# Corporate Services Scrutiny Panel

# Interim Report

# Goods and Services Tax Review

States of Jersey

Presented to the States on 18th October 2006

# Contents

# Chairman’s Preface: Indirect v Direct Taxation

Up until now all Jersey’s indirect taxation has been via impôts duty. Indirect taxation has generally been felt to be appropriate where a large measure of spending choice exists. One has been able to avoid indirect taxes by lifestyle choices. One does not have to smoke or drink alcohol. One can even decide to walk or take public transport instead of using a private car using petrol. Even the size of engine on a private car will substantially affect the amount of petrol used, and the impôts paid by a consumer.

Conversely direct taxation, principally Income Tax, is imposed upon people based on their earnings, the big drawback being that governments find themselves spending significant amounts of tax payers’ money trying to make sure that the non-tax payers (evaders) who should be taxpayers are caught and also policing the creative bounds of legal tax avoidance to try to ensure fairness in the income tax system and maintain tax revenues.

Nevertheless, indirect taxation, and GST is the most versatile of all indirect tax systems, is generally felt to have advantages when it comes to revenue raising. Even with the element of choice involved, most consumers’ lifestyle choices (and particularly the better off) mean that GST type revenues can be accurately predicted and be relatively cheap to administer as compared to income tax revenues.

An advantage of direct tax however is the ability to tailor ‘progressivity’ through tax free allowances for the less well off.

In this respect zero ratings in a GST system are equivalent to tax allowances in an income tax system, and a disadvantage of all indirect taxes is that they cannot differentiate between taxing those people with higher incomes and those on lower incomes - not so bad one might think when a measure of spending choice is involved, but what about a philosophy that taxes items that are not a lifestyle choice or a spending choice, for example, basic foodstuffs or medicine bills.

GST is a major expansion of indirect taxation and will provide a more balanced ratio between direct and indirect taxation in the Islands total tax take. Additionally however GST without zero ratings on essentials, and without therefore the lifestyle choice element involved, is a departure from current indirect taxation policy through impôts alone.

Therefore when deciding whether or not to zero rate an item, in addition to the consideration of pure revenue yield, economics or collection efficiency, one must also include politics and the longer term social philosophy as well.

Patrick Ryan.

Deputy P.J. Ryan,
Chairman, GST Sub Panel

# Introduction

## Panel membership

The Corporate Services Scrutiny Panel is constituted as follows –

Deputy P. J. D. Ryan, Chairman
Senator J. L. Perchard, Vice Chairman
Connétable J. Le Sueur Gallichan
Connétable D. J. Murphy
Deputy J. Gallichan

Officer support: Mr M. Haden and Miss S. Power

For the purposes of this review the Panel formed a Sub Panel, which was constituted as follows –

Deputy P. J. D. Ryan, Sub Panel Chairman
Connétable J. Le Sueur Gallichan
Connétable D. J. Murphy
Connétable M.K. Jackson

## Independent expert adviser

The Panel engaged the following adviser to assist it with the review –.

Mr. Richard Teather, BA, ICAEW, a senior lecturer in Tax Law at Bournemouth University; a Freelance Tax Consultant and a writer on Tax Law and Policy.

In addition, the Sub Panel engaged Mr. Peter Seymour and Ms Jody Whittingham, Mortgage Plus Shop, to prepare a report on the implications of a proposal to apply GST to the sale of domestic housing.

## Terms of reference,

The Panel adopted the following terms of reference for its review

To review the draft law to implement a Goods and Services Tax in Jersey (R.28/2006), together with the draft Regulations, particularly in respect of -

i. The anticipated yield from a broad based tax set at 3%
ii. The proposed 'zero ratings' and 'exemptions'
iii. The impact of potential additional exclusions (such as basic foodstuffs and children's clothes) on the anticipated yield
iv. The statutory provision for relief for certain specific groups of consumers (such as charities)
v. The treatment of the financial services industry
vi. The resource implications for the Income Tax and Customs departments

To review the impact of the draft Goods and Services (Jersey) Law 200- and the forthcoming Regulations on consumers and the business community.

To review the responses received by the Treasury and Resources Minister in respect of the public consultation both on the primary law and the regulations.

To report to the States one month before the States debate on the draft legislation.

## Interim Report

The Sub Panel has prepared an Interim Report in order to inform the States debate, scheduled for 24th October 2006, on Senator S. Syvret's proposition entitled: Goods and Services Tax: Exempt or Zero-rated Items (P.86/2006).

The Interim Report deals only with the following aspects of the draft legislation which are relevant to the debate on 24th October 2006

i. The anticipated yield from a broad based tax set at 3%
ii. The proposed 'zero ratings' and 'exemptions'
iii. The impact of potential additional exclusions (such as basic foodstuffs and children's clothes) on the anticipated yield
iv. The statutory provision for relief for certain specific groups of consumers (such as charities)

The Interim Report also addresses the impact of the draft legislation on consumers and the business community.

Not included in this Interim Report is consideration of the following issues which will be addressed in the main report:

the treatment of the financial services industry;
the resource implications for the Income Tax and Customs Departments;

The GST treatment of the States and the parishes is an additional issue identified by the Sub Panel for attention in the main review.

# 1. Key Findings and Recommendations

The Sub Panel accepts that the introduction of a Goods and Services Tax is necessary in order to make a contribution to filling the 'black hole' in the States' finances caused by the move to a Zero/Ten policy and also in order to broaden the Island's tax base.

It is acutely aware that the taxation of items essential to life such as basic food and healthcare, and items generally regarded as socially beneficial, such as education and childcare provision, represents a radical departure from existing taxation policy.

The Sub Panel believes that the decision whether or not to apply GST to these items involves a large degree of political judgement. It recognises that, for some States members, the pros and cons of a decision to zero rate certain items and remove them from the tax base will include a moral perspective as well as a purely economic perspective.

The Sub-Panel has spoken to many different witnesses about the potential impact of the new tax and has endeavoured to set out a broad range of evidence on which States members may wish to base their decision. The considerations are complex and the Sub Panel has tried to avoid the temptation of giving easy answers. Consequently, the Sub Panel presents the evidence, but makes few recommendations and leaves members to make their own decisions which it believes should be based firmly on their personal assessment of the evidence before them.

In calculating the effects of zero rating the Sub Panel has adhered to the principle, as agreed by the States in the Fiscal Strategy (P.44/2005) that GST is required to raise approximately £45 million in revenue. Consequently if any zero ratings are approved then it will be necessary to increase the standard rate on all items of expenditure by a certain amount in order to maintain the same yield. The benefits of zero rating of food, for example, are therefore balanced against a higher rate of tax on other areas of expenditure.

Note: In the Key Findings section below the numbers in brackets refer to relevant evidence sections in the report.

## 1.1 Zero rating in general

### a) Impact on low income families

The Sub Panel notes that

- without increased income support GST would be regressive, with the poorest fifth of households on average paying a higher percentage of their income in GST than the rest of the population (3.2.1);
- its research, based on examination of Household Expenditure Survey data, leads to the conclusion that zero rating a range of essential items would not give significant benefit to *the average* low income household (5.3);
- while some proposed zero-ratings would be progressive, the amounts involved are small; for example if food is zero-rated but the rate is increased on other items to compensate, then the benefit for *an average* household in the bottom quintile would be less than £17 per year against a total GST bill of £283 (5.3)

- if GST rates rise in the future, zero ratings would provide low income families with greater benefit in cash terms. However, even with a GST rate of 15%, the effect of zero rating as a *proportion* of the *average* household's total GST bill is still low (5.6)
- the Income Support scheme, if it matches the expectation of setting component rates higher than existing Parish Welfare levels, will *in theory* provide a greater level of protection to low income families than zero rating a range of essential items of expenditure. However, the lack of certainty about the benefit rates under the new scheme prevents any firm conclusion at this stage (4.20);

The Sub Panel

- concludes that even with the full package of proposed zero ratings, Income Support would still be required to pick up most of the strain on low income families (5.6).
- believes that there may be incidences of households who will be outside the scope of the low income support safety net, where hardship might occur through the imposition of GST generally. This is insufficient evidence available on this issue (4.21).

## b) Future changes to the standard GST rate

The Sub-Panel notes

- that the Fiscal strategy endorses the diversification of the tax base and the expansion of indirect taxation (P.44/2005).
- the possible need to cover future shortfalls in revenue following the move to the zero ten income tax structure after 2012 (5.7).
- historical evidence from other jurisdictions revealing that 9 out of 17 OECD states increased their GST rate within 10 years of the introduction of new GST type taxes (4.2)

The Sub Panel believes

> that a shift in the ratio between direct and indirect taxation through an increase to the standard rate of GST and corresponding decrease in direct taxation rates is not only likely to be proposed, but is also likely to be desirable and in the Island's best interests, at some time during the next decade (Preface).

## c) Reduced rates

The Sub Panel notes

- the suggestion by some witnesses that it might be appropriate to introduce reduced rates for items following a future possible rate increase (4.3);

The Sub Panel believes that

- in terms of complexity of the system, these are likely to introduce at least as much and probably more administration overhead as zero rating (4.3).

# 1.2. The Syvret Proposals for zero rating

## a) Food

The Sub Panel notes

- that the evidence points to a limited economic benefit for the average low income family as a result of zero rating basic food (5.3);
- the above analysis is based on *average households*. If, however, account is taken of the actual number of persons in each household taxing food appears to be much more regressive (6.1).
- evidence from the UK's National Audit Office which indicates that there is no huge difference in gross compliance cost burden in countries that zero rate food as compared with countries that do not. (6.2.1)

The Sub Panel

- believes, along with the Australian Senate Select Committee and others, that the extra administrative overhead and compliance costs to both businesses and government of zero rating versus not zero rating have been over stated (6.2.1)

  concludes, on the basis of local research, that Jersey's extra administrative overhead from proposed zero ratings will be relatively low, due to the market dominance of a small number of companies, the very high registration threshold, and the readily available computer packages, largely already in use and designed for UK style VAT with multiple rates of tax (6.2)

## b) Health

The Sub Panel notes

  the proposal of the Social Security Minister to maintain the costs of doctors' visits and prescription charges by using the Health Insurance Scheme surpluses (4.7),

  that the Social Security Minister's proposal does not apply to dentists and opticians (4.7)

  that further clarification of the position of outsourced services is required (4.7)

  that the 20 means 20 measures in the Fiscal Strategy have also had an impact on the cost of private medical care through the removal of tax relief (4.7).

The Sub Panel

- understands that there is no reason in the Law why the States cannot raise the Scheme benefits to cover these GST costs, and that the Scheme currently has adequate surpluses to do so (4.7)
- welcomes this alleviation of GST on medical fees but is concerned that this approach may not be sustainable in the long term (4.7)
- believes that the impact of taxation measures, including GST, on private medical care needs further study, to establish the likely effect in budgetary terms of a fall off in private medical care in favour of public sector health provision.

## c) Education

The Sub-Panel notes

that many parents in the Island, by choosing to send their children to fee paying schools contribute a significant saving to the States (4.12);

- that zero rating this sector would give the greatest benefit to higher income households and would therefore be 'regressive' (4.12)

The Sub Panel

- is sympathetic to the view that it would be wrong to penalise those parents by applying an additional tax to education fees;
- welcomes a comment from the Treasury and Resources Minister that some form of improved grant to the schools could be negotiated which will enable schools to maintain the level of fees at pre GST levels. (4.12)

**Recommendation:** The Sub Panel believes that the Treasury and Resources Minister, in conjunction with the Minister for Education, Sport and Culture, should give a firm commitment to review the grants for non-States schools in the light of the concerns expressed by parents in their submissions.

## d) Childcare costs

The Sub-Panel notes

the currently inequalities in the provision of childcare in the Island (4.14);

- the onerous consequences of applying GST to childcare for single parent families as a sub-group, particularly for those families falling just outside 'low income' benefit due to working income levels (5.4)
- that a working group has been formed to develop an Early Years strategy including consideration of appropriate arrangements for financial support including tax benefits and allowances (4.14)

The Sub Panel believes

- that the complexities of the current state of childcare are beyond the remit of this review
- that a solution to the consequences of GST is best sought in the overall context of this strategic planning process

**Recommendation**: The Sub Panel recommends that the Social Affairs Scrutiny Panel prioritise a review of the development of the Early Years Strategy in its work programme.

## e) Books, Newspapers, Life Insurance Policies and Children's Clothing

The Sub Panel

notes that Life Assurance is already excluded by way of exemption under the draft law, together with most other forms of insurance has received no submissions relating to the implications of applying GST on these items (other than in Senator Syvret's report).

has not pursued any further investigation of these items, beyond noting that the distributional impact on an average low-income family, even one with children, would be minimal.

## f) Domestic Fuel

The Sub Panel notes

that zero-rating fuel would give the second-greatest benefit to low-income families (only food would be higher), but that the actual value of this, £7 per year, would be low (5.4);

the initiative to provide a winter fuel allowance for the elderly (4.6)

The Sub Panel believes

that the winter fuel allowance will protect a vulnerable group in society from the impact of GST on domestic fuel.

# 1.3 GST Treatment of Other Sectors

## a) Residential care

The Sub Panel

notes concern regarding several issues including the impact on individuals and families already paying high costs for care; the consequences of an ageing society; the subsidies paid by the parishes and the States for care (4.11)

awaits further information from the Treasury and will report on this area of concern at a later date.

**Recommendation:** The Treasury should clarify the implications of applying GST to residential care.

## b) Charities

The Sub Panel:

- recognises the value provided by Jersey charities, their concerns and the initial lack of understanding about the impact of GST on the sector (7.1)
- welcomes the Treasury Minister's public commitment to charities, and his promise of a system offering "at least parity with the UK", but hopes that the proposed system will avoid the UK's complexities (7.1);
- supports the proposed "pay and claim" system for relief for the GST paid by charities on their purchases and expenses, as being the most likely to meet the needs of Jersey charities without excessive administrative burdens (7.8);

**Recommendation**: The Sub Panel awaits the Treasury's proposals for the GST treatment of charities' income, and recommends that these should include:

a broad exemption for fees charged by charities;

a simple system for dealing with fees or grants paid by the States and Parishes; and

a fair and balanced system where charities are in competition with commercial operations

## c) Tourism, the Arts and Durrell Wildlife Conservation Trust

The Sub Panel notes

- the specific concerns expressed by each of these sectors (4.15, 4.16, 4.17)

The Sub Panel believes

- that these concerns should be addressed beyond the scope of the GST system by strategic initiatives in conjunction with the Economic Development Department

**Recommendation:** The Sub Panel requests the Economic Development Minister to consider the specific concerns raised by each of these sectors in their submissions.

# 1.4 The Treasury's proposed Zero Ratings

## a) Domestic Housing costs

The Sub Panel recognises that

- the burden of GST on new-build properties will fall most heavily on the 4th quintile. The vast majority of households (who do not buy a new-build home during the year) will benefit from the reduced rate of GST, but a small number will pay substantially higher amounts, on average £7,000 (4.18);
- the distributional effect of charging GST on new home sales would be to transfer wealth from home-buyers to home-owners, and from families 'trading up' to people higher up the property ladder (4.18);

The Sub Panel concludes that

- despite the significant revenue gain, applying GST to new build houses would not be in the general best interests of the Island's population at this time unless coupled with other tax based and compensatory incentives (4.18);

## b) Domestic Housing Maintenance and repair

The Sub-Panel

- notes the Treasury position that it would be administratively difficult to disaggregate repairs and maintenance from extensions, renovation and primary housing construction generally. As a consequence all forms of house improvements will be zero rated (4.19);

The Sub Panel believes that

- the Treasury's position in this regard is inconsistent with its position on zero rating basic food (4.19);
- this will create inequity: people who are wealthy enough to have their repairs and maintenance carried out through registered businesses will have the benefit of zero rating (notwithstanding the margin that companies will put on materials) while the DIY person will pay GST on all expenditure at the standard rate (4.19);

**Recommendation** The Sub Panel recommends that the Treasury and Resources Minister reconsiders the proposal to zero rate items related to the supply of domestic housing, including extensions, improvements, repairs and maintenance.

# 2 Methodology

## Call for evidence

The Sub Panel issued a call for evidence on 18th May 2006 in the Jersey Evening Post, in the States Bookshop and on its website. In addition the Sub Panel wrote to a wide range of relevant retailers and representative groups.

## Written submissions

The Sub Panel considered the following formal written submissions relevant to this Interim Report:

Lloyds TSB Foundation
Association of Jersey Charities
Family Nursing & Homecare
Jersey Hospice
St Johns Ambulance
Mencap
Les Amis
Headway & Scott Gibaut Homes
Methodist Homes for the Aged
Senior Citizens Association
Jersey Federation of Women's Institutes
Parents Action Group
Jersey Childcare Trust
Jersey Early Years Association
Jersey Dental Association
Jersey Medical Society
Jersey Arts Trust
Chamber of Commerce
Jersey Hospitality Association
Durrell Wildlife Conservation Trust
Attac

These written submissions can be accessed on the Scrutiny website at http://www.statesassembly.gov.je/scrutiny. Further comments from members of the public were recorded on the Message Board on this site

In addition, the Sub Panel received correspondence from numerous sources. A large number related to the issue of GST on school fees.

The Sub Panel had access to all written submissions to the Treasury Consultation Team.

The Sub Panel also received a paper prepared by the Health and Social Services Department regarding (a) the standards of health in low income groups, (b) the taxing of basic food in relation to healthy diet options (c) the provision of residential care and (d) the outsourcing of services to charitable organisations.

## Public hearings

The following witnesses attended public hearings with the Sub Panel. [Note: further witnesses attended on issues which will be addressed in the Sub Panel's full report]

**20th July 2006**

Karen Huchet & Annette Jouault, Family Nursing and Homecare Services
Dr. G. Ince, Jersey Medical Society
Claire Morvan, Graham Atkins, Jersey Dental Association
Senator S. Syvret
Deputy A. Breckon of St. Saviour
Dr. G. Llewellin, Jersey Cheshire Home

**3rd August 2006**

Mr. R. Shead & Mr. A. Goodyear, Jersey Chamber of Commerce
Advocate P. Mourant & Mr. D. Beaugeard, Lloyds TSB Foundation
Mr. S. Mourant & Ms. S. Moore, Jersey Mencap
Mr. N. Truscott, St. John's Ambulance
Dr. G. Purcell-Jones, Jersey Hospice

**31st August 2006**

Mr. G. Fletcher & Mr. R. Weston, Jersey Hospitality Association

**7th September 2006**

Ms. F. Vacher, Jersey Childcare Trust,
Mr. T. Brint, Jersey Early Years Association
Ms. M. Walton, Jersey Arts Trust
Mr. M. Powell, Durrell Wildlife Conservation Trust

**8th August 2006**

Senator P.F. Routier, Minister for Social Security
Mr. R. Bell, Controller of Social Security
Mr. T. Gales, Strategy and Policy Development Director, Social Security Department

**15th August 2006**

Senator T.A. Le Sueur, Minister for Treasury and Resources
Mr. S. Lowthorpe, Income Tax Department
Mr. J. Sankey, De La Salle College

Verbatim transcripts are available on the Scrutiny website.

In addition to the above formal evidence sessions, the Sub Panel held a number of informal discussions with officers at the Treasury and other States Departments including the States Economic Adviser and the Chief Officer of the Economic Development Department; with Mr. G. Conlon, Crown Agents, and with retailers, Messrs. A. Smith and

J. Hopley (CI Co-operative Society) and Mr. D. Smith (Tech Computers Limited)

## Public meeting

In response to many concerns expressed about the GST treatment of charities, the Sub Panel organised a public meeting held at Trinity Parish Hall on 6th September 2006 attended by the Senator T. Le Sueur, Treasury and Resources Minister, Mr. S. Lowthorpe, GST Director, and Mr. G. Conlon, Crown Agents.

The Sub Panel is grateful to Mr. R. Teather, its expert adviser, for his presentation at this meeting and to the Income Tax Department for preparing a Public Information Leaflet for this occasion.

## Acknowledgements

The Sub Panel would like to acknowledge the assistance of several officers at States Departments who answered numerous questions from the Sub Panel:

Mr. J. Morris, Treasury Scrutiny Liaison Officer
Mr. S. Lowthorpe, GST Director
Mr D. Millard, Statistics Unit
Mr. D. Peedle, Economic Adviser
Mr. T. Gales, Social Security
Mr. J. Westwater, Education, Sport and Culture
Mr. A. Bannister, Health and Social Services

# 3 Background to GST

## 3.1 General

### 3.1.1 Tax on consumers

The GST (Goods & Services Tax) proposed is effectively a VAT, and is a consumption tax, i.e. it is meant to tax consumers on their purchases.

1. Tax is collected by the selling business, rather than directly from the consumer
2. All (or almost all) sales are taxed, not just consumer sales
3. Businesses reclaim the GST that they have paid on any purchases

Most major countries except the USA have adopted VAT, GST or a similar tax, and the International Monetary Fund (IMF) has been very active in promoting VAT, for several reasons:

1. As with Jersey, to offset a reduction in other tax revenues as part of a wider reform package;
2. VAT is thought to have economic benefits: for example VAT encourages saving, because income from investments, or other income that is invested, is not taxed until the cash is extracted and spent;
3. There are compliance advantages, partly because VAT is only collected from businesses, so the number of taxpayers is relatively low and the tax is cheap to collect;
4. Having both an income tax and a VAT decreases the scope for complete tax evasion – even if income is not declared, it will be taxed when used to make purchases.

Who actually bears the cost of GST? – In a competitive market some of the tax may be absorbed by business, but if the market is less competitive (as Jersey’s is at least believed to be) then the full cost is likely to be passed on to the consumer.

### 3.1.2 Impact on individuals

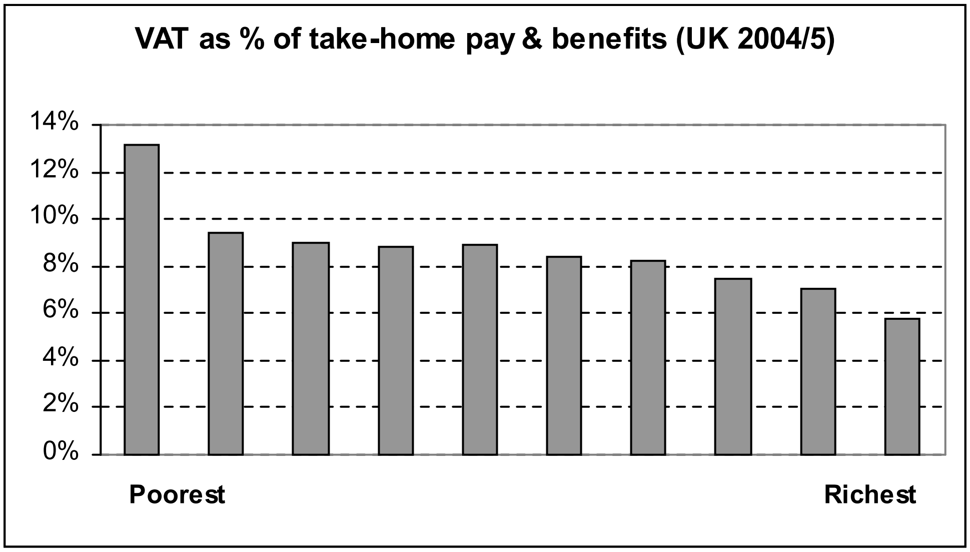
Consumption taxes are commonly described as ***‘regressive’*** (as a percentage of their income, the poor pay more than the rich). However the evidence from the UK is that this is mainly true only at either extreme; across most of the income range VAT is generally flat. See Table 1 below.

Other than at the extremes, VAT is largely proportional rather than regressive.

- At the lowest income level UK VAT is just over 13% of take-home pay; for most income groups it is 8-9%. The United Kingdom system has a number of zero ratings which attempt to reduce this regressivity to some extent (see below)

- There is a tailing off at high incomes, presumably mainly because the rich can save more of their money (this is an inevitable consequence of a consumption tax).

