0.6*
House prices	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing transactions	0.0	0.0	+4.0	-1.0	0.0	0.0	0.0

*Interest rate assumption for 2023 only

5. Income Tax Forecast 2019-2023 (autumn 2019)

Introduction

5.1. This section summarises the income tax forecast (both personal and corporate) at autumn 2019. The revised forecast is based on the updated FPP economic assumptions.

Personal income tax

5.2. Employment income reported through ITIS for 2018 has increased slightly since the figures used in the last IFG forecast (which were from March 2019). The latest figures suggest annual growth of 5.4 per cent, rather than the 5.3 per cent used in the spring forecast.

5.3. The ITIS data for employment income in 2019 remains incomplete and provisional. Revenue Jersey believe that the data to May are likely to represent a relatively complete set of returns and these show annual growth of 3.7 per cent – higher than the 3.3 per cent growth in employment income forecast by the tax forecasting model. However, given that this is only part of the year the higher growth rate has not been factored into the forecast.

5.4. New economic data result in a net decrease in the forecast. The main drivers are:
- 2018 outturn data from Statistics Jersey (the components of GVA and FTE employment) result in a reduction of around £2 million to the forecast in each year. This is primarily the result of faster growth in employment, resulting in the aggregate value of allowances increasing.
- 2019 outturn data on earnings and partial employment outturn result in a reduction to the forecast of £4 million in 2019, rising to £7 million by 2023.

5.5. The new economic assumptions result in a further small reduction to the forecast (£1 million to £2 million per year). This is primarily due to the lower forecast for earnings and employment in 2020 but lower interest rates also have a negative impact by the end of the period, as they reduce the forecast of income from bank interest.

5.6. The forecast includes a significant increase in personal tax in 2019, when compared to the 2018 outturn. But this reflects the recent change in accounting policy - the outturn for 2018 relates to tax collected based on income in the 2017 year of assessment but the forecast for 2019 relates to tax estimated on 2019 income, and this approach is continued for 2020 onward. Therefore, the difference between the 2018 outturn and the 2019 forecast reflects two years of growth in taxable income.

Corporate income tax

5.7. IFG's established approach to forecasting corporate tax is to assume that tax grows in line with the FPP economic assumption for financial services profit growth. This is because most corporate tax is raised from financial services firms.

5.8. Recent data from Statistics Jersey show a 9.6 per cent increase in 'gross operating surplus' ("GOS" – a national accounts measure of profits) in 2018 for financial services. Using this growth rate in the forecast would result in £116 million for 2020 including the additional £9 million from the Budget 2018 extension of corporate tax and definition of financial services.

5.9. The latest data from Revenue Jersey is still at an early stage but currently suggests that £116 million is at the top end of what might be expected. Therefore, only half of the £6 million additional revenue implied by the GOS outturn has been included – this results in an additional £3 million of corporate tax from 2019 onward.

5.10. The FPP's latest assumptions include a small downgrade to the forecast for growth in financial services profits in 2020. This results in a reduction to the corporate tax forecast, of around £1 million from 2021 onward, which is offset against the £3 million upward revision due to the outturn economic data.

Figure 4 - Changes to personal and corporate income tax since spring 2019

£m	2018 outturn	2019	2020	2021	2022	2023
Personal tax						
Spring 2019 forecast	425	479	505	532	559	587
Latest ITIS data		+1	+1	+1	+1	+1
Outturn economic data		-6	-8	-8	-9	-9
New FPP assumptions		0	-1	-1	-1	-2
New HVR forecast		+1	+1	+1	0	-1
Tax collectable	**425**	**475**	**497**	**524**	**550**	**576**
Overall difference personal tax		-4	-8	-8	-9	-11
Corporate tax						
Spring 2019 forecast	98	110	112	116	119	123
Outturn economic data		+3	+3	+3	+3	+3
New FPP assumptions		0	0	-1	-1	-1
Tax collectable	**98**	**113**	**115**	**117**	**121**	**125**
Overall difference corporate tax		+3	+3	+2	+2	+2
Bad debts	+2	-3	-3	-3	-3	-3
New forecast	**524**	**585**	**609**	**638**	**668**	**698**
Old forecast	524	586	614	644	675	707
Overall difference	***0***	***-2***	***-5***	***-6***	***-7***	***-9***