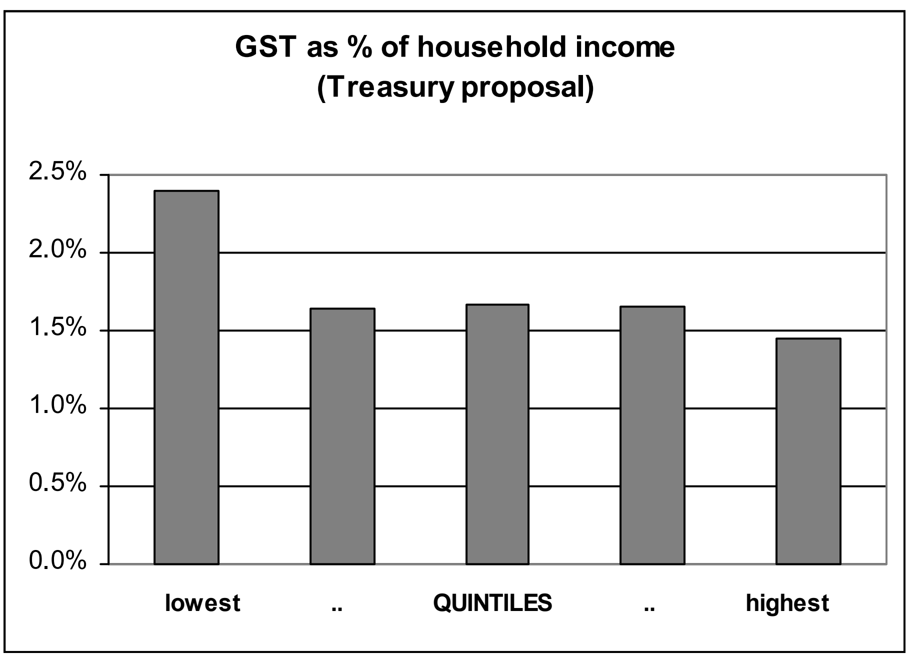
**Table 1a**




.
Source: R. Teather

**Based on the Treasury's proposal, it appears that Jersey would show similar results, with those on the lowest incomes paying a higher proportion of their income in GST, those with the highest incomes a lower proportion, but the bulk of the population paying much the same rate:**

**Table 1b**




Source: R. Teather[1]

### 3.1.3 Zero rating and exemptions

A 0% GST rate is different from exemption:

- With exemption, the business cannot recover the GST it pays on its expenses and capital purchases, so it has to pass this on to the consumer in terms of higher prices
- With zero-rating, the business can reclaim the GST on its expenses and capital purchases in the normal way; this will be refunded by the tax authorities.

Zero-rating (or other reduced rates) as a policy is said to cause several potential problems. It is claimed that:

1. It increases attempts at avoidance, as businesses selling directly to the public seek to apply a lower rate to their products. At lower rates this risk is reduced.

2. It increases administration costs for the taxpayer (record keeping) and for the tax agencies (refund returns)

3. It increases complexity, as the courts have to decide how to apply the dividing line to particular cases. Litigation, for example, has been instigated by food manufacturers as a result of defining zero rated categories in an arbitrary way (eg the long running argument about Jaffa Cakes which arose because chocolate biscuits had a different VAT treatment to chocolate cakes. This form of litigation is unlikely to occur in the Jersey context. Jersey could draw on the existing mass of legal decisions in the United Kingdom and EU.

4. There is political pressure to expand the range of items covered.

5. It helps the higher income households even more than those on low incomes

### 3.1.4 Zero-rating to help poor

The UK has zero rates for food, children's clothing and other essentials (partly for historical reasons, because VAT replaced earlier sales taxes which did not tax these items). There is pressure from the EU to remove these zero-rates.

As shown in Table 1a above zero ratings applied in the United Kingdom do not prevent the VAT system being regressive at the extremes although they do reduce it to some extent.

Applying zero-rating to some products means that the rate has to be higher on other products. The UK's VAT rate could be reduced from 17½% to 13% if it had no zero rates.

If zero rates are to help the less well off, they must be on items on which the poor spend a greater proportion of their income than the rich – otherwise the effect of the higher rate will cancel out the effect of the zero-rating for all groups.

**The Sub Panel has carried out a detailed review of the effect of zero rating on helping**

**lower income families in Jersey, based on the recently published Household Expenditure Survey (see Section 5 of this report).**

In most EU countries the importance of food in reducing inequality is recognised by applying reduced rates to food[2]. This is on the basis of a high standard rate: for example, in France the VAT rate for food is 5.5% on the basis of a high standard rate of 19.6%. It should be pointed out that reduced rates are just as complex as zero rating (and sometimes more complex).
In Australia the issue of taxation of food was at the centre of the debate on introducing GST. After several attempts at tax reform GST was accepted in 2000 on the basis that basic food would be zero rated. **The Panel has studied the rationale for zero rating food which led to this decision (see Section 6 of this report).**

### 3.1.5 Zero rating as social policy

Another possibility is to have reduced or zero rates for social policy reasons other than helping the poor. This could be:

- Encouraging the use of certain goods (e.g. environmentally friendly products, or the UK's proposed reduced VAT on condoms); or
- A feeling that some purchases should not be taxed (e.g. seeing taxing medicines as a tax on illness, or applying tax to school fees and childcare).

The same considerations apply to this as to using different rates to help the less well off; the social policy objectives and the effectiveness of the GST system to achieve them must be weighed against the complexities and other problems.

### 3.1.6 Zero rating to help businesses

Rather than helping consumers, zero rating could be intended to help specific businesses (e.g. tourism). This raises the same issues as other zero rating, as discussed above. In particular it would only really be effective if the business to be helped were in competition with other sectors which would be subject to the tax, or were competing against other jurisdictions which did not charge a similar tax.

## 3.2 GST in Jersey

### 3.2.1 Options

Crown Agents who were commissioned to prepare the prototype GST system for Jersey, presented three possible options on which the Island might base its GST system[3].

**Scenario I**, the broadest possible base, with zero-rating for expenditure on domestic housing and exemption for financial services, life insurance and postal services. Under this scenario an average of 16% of household expenditure would not be included in the tax base. Crown Agents reported that most countries setting up a consumption tax in recent years have attempted to adopt a simple GST with as few exclusions and exemptions as possible, with no differentiation in the tax rates other than the introduction of a zero rate for a very limited category of items. The GSTs of Singapore and New Zealand represented the best examples of this type of GST.

Crown Agents acknowledged that under this system the spread of tax is 'slightly regressive'. The lower income quintiles[4] however would pay a disproportionate amount of GST as the untaxed proportion of their household expenditure group would be just 12% whereas for other income groups the proportion of untaxed expenditure would be higher. This would be balanced by an income support scheme (see below).

| Income group | Group 1 | Group 2 | Group 3 | Group 4 | Group 5 |
|---|---|---|---|---|---|
| Untaxed household expenditure under a broad based GST | 12% | 15% | 17% | 17% | 16% |

*Source: Crown Agents*

**Scenario 2** followed the United Kingdom model, ie with zero-rating for food, children's clothing, books and newspapers etc as well as a range of exemptions for education and medical services. This system, established in the 1970s, contains a range of zero ratings and exemptions introduced in an attempt to ease the burden of the tax on lower income groups as well as for social reasons. It was described by Crown Agents as '*cumbersome and costly both in administration and compliance'*.

The effect of the exclusions in this scenario is that between 47% and 50% of household expenditure would be untaxed. The percentage spread between the groups is slightly less marked. However, the proportion of untaxed household expenditure for the lowest income group is still *smaller* than the highest income quintiles.

| Income group | Group 1 | Group 2 | Group 3 | Group 4 | Group 5 |
|---|---|---|---|---|---|
| Untaxed household expenditure under a UK type | 47% | 47% | 50% | 50% | 48% |

| | | | | | |
|---|---|---|---|---|---|
| GST | | | | | |

*Source: Crown Agents*

**Scenario 3** followed the European model (titled EU Sixth Directive type by Crown Agents). This included exemptions for medical and education services but otherwise minimal zero ratings and exemptions.

Under this scenario, the percentage difference between the income groups would be even wider with the advantage gained most by the top two income groups. This is because the limited exemptions given under the EU model (such as private health and education) tend to favour the better-off.

| Income group | Group 1 | Group 2 | Group 3 | Group 4 | Group 5 |
|---|---|---|---|---|---|
| Untaxed household expenditure under a EU Sixth Directive type GST | 21% | 23% | 26% | 30% | 29% |

*Source: Crown Agents*

The States have so far supported the former Finance and Economics Committee's proposal to follow the broad based model outlined in scenario 1. The Sub Panel was informed by Crown Agents that reducing the cost of administration and bureaucracy was a particularly strong theme throughout the consultation period supporting the case for a simple GST.

### 3.2.2 Protecting those on lower incomes

Under each of the above scenarios GST would be regressive to some extent as the lowest income groups would be paying GST on a higher proportion of their income.

In their report to the Treasury[5] Crown Agents examined the potential effect of excluding food in Jersey's GST in order to protect those on lower incomes from the regressive effects of GST. Zero rating food would reduce the tax base and consequently Crown Agents calculated that the overall tax rate would need to be raised from 3% to 3.4% in order to deliver the same tax yield of £45 million,

Table 2 below shows clearly that excluding food from the tax base would make the tax more progressive, ie a larger proportion of household expenditure for the lowest quintile (28%) would be untaxed compared to the two highest incomes groups (26%% and 24%).
The net effect of this, according to Crown Agents, would be to reduce the annual GST burden of a household in the lowest quintile by only £12.

**Table 2**

| Income Group | Group 1 | Group 2 | Group 3 | Group 4 | Group 5 |
|---|---|---|---|---|---|
| Broad based 3.0% | | | | | |
| Proportion of untaxed household expenditure | 12% | 15% | 17% | 17% | 16% |
| Broad based (excluding food) 3.4% | | | | | |
| Proportion of untaxed household | 28% | 28% | 28% | 26% | 24% |

| | | | | | |
|---|---|---|---|---|---|
| expenditure | | | | | |
| Annual decrease/(increase) in GST borne | **£12** | **£12** | **£9** | **(£1)** | **(£44)** |

*Source: Crown Agents*

**The Panel has conducted its own analysis of the effect of zero ratings on income quintiles, based on analysis of the latest Household Expenditure Survey, and reached roughly similar conclusions. See Section 5 of this report.**

## 3.2.3 Income Support

Crown Agents report that zero rating items such as food would be a poor instrument of relief, especially when compared with a low income support scheme tailored to compensate lower income groups for the burden of GST.

The advantages claimed for an income support scheme are that

it is targeted to those in need;
it is not susceptible to abuse; and
its budgetary cost are transparent and known with a degree of certainty.

**The Sub Panel attempted to review this claim and interviewed the Social Security Minister. However, firm data on the benefit levels to be applied under the Income Support scheme were unavailable at the time of the Sub Panel's review (See section 4.20) of this report.**

## 3.2.4 Administration costs for government and business

Crown Agents maintained that zero ratings would create significantly increased administrative costs for business and government. It is also argued that it is difficult to define foodstuffs satisfactorily and that, as a result there could be endless disputes, confusion and evasion over this question.

**The validity of these assertions has also been scrutinised by the Sub Panel. See section 6 of this report.**

## 3.2.5 Yield and rate of GST

In Jersey GST has been designed to produce a yield of £45 million. This amount is required under the Fiscal Strategy to replace a proportion of the tax revenue which will be foregone due to the changes in corporate taxation and the introduction of Zero/ten.

Updated figures on the potential GST base and yield have been provided to the Panel by the Treasury and Resources Department showing that an estimated yield between £42 and £47 million can be obtained from a broad based 3% GST. This will be achieved from:

**Table 3 Potential GST Base and Yield**

| **Base** | **Potential yield £m** |
|---|---|
| Household consumption | £23.4 |
| | |

| | |
|---|---|
| Visitor expenditure in Jersey | £6.3 |
| Businesses | |
| Financial services | £5-10 |
| Irrecoverable input GST relating to exempt supplies | £6.6 |
| Other sectors | £ 0.9 |
| **Total potential yield** | **£42- 47** |

*Source: Treasury and Resources Department*

The Panel's analysis of the Jersey Household Expenditure Survey supported the predicted yield from household consumption. However the Panel was unable to find independent data to verify the other two components.

### 3.2.6 Impact of zero ratings

The Treasury have calculated that if zero-ratings and exemptions were introduced along the lines proposed by Senator Syvret the total cost in lost revenue would be **£6.5 million**. In order to achieve the same target annual revenue yield of £45 million from a reduced tax base, the Treasury have estimated that the rate would need to be **4% or higher**.

The following table, based on data from the Household Expenditure Survey 2004/5 is extracted from the full Treasury paper entitled 'Impact of Further Exclusions under GST' which is attached to this report as **Appendix Two**.

The table sets out the impact of implementing an individual exclusion on different income quintiles assuming the GST rate remains at three percent.

It also indicates the impact of implementing all the exclusions with a GST rate of 3% ("Senator Syvret 3%") and the impact of the same exclusions but with a GST rate increased to 4% to compensate for the reduction in yield that would otherwise result.

The final column indicates the hypothetical increase in GST rate that would be required to maintain the yield **before** the increase in administrative costs and loss due to non compliance is taken into account.

**Table 4: Impact of zero ratings on household expenditure by quintiles**

| | 1 quintile | 2 quintile | 3 quintile | 4 quintile | 5 quintile | Rate Impact |
|---|---|---|---|---|---|---|
| - basic foodstuffs | (43) | (52) | (67) | (93) | (121) | 0.30 |
| - children's clothing | (2) | (3) | (3) | (6) | (7) | 0.02 |
| - medical services and products | (12) | (13) | (23) | (21) | (37) | 0.08 |
| - education fees | (2) | (5) | (5) | (23) | (66) | 0.08 |
| - child care costs | (3) | (2) | (8) | (16) | (21) | 0.04 |
| - life assurance policies[6] | 0 | 0 | 0 | 0 | 0 | 0.00 |
| - books etc | (6) | (6) | (9) | (11) | (17) | 0.04 |
| - domestic fuel | (16) | (14) | (21) | (30) | (42) | 0.09 |
| **"Senator Syvret", 3%** | **(84)** | **(94)** | **(137)** | **(201)** | **(311)** | |
| **"Senator Syvret", 4%** | **(26)** | **(11)** | **(11)** | **(14)** | **10** | |

*Source: Treasury& Resources Department*

(Note that these estimates ignore any changes in consumer spending patterns that may occur).

A similar calculation was also undertaken independently by the Panel's adviser also using the Household Expenditure Survey, producing results which were almost identical, the principal difference being in the calculation of the revenue loss due to zero rating food (The difference was due to the interpretation of what counts as basic foodstuff).

**Table 5: Comparison of studies on impact of zero ratings on revenue**

| **Item for proposed exclusion** | **Estimated revenue loss (£'m)** | |
|---|---|---|
| | **Crown Agents** | **RPT** |
| | | |
| - basic foodstuffs | 2.9 | 3.1 |
| - children's clothing | 0.2 | 0.2 |
| - medical services & products | 0.8 | 0.8 |
| - education fees | 0.8 | 0.9 |
| - child care costs | 0.4 | 0.4 |
| - life assurance policies | 0.0 | 0 |
| - books etc | 0.4 | 0.3 |
| - energy and fuel (domestic) | 1.0 | 1.0 |
| **Total** | **6.5** | **6.7** |

### 3.2.7 Issues of definition, compliance and administration issues

The Treasury indicated that there would be difficulties in applying zero rating in Jersey's GST system due to problems of defining exclusions, increased levels of non-compliance and increased cost of administration[7]. The impact of these issues is reflected in Table 6 below:

**Table 6 Impact of zero ratings on revenue, compliance and administration**

| Item for proposed exclusion | Supply code | Estimated revenue loss (£'m) | Impact on voluntary compliance | Impact on admin |
|---|---|---|---|---|
| - basic foodstuffs | G | 2.9 | H | H |
| - children's clothing | G | 0.2 | H | H |
| - medical services & products | S/G | 0.8 | M | M |
| - education fees | S | 0.8 | L | L |
| - child care costs | S | 0.4 | L | L |
| - life assurance policies | S | 0.0 | L | L |
| - books etc | G | 0.4 | H | H |
| - energy and fuel (domestic) | S/G | 1.0 | H | H |
| **Total** | | 6.5 | | |

*Source: Treasury*

*Key: Supply code - G (Goods) – S (Services) Impact – H (high) – M (Medium) – L (low)*

*[Note: these estimates ignore the effects of any change in consumer spending patterns that may occur].*

The Sub Panel was unable to review how the impact levels on voluntary compliance and administration were calculated as this information was supplied only shortly before the publication of this review. However, it is clear from the Treasury's paper that they regard the items relating to supplies of goods (eg foodstuffs, children's clothing, books and domestic fuel) as presenting the greatest difficulty. The Treasury accepts that '*the items which relate to a supply of services only generally present less of a problem*' (ie education fees, childcare costs and medical services).

**The Sub Panel carried out its own investigation into the potential administrative burden on retailers (see section 6 of this report)**

# 4 Issues considered by the Panel in evidence

**The Sub Panel received a number of submissions regarding the impact of GST on various sectors of the community.**

**This section contains a summary of the evidence received from witnesses together with facts based on further research carried out by the Sub Panel.**

**To access the full case made by each witness please refer to the Scrutiny website where all written submissions and transcripts of oral evidence may be found.**

**The Sub Panel's conclusions from the evidence it has received on these issues are contained in Section 9 of this report.**

## 4.1 Regressivity of the GST system

In his oral evidence to the Panel the Treasury and Resources Minister said that GST should be considered in the context of the fiscal strategy as a whole, including 20 means 20 and ITIS:

> '*If we use GST alone, then in my view that would have been slightly regressive and might have been more difficult to deliver. So, that is why I think it is important for us, or certainly for States Members in general, to be aware that this is a package and we should not try to look at elements of a package in isolation. I think that will come up. I get the sense, in reading some of the questions I will answering in a moment, of unease that maybe we are hitting the poor more than we should be, or that there are some things that if we took out of the scope of GST might make it easier or better for one section of the community. I think there is a danger in trying to look at that in isolation when the reality is that it forms part of an overall package. Within that package there are measures to address those on higher incomes, 20 Means 20, and to address those on very low incomes with an income support scheme. So, as long as we look at GST and regard it as part of a package, which is how the fiscal strategy came to be agreed in the first place, then I think we are on the right track. There is a danger of us going off and trying to unpick little bits of it and forgetting the wider picture.'*

Senator Syvret in oral evidence to the Sub Panel expressed strong concerns about the regressive elements of the GST tax. While accepting that sales taxes were a legitimate revenue raising mechanism he said: '

> *What I do not think is acceptable in an environment as high cost as Jersey[8] is for us to load that cost on to the shoulders of the poor by taxing unavoidable purchases such as basic food stuffs, healthcare, and so on…. Where you reduce direct taxation and you increase sales tax, if there are no zero ratings, then you are looking at a far, far worse regressiveness in the taxation structure, because if you reduce direct taxation then you are reducing the tax burden on those who are earning enough to pay tax, and you are increasing the burden on those who are not earning enough to pay tax because you are increasing the rate on what they have to spend on their food they purchase and their healthcare*.

In their response to Senator Syvret's previous attempt in 2005 to introduce zero ratings into the design of the GST system the Finance and Economics Committee of the time refuted the claim that the tax would be highly regressive[9]. Figures produced by Crown Agents showed that GST would constitute a fairly even percentage of household expenditure across the range of income quintiles, with the lowest income group paying 2.5% and the highest 2.4%. Crown Agents calculated that zero ratings proposed by Senator Syvret in his amendment would make GST only marginally more progressive, 1.9% for the lowest group compared to 2.1% for the highest income group.

**Table 7 GST as a percentage of household expenditure by quintile**

| | Group 1 | Group 2 | Group 3 | Group 4 | Group 5 |
|---|---|---|---|---|---|
| **Broad Based** (3% rate) | 2.5% | 2.5% | 2.4% | 2.4% | 2.4% |
| **Amendment** (3% rate) | 1.9% | 1.9% | 1.9% | 2.0% | 2.1% |

*Source: Crown Agents*

Crown Agents calculated that the actual cash benefit the lowest income households would gain from the proposed zero-ratings was approximately £80 a year, compared to a benefit of £217 to those in the highest income quintile.

**Table 8 Effect on household expenditure by quintile**

| | Rate | Group 1 | Group 2 | Group 3 | Group 4 | Group 5 |
|---|---|---|---|---|---|---|
| **Broad-based** Proportion of untaxed household expenditure | 3% | 12% | 15% | 17% | 17% | 16% |
| **Amendment** Proportion of untaxed household expenditure | 3% | 34% | 33% | 33% | 31% | 28% |
| **Annual decrease in GST borne** | | **£80** | **£119** | **£148** | **£168** | **£217** |

*Source: Crown Agents*

Senator Syvret believed that Crown Agents calculations did not take into account the actual position in which households might find themselves: ‘

> ‘*The assertion that the Treasury likes to make that this is only very slightly regressive, I think, just cannot be taken seriously. The fact is that poorer people, poor households, generally speaking have to spend all of their income on a week to week basis on food or whatever else it may be. Therefore, the poorer households are being taxed on, effectively, virtually all of their income because they are spending all of their income. There are some exemptions for rent and things like that; everything else they spend they are going to be taxed on. Those on middle and higher incomes who will not spend all of their income will, in fact, have the luxury of being able to save a lot of it, and will not be paying GST on that money that they save. That is the classic test of regressiveness - it is a measure of tax burden on income.’*

Senator Syvret said that a fairer tax system would exclude essential items on which lower groups spent a larger proportion of their income and apply a higher rate of tax on non-essential purchases. As evidence to support this case he pointed to the following facts indicated in the Household Expenditure Survey 2004-2005[10].

Households in the lowest income quintile spend nearly 14% of total income on food compared to 8% for the highest and 10% for all households.

Similar differences occur throughout the food group. For example, expenditure of fresh fruit and vegetables making up 2% of the total spending of the lowest income groups compared to 1% of the highest.

Households in the lowest income quintile spend 31% on housing related expenditure compared to 28% in the highest and 29% on average.

Energy use at home accounted for a little over 4% of total spending in the lowest quintile and just over 2% in the highest.

Average expenditure on health also accounts for 3% of lower income households' weekly spending and 2% of the highest.

In contrast, spending on transport accounts for 14% of the highest income households' weekly spending compared to 12% on average and 7% for the lowest income group.

Higher income households also spend a greater percentage on recreation and culture at 15% above the average of 14% and lowest quintile's 12%.