Some columns may not sum due to rounding

6. GST Forecast 2019-2023 (autumn 2019)

Introduction

6.1. There are three components to the GST forecast:
- "Normal" GST (i.e. spend on island);
- Import GST; and
- International Services Entity ("ISE") fees

Change in forecast methodology

6.2. The previous methodology for forecasting "normal" and import GST was:
- For years in which real economic growth is being predicted by the FPP: increase "normal" GST revenues by 2%;
- For years in which real economic growth is not being predicted by the FPP: increase "normal" GST revenues by 0.8%; and
- Import GST used a five-year rolling average of growth rates.

6.3. Analysis by the Government of Jersey Economics Unit has reviewed the binary nature of this forecast, i.e. GST grows at either 2% or 0.8%, and has derived an alternative forecasting model.

6.4. The new model forecasts growth in both "Normal" and import GST by reference to the growth in Compensation of Employees and suggests a marked improvement.

6.5. When compared against historical outturns the new model has an error rate of 1% whereas the previous methodology had an error rate of 3%.

6.6. The IFG have reviewed the new model and agreed to utilise if for future forecasting of both the "normal" and import GST components.

<u>"Normal" and import GST</u>

6.7. In-year data for "normal" GST was incomplete at the time of the forecast and therefore there is no adjustment made for this.

6.8. The updated forecast is solely based on the new methodology and provides a slight (£0.7 million) increase to the spring forecast for 2019.

<u>ISE Fees</u>

6.9. The existing forecast methodology assumes £9.0 million of ISE fees per annum across the forecast period. It is acknowledged that history has shown that ISE fees have steadily declined over time, however the IFG have been informed that these are expected to remain stable in the near future. The IFG have therefore continued to retain the forecast of £9.0 million per annum at this time.

Figure 5 - Summary of GST forecast

GST	Actual	Autumn 2019 base case forecast				
	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000
GST	83,954	85,100	87,300	89,900	92,200	94,200
ISE Fees	8,983	9,000	9,000	9,000	9,000	9,000
Total GST	**92,937**	**94,100**	**96,300**	**98,900**	**101,200**	**103,200**
Annual Growth %		*1.3%*	*2.3%*	*2.7%*	*2.3%*	*2.0%*
Spring 2019 Forecast	92,937	93,443	95,519	97,554	99,750	101,888
Variation to Spring 2019 Forecast		657	781	1,346	1,450	1,312

7. Impôts Duty Forecast 2019-2023 (autumn 2019)

<u>Introduction</u>

7.1. Impôts duties are levied on a range of commodities imported to the Island. The duties on the various commodities, principally alcohol, tobacco and road fuel, are reviewed annually. The duty increases for alcohol and tobacco are influenced by the strategies for particular health improvement and reduction in consumption policies.

7.2. The policies in that regard can be considered fairly successful based on the importation trends. These show that for most alcohol and tobacco commodities, the long-term trend is for reduced importation.

7.3. There is some evidence from monitoring and feedback from retailers to suggest an increase in the duty-free consumption of tobacco goods but this is actively policed by Customs.

7.4. The basis of the Impôts duty future forecasts is to take the latest full year outturn and to apply past importation trends to forecast the future volumes and past Budget measures to forecast future duty rates.

7.5. The autumn update includes in-year transaction data for Q1 to Q3 which adjusts the base for following years.

7.6. Customs maintain records going back a number of years, and on statistical advice use a ten-year average of importation growth rates to forecast future volumes.

<u>Decrease in consumption</u>

7.7. In-year forecasts and importation trends for tobacco have shown a consistent decrease in tobacco receipts.

7.8. The latest forecast indicates a potential 14% decrease in yield of £1.8 million in 2019.

7.9. The underlying trend in tobacco importation is a 4% decrease per annum but significant variations in tobacco excise receipts have occurred historically so the slope of the continuing downward trend is somewhat uncertain. The IFG therefore continue to use the ten-year average for future years of the forecast.

7.10. A slight decrease in yield (c.£0.2 million) is also forecast from alcohol and fuel combined.

Figure 6 - Summary of impôts forecast

Impôts	Actual 2018 £'000	Autumn 2019 base case forecast 2019 £'000	2020 £'000	2021 £'000	2022 £'000	2023 £'000
Impôts Duties Spirits	6,049	6,375	6,573	6,730	6,905	7,092
Impôts Duties Wine	8,194	8,442	8,704	8,913	9,145	9,392
Impôts Duties Cider	801	796	812	823	837	850
Impôts Duties Beer	6,345	6,339	6,470	6,559	6,664	6,775
Impôts Duties Tobacco	16,118	15,081	14,928	14,674	14,453	14,249
Impôts Duties Fuel	22,105	23,557	23,321	23,088	22,857	22,628
Impôts Duties Goods (Customs)	244	200	200	200	200	200
Vehicle Emissions Duty (VED)	2,607	2,948	2,730	2,644	2,644	2,644
Total Impôts Duty	**62,463**	**63,738**	**63,738**	**63,631**	**63,705**	**63,830**
Annual Growth %		*2.0%*	*0.0%*	*-0.2%*	*0.1%*	*0.2%*
Spring 2019 Forecast	62,463	65,756	65,741	65,686	65,694	65,764
Variation to Spring 2019 Forecast		(2,018)	(2,003)	(2,055)	(1,989)	(1,934)

8. Stamp Duty Forecast 2019-2023 (autumn 2019)

Introduction

8.1. Stamp duty is charged on property, equity and share transfer transactions according to the value of the transaction. It is also collected on Wills, Probate and Obligations. The stamp duty forecasts are separated into three components: general stamp duty, stamp duty on probate and land transaction tax on share transfer property transactions.

8.2. There is a decrease in the overall forecast for Stamp Duty transactions primarily due to a decrease in the number of transactions made in the Year-To-Date ("YTD").

Transactions under £2 million

8.3. For the period January to August 2019 there have been around 100 fewer transactions of property under £2 million compared to the same period in 2018. This has led to the most significant reduction to the spring forecast of around £2.3 million in 2023.

Transactions over £2 million

8.4. The volatility of property transactions in this sector of the housing market has continued, with data available for 2019 YTD suggesting a marked decrease in the stamp duty on transactions over £2 million.

8.5. As the forecast for these transactions is based on the outturn of the previous year, and due to the low number of transactions, there is no provision for providing an in-year update to the forecast. However analysis of the transactions YTD and further information from the Director of High Value Residency suggests that there may be a material reduction in the total stamp duty from this source in 2019.

8.6. This component of the forecast for 2019 has therefore been reduced by £0.9 million (10%), however the IFG have agreed that this adjustment should not be incorporated into the base for the following years of the forecast.

Probate and Wills

8.7. In-year data suggests that no variation is required to the forecasts for probate and wills at this time (£2.4 million and £1.0 million respectively).

Land transaction Tax ("LTT")

8.8. Data from in-year transactions suggests that the stamp duty from LTT is broadly in line with the spring forecasts.

8.9. The revised House Price and Transaction assumptions, along with a slightly stronger base, result in an increase to the forecast of less than £0.1 million in 2019.

Summary of Stamp Duty forecast

8.10. The autumn 2019 forecast (see **Figure 7**) shows a decrease in each year of the forecast which is primarily caused by the reduction in transactions of property subject to stamp duty.