**Table 9 Average weekly household expenditure - comparing highest and lowest income quintiles**

| | Lowest income quintile expenditure % (£ per week) | Highest income quintile<br><br>% (£ per week) | Average<br><br><br>% (£ per week) |
|---|---|---|---|
| Food | 14.1% (£36.60) | 7.6% (£100.60) | 9.8%% (£61.70) |
| Fresh Fruit/vegetables | 2% (£5.10) | 1% (£15.90) | (£9.40) |
| Housing, water electricity, gas and other fuels | 31.0% (£80.60) | 28.1% (£373.60) | 29.2% (£184.00) |
| Energy | 4% (£11.40) | 2% (£30.20) | (£17.30) |
| Health | 3.2% (£8.40) | 2.0% (£26.00) | 2.3% (£14.70) |
| Transport | 7.0% (£8.40) | 13.6% (£180.90) | 11.6% (£72.80) |
| Recreation and culture | 12.4% (£32.20) | 15.4% (£204.80) | 14.2% (£89.60) |

***Further analysis of the Household Expenditure Survey and the impact of GST on household incomes was conducted by the Sub Panel [See section 5 of this report*].**

## 4.2 Possible future rise in standard GST rate

Senator Syvret was concerned about potential future rises in the standard rate, which he considered to be inevitable. He foresaw a trend for Jersey, as in many other jurisdictions, to reduce its reliance on direct taxation and to turn towards consumption taxes. In addition he believed that there would be increasing international pressures in the future for Jersey to change its corporate taxation structures and to seek to replace revenue from the financial services industry by taxing consumption. He said that any assessment of the burden of a consumption tax on low income households should take this into account:

> '*In order to be persuaded that the GST in Jersey would never be a significant burden on peoples healthcare costs, basic food stuffs and so on, medicines, you would have to be persuaded that the rate is going to remain at 3 per cent for ever. Now, I would make the point that it is virtually a certainty that that will not be the case. …It is fairly easy for the States to do once the initial hostility to its introduction is overcome and the rate is raised, you know, people are used to it, then the rate can be raised for, you know, some years into the future. Who knows how much it will go up to - 5 per cent, 8 per cent, 10 per cent*? …*What then is our attitude to having a sales tax of say, 10 per cent or 15 per cent on basic food stuffs, on medicine, on healthcare, on education fees?'*

***The Sub Panel undertook further studies of the effects of potential future increased rates of GST. This is reported in Section 5 of this report.***

The Sub Panel also investigated whether there was a trend in increasing the standard rate of VAT/GST in other jurisdictions. The results are shown in Table 10 below:

**Table 10 – OCED member countries which have introduced VAT or GST since 1980**

| Country | VAT introduced | Rate when introduced | Rate 2005 | **Years until 1st increase** |
|---|---|---|---|---|
| | | | | |
| Australia | 2000 | 10% | 10% | **-** |
| Canada | 1991 | 7% | 7% | **-** |
| Czech Republic | 1993 | 22% | 19% | ***** |
| Finland | 1994 | 22% | 22% | **-** |
| Greece | 1987 | 16% | 18% | **2** |
| Hungary | 1988 | 25% | 25% | **-** |
| Iceland | 1989 | 22% | 24½% | **4** |
| Japan | 1989 | 3% | 5% | **8** |
| South Korea | 1980 | 10% | 10% | **-** |
| Mexico | 1980 | 10% | 15% | **15** |
| New Zealand | 1986 | 10% | 12½% | **3** |
| Poland | 1993 | 22% | 22% | **-** |
| Portugal | 1986 | 17% | 19% | **17** |
| Slovak Republic | 1993 | 25% | 19% | ***** |
| Spain | 1986 | 12% | 16% | **6** |
| Switzerland | 1995 | 6½% | 7½% | **5** |
| Turkey | 1985 | 10% | 18% | **9** |

Source: OECD, "Consumption Tax Trends 2006", Table 3.5
* rate is now lower than when first introduced

Of the 17 OECD member countries that have introduced VAT / GST in the last 26 years

- 6 have the *same* rate as when introduced
  (all but 1 of these has had VAT for over 10 years);
- 2 have a *lower* rate than when first introduced;
- 4 *increased* their rate within 5 years;
- 3 *increased* their rate within 5-10 years; and
- 2 *increased* their rate after more than 10 years

## 4.3 Potential reduced rates

Subsequently Senator Syvret wrote to the Sub Panel Chairman with the following enquiry regarding the possibility of reduced rates being introduced into the Jersey GST system as a result of the rate rising above 3%:

> '*Looking at the evidence of international practice, what is the likelihood of Jersey retaining a flat tax approach to GST? My recollection for the moment is that of all of the jurisdictions cited by the old F & E Committee only Singapore adopted the low, flat tax approach with no exemptions. On this evidence – and especially given the European environment in which Jersey exists, the evidence would lead us to assume that GST with differing rates will be the ultimate destination of the Jersey tax.'*

The Sub Panel's understanding of the position on reduced rate in European countries and in New Zealand is as follows:

Certainly the EU system has a lot of reduced rates and social exemptions, but those are largely historical; the Commission is very firmly against adding any new reduced rates. Although old reduced rates are still protected, new items with rates below 5% are now completely forbidden and no EU member can reduce the rate for any new item without the unanimous approval of all 25 members, so we're unlikely to see much expansion of reduced rates.

New Zealand still has a 'flat' GST system; according to the government's website their zero-rates are all export-related, their exemptions are the 'technical' ones (financial services & residential accommodation), and they have no reduced rates (see www.ird.govt.nz/gst/charging/). Their rate is 12.5%, which is roughly what the UK's would be if it didn't have zero-rating.

Senator Syvret's comments clearly suppose a yield-based rate rise, i.e. there will be revenue shortfalls elsewhere in the tax system, so the rate will have to go up to raise a set amount of money. When this happens, the question will be whether it is better to have a smaller rise whilst keeping a broad base or an even higher standard rate plus zero-ratings.

***The Sub Panel undertook further investigation of a yield based tax rate rise. This is reported in Section 5 of this report.***

## 4.4 Promoting healthy food choices

Senator Syvret raised a further issue with regard to applying GST to food. In a paper provided to the Sub Panel he asserted that basic foodstuffs should not be taxed on health grounds:

'*Public health policy across all developed societies will have to focus more and more on preventing ill health – rather than simply treating the illnesses when they arise. Poor diet and obesity are one of the principle causal factors in the growing incidence of chronic diseases. We need to influence diet through such mechanisms as not taxing basic healthy foodstuffs.*

*The list of foods which should be exempted is quite short and easily understood.*

1. *Fresh fruit and vegetables (inc potatoes and fruit juices/smoothies)*
2. *Skimmed and semi-skimmed milk*
3. *Bread (all types)*
4. *Fresh and dried pasta, rice*
5. *Fresh and tinned fish*
6. *Fresh poultry*
7. *Pulses*

*The rational behind this is set out in Dr Rosemary Gellar's, first annual report as Medical Officer of Health issued on 22nd September 2006 that made 33 recommendations which were supported in general by Council of Ministers for action. This included recognising that Obesity is the new public health threat for the 21st century. The upward trend in obesity among Jersey children and adults will lead to poorer health and damage to the economy if not reversed. Diabetes is the fastest-growing, life-threatening condition in*

*Jersey. The upsurge in diabetes is linked to the 'obesity epidemic'.*

*It is not an exaggeration to say that the epidemics of serious chronic diseases, such as obesity and diabetes, will become an unmanageable and unaffordable problem for society if we do not succeed bringing about better public health. Jersey is presently on the same pathway to crisis as the USA. It would be utterly perverse if we taxed healthy food, at a time when we should be making it easier for people to make healthy choices.*

[Note: The Sub Panel would like to point out that the Senator's list of food items a much more restrictive definition of food than the one used elsewhere in this report. In terms of effect on income quintiles, it's less progressive than the wider food exemption on which the calculations in section 5 of this report are based (quintiles 1 & 2 save ~£6 p.a., 3 & 4 break even, 5 pays more GST). However that's not the argument being used here; this is not "zero rating to help the poor", but "zero rating to encourage particular activities" (in this case eating 'healthy' foods). If it works then families in lower quintiles will shift more of their expenditure to these items and away from other food.]

This argument for zero rating food was provided to the Sub Panel at a late and consequently it has had little opportunity to investigate the case that has been made here. There are many associated questions: for example, do people make these food choices on financial grounds? Are the basic foods listed actually already the cheaper option, so that people are already paying more for junk food?

***While the recommendations of the Medical Officer of Health in her Annual Report to the States deserve further study, to date the Sub Panel has not been provided with sufficient evidence to show that GST zero-ratings would be effective in changing people's buying habits.***

## 4.5 Administrative burden of zero ratings for retailers

The Chamber of Commerce believed that it was important to keep the GST system as simple as possible, applying a 3% tax across all goods, in order to reduce the administrative burden on retailers. Mr. A. Goodyear told the Sub Panel

*'Chamber has supported a Goods and Services tax as being a tax on everything across the board, and our support was conditional upon that - and a number of other things as well - but it was a tax on everything, and as soon as you start going down the road of exemptions, because there are very valid reasons why certain things should possibly be exempted, when you start looking at individual cases, it is quite hard to come up with a good argument why they should not be exempted, but then there is a whole raft of other issues that would come out of that. Our support of this was very much on a sort of shared pain perspective. …As soon as further exemptions are discussed and accepted, I think Chamber would be rethinking its entire position on goods and services tax.'*

In terms of the administrative burden of adapting to any additional zero ratings that might be approved by the States, Mr. R. Shead agreed that after initial software adjustments distinguishing between items that should be charged GST or zero rated in the shops would be relatively straightforward.

He did, however, foresee a complication for retailers doing business in Guernsey where a 3%

GST rate would not apply:

> ‘*I think quite a large cost will be because a lot of people are doing business in both Islands, and obviously GST does not apply in Guernsey - as it will not do - so therefore, immediately, you are going to have to have 2 separate lots of price files, which has other implications for advertising.’*

In subsequent discussion with the Sub Panel Mr. Goodyear reported

> *We believe that the effort required to set up the systems in the first place will be significant. More importantly it will be the definitions of any further exemptions which will be extremely complex (basic foodstuffs etc) as is the case with VAT in the UK. If there are ongoing challenges to the definitions this is likely to continue for some time. Such exemptions fundamentally change the original proposal which was for a simple solution and move it further towards a traditional VAT model which I think everyone agrees is anything but simple. …. In reality it is almost impossible to quantify what the administrative burden will be to business (I understand that no similar analysis is available for the UK either). But Chamber's position (and the original design principles agreed by the States in the fiscal strategy) has always been to keep it simple*.

***For further analysis of the administrative burden of zero rating on retailers see Section 6.2 of this report.***

## 4.6 Domestic Fuel

Deputy A. Breckon said that, in his view, applying GST to domestic fuel costs would be an ‘own goal’ adding further inflationary pressures to other external factors such as those forcing up the prices charged by the Jersey Electricity Company. He cited the Retail Price Index report for June 2006 which stated that high energy costs was a key driver in the rise in the Index.

> ‘*Fuel costs increased by 14% compared with June 2005 contributing half a percentage point to the overall increase in the retail price index*’.

The Statistics Unit reported the following comparison of average energy bills and prices in Jersey and the United Kingdom as at June 2006[11]:

**Table 11: Average energy bills (in pence) in Jersey and United Kingdom**

| Item | Jersey | UK | Percentage difference |
|---|---|---|---|
| Electricity bill (£ per year) ¹ | 328.9 | 285 | 15 |
| Domestic heating oil (p/litre) ² | 38.95 | 33.75 | 15 |
| Coal (per 50kg) | 1760 | 989 | 78 |
| Smokeless fuel (per 50kg) | 2200 | 1237 | 78 |

The estimated yield from GST on domestic fuel is **£1 million**. The estimated impact on annual household expenditure across income quintiles and rate impact is as follows[12]:

| | 1 quintile | 2 quintile | 3 quintile | 4 quintile | 5 quintile | Rate Impact |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| - domestic fuel | (16) | (14) | (21) | (30) | (42) | 0.09 |

The Sub Panel notes from its research on the impact of zero ratings on low income families that zero-rating fuel would give the second-greatest benefit to low-income families (only food would be higher), but that the actual value of this, £7 per year, would be low (see section 5.4 of this report).

***The Sub Panel recalled that the States had recently approved an initiative to provide a winter fuel allowance for the elderly and believes that this will provide a significant level of protection from the impact of GST on domestic fuel for a vulnerable group in society***.

## 4.7 Medical services and products

The Jersey Medical Society maintained that there was no justification for raising revenue by taxing people for being ill, regardless of any special help offered to the less well off in society through the Income Support scheme. Dr G. Ince said that a GST on medical treatment would be counterproductive, militating against States policies designed to improve preventative care, attempting to deal with issues such as hypertension blood pressures, and the immunisation of children.

Senator Syvret agreed that it was difficult to encourage good healthcare and healthy lifestyles particularly in people from a poorer background:

> '*To add a tax on to their healthcare would be utterly disastrous and quite counter-productive in terms of preventative healthcare; and probably an utterly false economy on the part of the States because the bill for dealing with chronic long term conditions is huge now and it could get astronomical into the future.'*

Senator Syvret subsequently provided the Sub Panel with further information on the poor standards of health in low income groups and the importance of influencing healthy food options through zero rating food. (This information is provided in **Appendix Three** of this report. Discussion of the latter point is contained in section 6.5 of this report.)

The estimated yield from GST on medical services and products is **£0.8 million**. The estimated impact on annual household expenditure across income quintiles and rate impact is as follows[13]:

| | 1 quintile | 2 quintile | 3 quintile | 4 quintile | 5 quintile | Rate Impact |
|---|---|---|---|---|---|---|
| - medical services and products | (12) | (13) | (23) | (21) | (37) | 0.08 |

The Social Security Minister explained that the impact of GST on doctors' fees and prescription charges would be absorbed by the Health Insurance Fund. The current surplus in the Fund would enable him to increase the subsidies[14] paid to doctors under the system of co-payments when he reviewed the level of subsidy each year. He said that this proposal would cost the fund approximately £900,000 and was predicated on the standard rate of GST remaining at 3%. It would be subject to review should the standard GST rate be increased.

Prescriptions charges would be held to their current level by the same mechanism[15].

The Sub Panel's understanding is that the Minister has the legal right to use the surplus in the Fund in the way he proposes. The Health Insurance Law 1967 gives the States absolute power to set the Medical Benefit by Regulation (s9). If medical bills are to rise on the introduction of GST, there appears to be no reason in the Law why the States cannot also raise the Benefit to cover it.

The Sub Panel noted that, according to 2004 accounts, the Health Insurance Fund made an annual surplus of approximately £5 million in each of 2003 and 2004. So, for the time being £900,000 is easily affordable. ***However, the Sub Panel is concerned that this approach may not be sustainable in the long run.***

The Sub Panel noted that the cost of non-prescription medicines and pharmaceutical products, dentists' and opticians' fees would be subject to the GST standard rate. Over-the-counter medicines that people use most often, pain relievers, cough medicines, sunscreen lotions, stop-smoking products, and vitamins will all have a GST.

## 4.8 Private healthcare

The cost of private healthcare would also be subject to GST. Private medical treatment currently provides in excess of £4 million income to Health and Social Services which would raise GST of £100,000+. The bulk of this treatment is paid for by private medical insurance.

Senator Syvret commented that applying GST to private medical care might lead to a number of individuals and also medical insurance companies taking their private care in United Kingdom rather than in Jersey. He said:

> '*Now, if that were to evolve the consequences for recruitment which is already difficult in some cases for the Jersey health service could be disastrous.'*

He explained that it was increasingly difficult to recruit senior doctors and consultants within the hospital to Jersey due to the fact that their general remuneration package was worse than it was in the United Kingdom. Many consultants, however, were currently able to make significant proportion of their income through private practice. The application of GST could, therefore, have a negative impact on their earning potential.

***The Sub -Panel notes, in this connexion, that the 20 means 20 measures in the Fiscal Strategy have also had an impact on the cost of private medical care through the removal of tax relief. The Sub Panel believes therefore that the impact of taxation measures, including GST, on private medical care needs further study, to establish the likely effect in budgetary terms of a fall off in private medical care in favour of public sector health provision***.

## 4.9 Dental care

The Jersey Dental Association opposed GST on dental care on the grounds that it would be a barrier to the take up of treatment and be an additional financial burden on patients.

The Association pointed out that the States provided very limited funding for general dentistry in the adult population compared to most European countries many of whom were much less wealthy than Jersey. In the UK 40% of general dentistry is funded by general taxation. In Jersey oral healthcare is provided principally under private arrangements except for

- the Community and Hospital Dental scheme which provides for children under the age of 11 and for adults with special needs;
- the Dental Fitness Scheme which provides a subsidy of £6 per month per child to families whose income is below a prescribed limit and whose children are between 11 and 18 (or 21 if they are in full time education).
- For the over 65s who were on low income there is a States-funded scheme to reimburse dental charges up to £250 per year.

Ms C. Morvan told the Panel:

> '*My basic argument is to stress that most people are paying totally for their own dentistry and, furthermore, they are paying for the bulk of their children's dentistry and to be taxed for doing so just does not seem ethical to me.'*

The Sub Panel was informed that GST would result in a significant increase in administrative costs for dentists which were likely to cause further increases in dental fees. Most dental practices were likely to be above threshold for registration as a result of the high level of fees required to cover heavy investment costs in equipment, technology and the sterilisation of instruments. In addition the introduction of GST would require dentists to acquire new customised computer software which would take into account GST charges for their clinical work. Suitable systems were likely to be difficult to obtain when dentistry elsewhere in United Kingdom was exempt.

The likely yield from applying GST to dental care has not been estimated.

## 4.10 Community care

A number of community care services are provided by charities. The Sub Panel heard evidence from organisations providing such services, including Family Nursing and Home Care (FNHC), Jersey Hospice, Jersey Cheshire Homes, Mencap and St John's Ambulance.

Family Nursing and Home Care, for example, is the main provider of community care in the Island combining community nursing and homecare assistance as well as provision of nursing/medical equipment. In addition they provide outsourced services to Social Security, Education, Sport and Culture and a number of smaller charities. FNHC currently receive an annual grant from Health and Social Services of £5.5 million per year with the balance of their annual expenditure of £7 million being raised through subscription and fundraising. A membership fee provides patients with access to services which, in the United Kingdom would be provided free under the National Health Services.

FNHC estimated that the introduction of GST would incur a cost to the organisation of £5,000. This did not include the cost of setting up and maintaining an infrastructure to collect and charge tax. The estimated cost to their clients would be £16,000. If the membership fee was deemed taxable this would be a further cost of £9,000 to their clients. FNHC warned that increasing costs might prevent some clients from accessing their services making them vulnerable and potentially increasing the burden on hospital admissions.

It should be noted that as a charity, FNHC will be relieved from any liability to GST with regard to their fund-raising activities and would be able to benefit from the rebate scheme on expenses proposed by the Minister. (***The treatment of charities, including a rebate scheme for expenses and the grants received from the States is considered in Section 6 this report.)***

The Sub Panel was assured by the Minister that the services provided by organisations such as FNHC would not be liable to GST:

> *'On the basis if the States were providing a service and it would not be liable, then the charities would be in the same situation, I think, in terms of areas like Family Nursing …. it would be foolish of the States to try to penalise them for doing that service.'*

Some charities in receipt of States grants were currently negotiating Service Level Agreements with the States to provide greater public accountability for the money that was given to the charities. It was stated at the public meeting on charities that that the Service Level Agreement would not alter the status of the grant, in other word, it would not become a fee for service and would not therefore be subject to GST.

The Sub Panel requested further information from the Health and Social Services Department on the extent to which services are outsourced by Health and Social Services to charitable organisations such a Family Nursing and Home Care, the payments made in grants and subsidies to such organisations. It received the following information and comment from the Minister:

**Table 12: Grants from Health and Social Services to charitable organisations**

| | |
|---|---|
| F.N. Serv.s & Home Care Grant | 5,239,050 |
| Alcohol Advice Centre Grant | 32,750 |
| Shelter Trust Grant | 614,200 |
| Les Amis Grant | 502,350 |
| Alzheimers Society Grant | 12,510 |
| Citizen's Advice Bureau Grant | 189,530 |
| Communicare Grant | 7,500 |
| Eastern Good Companions Grant | 17,020 |
| Jersey Brook Adv. Centre Grant | 218,740 |
| Jsy Schzophrenia Fellows Grant | 38,540 |
| Jsy Youth & Friend Assoc Grant | |
| Relate Grant | 29,210 |
| Brig-Y-Don | 281,060 |
| Women's Refuge | 180,620 |
| NEMO | 149,340 |
| Jersey Homeless Outreach Grp. | 25,300 |
| Jersey Family Mediation Serv. | 10,560 |
| Sundry Grants | 44,390 |
| Arts in Health Care Trust | 4,000 |
| Headway | 25,000 |
| Jersey Mencap Society | 131,000 |
| | 7,752,670 |

The Health and Social Services Minister commented:

*'Whilst there has been some talk of treating charities favourably under the GST regime, we are not aware of any detailed written proposals which would demonstrate precisely what, if any, impact GST will have upon charities. There would appear to be a number of unaddressed problems. For example, suppose charities are not required to charge GST to their clients. Some charities offer services which are also made available by the private sector. If charities are exempt and businesses not, it will create unfair competitive disadvantage to the private sector. Further, there would also appear to be no written explanation of what charities are supposed to do when confronted with the additional costs of having to pay GST when they buy goods and services from suppliers and providers. Is it expected that they will have to simply find this additional money? Or is it proposed that the States will have to provide increased grant aid? If so, how are departments supposed to cope with this new and unbudgeted cost? If charities and departments are to be reimbursed the cost of GST by the Treasury, when and how will this happen? What of cash-flow issues? The complexities of such transactional apparatus would appear to be far greater than simply zero-rating.'*

***The Sub Panel awaits further clarification of this issue from the Treasury and Resources Department.***

## 4.11 Residential homes (for the elderly and disabled)

Residential care for the elderly and for the disabled is provided through a mixture of private, Parish and charitable, non-profit making enterprises.

The Sub Panel received a number of submissions from charitable organisations such as Methodist Homes, the Jersey Cheshire Home and Les Amis concerned at the rising costs on their residents which would be imposed by GST. They believed that their special circumstances should be recognised by the States. Mr. Bullock, Director, Methodist Homes for the Aged (Jersey) Limited wrote:

'*I am certain that some arrangement could be made which would not break the exchequer which could recognise the special circumstances of care Homes. It would come as welcome news to the population at large if it was suddenly made clear that people matter - and that while the Finance and Business elements of our society might be important, if we lose sight of the needs of senior members of the community the future looks grim*.'

Senator Syvret drew attention to the high costs of residential for some households in Jersey:

'*Some households will have significantly higher expenditure, for example, if you are paying for yourself or for members of your family to be in residential or nursing home care, some of which can be £1,200 or £1,400 per week. If you are paying GST on that, even at 3 per cent, you are looking at many hundreds of pounds a year in tax which could be the straw that breaks the camel's back in some households - even at 3 per cent*.'

The Sub Panel subsequently requested information from the Health and Social Services Department on the provision of residential care to the elderly and disabled, including a full list of residential and nursing homes, the numbers of residents and the range of fees charged in the public and private sector and the level of subsidy provided by the States to those organisations. As this information was provided only shortly before the publication of this Interim Report the Sub Panel did not have the opportunity to study the figures. An initial survey of the figures, however, shows there is a high level of private cover; half of residents seem to be paying for themselves; the split of care providers is 30% Parishes, 25% voluntary and 45% private.

Senator Syvret believed that GST on residential care would have a significant impact on the Budget of the Health and Social Services Department:

> '*Residential care, nursing homecare, we already contract some to extent and we are probably looking to do more of it with the private sector and indeed we buy, you know, a variety of different services from the private sector and you are absolutely correct. If we have to pay GST on those services that will be a significant bill and an increase on the Health and Social Services Department's budget*.'

The Sub Panel also requested further information on the potential additional cost to Health and Social Services arising from the application of GST to residential fees for contracted placements in private residential care. Senator Syvret said that although the Health and Social Services Department had been given verbal assurances to the effect that GST arrangements would result in a "zero impact" on the department financially, no written explanation or agreement has been offered by the Treasury. He commented:

> *It is, therefore, utterly unclear as to how a "zero impact" would be achieved. Many complexities and unanswered questions remain. It has, likewise, been claimed that the impact on H & SS of GST in respect of grants would also be zero. Yet, again, no written explanation of how this might be achieved has been supplied, nor a written agreement reached with the Treasury. H & SS and all of the clients we serve must have certainty as to our budget allocation. It is simply intolerable that we should move to a GST regime with no guarantee that the Treasury will adequately compensate for the impact, or that any such arrangement will survive the budgeting vagaries of the States.*

Senator Syvret provided a table which had been prepared by the Health and Social Services Department to illustrate the impact that GST would have upon H & SS if not reimbursed using the introductory rate of 3% and higher rates of 5%, 10% and 15% which be believed might be the applicable rate in the future. This table is included in the **Appendix Four** to this report.

The Sub Panel notes the concerns expressed above by both providers of residential care and by the Minister. It believes that there are many issues yet to be investigated, for example:

- the impact on individuals and families already paying high costs for care;
- the consequences of an ageing society;
- the subsidies paid by the parishes and the States for care.

The Sub Panel has not to date been able to look at these issues in depth. It was informed by the Treasury that policy decisions in this area were still under consideration and had not yet been finalised. There were areas of some complexity - tax liability of specific supplies; treatment of special bodies (charities) and supplies by government (States and Parishes) which needed to be clarified before definitive answers could be given.

***The Sub Panel therefore awaits further information from the Treasury and will report on this area of concern at a later date.***

## 4.12 Education - school fees

Under the Minister's current proposals, all privately funded primary and secondary education, including that provided by States schools (Victoria College and Jersey College for Girls) will be taxable.