Figure 7 - Summary of Stamp Duty forecast for 2019 – 2023

Stamp Duty	Actual	Autumn 2019 base case forecast				
	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000
Stamp Duty	29,192	28,080	29,568	30,151	31,483	32,484
Probate	2,573	2,400	2,400	2,400	2,400	2,400
Land Transaction Tax	2,737	3,162	3,433	3,702	3,924	4,090
Total Stamp Duty	**34,502**	**33,643**	**35,401**	**36,254**	**37,807**	**38,974**
Annual Growth %		*-2.5%*	*5.2%*	*2.4%*	*4.3%*	*3.1%*
Spring 2019 Forecast	34,502	35,892	37,118	38,105	39,769	41,020
Variation to Spring 2019 Forecast		(2,249)	(1,717)	(1,852)	(1,962)	(2,046)

9. Recommendation

9.1. The IFG presents its revised forecasts for States income derived from taxation and duty for the period 2019-2023 as at autumn 2019 (see **Figure 1**).

9.2. With the continuing uncertainties around Brexit the IFG also present a forecast based upon the FPP assumptions of a no-deal Brexit scenario (**Appendix 1**).

9.3. The IFG supports the recommendation of the FPP that the Council of Ministers continues to retain sufficient flexibility to respond to changes in the economic cycle throughout the period of the Government Plan 2020-2023.

Appendix E.1

1. No-deal Brexit forecast

1.1. The FPP have provided a set of economic assumptions for a no-deal Brexit scenario.

1.2. To provide an alternative forecast for States income during the Government Plan debate, the IFG have prepared revised forecasts reflecting the no-deal Brexit economic assumptions from the FPP.

Figure 8 - Forecast for States income from taxation and duty in a no-deal Brexit scenario

States Income from Taxation and Duty	Actual	Autumn 2019 no-deal Brexit forecast				
	2018 £'000	2019 £'000	2020 £'000	2021 £'000	2022 £'000	2023 £'000
Income Tax	544,444	585,000	608,000	632,000	660,000	689,000
GST	92,937	94,100	95,200	96,800	99,400	101,400
Impôt Duties	62,463	63,738	63,738	64,554	65,275	65,417
Stamp Duty	34,502	33,449	30,081	30,377	31,497	32,397
Central Scenario	**734,346**	**776,287**	**797,019**	**823,731**	**856,172**	**888,214**
Annual Growth %		*5.7%*	*2.7%*	*3.4%*	*3.9%*	*3.7%*
Spring 2019 Forecast	734,346	781,090	812,378	846,345	880,214	915,672
Variation to Spring 2019 Forecast		(4,803)	(15,359)	(22,614)	(24,042)	(27,459)

2. Economic Assumptions – no-deal Brexit

2.1. The new economic assumptions for a no-deal Brexit provided by the FPP are based on the latest analysis of the scenario presented by the Bank of England for a 'disorderly' UK exit from the EU along with consideration of a monetary policy response.

2.2. The economic assumptions on which the no-deal Brexit forecasts are based are shown in **Figure 9**.

2.3. When compared to the base case forecast, the main differences are:

- Inflation would be expected to increase significantly, because of a depreciation in sterling.
- Employment would be expected to see a fall in 2020 with no growth in 2021.
- Earnings growth are lower than the base case in nominal terms in both 2020 and 2021, and significantly lower in real terms.
- Interest rates could fall to zero and remain there until 2022. Financial services profits are expected to grow more slowly as a result.
- House price growth could be significantly weaker, such that by the end of the forecast house prices are 15 per cent lower than the base case.

2.4. The IFG have considered the FPP economic assumptions for a no-deal Brexit scenario and have agreed that these assumptions be used as the basis for the income forecast modelling of a no-deal Brexit.