The total estimated yield from applying GST to all forms of education fees (including adult education) is **£0.8 million**[16]. The estimated impact on annual household expenditure across income quintiles and the impact on the rate would be as follows

| | 1 quintile | 2 quintile | 3 quintile | 4 quintile | 5 quintile | Rate Impact |
|---|---|---|---|---|---|---|
| - education fees | (2) | (5) | (5) | (23) | (66) | 0.08 |

Both the GST Consultation team and the GST Sub Panel received a considerable number of submissions (approximately 80 in total) relating to the application of GST to school fees. The vast majority of these referred to three Catholic schools, De La Salle College, Beaulieu and FCJ[17].

The principal points made in the letters regarding the Church schools are (in summary)

- Church schools should be considered as a special case - unlike most European Governments there are no fully funded faith schools in the Island.
- Education in faith schools is only available to those who can afford it - large numbers of Catholics are unable to access the Church school system
- The Church schools educate 1,800 children on behalf of the States providing significant savings to the States
- Despite this there are no tax concessions for private school fees
- Private school fees are exempt in United Kingdom
- Many parents struggle to meet costs of fees - the additional burden of GST on top of other tax changes may cause some students to be transferred to the States sector
- The yield from GST applied to fees would be subsumed if only a small number of students (approximately 7%) were transferred to the States non fee paying sector

The primary case for exempting private school fees is based on grounds of fairness - the claim that since parents are taking on part of the financial burden of educating their children, in addition to the taxes they already pay, the States ought not to add an additional cost to that burden through new fiscal measures.

The principal argument in favour of the inclusion of school fees within the scope of GST is that their payment is discretionary expenditure by those who are able to afford to opt out of the States provided sector. The various reasons for parents making this choice are immaterial in terms of the GST law. Excluding schools fees from GST would be a regressive measure as those who would benefit most would be earners in the highest income quintile, that is, those who can most afford to pay.

The Sub Panel researched the position with regard to school fees and the States subsidy to all private schools. The principal facts[18] are:

- Approximately 30% of students in Jersey are currently educated in fee paying schools (4414 in fee-paying schools; 8851 in the non-fee paying sector).

- The estimated annual income from school fees (in 2007) from the States fee paying and the non States fee paying schools is £17,210,500. The tax yield at 3% would be £516,300.

- The total estimated fees for the two States fee-paying schools is £7.23 million, yielding £216,800 in GST; the fees for the three Catholic schools amount to £5.86 million a year, yielding £175,800 in GST.

- The States currently provided partial displacement funding totalling £3.9 million in 2006 in terms of a grant subsidy[19] to non States fee paying schools, including St Michael's and St George's on the basis of a proportion of the States mainstream funding formula[20]

- In addition to revenue grants the Church schools have benefited in recent years from access to capital funds.

Mr. Sankey, Chairman of the Board of Governors of De La Salle College, told the Sub Panel that the Education Committee in 2000 had assessed the savings to the States due to parents sending their children to the three Catholic schools amounted to £1.5 million, a figure which would now have risen. [Note: this has now risen to £4 million per year. *Source: Education, Sport and Culture Department*]

He made the point to the Sub Panel that the three Church schools were distinct from other private schools in that they were in a position of charging fees through necessity rather than choice as the States did not provide full displacement funding for faith schools as was the case in most European countries. In the United Kingdom since the 1944 Education Act (the 'Butler Act') the government covers all the running costs of 'voluntary aided' schools and 85% of capital expenditure[21]. In Jersey the fees structure resulted in a significant proportion of Catholic children in the Island being unable to access the schools.

The Church schools, which were also facing the prospect of imposing fee increases due to rising contributions to the teachers' pension funds[22] were concerned at the further cost to parents of applying a 3% GST charge on their fees. Mr. Sankey expressed serious concern that this might lead to some parents, who were already struggling to pay the fees, withdrawing their children from the school.

The Education, Sport and Culture Minister, in his response to the submission from the Church schools offered to meet with representatives of the schools *'to discuss the impact [of GST] and whether it may be possible to take steps to ensure the continued financial viability and quality of provision of the schools.'*

The Sub Panel was informed that he was yet to be convinced that the application of GST would have any impact on schools' intake.

The Treasury and Resources Minister suggested in his evidence that the question of supporting education was best done outside the tax system:

'*If you are trying to solve a problem of funding particular education establishments, is that better done through an educational route, maybe by changing the grants structure to those institutions, or by messing about with the tax system? … I am saying I want to keep this tax system simple. If it means that, for example, you would lose, let us say, £500,000 worth of GST revenue from a school, but equally give them a £500,000 grant to recompense that, well, why go round in circles and make things more complicated? I think there is a danger if we try to solve problems by making the tax system more complicated without making the rest of the operation any simpler.*'

***The Sub Panel welcomed this suggestion and believes that the Minister should give a firm commitment to the schools to this effect in order to relieve the concerns of many parents.***

## 4.13 Further Education/adult classes

The Jersey Federation of Women's Institutes questioned whether the imposition of GST on adult education classes was contrary to the States policy of promoting the wider purposes of lifelong learning. They believed that the tax would price many areas beyond the reach of many students and deter people from taking up opportunities for study from which they would greatly benefit.

Course fees are charged to part-time learners only. Full time students do not pay fees. Some courses, such as those at the Jersey Business School are offered at full cost but many courses are subsidised and some, for example basic skills, literacy and numeracy are provided on a no fee basis. On most courses a reduction is available for senior citizens. People who are registered with Social Security as unemployed or receiving incapacity allowance may also apply for a reduction in fees.

The fee for an adult education programme is typically in the region of £3.20 - £4.00 per hour. A typical course would be the Introductory French Course, running for 11 weeks, costing £74.00 for 22 hours tuition. A per hour cost of £3.36. GST at 3% would add 10 pence per hour to the cost of a course or £2.22 to the total cost. The total fee income received by Highlands College in 2005 amounted to £1,382,388**.** The tax yield at 3% would be £41,470[23].

## 4.14 Education - childcare costs

Private sector nurseries and pre-school provision will be taxable under the present proposals provided they pass the £300,000 registration threshold for taxable supplies and services.

The estimated yield from applying GST to this sector is **£0.4 million**. The estimated impact on annual household expenditure across income quintiles and rate impact is as follows[24]:

| | 1 quintile | 2 quintile | 3 quintile | 4 quintile | 5 quintile | Rate Impact |
|---|---|---|---|---|---|---|
| - child care costs | (3) | (2) | (8) | (16) | (21) | 0.04 |

The Jersey Childcare Trust estimated that approximately 50% of private nurseries and pre-schools would be required to register and thus charge parents for GST in their fees. Mr. Brint, Early Years Association felt that this would create a serious imbalance between childcare providers.

The Sub Panel was informed that registered childcare was seen as an essential service by working parents in Jersey - there is a total of 1,686 year round registered childcare places[25] in the Island for working parents. There are various forms of financial support available to assist parents. A total of 1327 accessing childcare currently qualified for some level of tax relief [26]. Childcare Allowance towards the cost of childcare, administered by Social Security, can be claimed by those who do not pay tax whilst they access work. However due to the low level of maximum earnings allowable the numbers accessing this allowance has steadily fallen.[27] The School Age Discount scheme is more successful. This provides assistance to over 300 low income families towards fees for after school care while parents are working.

The average hourly cost in a day nursery setting is £5.16 for 0-2 year olds, £4.62 for 2-3 year olds and £3.82 for 3-5 year olds. For childcare in a pre-school setting the average hourly costs are £4.22 for 2-3 years and £3.62 for 3-5 year olds[28]. The average cost of a private sector nursery place for a child under two years in Jersey is 31% higher than the average cost of a similar nursery place in Inner London. For children over two years of age the figure is 19% higher in Jersey.[29].

**Table 9 Average Weekly Cost Per Child of Nursery Places in 2006**

| Area | Under 2 Years | 2 Years + |
|---|---|---|
| Jersey Average | 258 | 211 |
| Inner London | 197 | 178 |
| Outer London | 174 | 152 |
| England Average | 144 | 134 |

Mrs F. Vacher, Executive Director, Jersey Childcare Trust gave an example of the type of expenses parents had to meet:

> '*For a fulltime baby place the average is over £1,000 a month minimum. We have got parents looking at £20,000 a year on that childcare if they have got 2 children in fulltime childcare. We had a parent on Sunday, our Fun Day, write down his situation. He has got a 7 month-old and a 3 year-old in part-time nursery because the mum works 8.00 a.m. until 1.00 p.m. and he is paying £1,200 a month, which is equivalent to his £200,000 mortgage. So, it is a very substantial outgoing every month*.'

Mrs Vacher said that childcare providers would also feel pressure to increase staff wages to take into account the increase in the cost of living which would inevitably be felt from the introduction of GST. She was concerned that increased costs could result in parents turning to illegal childminding:

> *'We have got huge anecdotal evidence of parents - the majority in the Polish and the Portuguese communities - using people who are not registered child carers; they are not first aid trained; they are in no way registered; and they have got up to 10 babies - babies - in car seats throughout the day*.'

Mr. T. Brint, Early Years Association said that the effect on the workforce could be serious:

> *‘It is going to make a number of parents who are already weighing up whether to go to work or not, whether it is worth their while to go to work, decide against it because those costs are going to go up even higher. Other people, it might well make them decide: “Is it worth staying in Jersey? I cannot afford to pay my mortgage without childcare. It is not worth me going to work just to pay childcare and my mortgage and have no other money*.’

The Parents Action Group highlighted the fact that a number of private sector nurseries had recently closed and claimed that the current serious lack of childcare facilities could be exacerbated if prices rose through GST.

Mrs Vacher, however, challenged this statement. She acknowledged that there was an Island wide need for baby day nursery places, but, with the recent opening of a new facility, there were now an additional 24 places available. She informed the Sub Panel that there were currently vacancies in some 3 – 5 year old pre-schools and day nurseries. She said that there were differing reasons for each of the recent closures, such as rent increases, financial difficulties – some had been vacancy related but not all.

Considerable concern was expressed by witnesses about the inequity of the current provision of childcare in the Island with limited access to free pre-school places. (In 2005 49% of three and four year olds had access to a free nursery place for up to 30 hours per week, 38 weeks per year, compared to a median figure of 60% in other European countries[30].) The private sector, which made an essential contribution to childcare provision, found itself in effect in unequal competition with the States. The States capacity for pre-school education had risen in recent years with additional classes attached to States primary schools. Those parents who could access those places between 9am and 3pm naturally took advantage of them where they could because they were free yet these places did not always fully meet their needs as working parents. An additional problem was that many of the least empowered parents were unable to access the States provided system.[31]

The Parents Action Group wrote that those parents who were unable to access free childcare and were obliged to use private sector nurseries were in effect paying twice for childcare: they were paying for their own children and also, as tax payers, paying for children to attend the free States nursery classes.

The Sub Panel noted the recent creation by the Council of Ministers of a Working Group to develop an Early Years Strategy for the 0-5 age range by end of 2006. Included within the terms of reference for this group is consideration of ‘appropriate arrangements for financial support including tax benefits and allowances’.

***The Sub Panel believes that the problems of the current state of childcare provision require further study. However, this is beyond the remit of this review. It believes that a solution to the consequences of GST is best sought in the overall context of the above mentioned strategic planning process. The Sub Panel recommends that the Social Affairs Scrutiny Panel should take account of the outcome of this Working Group in its work programme next year.***

## 4.15 Durrell Wildlife Conservation Trust

Mr. M. Powell, Commercial Director, Durrell Wildflife Trust, told the Sub Panel that the introduction of GST could have a serious effect on the Trust in terms of both the development and funding in the future. Currently Durrell was at a crossroads on how to develop the attraction at Trinity and how to gain financial sustainability. Although he recognised that Durrell would benefit as a charity from the concessions proposed by the Treasury (see section 7) GST on the Trust's business activities could have a devastating effect and threaten the viability of the organisation in Jersey.

Durrell estimated that the GST applied to income from admissions, the gift shop and the restaurant could amount to £150,000. This additional tax requirement came at a time when the organisation was currently investigating a strategy to encourage more local visitors into the attraction. Raising charges would work against this strategy; yet the Trust could not afford to absorb the cost. Mr. Powell said:

> '*We passionately believe that there is absolutely no way that we could simply put the 3 per cent on the price. I am looking at a strategy now to reduce the price to attract more visitors in the winter months because we have a very high peak in visitors for the obvious period, which is the school holidays and the summer period. We have lots of things that people can do in the winter months but we have to attract some of them. One of the things we want to do is reduce the price of coming in and maybe attract a secondary spend which would help us. But again, that could be flawed because we would pay GST on most of that activity.'*

Mr. Powell underlined the fact that Durrell was seen as a world class visitor attraction and therefore important to the rejuvenation of tourism in the Island.

## 4.16 Jersey Hospitality Association

Tourist expenditure will be an important element of the potential GST base. The latest estimate of the potential GST yield from taxable visitor expenditure including eating and drinking, on-land transport, entertainment and leisure, gifts and souvenirs, on-land tobacco and miscellaneous other expenditure, is **£6.3 million**[32].

The Jersey Hospitality Association (JHA) accepted the necessity of introducing GST as a means of filling a £45 million 'black hole' in States finances but urged the States to consider providing some form of special relief to the tourism industry on the basis of its status as an important contributor to the economy of the Island. It proposed:

- that the hospitality industry be exempt from GST on the basis that hospitality sector accommodation was an export (based on the fact that the vast majority of guests using hotel accommodation in Jersey were visitors from other jurisdictions; and

- that the potential growth of the conference business be promoted by zero rating this activity or enabling business customers to reclaim any GST they suffered when they came to Jersey to hold conferences. The JHA was concerned that the imposition of GST would contribute to making Jersey uncompetitive in this marketplace. It explained in its submission: '

> *If a UK company holds a conference in Brighton, the VAT it pays may be set off in full*

*against any VAT it receives from its customers. Conversely, if the same company holds its conference in Jersey and pays GST, this cannot be set off against the VAT it has received from its customers as the two jurisdictions will not, as things stand at present, be harmonized in any way as regards setting off output tax against input tax. … Additionally, a UK company may pay 17.5% as VAT on their conference in the UK, but the cost of transporting delegates to the conference is generally only a fraction of the costs involved in sending delegates to a similar conference in Jersey. Thus, the present lack of GST in Jersey has hither to been a marketing tool assisting Jersey hospitality businesses to be competitive.*

JHA noted that the draft GST proposals recommended that a special scheme for the treatment of the financial services industry should not '*place the Island at a competitive disadvantage that would result in the loss of financial service businesses to other international business centres'*. JHA argued that it would be inequitable to give relief to the finance industry but not to the hospitality industry.

In response the Treasury Minister pointed out

**'***In reality the financial services industry is being asked to contribute £5 million or £10 million more than they would have been asked to pay anywhere else. We are not asking the tourism industry to pay any more or any less than any other. If you like, we are penalising the financial services industry over and above anybody else.*

Mr. S. Lowthorpe said that nowhere else in the world was tourism and hospitality treated in a regime as an export.

With regard to the conference business, the Sub Panel was informed that typical value of the conference industry as an average over the last 5 years was about £4 million. Before the fire at the Hotel de France it was about £6 million. It is anticipated in 2006 that the value of the industry would be approach £5 million and approx £7 million in 2007[33].

Asked whether a tax concession for conference business in the Island would be consistent with plans of the Economic Development Department for this sector, the Minister replied,

'*Obviously it is essential for Jersey to be competitive as a conference destination and therefore all costs have to be controlled. However, given the mix of conference business within our hotels, our restaurants and the retail sector, we do not see how it would be possible for conference revenue to be zero rated for GST without zero rating the whole of the tourism sector*.

## 4.17 Jersey Arts Trust

The Jersey Arts Trust (JAT) argued that many people and organisations are not aware of what the changes will mean for them. Ms Walton stated that the proposed tax policy is regressive and that precedent in Australia[34] indicates the importance of thorough modelling of the consequences so that policy makers have a sound evidence base for their decisions. Ms Walton stated that the arts (which includes festivals) should be given a specific category and exemptions under the proposed GST system, specifically to relieve self employed artists of the tax burden for expenditure on supplies services and on sale of their artistic work

Ms M. Walton argued that the arts make an essential contribution towards quality of life, diversification of the Jersey economy. and the international profile of the Island. Research conducted by JAT has shown that although the creative industries are the biggest economic growth area in the UK, the industries face possible decline in Jersey due to lack of support. She said that it was difficult for innovation in the creative arts to survive in Jersey because of the high cost environment created by the dominant finance industry. Ms Walton stated that JAT receives support from a UK arts organisation (Writers Inc) that recognises the underfunding of arts development in Jersey. She pointed out that UNESCO encourages countries to allocate a special tax status to works of arts, event tickets (under the consideration that they were not consumer goods) and to artists.

Ms Walton also pointed out the importance of Arts as a potential catalyst for economic growth, including not only tourism but also the wider knowledge economy. She drew the Panel's attention to the Irish experience of Cork being European City of Culture in 2005, where public expenditure of €21 million led to increased tourist revenues of €90 million.

## 4.18 Zero rating of Housing costs

Under the proposed GST scheme the provision of all residential accommodation - whether rental, lease or purchase - will be zero rated. This follows the simple GST model used in New Zealand and Singapore, and indeed it is common internationally for residential property to be zero rated (including in the UK). Zero rating applies to the construction of dwellings as well as to extensions and alterations.

The Treasury and Resources Minister explained to the Sub Panel that applying GST to rents would create a number of technical problems, particularly in identifying the taxable element of the rental charge. It had therefore been decided for the sake of simplicity to leave rents outside the scope of GST. There is also a fairness issue between home owners and renters. Zero rating of rents, leases and the sale of domestic property removes liability to GST from housing costs across all types of householders and income quintiles.

Mr. Lowthorpe told the Sub Panel that the zero rating of housing costs had been recommended by Crown Agents as a result of the first public consultation exercise:

> '*What were people really concerned about? Well, they were concerned about probably the largest portion of their expenditure and that was on domestic housing. It was a big shock for me to come to Jersey and see the cost of buying a house, the cost of rental. … So, we listened, and of all the public meetings, all of the meetings that we had, that was one of the issues that clearly came over: "Do not tax domestic housing." So, we listened. We looked at the proportion of expenditure in all of the quintiles, and it is a very high amount. Housing costs here in general are very, very high. How do you then disaggregate rental of domestic property? Could you disaggregate repairs and maintenance? I think it is probably easier from an administrative point of view to say: "Right, try and zero rate the lot. Do not make it complicated.*"

The Minister said that he did not believe that zero rating the sale of domestic housing would give greater financial benefit to higher income groups as compared to any other income group. He said:

‘*If we look at the evidence in all sections of spending, GST across the quintiles is mildly regressive and it does not matter whether you are talking food or housing or motoring, that is the case. I do not think you can single out any one particular area of expenditure and say, that area is significantly different from others in terms of its regressivity. They are all much of a muchness and that is why I say no matter how much you shuffle the pack you do not change the nature of the regressivity to any great extent.*

The Sub Panel asked the Minister whether he had done any calculations on the effect of applying a standard rate of GST on the supply of new domestic housing[35]. The Minister replied:

*I think if you were to look, for example, at the economic arguments is it wise to increase the cost of housing which presumably gets fed back into higher rentals, which presumably gets fed back into other costs? What are we trying to achieve? We are trying to achieve a yield of £45 million from GST and I would like to try to achieve that in a way which is in the best economic interests of the Islands. I have tried to do that by designing a scheme here based, after consultation with people in the Islands, on what is appropriate for the Island's needs. On that basis, we said we keep the broad base scheme, you include things like foodstuffs but you treat housing in a particular way.*

***Following the discussion with the Minister the Sub Panel decided to commission its own review of the impact of applying GST to the sale of domestic housing in the Island. This project was carried out by Peter Seymour and Jody Whittingham of Mortgage Shop Plus. The report of their review is included at Appendix Six in this report. Included at Appendix Seven is a supplementary note prepared by the Sub Panel's adviser.***

The Sub Panel noted the above research and reached the following conclusions:

- significant potential tax yield could be gained from applying GST to the sale of new built accommodation. In the sample year of 2005 there was a potential in increased revenue from the 590 new builds of approximately £5.3 million. 2005 however was an exceptional year. A more normal yield could be in the region of £2.6 million (estimated by Sub Panel's adviser);
- the housing market appears to be robust enough at present to absorb GST on new build houses without undue effect on supply of new housing;
- the extent of the consequential impact of applying GST to new build houses on the market prices of used housing is difficult to quantify;
- applying GST to new build houses could enable a reduced standard rate of GST of 2.81%;
- in any one year the vast majority of people in each income quintile would benefit from the reduced rate, with the benefit being greater for those in the higher quintiles, but the small proportion of people who buy a new-build house in the year would pay significantly more GST, on average £7,000;
- the GST cost would be an additional cost together with the deposit which house-buyers would need to finance before securing a mortgage;
- if charging GST on new homes pushes up general property prices, then the

distributional effect of GST on new build houses would be to transfer wealth from home-buyers to home-owners, and from families 'trading up' to people higher up the property ladder;

in terms of income quintiles, this primarily means a transfer from younger people in the $3^{rd}$ & $4^{th}$ quintiles to older people in the $4^{th}$ % $5^{th}$ quintiles, but there would be many variations within that.

***The Sub Panel concluded that, despite the significant revenue gain, applying GST to new build houses would not be in the general best interests of the Island's population at this time unless coupled with other tax based and compensatory incentives.***

## 4.19 Zero rating of maintenance and repair

The Sub Panel was also informed by the Treasury that differentiating between repairs/maintenance and alterations, renovations and general primary housing construction would involve complex definitions and increase administrative difficulties. As a consequence such supplies involving dwellings would be zero rated.

The Sub Panel sought clarification from the Treasury in order to understand how this would operate in practice. It was informed that the supply of goods by merchants such as Romeril and B&Q will be taxable at the general rate. It is deemed that the point of supply to 'Domestic Housing' is not at this point and builders' merchants are not in a position to judge the destination of a supply in any case (whether domestic or commercial). So for purchases from builders' merchants (and DIY stores) the following GST treatments would apply:

- For members of the general public the tax sticks and there is no entitlement to recover the GST paid on their purchases.
- Recovery of GST would only apply to GST registered businesses according to generic GST principles, or by someone eligible under the DIY housebuilders scheme (see below)
- Building contractors and maintenance businesses which are registered for GST will zero rate GST to their customers provided they judge the supply to be domestic housing property rather than commercial.
- Non registered builders will not be able to reclaim input GST on their expenses (also according to generic GST treatment), but will not have to charge GST on their sales of labour or materials either.
- The draft law provides for one further category known as the "DIY house builders scheme" i.e. persons who build a dwelling for themselves (not as a business) - they would qualify to receive a refund on their GST payments on the basis of criteria set out in Article 51. The criteria provide a measure of control to ensure that refunds are only made for a genuine self-build. This follows the United Kingdom VAT model but is not general practice elsewhere.
-

The Sub Panel estimated from the Household Expenditure Survey that the potential revenue gain from applying standard rate to repairs and maintenance alone would be £0.6 million. (This would allow a rate cut of 0.07%) The Sub Panel believes that applying GST to alterations and extensions would allow significant additional yield but it was unable to estimate a figure on the basis of the Survey data.

***In the Sub Panel's view there may be anomalies arising from the Treasury's position on zero rating maintenance and repair. For example, it is unclear whether zero-rating would extend to gardening, or swimming pool maintenance. If so, then it is clearly an unfair benefit to the wealthy. If these are to be excluded, then a boundary will have to be drawn - in which case why can it not be drawn to exclude all maintenance?***
***The Sub Panel suggest that the zero rating of maintenance and repair will create inequity: people who are wealthy enough to have their work carried out through registered businesses will have the benefit of zero rating (notwithstanding the margin that companies will put on materials) while the DIY person will pay GST on all expenditure at the standard rate.***

***The Sub Panel also believes that the Treasury's position in this regard is inconsistent with its position on zero rating basic food. It proposes zero rating of repairs and maintenance on the grounds that it is difficult to establish definitional boundaries but at the same time opposes zero rating food because of the definitional problems which would arise.***

The Sub Panel was advised by the Treasury that it believed that the proposed relief on domestic repairs and maintenance was a balanced compromise. Mr. Lowthorpe told the Sub Panel:

> *I do not believe it will create inequity and have said so before. A 3 % GST will have little impact on consumer choices - they will be exactly the same as now. Painting a house is perhaps a better example - is 3% on the paint really going to make much difference in deciding whether to do it myself or use a GST registered painter (or even a non registered painter) - no I will still save a large amount of the total cost which is of course the labour content (and these vary tremendously).*

***The Sub Panel believes nevertheless that the Treasury must provide more clarity on this issue, particularly on where the boundaries lie for maintenance to qualify for zero rating. It recommends that the Minister reconsider the proposal to zero rate items related to the supply of domestic housing, including extensions, improvements, repairs and maintenance***.

## 4.20 Income Support scheme

The States has agreed that an income support scheme should be used to cushion lower income groups from the effects of GST. The Treasury has consistently argued that this will be a more effective means of social protection than providing a range of zero rating or exemptions for essential purchases.

The Social Security Department is currently developing a new scheme which will integrate a previously dispersed welfare system. A law setting the framework for the new scheme has now been approved by the States[36]. The Department published a consultation paper in September 2006 on details of the proposed scheme. This consultation is ongoing at the time of this report.

Although a firm commitment has been given that the new scheme will have been adopted prior to the planned introduction of the new GST in 2008 the Minister told the Sub Panel that full details of the rates to be given to lower income families would not be available until February 2007 after the States debate on the draft GST law. The Minister remained confident that the rates could be set at a higher level than the existing Parish Welfare rates.

Senator Syvret, in his evidence to the Sub Panel before the publication of the consultation document, said that, in his view, it was essential to have precise details about the Income Support Scheme in order to make an informed decision about the impact of a broad based GST system.

> '*I think it is going to be very difficult to have an informed debate about the impact of GST on a flat tax basis across all social groups until we see the precise detail and the evidence of exactly who and to what extent people will be protected by the income support scheme. We just do not know at the moment and we have been repeatedly told not to worry, that income support will sort this out. We have not seen how much it is going to be in various household circumstances, who will get it, what the thresholds are, what the cut-offs are, and I think it is going to be virtually impossible to make an informed decision on the impact of GST on all the people until we see the full details of low income support*.'

When pressed by the Sub Panel the Social Security Minister, replied:

> *'I do not see it as a problem for the States to make those decisions, I really do not. We know that the people who are currently receiving welfare benefits, and all the various benefits around the Island with our income support system, they are going to be protected from whatever the GST debate throws at them.'*

The Minister explained that the Treasury and Resources Minister had given an undertaking that an additional sum from the money raised through GST would be used to protect families with lower incomes from increases in prices in the shops caused by the introduction of this new tax. The relevant component rates of the Income Support scheme would be reviewed and increased immediately before GST was introduced to take account of the additional cost to people receiving benefit. In this way low income households receiving benefit would be safeguarded from the effect of GST.

On 13th September 2005 the President of the then Finance and Economics confirmed to the States:

> '*£2 million*[37] *will enable all those who receive benefit under the proposed Income Support scheme to be fully insulated from the effect of a three per cent GST. This will be approximately 7,500 households and will comprise all sectors on low incomes, including pensioners, the disabled and single parents. The Finance and Economics Committee firmly believes that this is a realistic figure derived from detailed modelling exercises using data from the Employment and Social Security Departmen*t.'

The Sub Panel questioned the Social Security Minister on the work being carried out by his Department to model the rates of the Income Support Scheme. The Sub Panel was informed that two major sources of information had been required to check and update parish welfare rates which had been set in 1970. In 1997 the Department had commissioned research into developing realistic household budgetary requirements in Jersey. This had been undertaken by the Centre for Research in Social Policy at Loughborough University (CRSP) who had identified a range of consensual minimum budget standards for various household types[38]. This information was being used to establish the 'basket' of basic items that make up the expenditure required for a decent standard of living in Jersey. This 'basket' would then be priced annually and income support levels would be pegged to that[39].

The Department was also examining data on income side based on the Income Distribution Survey prepared by the Statistics Unit. A database was now being compiled using data from existing beneficiaries. The Sub Panel was informed that work on establishing the basket of items would not be finalised until the rates had been calculated, given the fixed budget within which the Department was working.

The Minister explained that the new Income Support Scheme would receive funding equivalent to the overall cost of the existing benefit scheme (£64 million). His first priority then was to redistribute that budget in a more equitable and efficient system. The new scheme would include improvements including the rationalisation the housing benefit system and the removal of current disincentives which encouraged claimants to stay on benefits rather than seek work. The Minister said:

> '*We would love to be able to help more people, obviously, but there is a limited budget. You use your budget as best you can, and if we were able to eradicate poverty across the Island, that would be a marvellous thing. But we can only achieve what we can with the budget we have*.'

The Sub Panel pressed for further details of the use the Department had made of the CRSP studies in deciding the composition of the 'basket' of goods in the income support scheme. It was told that it was estimated that benefit rate could cover basic living costs, consisting of food, clothing, healthcare and heating, as identified in CRSP report. However, given budget constraints, the scheme would not cover all the elements in the CRSP budgets. Some items which might be considered desirable but not essential, such as provision for social activities would not be covered in full.

The Sub Panel sought the views of the Citizens Advice Bureau on the capacity of the Income Support Scheme to ease the burden of GST on all those who might find a 3% increase in food and fuel costs difficult to bear. The Panel asked whether providing benefits though an income support scheme to a limited proportion of the community, rather than through zero rating essential purchases for the whole population, would avoid the stigma attached to a means tested benefit system.

In his response, Mr. Le Gresley, Bureau Manager, recognised that it was difficult to answer the question with certainty until the component rates that made up income support were known. However, on the basis of a number of assumptions, namely:

- the component rates would, as expected by the Minister, be '*higher than the existing Parish welfare rates*' low income households would receive an immediate benefit.
- the relevant component rates would be increased by 3% on the introduction of GST.
- increase of benefits due to rise in the retail prices index, as a result of GST, ,

Mr. Le Gresley calculated that the income support scheme would be of greater financial benefit to claimants than zero ratings. He told the Sub Panel that, in his view, the scope of the Income Support Scheme would be wide enough to cover the vast majority of low income households and that a targeted benefit system, which encouraged people back into employment, would not promote a culture of dependency.

## 4.21 Protecting those outside the Income Support system

Some witnesses pointed to the fact that the people who did not qualify for the Income Support scheme would not have any protection from the effects of GST as they would not be receiving the welfare benefit. Senator Syvret, for example, said:

> *There might be a couple who are working, with one or 2 children or what ever, who are earning between them a salary of £45,000 or £55,000 a year. They might be struggling with mortgage costs and education costs and all the rest of it. They are not going to be anywhere near, I suspect and the evidence might prove me wrong, qualifying for income support. So, generally, ordinary working people do at the moment run the risk of not qualifying for income support and yet having this burden of GST on their essential, unavoidable purchases, placed upon them.*

It was also suggested that there are quite a number of people, particularly among the older generation, who chose not to take up the financial assistance on offer through the income support scheme because of the stigma attached to means tested benefits. These people would also be faced with the burden of the increased cost of GST on essential purchases without the benefit of income support. The Senior Citizens Association drew attention to the impact of GST on elderly people who were outside the scope of Income Support.

> '*The argument that for some there will be help under the new Income Support Scheme is not acceptable as there will be many - just above the cut-off line - with a few savings who will receive no help at all'.*

The Association argued that a tax on consumption could have a dramatic impact on those with limited means:

> '*Older people are encouraged to have a balanced diet and to have five pieces of fruit and vegetables daily. How can they be expected to afford these? Older people are more susceptible to the cold as their movements are slower and many spend time on their own just watching television. The fear is that if they cannot afford to heat the house properly then hypothermia will set in without them realising and with possibly fatal results.*

The Sub Panel believes that there is insufficient evidence available to support the view that there might be significant pensioners who are not claiming means-tested benefits and who would be significantly disadvantaged by the application of GST on food. It has not had the opportunity or resources to conduct any research.

However, the Sub Panel has been able to examine the average weekly food expenditure of a single pensioner based on the results of the Household Expenditure Survey[40]. It should be noted that this calculation depends on the definition used for 'basic food. Thus

- according to the Health and Social Services definition of ‘healthy food’ (see section 4.4 above) - average spend - £13; or
- according to the UK zero-rating definition: average spend - £25.60;

Against this, the basic pension in Jersey is £158.27 per week[41] So for someone living on the basic state pension alone, not claiming Income Support, and spending the average on food, their food costs as a percentage of income will be in line with the other low income households that the Sub Panel has looked at (see section 5).

***The scope for easing the burden of GST on low income households through zero-rating basic goods and services rather than relying on Income Support is examined in the next section of this report.***

# 5 Effect of zero ratings on income quintiles

## 5.1 Basic effect

This is a difficult area, because the impact of zero-rating depends on actual household purchases at quite a detailed level. The Panel has analysed data from the Jersey Household Expenditure Survey 2004/5, as being the only available data that is sufficiently detailed to provide evidence of the likely average effect of zero-ratings at different income levels.

The distributional effects of zero rating are complex, because:

- Some zero-ratings tend to benefit the rich more than the poor (e.g. private education);
- There is a target yield for GST[42], and so if some items are zero-rated, then the GST rate on other items will have to increase to maintain the yield.

The rates needed to keep the yield constant, with different zero-ratings, are estimated to be:

| **Zero-rated items** | **Rate needed** |
|---|---|
| Treasury proposal | 3% |
| Food | 3.4% |
| Heathcare | 3.1% |
| Education | 3.1% |
| Full ‘Syvret’ proposals | 4.1% |

This complicates the issue; some families will gain from zero-rating, but others will lose overall as the benefit of zero-rating is offset by the increase in the rate on other items.

## 5.2 Distribution of GST

As with VAT in the UK, from the Panel’s calculations (based on the Jersey Household Expenditure Survey) it seems that without Income Support GST will be roughly proportional across most of the income spectrum, but regressive at the extremes. Zero-ratings reduce the extent of this regressivity, but only slightly:

**Table 14: Distribution of GST[43]**

| **Quintile** | **Lowest** | **2nd** | **3rd** | **4th** | **Highest** |
|---|---|---|---|---|---|
| **GST as % income** | | | | | |
| **Treasury scheme** | 2.4% | 1.6% | 1.7% | 1.7% | 1.4% |
| **with food zero-rated** | 2.3% | 1.6% | 1.6% | 1.7% | 1.5% |
| **with full zero-rating** | 2.2% | 1.6% | 1.7% | 1.7% | 1.5% |

This suggests that income support should be far more important in easing the burden of GST on the poor than zero-rating (always provided that the poor are willing to claim the support).

## 5.3 Effect of different zero-ratings

The chart below shows the effect of the alternative zero-ratings that have been proposed, looking at an average family in each quintile[44]. As can be seen, zero rating some items is likely to be progressive (for example food), but others (such as education) are highly regressive, giving proportionately larger benefits to those (mainly at the top end of the income range) who can afford private services.

However even where zero-rating would be progressive, the amounts involved are small; for example if food is zero-rated but the rate is increased on other items to compensate, then the benefit for an average household in the bottom quintile would be less than £17 per year against a total GST bill of £283.

## 5.4 Different family types

One limitation of the household expenditure survey is that for each income quintile it only gives average expenditures; it is not possible to see (for example) the spending of a family in the lower income quintile with 2 children (the sample size is not large enough for this data to be reliable).

This can create some anomalies. For example with children's clothes, the average effect of zero-rating is almost nil for each quintile. However for a low-income family with children this could be a major part of their expenditure, so the result of 'almost nil' is therefore a combination of *gains* for some households and *losses* for others (perhaps pensioners) *within the same income quintile*.

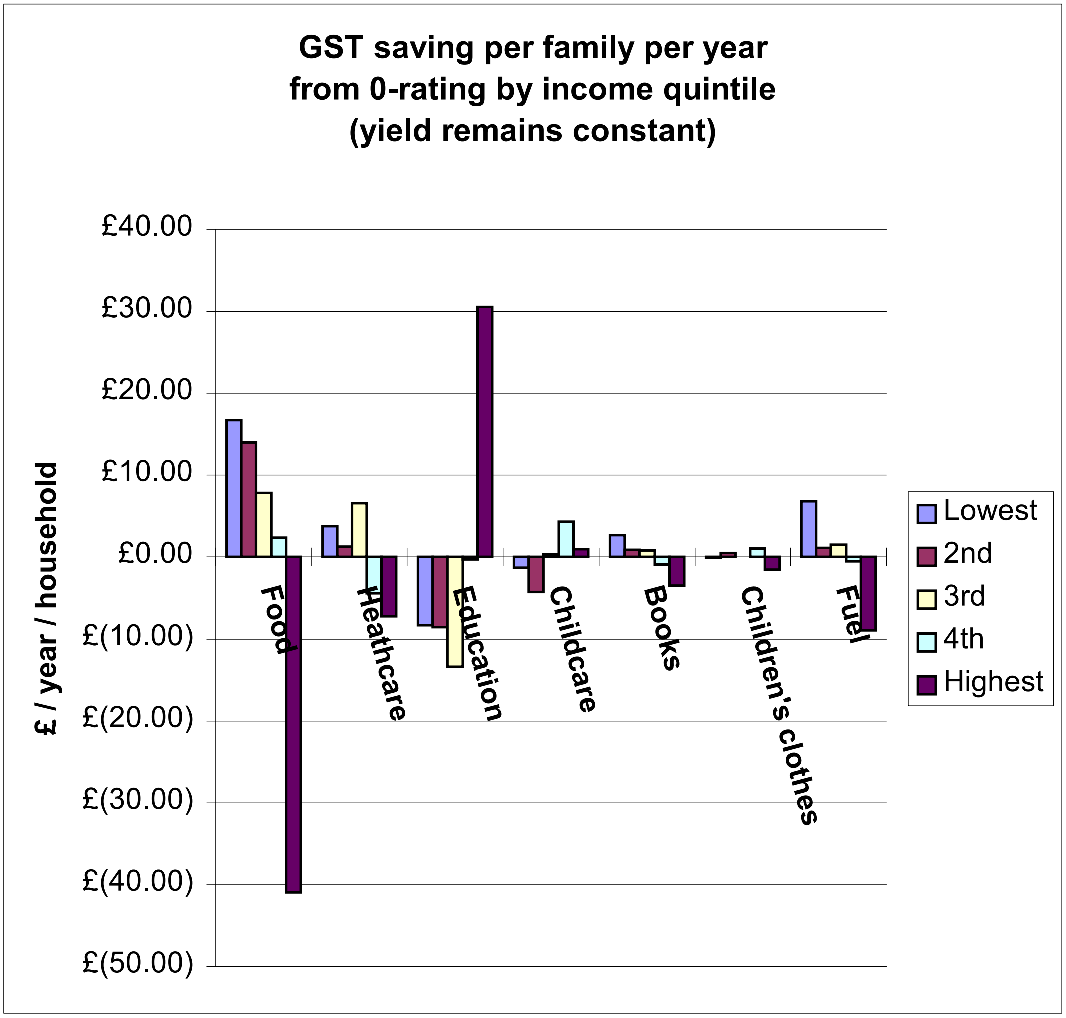
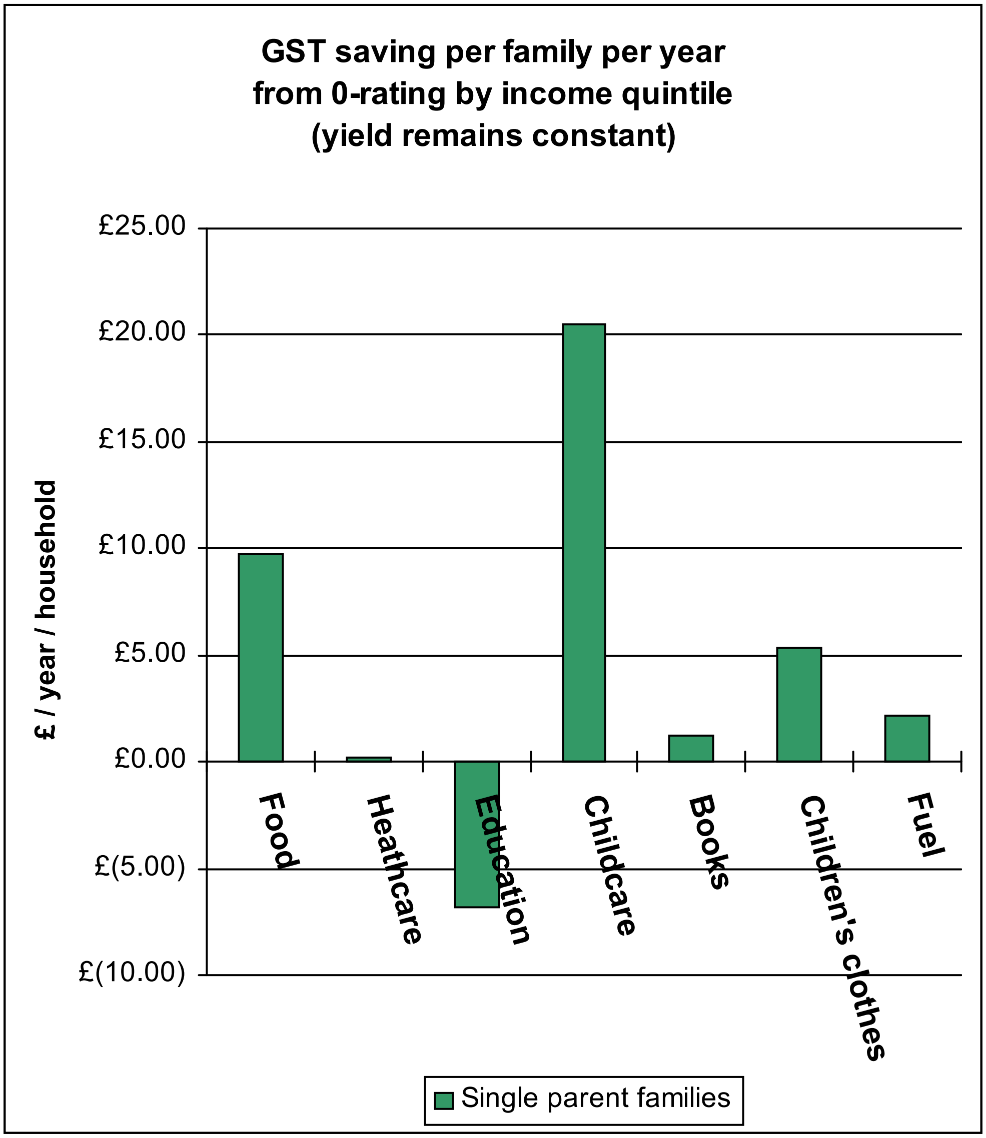



**Chart 1**
Source: Panel calculations from Jersey Household Expenditure Survey data

The Panel examined the CRSP[45] data (reference 4.20 in this report), but it was insufficiently detailed to provide a reliable estimate of the effect of zero-rating. As an alternative, the Panel examined the Household Expenditure Survey for lone parent families. Although this is an average for all single parent families, in fact single parent families are overwhelmingly concentrated at the lower end of the income spectrum (75% are in the bottom two quintiles) [46] and so give a reasonable approximation for low-income families with children.

As would be expected, when looking at single parent families zero-rating childcare and children's clothes now has a greater impact; just over £20 per year for childcare, and £5 per year for children's clothes, far more than the overall average for the lower quintiles. However the amounts saved are still small compared to the family's total GST bill, which would be £502 for the average single-parent family (at 3% with no zero-ratings)[47].

**Chart 2**




Source: Panel calculations from Jersey Household Expenditure Survey data

## 5.5 Overall effect

The graphs above examine each proposed zero-rating separately. However if they were all [48] introduced together, the effect would be to make the tax slightly less regressive, but without fundamentally changing its nature.

The amounts saved by zero-rating are simply too small to have any significant effect on the distribution; with a full package of zero-rating the average saving for a household in the bottom income quintile would be just under £25 per year (less than 50p per week, against a total GST bill for that household of more than £50 per week) (assuming constant yield).

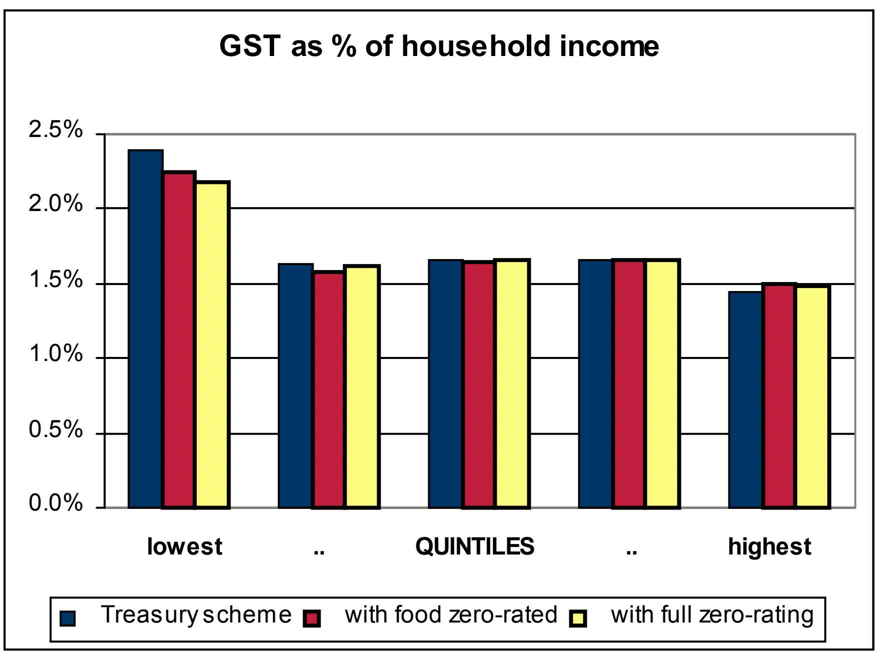
Clearly Income Support will be far more significant for low-income families than zero-rating.

**Table 15 Annual GST liability for household**

| Income quintile | Lowest | 2nd | 3rd | 4th | Highest | Rate |
|---|---|---|---|---|---|---|
| **Household's total GST/£** | | | | | | |
| Treasury proposal | £ 283 | £ 377 | £ 559 | £ 836 | £ 1,400 | 3% |
| Full zero-ratings | £ 258 | £ 372 | £ 555 | £ 834 | £ 1,436 | 4% |
| Saving (£ per year) | £ 25 | £ 5 | £ 4 | £ 2 | £ (35) | |
| **As % of household *expenditure*** | | | | | | |
| Treasury proposal | 1.97% | 1.90% | 1.83% | 1.88% | 1.81% | |
| Food zero-rated | 1.85% | 1.83% | 1.81% | 1.87% | 1.86% | |
| Full zero-ratings | 1.80% | 1.88% | 1.82% | 1.87% | 1.86% | |
| **As % of household *income*** | | | | | | |
| Treasury proposal | 2.4% | 1.6% | 1.7% | 1.7% | 1.4% | |
| Food zero-rated | 2.3% | 1.6% | 1.6% | 1.7% | 1.5% | |
| Full zero-ratings | 2.2% | 1.6% | 1.7% | 1.7% | 1.5% | |

Source: Panel calculations from Jersey Household Expenditure Survey data[49]

**Table 16: GST as % of household income under various alternatives**




Source: Panel calculations from Jersey Household Expenditure Survey data[50]

## 5.6 Effect of GST rate increases

The overall impact of zero-rating on household budgets is low, due to a combination of two factors:

- To maintain yields, zero rates for some items mean that the GST rate has to rise on other items;
- The rate has been set very low, at just 3%.

If the rate increases, clearly the absolute saving for a household will also increase. If the rate needed to rise to 15%, then introducing zero-rating for food would save an average bottom-quintile household £83 per year. However, this would be against a total GST bill for that household of £1,415.

Even the full package of zero-ratings would only save £124 per year for a low-income household, a very small reduction in that families total GST bill, so clearly Income Support is going to have to be the main way of counteracting the effect of GST for low-income households.