Figure 9 – FPP Revised Economic Assumptions for a no-deal Brexit as at October 2019 (% change except where stated)

% change unless otherwise specified	2017	2018	2019	2020	2021	2022	Trend 2023+
Real GVA	0.8	1.4	0.9	-2.5	-1.4	1.1	0.6
RPI	3.1	3.9	2.8	4.9	4.3	2.7	2.6
RPIY	3.2	3.5	2.6	4.8	4.2	2.6	2.5
Nominal GVA	4.1	5.9	3.5	2.3	2.8	3.7	3.1
GOS (including rental)	-0.3	7.5	3.3	2.8	3.3	3.4	3.2
Financial services profits	-6.4	9.6	2.0	1.5	2.6	3.8	3.4
Compensation of employees	8.1	4.6	3.6	1.9	2.5	3.9	3.1
Employment	2.3	1.4	1.0	-0.6	0.0	0.9	0.4
Average earnings	2.6	3.5	2.6	2.5	2.5	3.0	2.7
Interest rates (%)	0.3	0.6	0.7	0.0	0.0	0.5	0.5*
House prices	2.9	7.1	4.0	-5.2	2.0	2.5	2.7
Housing transactions	6.7	7.2	7.0	-10.0	5.0	3.0	1.5

*Interest rate assumption for 2023 only

3. Income tax forecast for a no-deal Brexit

3.1. Overall, the no-deal assumptions result in a reduction compared to the previous forecast. This negative impact increases over the course of the forecast period, resulting in £18m less tax in 2023.

3.2. The forecast for personal and corporate tax using the no-deal economic assumptions is set out in **Figure 10**.

Personal income tax

3.3. Compared to the IFG's spring forecast, the no-deal assumptions result in a significantly lower forecast in each year, reaching £19 million by the end of the period.

3.4. The main driver of the change is the lower forecasts for earnings and employment.

3.5. The new HVR forecast, the 2018 outturn data from ITIS and the outturn economic data have the same impact as in the base case forecast.

Corporate income tax

3.6. Compared to the IFG's previous forecast, the no-deal assumptions result in a slightly higher forecast in each year.

3.7. The corporate tax forecast is higher than the previous forecast due to the higher than expected financial services profit growth in 2018. As with the main forecast, only some of this increase has been factored into the forecast.

3.8. Some of this gain in the forecast is eroded in later years as the no-deal assumptions are lower than before for financial services profit growth in 2020 and 2021 – due to the assumed fall in interest rates.

Figure 10 - Income tax forecast for a no-deal Brexit scenario compare to spring 2019

£m	2018 outturn	2019	2020	2021	2022	2023
Personal tax						
Spring 2019 forecast	425	479	505	532	559	587
Latest ITIS data		+1	+1	+1	+1	+1
Outturn economic data		-6	-8	-8	-9	-9
New FPP assumptions		0	-3	-6	-8	-10
New HVR forecast		+1	+1	+1	0	-1
Tax collectable	**425**	**475**	**496**	**518**	**543**	**568**
Overall difference personal tax		-4	-10	-13	-16	-19
Corporate tax						
Spring 2019 forecast	98	110	112	116	119	123
Outturn economic data		+3	+3	+3	+3	+3
New FPP assumptions		0	0	-2	-2	-2
Tax collectable	**98**	**113**	**115**	**117**	**120**	**124**
Overall difference corporate tax		+3	+3	+1	+1	+1
Bad debts	+2	-3	-3	-3	-3	-3
New forecast	**524**	**585**	**608**	**632**	**660**	**689**
Old forecast	524	586	614	644	675	707
Overall difference	***0***	***-2***	***-7***	***-12***	***-15***	***-18***

Some columns may not sum due to rounding

4. GST forecast for a no-deal Brexit

4.1. When compared to the 'base case' forecast the growth in compensation of employees is much weaker reflecting lower employment and average earnings.

Figure 11 – Comparison of the base case and no-deal Brexit assumption for compensation of employees

	2017	2018	2019	2020	2021	2022	2023
Base (October)	2,443	2,556	2,649	2,742	2,851	2,952	3,043
D1ND (October)	2,443	2,556	2,649	2,700	2,766	2,875	2,964
Base (October)		4.6%	3.6%	3.5%	4.0%	3.5%	3.1%
D1ND (October)		4.6%	3.6%	1.9%	2.5%	3.9%	3.1%

4.2. It is worth noting that the old forecast method for GST would simply imply an annual growth rate of 2% in normal GST in 2019, 0.8% in 2020 and 2021, and 2% in 2022 and 2023. Import GST would follow it's 5-year rolling average growth rate and ISE fees would be flat at £9 million that is the same assumption in the new method.