The chart below shows the likely effect of zero-rating as a percentage of the household's total GST charge; although zero-ratings can have some impact at the margin, its overall effect on the GST payable even by the lowest income households is minimal.

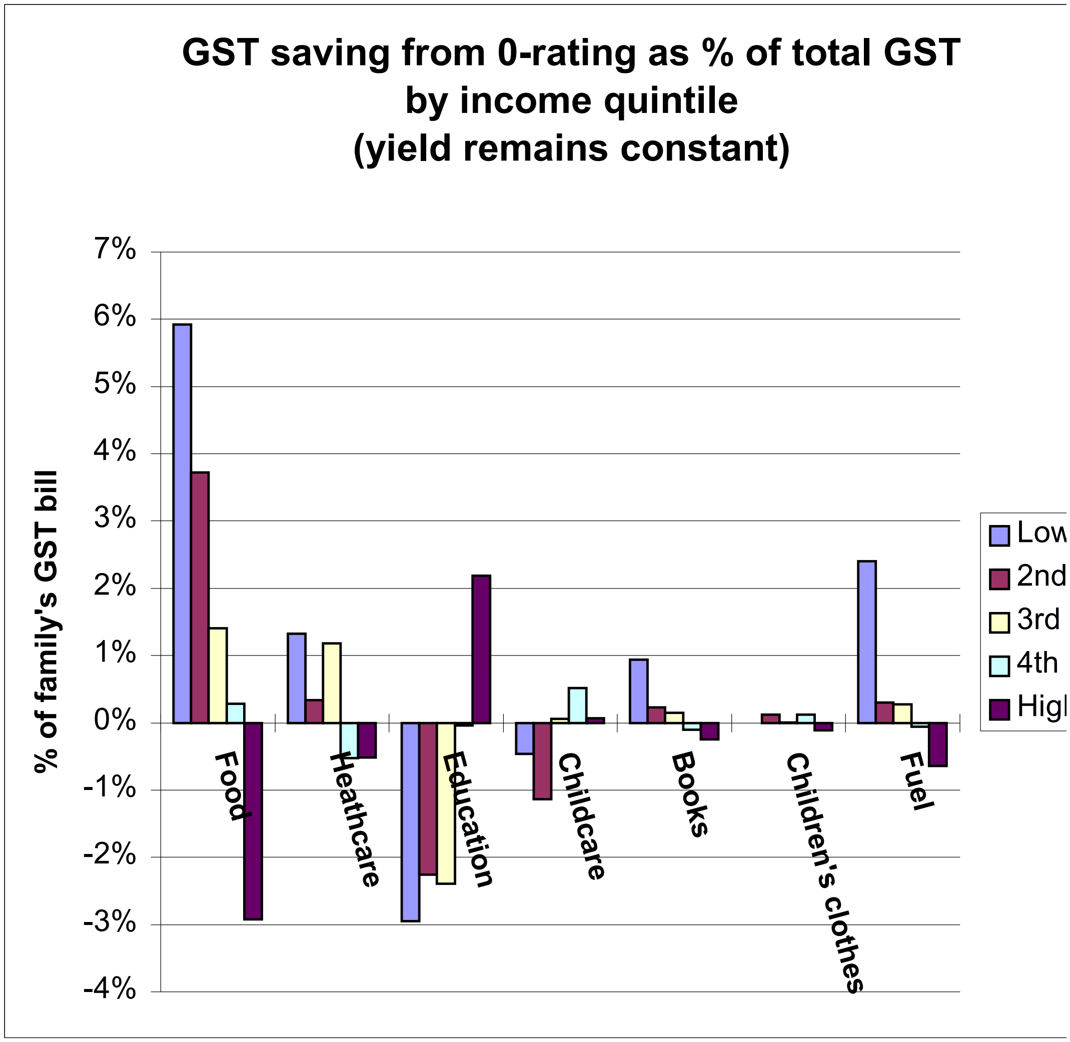



**Chart 3**

Source: Panel calculations from Jersey Household Expenditure Survey data

## 5.7 Effect of zero-ratings at increased rates

It has been suggested (See Senator Syvret's comments in Section 4.2 above) that the GST rate will have to rise in the future in order to cover possible revenue shortfalls elsewhere in the tax system. On this basis, the Sub Panel asked its adviser to calculate the rate required to cover a future potential budget shortfall of approximately **£35 million**. (This sum was indicated as a potential shortfall in the Extended Financial Forecast figures provided to the Corporate Services Panel during its review of the Financial Framework of the States Strategic Plan[51]).

The adviser estimated that a **rate of 6.3%** would be required to fill this shortfall. **Chart No 4** below is based on this estimate.

The effect of zero ratings in these circumstances would be:

- If the standard GST rate stood at **6.3%**, with no zero-ratings, the lowest quintile household, would pay **£594** a year in GST.

- If food alone was zero rated, in order to achieve the same yield, the rate would need to rise to **7.2%.** On this basis the lowest quintile household would pay **£559** a year in GST.

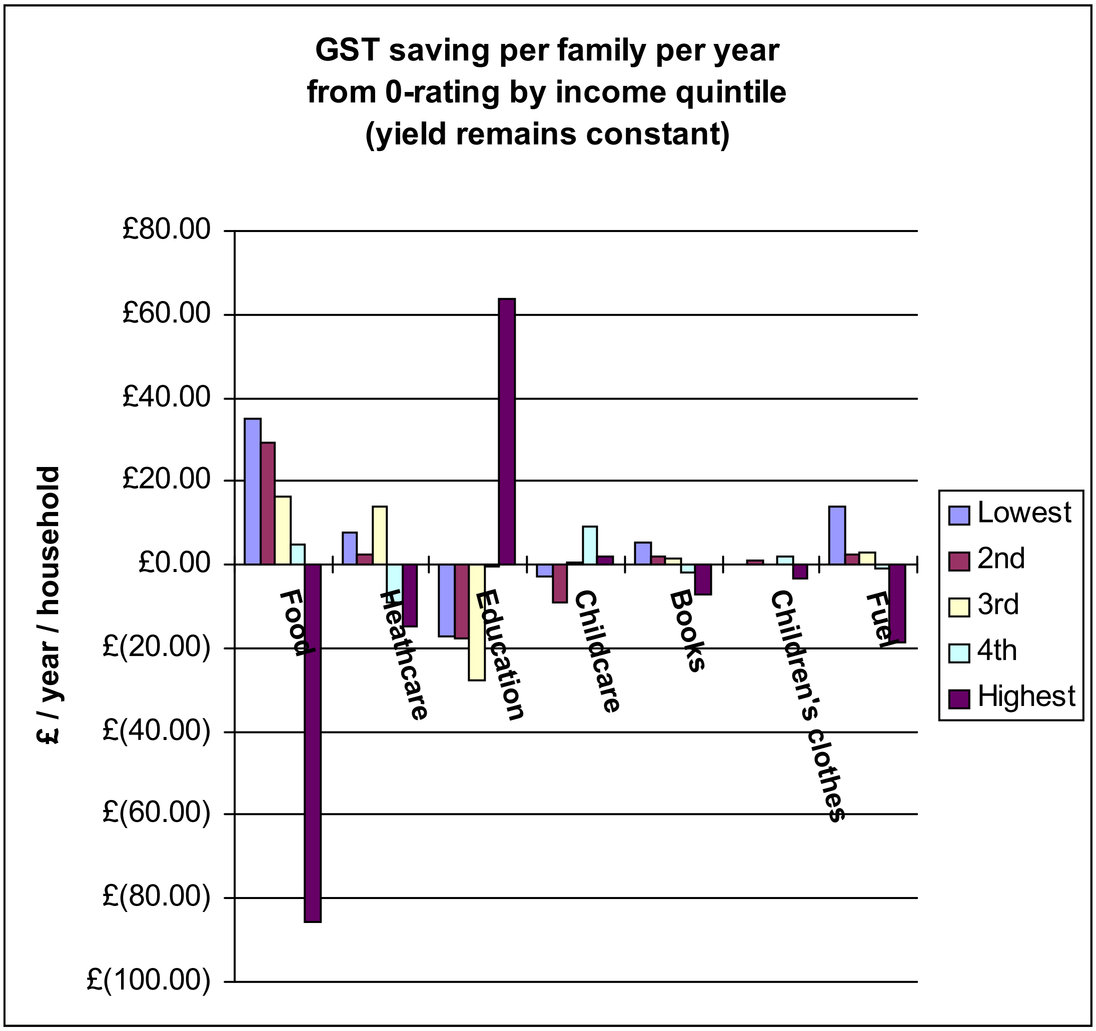
- If a wide range of zero ratings were introduced the rate would need to rise to **8.7%** to achieve the same yield. On this basis the lowest quintile household would pay **£542** a year in GST.

Of course £542 is lower than £594, but both are a lot of money for a poor family, and both would need substantial levels of Income Support. Zero-rating could reduce the amount of Income Support needed by about 10%, but the level of Income Support needed would still be in much the same league.

The Sub Panel requested its adviser to prepare a set of graphs showing the effect of zero rating at different underlying GST rates: 5%, 10% and 15%. The effect is shown in **Charts 5 - 7** below.

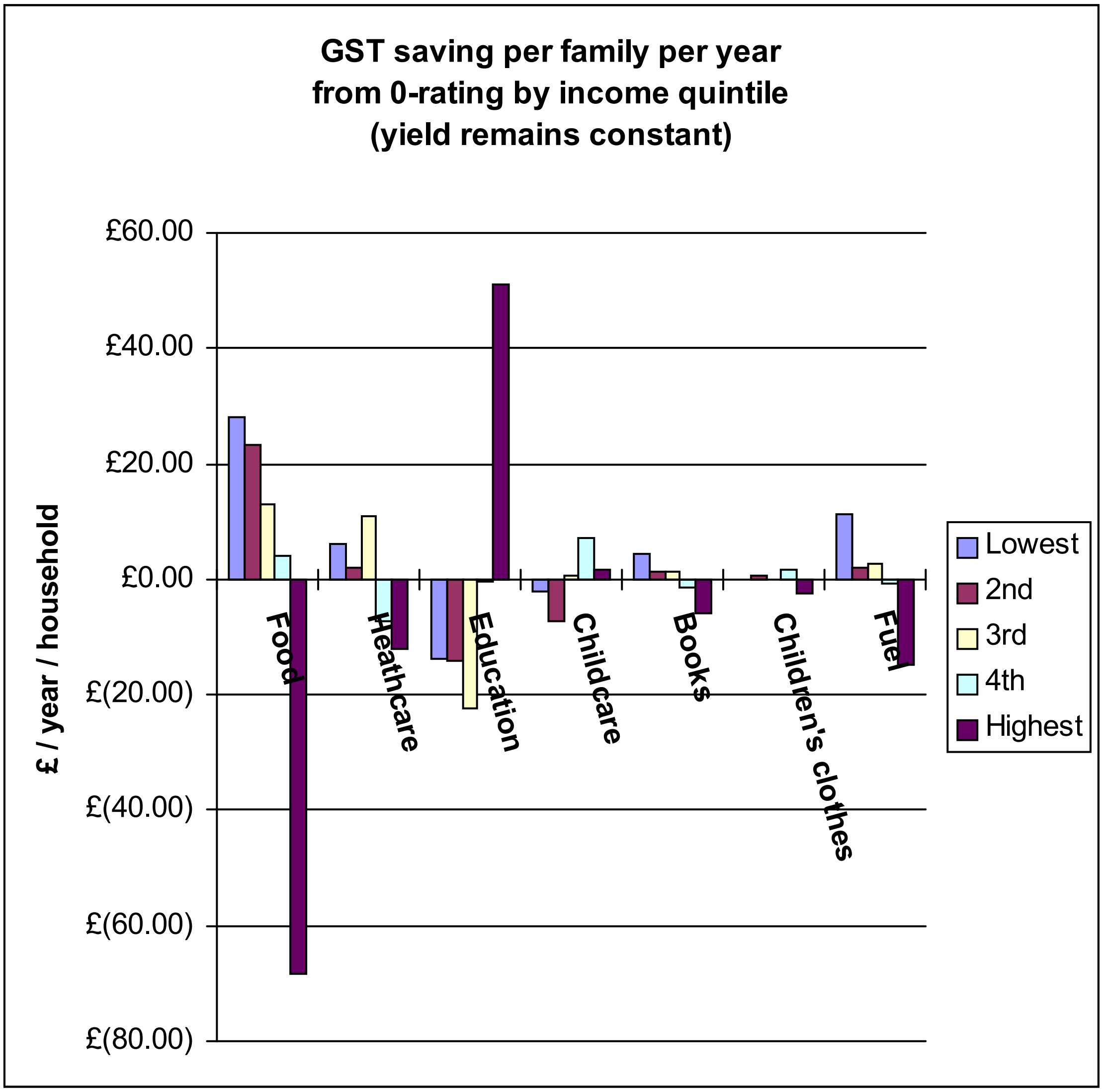
The charts show clearly that, as the GST rate goes up, the amount in cash terms saved per household through zero ratings also goes up. However, the effect of zero rating as a proportion of the household's total GST bill is still very low. This is illustrated in **Chart 8** below.

**Chart 4 - Underlying rate 6.3%**




Source: Panel calculations from Jersey Household Expenditure Survey data

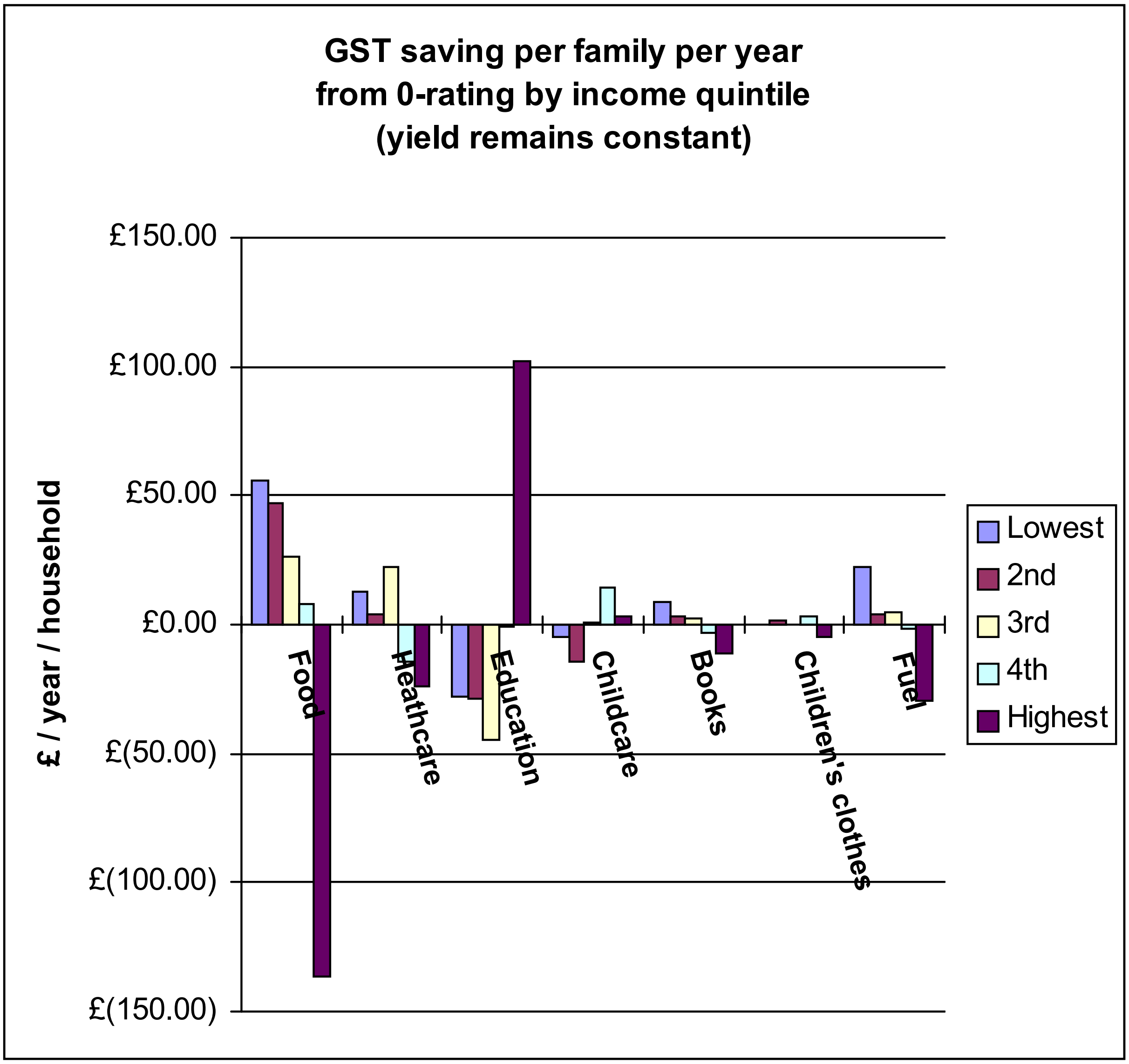
**Chart 5 - Underlying rate 5%**




Source: Panel calculations from Jersey Household Expenditure Survey data

At standard GST rate of 5%, with no zero-ratings from the total GST paid by the lowest quintile household per year would be **£470**. Introducing the full range of zero ratings would reduce this bill by **less than £50**.

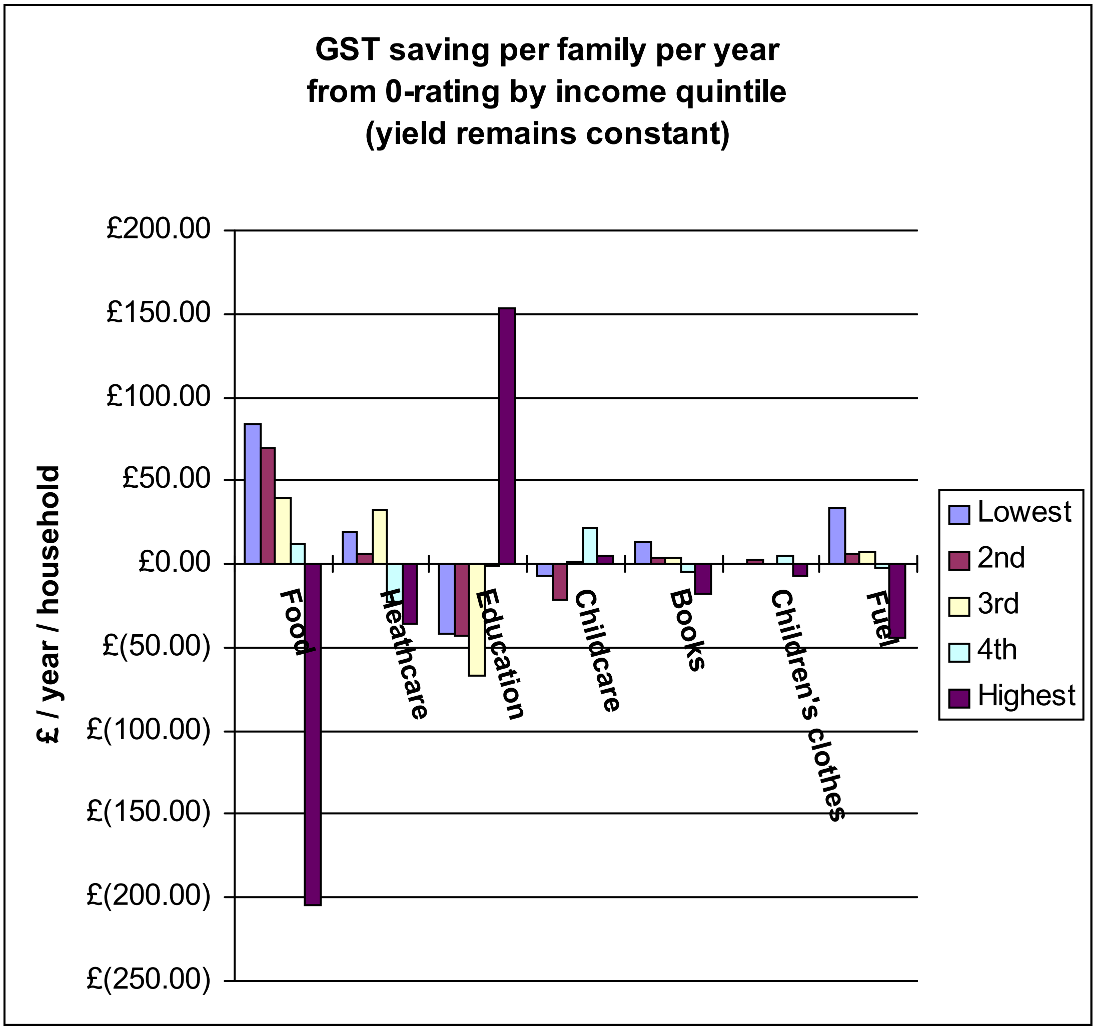
**Chart 6 -Underlying rate 10%**




Source: Panel calculations from Jersey Household Expenditure Survey data

Total GST from lowest quintile, with no zero-ratings: £943. The savings from a full range of zero ratings would be in the region of £80.

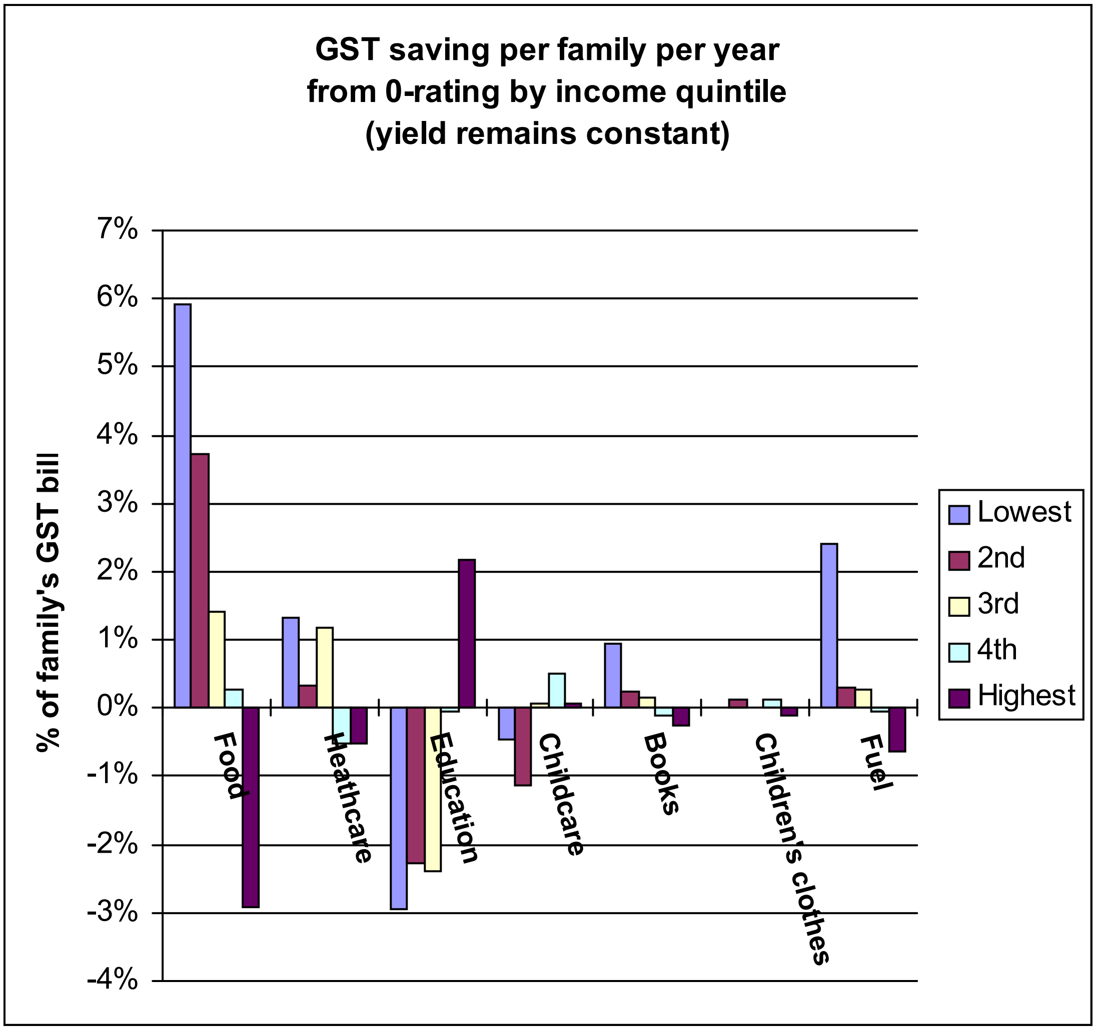
**Chart 7 - Underlying rate 15%**




Source: Panel calculations from Jersey Household Expenditure Survey data

Total GST from lowest quintile, with no zero-ratings: £1,415. The saving for a lowest quintile family with a full range of zero ratings would be only £125.