Figure 12 - GST forecast for a no-deal Brexit scenario

GST	Actual 2018 £'000	Autumn 2019 no-deal Brexit forecast 2019 £'000	2020 £'000	2021 £'000	2022 £'000	2023 £'000
GST	83,954	85,100	86,200	87,800	90,400	92,400
ISE Fees	8,983	9,000	9,000	9,000	9,000	9,000
Total GST	**92,937**	**94,100**	**95,200**	**96,800**	**99,400**	**101,400**
Annual Growth %		*1.3%*	*1.2%*	*1.7%*	*2.7%*	*2.0%*
Spring 2019 Forecast	92,937	93,443	95,519	97,554	99,750	101,888
Variation to Spring 2019 Forecast		657	(319)	(754)	(350)	(488)

5. Impôts duty forecast for a no-deal Brexit

5.1. Due to the increase in RPI there is an overall increase to the impôts forecast. No additional assumptions have been made to provide for any changes in policy or volume that may occur in this scenario in response to higher RPI inflation.

5.2. However the annual growth rate remains notably below RPI as, following the standard forecasting methodology, no RPI increase to fuel duty has been assumed for the years 2020 – 2023.

Figure 13 - Forecast for Impôts duty in a no-deal Brexit scenario

Impôts	Actual	Autumn 2019 no-deal Brexit forecast				
	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000
Impôts Duties Spirits	6,049	6,375	6,573	6,895	7,191	7,385
Impôts Duties Wine	8,194	8,442	8,704	9,131	9,523	9,781
Impôts Duties Cider	801	796	812	844	871	886
Impôts Duties Beer	6,345	6,339	6,470	6,720	6,938	7,054
Impôts Duties Tobacco	16,118	15,081	14,928	15,032	15,051	14,839
Impôts Duties Fuel	22,105	23,557	23,321	23,088	22,857	22,628
Impôts Duties Goods (Customs)	244	200	200	200	200	200
Vehicle Emissions Duty (VED)	2,607	2,948	2,730	2,644	2,644	2,644
Total Impôts Duty	**62,463**	**63,738**	**63,738**	**64,554**	**65,275**	**65,417**
Annual Growth %		*2.0%*	*0.0%*	*1.3%*	*1.1%*	*0.2%*
Spring 2019 Forecast	62,463	65,756	65,741	65,686	65,694	65,764
Variation to Spring 2019 Forecast		(2,018)	(2,003)	(1,132)	(419)	(347)

6. Stamp duty forecast for a no-deal Brexit

6.1. The Stamp Duty forecast has multiple components of which only land transaction tax and the transaction of properties under £2m are directly adjusted by economic assumptions.

6.2. The revised base and no-deal Brexit assumptions reduce the spring 2019 forecast by c.£9m (23%) in 2023 (**Figure 14**).

Figure 14: Forecast for stamp duty in a no-deal Brexit scenario

Stamp Duty	Actual	Autumn 2019 base case forecast				
	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000
Stamp Duty	29,192	27,914	24,214	24,424	25,384	26,155
Probate	2,573	2,400	2,400	2,400	2,400	2,400
Land Transaction Tax	2,737	3,136	2,675	2,865	3,025	3,153
Total Stamp Duty	**34,502**	**33,449**	**29,289**	**29,689**	**30,809**	**31,708**
Annual Growth %		*-3.1%*	*-12.4%*	*1.4%*	*3.8%*	*2.9%*
Spring 2019 Forecast	34,502	35,892	37,118	38,105	39,769	41,020
Variation to Spring 2019 Forecast		(2,442)	(7,829)	(8,416)	(8,960)	(9,312)