**Chart 8 Savings from zero-rating as a percentage of household GST**




Source: Panel calculations from Jersey Household Expenditure Survey data

There will always be people just above the Income Support level. However in the second quintile the effect of zero-rating is much less significant – even with a rate of 15% there would be a difference of £24 per annum on a total GST bill of around £1,900.

**On this evidence zero rating seems completely inadequate to deal with the impact of GST on low income households.**

**In the next section the Sub Panel looked more closely at the effect of zero rating food alone.**

# 6 Effects of GST on food

## 6.1 Regressivity

The Sub Panel noted that Australia on introducing GST in 2000 had agreed to the zero rating of food. The political and economic reasons for this decision are set out in a paper[52] by John Quiggin which was prepared as a submission to the Australian Senate Select Committee enquiry into the new tax system.

Mr. Qiggin argued forcibly that taxing food is '*effectively a poll tax, the most regressive of all taxes*'.[53] Mr. Quiggin uses the following table, derived from the ABS Household Expenditure Survey 1993-94, to illustrate his point. The final row of the table shows expenditure per person on groceries.

**Table 17: Household expenditure on food (Australia)**

| | Lowest 20% | Second quintile | Third quintile | Fourth quintile | Highest 20% | All households |
|---|---|---|---|---|---|---|
| Household income | 151.66 | 353.91 | 592.28 | 909.22 | 1608.77 | 723.26 |
| People per household | 1.57 | 2.37 | 2.90 | 3.09 | 3.22 | 2.63 |
| Weekly food expenditure | 60.18 | 86.44 | 108.47 | 129.05 | 170.91 | 111.00 |
| Restaurant and take-away | 10.86 | 13.34 | 24.43 | 35.63 | 68.23 | 29.31 |
| Grocery expenditure | 49.32 | 73.10 | 84.04 | 93.42 | 102.68 | 81.69 |
| Grocery per person | 31.41 | 30.84 | 28.98 | 30.23 | 31.89 | 31.06 |

Source: ABS Household Expenditure Survey 1993-94

On this analysis household expenditure on grocery food is roughly proportional to the number of people in the household, regardless of the per capita income of the household.

Support for this view was provided by work carried out by the Melbourne Institute in 1998:

> '*Food is … a higher share of total expenditure for households with low total expenditure. Households in the lowest quintile spend nearly 25 per cent of their total expenditure on food and non-alcoholic beverages compared to 13 per cent for those in the highest quintile*'[54].

Quiggins quotes research which suggests that low-income households spend more than they earn (about 120 per cent of income) while high income households spend as little as 60 per cent of income. He concludes from this that:

> *…expenditure on food, expressed as a proportion of income, is four as high for the poor*

*as for the rich. A tax on food will bear four times as heavily on the poor as on the rich. A 10 per cent tax on food amounts to a 2.8 per cent tax on income for members of the lowest income households and a 0.7 per cent tax for high income households. Exempting food from taxation greatly increases the progressivity of the tax system*.

*The argument for exempting food does not extend to other commodities, such as clothing, housing and fuel, sometimes classed with food as 'necessities of life'. In a study of the effects on inequality of consumption taxes levied at differential rates, Creedy (1993, p.93) found that 'the exemption of food has the largest effect on the inequality of net income; the subsequent introduction of further exemptions or of a higher rate applied to some commodity groups has little effect'. ……*

*It is frequently claimed that a tax on food is not really regressive, because high income households spend two or three times as much on food as low-income households. This claim, involves a misinterpretation of the term 'regressive'. Even though upper income households may spend a greater absolute amount on a given commodity, a tax on that commodity is regressive whenever the proportion of income spent on the commodity is greater for low income than for high income households.*

The Table used in Mr. Quiggin’s paper has two lines which were not immediately available in the Jersey Household Expenditure Survey. These showed:

- The average number of persons per household; and
- The expenditure on groceries per person.

The Sub Panel asked the States of Jersey Statistics Unit to prepare a table showing the same information (see Table 18a below).

The first line in this table shows that the range in expenditure on groceries between the lowest income quintile (£36.60) and the highest income quintile (£100.60). It may seem obvious that a higher income household spends more on food than a lower income household, but the second line indicates an important reason why this is so: on average there are 3.4 persons in a household in the higher quintile but only 1.5 persons in the lowest income quintile (a reason for this is that many pensioners without dependents are in this income quintile). The difference in the *average* expenditure on food per person between highest and lowest income households (£24.42 and £29.62) is then shown to be **about 20%** rather than **nearly 300%.**

**Table 18(a) Household Expenditure on Food (Jersey)**

| Income quintile group | 1 | 2 | 3 | 4 | 5 | All Households |
|---|---|---|---|---|---|---|
| Lower end of household annual | | £17,500 | £28,000 | £40,000 | £63,000 | |

income

| | | | | | | |
|---|---|---|---|---|---|---|
| **1 Food & Non-Alcoholic Drinks** | **£36.60** | **£43.20** | **£55.50** | **£77.40** | **£100.60** | **£61.70** |
| Average people per household | 1.50 | 1.76 | 2.15 | 2.70 | 3.40 | 2.30 |
| Average children per household | 0.18 | 0.32 | 0.40 | 0.55 | 0.70 | 0.43 |
| Average adults per household | 1.32 | 1.43 | 1.76 | 2.15 | 2.69 | 1.87 |
| Food per person | £24.42 | £24.59 | £25.75 | £28.67 | £29.62 | £26.79 |

*Source: Statistics Unit*

The weekly average expenditure of £24 per person is a far **greater proportion of the total income** of a person in a lower income household (with average of 1.32 adults earning up to £17,500 collectively per year) than is £29 per person in the highest income household (with an average of 2,69 adults earning collectively above £63,000 per year).

**On this basis applying GST to food in Jersey would be highly regressive**.

The Statistics Unit pointed out that the Australian table was too simplistic as it assumed that everyone in the household had the same expenditure requirement. This doesn't hold for two reasons, firstly and most importantly there are economies of scale associated with more than one person living in a home. For a simple example a half litre of milk costs 51p a litre 96p (i.e less than double). Secondly, the structure of the household (at its simplest the number of children also makes a difference). Therefore the Statistics Unit provided an alternative table based on the '*equivalised*[55]' number of persons in a household (rather than the average).

**Table 18(b) Household Expenditure on Food in Jersey**

| | | | | | | |
|---|---|---|---|---|---|---|
| Equivalised people per household | 1.27 | 1.39 | 1.63 | 1.98 | 2.39 | 1.71 |
| Food per equivalised person | £28.87 | £31.00 | £34.09 | £39.02 | £42.18 | £36.02 |

The Sub Panel noted that the bottom line here shows a 45% difference in food consumption value (but not actual spending) between the lower income and higher income households In other words, because a person belongs to a larger household in quintile 5 and gains the advantage of economies of scale, that person can 'eat better' than a person in the lowest quintile for the same amount of money. In the Sub Panel's view, this further emphasises the regressive nature of not zero rating food.
**However, although zero rating food would indeed make GST less regressive, Section 5 shows that the effect on the overall regressivity of GST would be minimal. If food were zero rated, GST would drop from 2.4% to 2.3% of income for the lowest quintile, and increase from 1.4% to 1.5% of income for the richest quintile.**

## 6.2 Administrative and compliance issues

In their paper detailing the impact of further exclusions under GST[56] the Treasury states that, besides involving a loss of revenue by reducing the tax base, the following issues must be taken into account when considering exclusions from the GST system:

- Defining basic food
- Increased levels of non-compliance
- Increased cost of administration

The Panel attempted to investigate this statement by looking at experience in other jurisdictions and by conducting a number of interviews with local retailers.

### 6.2.1 Australian Select Committee

The Sub Panel noted that the issue of GST compliance had been considered by the Australian Senate Select Committee investigating the new tax system proposed in that country in 1999 [57]. In its main report the Committee concluded that '*the compliance costs of zero rating food as an issue is grossly overstated'*:

> *5.50 This minimal impact on gross compliance costs was evident in evidence to the committee from an expert of tax compliance costs, Mr Michael Walpole of the University of New South Wales. While Mr Walpole argued that zero-rating food would add to compliance costs of individual retailers, he conceded that there was no international evidence that it added greatly to overall compliance costs.*
>
> *5.51 A major study of VAT/GST compliance costs by the United Kingdom National Audit Office cited by Mr Walpole found that the Canadian and United Kingdom VAT systems, which exempted[58] food had lower compliance costs than the New Zealand system which fully taxed food. While parts of this difference can be explained in various ways (e.g. lower business registration thresholds in the UK and a higher VAT rate), the general impression is clear that there is no huge gross compliance cost burden in countries that zero-rate food as compared with countries that do. Indeed, Professor Neil Warren, in his analysis of the compliance costs of the UK in his assessment of taxes on food concluded that:*
>
> *It would therefore appear from the United Kingdom evidence that the burden on compliance of a GST, in aggregate, is not unduly serious.*
>
> *5.52 Computerisation of accounts has the potential to reduce the cost of compliance considerably. This also applies to compliance costs associated with zero-rating. Indeed, the President of the New Zealand Employers Federation, in his advice to his Australian counterparts submitted to the Committee as part of the Australian Chamber of Commerce and Industry submission, confirms that computerisation reduces the cost even of zero-rated goods:*
>
> *In any event, computers are programmed to calculate the GST at the appropriate rate on data entry, and if there is minor variation in the cents, no-one pays this any attention as there are swings and roundabouts situation brought about purely by the methodology of*

*computers in the handling of percentages go.*

*As far as our export invoicing is concerned, these are all zero-rated and done automatically by computer, and as we are able to claim any input tax there is no added cost associated with our (zero-rated) exports.*

*5.53* ***In summary, the Committee concludes that the compliance costs of zero-rating food as an issue is grossly overstated, particularly in the context of the huge increasing compliance costs associated with the introduction of a GST.***

## 6.2.2 IT Systems

A meeting was held with Mr D Smith (Tech Computers Limited) in order for the Panel to try and establish the administrative impact from an IT point of view. Mr Smith explained that currently small and medium sized businesses predominantly use off the shelf packages which are designed to work with the UK VAT system. These systems would currently be accounting for VAT at 0% when being used in Jersey, as it is necessary to provide some kind of tax code for the system to operate at all. Mr Smith went on to explain that supermarkets have different categories registered in their computer systems for the different items that they sell. For example, there would be different categories for tinned goods; cleaning products; bakery items, and so on. Theoretically, this would mean that at the initial 'set up' stage when a large admin overhead would occur for all businesses no matter what the GST design turned out to be, whole categories could be coded as either being taxed at the standard rate, or the zero rate, depending on whether they were basic food items or not.

**Overall, Mr Smith felt that from an IT perspective, the additional cost of implementing systems which catered for the zero rating of basic foodstuffs would be negligible, given that businesses would need new or updated systems to cater for the GST system anyway.**

## 6.2.3 UK Wholesalers

The Panel was keen to establish the effect that the zero rating of basic foodstuffs would have on UK wholesalers importing goods to the Island. The Panel therefore contacted Mack Limited, which is a UK supplier that provides Le Riches with their fresh fruit and vegetables, to establish whether it would be a problem for their invoices to state whether items were zero rated or not. The Panel received a response from Mr L Scott, the divisional director, which stated:

***'It would not be a burden to supply invoices to Jersey companies showing that the fresh produce was zero rated.'***

## 6.2.4 Local Companies

In order for the Panel to establish the impact it would have on local food retailing companies if basic foodstuffs were zero rated, a meeting was arranged with Mr A Smith, Chief Executive, and Mr J Hopley, Retail Controller, from The Channel Islands Co-Operative Society Limited.

Mr Smith said that he believed the pain involved in administering a GST system with zero ratings for basic foodstuffs would be acceptable (as long as it followed the UK system), because of the social benefits involved.

**Both Mr Smith and Mr Hopley felt that if the Island were to introduce GST with zero ratings on food, it would be essential for Jersey to mirror a similar system, such as following the UK's definition of zero rated items rather than following an independent path**[59]. This is related to bar code labelling at source in the United Kingdom, which carries code descriptions and prices according to the United Kingdom VAT zero rating model. These bar codes are used in Jersey by the Co-op's computer systems. The Panel was also cautioned that implementing a system with zero ratings increased the chances for avoidance.

### 6.2.5 Potential legal challenges

Concerns have also been expressed in terms of the number of legal challenges which would occur if basic foodstuffs were to be zero rated. This issue was raised with Mr Smith and Mr Hopley, who **felt that it would be extremely unlikely for companies on the Island to legally contest the definition of zero rated items**. It was explained to the Panel that challenges in the UK predominantly came from the manufacturers, and as the zero ratings would predominantly affect the Island's retailers, rather than manufacturers (who are mainly based in the UK); this was not thought to be a potential problem.

The Sub Panel's adviser reviewed recent VAT cases in the UK to see how many are caused by the various zero-ratings. **There was not much evidence for food being a major complication**. The results from a sample of 50 major & 50 minor cases were, as follows:

> **Minor cases (VAT tribunals):**
> 75% of cases in the sample were about whether the taxpayer had a 'reasonable excuse' for a late payment or return, or similar issues; of the rest, none related to food, the biggest groups concerning charities or member organisations. Outside the sample, 3 cases were noted in 2005 concerning food, all about 'dipping crisps'
>
> **Major cases (mainly House of Lords or European Court):**
> The majority of tax cases concerned VAT, but of those about half were on procedural matters (e.g. time limits for claims); Other than that, the biggest group related to health & welfare; One case was about food; whether sandwiches sold in an airport departure lounge counted as catering (they did, as expected to be eaten 'on the premises')

## 6.3 Impact on the Income Tax Department

In order to assess the administrative impact the zero rating of basic foodstuffs would have on the Income Tax Department, the Panel felt it was essential to identify the total number of contact points that would be involved if food were to be zero rated.

In making these calculations the Panel only included businesses dealing in the retailing of basic foodstuffs, and therefore did not incorporate traders in the restaurant and takeaway industries, as their produce would not be subject to the zero rate. The Panel also only included one contact point for companies with multiple stores, as there would be a central buying point which could act as the contact for each individual store. The Panel calculated that there would be approximately 45 contact points involved to ensure that each company on the Island that retails basic foodstuffs was informed of the items which needed to be zero rated**.**

The Sub Panel estimated that four companies make up approximately the majority of the Island's food retailing business: CI Traders; The Channel Islands Co-operative Society Limited; R Stores and Spar[60]. Mr Hopley calculated that if the initial focus on policing the boundaries between zero rated and non zero rated food was focused on these four companies, the total tax revenue at risk if there were to be 100% non-compliance by the remaining 41 businesses representing 10% of food retailing sales over a 12 month period would be approximately £300,000.

***The Sub Panel feels that 100% non-compliance is clearly an extreme position. A more likely scenario would perhaps be 10% non-compliance in the remaining 90% of food retailing. This would imply an initial potential revenue loss of £30,000 per annum until policing efforts caught up.***

## 6.4 Average Food Prices

**The Panel was keen to establish the average price of food items in Jersey compared to other jurisdictions, as it was felt that this might be a consideration when deciding whether basic foodstuffs should be zero rated.**

Prices in Jersey were compared to the average price of basic foodstuffs in the UK, Singapore, and New Zealand. Singapore and New Zealand were used, as their GST systems do not zero rate basic foodstuffs, and both have been cited by Crown Agents as good examples of simple systems.

It is difficult to give a direct comparison on how much cheaper food is in the United Kingdom, Singapore and New Zealand as compared to Jersey because this depends on the amount of each type of food consumed. However, it seems clear that

- food in the United Kingdom (where it is zero rated), is about **22% cheaper** than in Jersey.
- In Singapore and New Zealand (with 5% and 12.5% rates of GST respectively) food may be as much as **45% cheaper** than in Jersey.

**Table 19 Average sample price of basic foodstuffs in Jersey, the United Kingdom, Singapore and New Zealand (in pence), and the percentage difference between prices in each jurisdiction compared to Jersey.**

| Item | Unit | Jersey | UK | Percentage difference | Singapore [61] | Percentage difference | New Zealand [62] | Percenta differen |
|---|---|---|---|---|---|---|---|---|
| **Beef** | 1kg | 1087 | 942 | 15 | 465 | 57 | 705 | 35 |
| **Pork** | 1kg | 663 | 521 | 27 | 350 | 47 | 474 | 29 |
| **Chicken** | 1kg | 270 | 222 | 22 | 162 | 40 | | |
| **White fish** | 1kg | 1183 | 937 | 26 | 1111 | 6 | | |
| **Salmon** | 1kg | 1132 | 924 | 23 | 706 | 38 | | |
| **White bread** | 800g | 106 | 80 | 33 | 78 | 26 | 45 | 58 |
| **Fresh milk** | 1 litre | 116 | 72 | 61 | 85 | 27 | 53 | 54 |
| **Eggs** | 1 dozen | 175 | 162 | 8 | 68 | 61 | 111 | 37 |
| **Tomatoes** | 1kg | 159 | 137 | 16 | 76 | 52 | 279 | -75 |
| **Potatoes** | 1kg | 65 | 49 | 33 | 42 | 35 | 39 | 40 |
| **Bananas** | 1kg | 125 | 80 | 56 | 44 | 65 | 65 | 48 |

Source: Jersey and UK figures taken from: Comparison of consumer prices in Jersey and the UK: June 2006. Retrieved from www.gov.je/statistics
Singapore figures taken from: Yearbook of Statistics Singapore. (2006). Retrieved from http://www.singstat.gov.sg/keystats/annual/yos/prices.pdf
New Zealand figures taken from:Food Price Index: August 2006. Retrieved from http://www.stats.govt.nz/products-and-services/hot-off-the-press/food-price-index/food-price-index-aug06-hotp.htm

# 7 GST & Charities

## 7.1 Introduction

The Panel received submissions from a number of Jersey charities, and identified a high level of concern (and confusion) amongst them about the impact of GST.

The main concerns expressed in evidence were:

- The impact on vulnerable clients if they have to pay GST on top of fees;
- The effect on Jersey's charitable culture, if the public see part of their donations going to the government in GST;
- The additional cost to the States if charities no longer provide essential services;
- The administrative burden on charities, which are apparently struggling to find volunteers to give accounting help.

In view of the level of concerns expressed, and the range of charities involved, the Panel convened a public meeting (held at Trinity Parish Hall on 6th September 2006) to help inform the debate and examine the issues raised. The Panel invited the Treasury and Resources Minister and his advisers to attend and speak at this meeting.

During this public meeting the Minister recognised the benefits that charities contribute, both to the social fabric and to the economy, and stated that his intention was not to tax charities but to devise a suitable solution.

In support if this, the Tax Office issued a public information leaflet stating:

> *What is required for Jersey is something that can be applied fairly (does not give charities a competitive advantage over normal commercial businesses), is cost effective and is simple to understand and operate.*
>
> As such any system is likely to provide treatment that offers **at least parity** with the UK (no worse).[63]

In line with this, the Minister gave several reassurances to charities during the public meeting. These have not yet been put into the formal proposal, but the Panel believes that they offer a framework that will address most of the concerns of the charity sector in a reasonable manner.

## 7.2 Scope of review

*There is no standard VAT treatment of charities within the EU, although some charity groups have been calling for this.[64] Around the world the VAT / GST treatment of charities varies from country to country, and is often based on practice and interpretation, so the precise impact may vary considerably between countries and organisations.*

***In this review the Panel has examined:***

- ***The treatment under general GST rules, if there is no special treatment for charities;***
- ***The reliefs given for charities under UK VAT, and the wider debate within the EU; and***
- ***Possible solutions for Jersey.***

In order to gain a more informed overview of the issues, the Panel asked several Jersey charities to send us summary financial information. The Panel therefore received annual accounts from 9 major Jersey charities[65], with a combined annual income of just over £15 million, and is grateful for all charities involved in the Scrutiny process for the information that they provided. We must stress that it would not be possible to determine the individual impact of GST on these charities without detailed discussion with their financial officers and operational staff, and the Panel has suggested strongly throughout that all charities speak to the Tax Office or their professional advisers about the impact of GST on their operations. However by making assumptions and simplifying matters we have reached some general conclusions in order to inform the debate.

## 7.3 Effect of GST on Jersey charities

The impact of charities on total GST revenues is small; estimated by the Minister as being approximately £½million p.a. if there was no special treatment.[66] However the impact on individual charities themselves could, without special provision, be significant; based on our sample of large Jersey charities, their GST burden for charities overall could be over 1% of their income, and for some small charities it could be 3%.[67]

In addition to this 1% burden there was a risk that a GST regime could result in substantial circular payments from the States, with charities having to charge and pay over GST on States and Parish grants. Whilst neutral in terms of the States' and charities' overall finances, this could of course involve administrative and collection costs.[68]

## 7.4 Basics of GST

- GST-registered organisations have to charge GST on their income (fees, sales, etc.) and pay that over to the tax collector. In return, they can claim back any GST they pay on their expenses and purchases.

- Organisations that are not registered do not charge GST to their clients but cannot reclaim the GST on their expenses and purchases, so this becomes a real cost.

In practice, for reasons explained below, very few Jersey charities will have to register for GST. The main issue therefore will be the GST they have to pay on their expenses and purchases.

## 7.5 GST on charities' expenses

The main cost for most of the charities examined is staff, on which there is no GST[69]. For the Jersey charities examined, staff amounted to nearly 80% of their total costs.

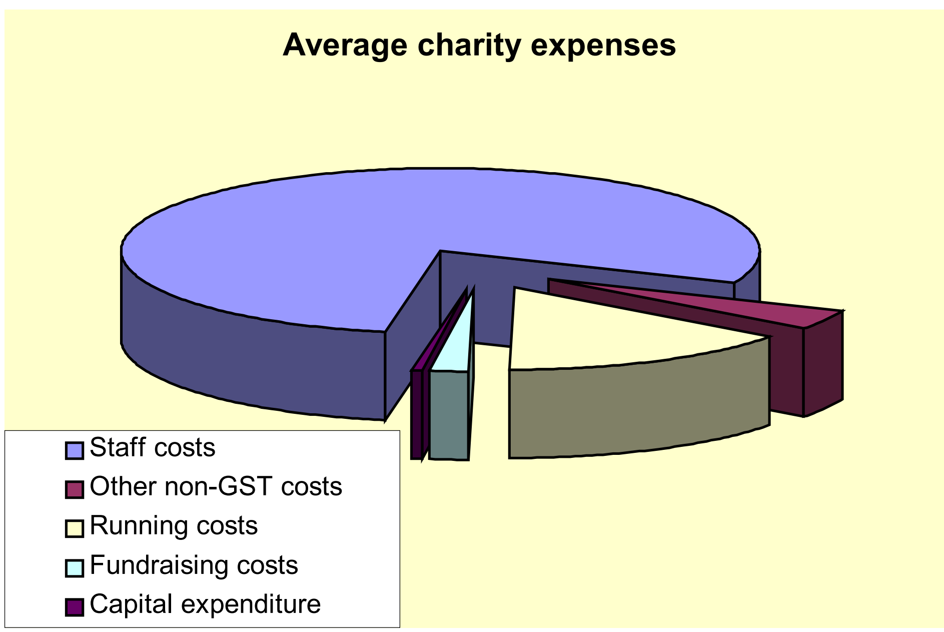
Some other costs are also not subject to GST, including depreciation (although the capital cost of new equipment will usually bear GST) and Parish rates.

All other costs will have GST added onto them, including care home supplies, utilities bills, office expenses, advertising and printing, and the purchase costs of capital equipment.

Overall, for the charities examined, 18% of their expenses seemed likely to be subject to GST. This means that over ½% of their income would be spent on GST on their expenses (before any recovery). For these 9 charities examined, that would total roughly **£67,500**.

This is illustrated below:

**½% GST**



However the sample was skewed by a few large healthcare charities that have very high staff costs, and for some charities a substantially higher proportion of their costs could be subject to. For one of the charities in the sample GST on its costs would be 1½% of its income, and it is not difficult to imagine a small charity, relying wholly on volunteer labour and with no premises, for which *all* of their costs would be subject to 3% GST.

## 7.6 Relief for GST on expenses

In the UK and EU there is no general relief for charities for the VAT on their costs (although there is in some specific sectors, e.g. museums in the UK). Charities have recently been lobbying for a blanket VAT relief, but as VAT is governed by the EU this is proving complex.

The Panel felt that there should be a blanket GST relief for charities, as there is for income tax. The Treasury suggested two alternatives:

- ***"End user relief"*** *– tax is not charged by the supplier based on the "status" of the customer.*
- ***"Pay and claim"*** *– tax is paid in the normal way but then recovered from the tax authority.*[70]

## 7.7 End-user relief

This is in one way the best for the charities; they do not pay GST at all on their purchases, and so avoid both cashflow and administrative problems.

However it would be very difficult for the Tax Office to administer and police, and this is likely to have a knock-on effect on charities. The Tax Office would have to check suppliers' accounts to ensure that they are charging GST where they should, and so when suppliers claim that goods or services were supplied to charities there would have to be some way of confirming this with the charity involved, at least on a sample basis. This checking would be likely to involve the charities in Tax Office audits.

End user relief is very rare; although it is used in limited circumstances in the UK, it is limited to major transactions (for example social housing construction). A blanket 'end user relief' system for Jersey could have too many transactions to police efficiently.

## 7.8 Pay and claim

This is the system requested by charities in the EU.[71] Shops and other suppliers would charge GST to charities in the normal way, but the charities would then reclaim the GST from the Tax Office (whether monthly, quarterly or annually). In practice this could be similar to the system already operated by charities for income tax, where charities can reclaim tax paid by supporters on covenanted donations.

The Panel believes that this system could be workable for most Jersey charities, particularly with the Minister's assurances that the administrative burden would be minimised.

## 7.9 GST on charities' income

For most charities the only issue with GST will be the tax that they have to pay on their expenses and purchases. However some larger charities risk having to charge GST on their income, and pay that element over to the tax office. Two factors will minimise the number of charities affected:

- Just like a business, a charity will not have to register unless its total income subject to GST is more than £300,000 p.a., and if not registered it does not have to charge GST on its income. Of the 9 charities examined, only 4 or 5 seemed likely to be over the threshold.

  Even with no special treatment, there would be no GST on some major components of charities' income (and that income would not be counted towards the £300,000 threshold).

For the 9 charities examined, the main income categories were:

**Table 20: Income categories for charities**

| Income type | GST treatment | % of charities' income |
|---|---|---|
| Donations & legacies | no GST | 20% |
| Investment income | no GST[72] | 10% |
| Fundraising | GST ? | 10% |
| Fees charged to clients | GST[73] | 25% |
| States grant | ??? | 40% |

Genuine donations, legacies and investment income[74] would not be taxable under normal GST rules. However for some other forms of income there are potential concerns for larger charities.

## 7.10 Fees charge by charities

In the absence of special treatment, GST would generally have to be charged on fees, so clients of charities that charge fees for their services (which would include many medical and care charities) would see a 3% increase. For some charities (particularly those running care homes) this would be a substantial increase in the costs to their vulnerable clients. Charities can claim any exemptions or zero ratings just like any other organisation; for example domestic rent is to be zero-rated so a charity providing care homes would have to split its fee between rent (0% GST) and care services (3% GST). However under the Jersey proposals there are very few exemptions.[75]

In the UK some fees can be subject to GST even where they are below cost, but in other cases there are reliefs available where there is a substantial subsidy element[76]. However there does need to be a link between the benefits given and the fee charged, so the position of membership fees (such as those charged by Family Nursing) would be complex.

Another potentially difficult area is the money received from the States. If this is a grant, it will not be subject to GST; however if it is a payment for services provided by the charity then it will be a fee. Cases in the UK have held 'grants' to be subject to VAT where there is a sufficiently detailed obligation on the charity to provide a set level of service[77]. From the Health Minister's evidence, it seems that under the service level agreements grants will be moving closer to this definition of fees. It will be important to have a simple definition that will make this boundary clear.

## 7.11 Fundraising (e.g. events and shops)

There is no GST on genuine donations, but the distinction between donations and fundraising can be difficult. Generally where the donor receives significant benefits the income will be subject to GST (even where the amount given is much greater than the benefit received so there is a substantial donation element within the price). As well as shop sales this would cover tickets to events, dinners, concerts, etc. There are limited reliefs in the UK VAT system for fundraising events, but these are far from comprehensive and there remains the issue of competition with commercial businesses.

The 9 charities examined could have to charge nearly **£110,000** in GST[78] on fundraising events and fees charged to clients – ¾% of the their total income. If charities whose taxable income appears to be below the £300,000 threshold are excluded, this would drop to just under £100,000.

If the States grants were also treated as fees, then an additional **£175,000** GST would be charged by the charities and paid by the States.

## 7.12 Relief for GST on income

The position of GST relief for income is complex. The Minister re-stated his general intention to support charities, but also stressed that it would be unfair to give charities a tax advantage where they were in competition with businesses; the position could vary, and it would be important to look at each case on its merits. The Panel looks forward to the Treasury's formal proposals, at which point the system will have to be re-examined to determine whether it meets Jersey's needs.

In the Panel's view the main issues would be:

- Regarding fees paid by charities' clients, whether there could be:
    - a blanket relief for all charities,
    - relief only for subsidised fees, or
    - reliefs for subsidised fees only in particular fields (such as healthcare)

The Panel believes that it is important not to be too prescriptive, so a flexible system is needed that allows for the full range of charitable activity in Jersey

- For fundraising events (such as charity concerts), we would hope for a situation similar to the UK, where there are VAT reliefs for fundraising events (perhaps subject to restrictions on the number of events).

- The area of commercial competition (including shops and visitor attractions) remains difficult, and the Panel would like to see a system that balances the needs of both businesses and charities.

## 7.13 Recovering GST on expenses

The advantage of charging GST on income is that GST on related expenses (including capital purchases) can be reclaimed - provided it relates to a taxable activity:

- GST on direct costs of fundraising (e.g shop expenses or events costs) can be recovered, provided it is registered for GST; and
- GST on the charity's objectives can be recovered if it charges a fee on which GST is charged (e.g. nursing home costs).

As discussed above, charities can charge GST on their fees (and hence recover GST on their expenses) even where the fees do not cover the costs.[79] It is therefore possible for charities to start charging fees just to be able to recover GST on their expenses and purchases (UK museums charged £1 entry in the 1990s for this reason); however many may feel that this goes against their ethos.

On a *generous* interpretation, and assuming that States grants are treated as fees, the sample of charities examined may be able to recover £55,000 of the £67,500 GST that they will have to pay on their costs and expenses. On a *harsh* interpretation, recovery could be less than £20,000 (which would leave these charities overall bearing GST equivalent to 0.3% of their income at a 3% rate).

## 7.14 Administrative costs

From their evidence to us, very few Jersey charities seem to have qualified financial assistance, and they are finding it difficult to attract volunteers to help with this. For charities that have to register for GST, this could cause serious problems – particularly because there is currently limited GST experience on the Island. Even if they are able to recover their GST, the process of doing so within the normal GST system will be difficult; income will have to be classified between the different GST treatments, and expenses will have to be analysed to allocate them to different income streams.

## 7.15 Possible solutions

**Do nothing**

There will be a serious impact on clients of charities that charge fees, as these will have 3% GST added to them. This will have a knock-on effect on States costs, as the increased fees would often be included in Low Income Support calculations. Some charities also might change their approach and start charging for previously free services, so that they can recover their input GST on their expenses.

For the charities themselves, the irrecoverable GST on charities' expenses and purchases *could* be minimal (based on the sample, overall it could be less than 0.1% of income - provided a generous interpretation of the law is adopted), but for many small charities it will be much higher, particularly when a charity makes a major purchase.

In addition there is the administrative cost of having to deal with GST regulation. A comprehensive and generous guidance note from the tax office, and a co-operative approach, could solve a lot of problems in practice.

Costs for the States will be increased if they are charged GST on grants.

**Exemption**

If all charities could be made GST exempt, then they would:

- not charge GST on their fees or fundraising sales;
- not be able to recover the GST on their purchases
- be saved from the administrative burden of GST

Overall it seems that most charities would benefit from this, although some could be left with substantial amounts of irrecoverable GST on their purchases.

If exemptions were only applied to some activities (e.g. medical), then the benefits would be restricted to charities operating in those fields. However the administrative burden would be increased, especially for charities that had some exempt and some taxable activity (e.g. a care home providing zero-rated accommodation and exempt care).

Alternatively (or additionally) some supplies *to* charities could be made exempt or zero-rated (the UK has some examples of this), although this is difficult to monitor.

**GST recovery**

The simplest (but most costly) approach is to make all activities by charities exempt, but allow them to reclaim all the GST on their expenses and purchases. As discussed, the total loss to the Treasury does not seem to be high; ignoring the GST that would be paid by the States themselves, the 9 major charities examined could have a total GST burden of less than £130,000 p.a. (depending on the precise treatment adopted).

**The Treasury seems to be inclined to this view; this would be a generous approach compared to other countries, and would reflect the importance of the charitable sector**

**on the Island.**

# 8 Appendices

# Appendix 1 EU VAT Rates (also Singapore and New Zealand)

| | Austria | Belgium | Cyprus | Czech Republic | Denmark | Estonia | Finland | France | Germany |
|---|---|---|---|---|---|---|---|---|---|
| Full Rate | 20 | 21 | 15 | 19 | 25 | 18 | 22 | 19.6 | 16 |
| Foodstuffs | 10 | 6 | 0 | 5 | 25 | 18 | 17 | 5.5 | 7 |
| Children's Clothing | 20 | 21 | 15 | 19 | 25 | 18 | 22 | 19.6 | 16 |
| Pharmaceutical Products | 20 | 6 | 0 | 5 | 25 | 5 | 8 | 2.1 | 16 |
| Medical and Dental Care | Exempt | Exempt | Exempt | Exempt | Exempt | Exempt | Exempt | Exempt | Exempt |
| Books | 10 | 6 | 5 | 5 | 25 | 5 | 8 | 5.5 | 7 |
| Newspapers | 10 | 0 | 5 | 5 | 0 | 5 | 0 | 2.1 | 7 |
| Energy (Gas and Electricity) | 20 | 21 | 5 | 19 | 25 | 18 | 22 | 19.6 | 16 |

| | Latvia | Lux'bourg | Lithuania | Malta | Poland | Portugal | Slovakia | Slovenia | Spain |
|---|---|---|---|---|---|---|---|---|---|
| Full Rate | 18 | 15 | 18 | 18 | 22 | 19 | 19 | 20 | 16 |
| Foodstuffs | 18 | 3 | 5 | 0 | 3 | 5 | 19 | 8.5 | 4 |
| Children's Clothing | 18 | 3 | 18 | 18 | 22 | 19 | 19 | 20 | 16 |
| Pharmaceutical Products | 5 | 3 | 5 | 0 | 7 | 5 | 19 | 8.5 | 4 |
| Medical and Dental Care | Exempt | Exempt | Exempt | Exempt | 7 | Exempt | Exempt | Exempt | Exempt |
| Books | 5 | 3 | 5 | 5 | 0 | 5 | 19 | 8.5 | 4 |
| Newspapers | 5 | 3 | 5 | 5 | 7 | 5 | 19 | 8.5 | 4 |
| Energy (Gas and Electricity) | 18 | 6 | 18 | 5 | 22 | 5 | 19 | 20 | 16 |

Note: Where there is more than one rate for any group than the lowest application rate is shown.
Sources: European Commission (DOC/1803/2006) and New Zealand and Singapore Government web-sites.
This table was provided in the Comments of the Treasury and Resources Minister on Goods and services Tax: Exempt or Zero rated items (P.86/2006)

## Appendix 2 Impact of Further Exclusions under GST

Paper provided by the Treasury & Resources Department to the Sub Panel

### Tax base and Revenue Loss

The table 1 below provides an estimate of the revenue loss if further exclusions were provided under the GST law. These potential exclusions are taken from the Senator Syvret/Deputy Breckon propositions to be debated by the States on 24th October 2006. They fall into eight categories and exclusion is proposed by way of "zero rating or exemption".

It must be stressed that for most of the items proposed as further exclusions it is difficult to accurately estimate the tax involved (lost). The limited narrative descriptions are open to interpretation and in some cases quite difficult to link to individual lines used in the Jersey HES. However from the outset this exercise provided a graphic reminder of the difficulties likely to be encountered (for both taxpayers and the revenue agencies) if such exclusions were ever adopted and how a simple GST can easily be made very complicated.

The list of eight further exclusions appears to have been heavily "influenced" by the UK VAT model which is regarded internationally as one of the most complex systems in the world and is even non compliant in terms of the EU directives on VAT harmonisation. We have attempted where possible to follow the UK VAT interpretation on liability but the difficulties, even after over 30 years of live tax experience, are striking. For example, what exactly is included in the definition of basic food? Does that mean raw and/or unprocessed foods? In Jersey the words "healthy" and "junk" food have also been mentioned to determine tax liability – but definitions vary massively. In the UK VAT system sugar, jams and cakes are all zero rated!! Are take-away purchases taxed or zero rated?

We would anticipate major definitional problems with most of the proposed exclusions – "there is no such thing as a simple exclusion". It must be accepted that the items which relate to a supplies of services only generally present less of a problem.

In an attempt to give a broad quantification, but based on incomplete definitions and clarification of what exactly is to be included/excluded, we have estimated that the total revenue loss, if all of the proposed exclusions were approved, would be over £6 million.

*[Note: - the item on Life Assurance has been ignored in terms of revenue shortfall as it is already excluded by way of exemption under the draft law (together with most other forms of insurance). This follows generic international treatment and reflects the local preference for obtaining products from the mainland].*

In addition to the level of revenue lost directly from reducing the tax base there are two further issues that must be taken into account when exclusions of this type are being considered. The first is indirect revenue loss as a result of ***increased levels of non-compliance*** which, based on international experience, is an inevitable consequence of a more complex system.

Every type of exclusion in terms of supply (goods and/or services) presents a different challenge but international experience shows that any system with mixed liability goods will present difficulties even at the very start of the supply chain. Under the current system designed for Jersey all imported goods are taxable – this has been welcomed as clean and simple. The only problems likely to be encountered are with valuation. However as soon as any type of goods are excluded the potential for misdescription (both in error and deliberately) is introduced.

Problems would also occur further down the supply chain in identifying taxed and untaxed goods at the point of supply whether by segregation (on tax invoices) or at the point of consumption (using retail schemes).

The second issue is the ***increased cost of administration*** for both the taxpayer and the tax agencies involved (Customs and Income Tax). It is possible under a simple system administered by customer centric/focussed tax agencies deploying modern ICT to keep the cost of administration low and within acceptable boundaries for all concerned. The proposed exclusions would present different levels of increased administration costs. As a general rule if a supply is exempted the administration costs for those taxpayers involved and the revenue agencies are minimal (but GST as sticking tax increases expenditure). If a supply is excluded by zero rating (taxed at 0%) the administration costs are higher for the registered taxpayer (retention of records, submission of returns) and the impact on the administration is significantly higher (increased numbers of voluntary registrations and the control of refund returns).

To reflect the impact on both compliance and administration we have applied a simple rating against each of the proposed exclusions in the table below.

| **Item for proposed exclusion** | **Supply code** | **Estimated revenue loss (£'m)** | **Impact on voluntary compliance** | **Impact on admin** |
|---|---|---|---|---|
| - basic foodstuffs | G | 2.9 | H | H |
| - children's clothing | G | 0.2 | H | H |
| - medical services & products | S/G | 0.8 | M | M |
| - education fees | S | 0.8 | L | L |
| - child care costs | S | 0.4 | L | L |
| - life assurance policies | S | 0.0 | L | L |
| - books etc | G | 0.4 | H | H |
| - energy and fuel (domestic) | S/G | 1.0 | H | H |
| **Total** | | 6.5 | | |

***Table 1***

*Key:*
*Supply code - G (Goods) – S (Services)*
*Impact – H (high) – M (Medium) – L (low)*

*[Note: these estimates ignore the effects of any change in consumer spending patterns that may occur].*

From the above table, and taking into account the increased compliance and administration issues, we would estimate that to achieve the same target annual revenue yield (£45 million) from the reduced tax base (after granting the further exclusions) the 3% rate would need to be raised to a rate of 4% or higher.

**Consumers – household expenditure**

Using the HES data the impact on the annual GST burden borne by a household in each quintile can be estimated for each scenario. The following table sets out the impact of implementing an individual exclusion assuming the GST rate remains at three percent. It also indicates the impact of implementing all the exclusions with a GST rate of 3% ("Senator Syvret 3%") and the impact of the same exclusions but with a GST rate increased to 4% to compensate for the reduction in yield that would otherwise result. The final column indicates the hypothetical increase in GST rate that would be required to maintain the yield **before** the increase in administrative costs and loss due to non compliance is taken into account.

| | 1 quintile | 2 quintile | 3 quintile | 4 quintile | 5 quintile | Rate Impact |
|---|---|---|---|---|---|---|
| - basic foodstuffs | (43) | (52) | (67) | (93) | (121) | 0.30 |
| - children's clothing | (2) | (3) | (3) | (6) | (7) | 0.02 |
| - medical services and products | (12) | (13) | (23) | (21) | (37) | 0.08 |
| - education fees | (2) | (5) | (5) | (23) | (66) | 0.08 |
| - child care costs | (3) | (2) | (8) | (16) | (21) | 0.04 |
| - life assurance policies | 0 | 0 | 0 | 0 | 0 | 0.00 |
| - books etc | (6) | (6) | (9) | (11) | (17) | 0.04 |
| - domestic fuel | (16) | (14) | (21) | (30) | (42) | 0.09 |
| **"Senator Syvret", 3%** | **(84)** | **(94)** | **(137)** | **(201)** | **(311)** | |
| **"Senator Syvret", 4%** | **(26)** | **(11)** | **(11)** | **(14)** | **10** | |

***Table 2***

(Note that these estimates ignore any changes in consumer spending patterns that may occur).

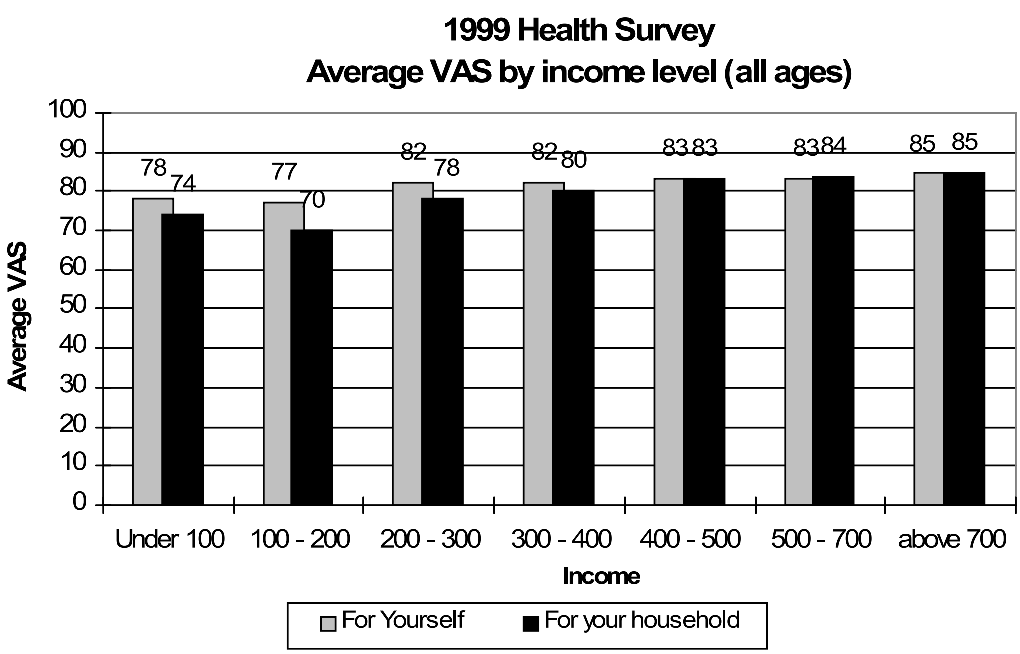
It can be seen from this table that there is virtually no benefit to low income households even if exclusions were adopted.

## Appendix 3 The poor standards of health of the low income groups in our society

This information is an extract from a paper provided by the Health and Social Services Department in response to questions from the Sub Panel

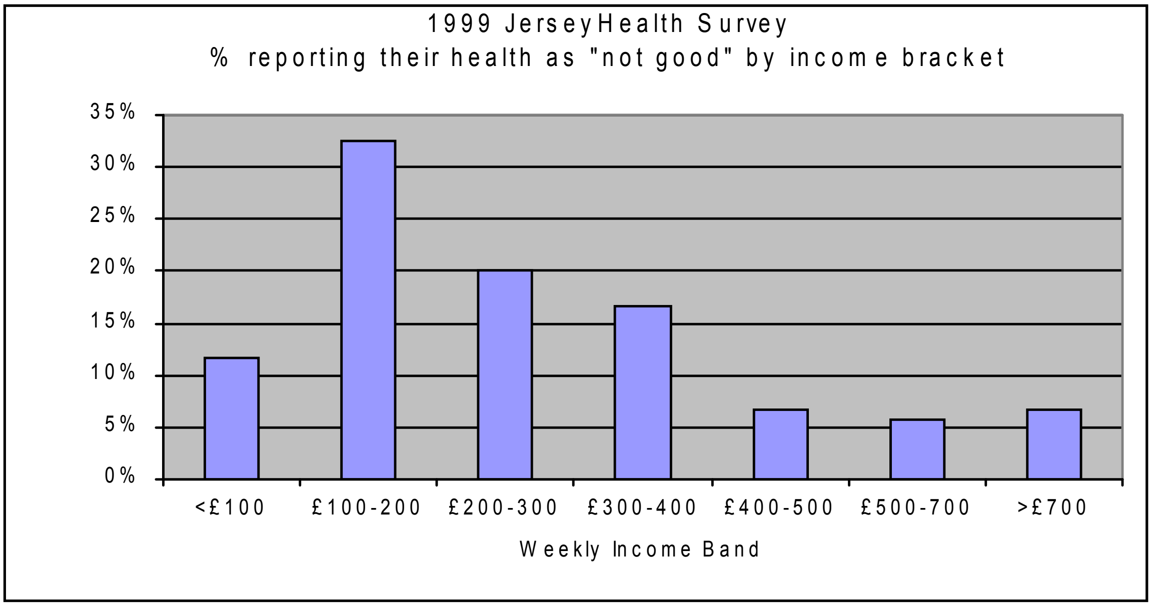
The placing of additional costs, such as GST, on to primary care (General Practitioners) can compromise preventative management of diseases. For example chronic disease management, immunisation and annual flu vaccination, to name but a few. A problem already exists, since patients are charged for GP visits. This means that only those who can afford them or those on HIE are likely to take up preventative programmes (which may necessitate a number of visits to the GP) or uptake of immunisation (even if a vaccine is free of charge). Those just above the HIE level are least likely to take up such preventative care as they will be less able to afford a GP visit and get no financial support to do so. **This same problem is likely to be replicated under Income Support. It is difficult to quantify the nature of the problem at this stage as insufficient details of groups qualifying for income support have been published.**

Data linking income and health status is from the 1999 Health Survey - which was undertaken by the former Medical Officer of Health, Dr John Harvey (see graph below). This indicated that those just above HIE level rated their health status as marginally worse[80]. This graph uses a visual analogue scale to rate health (0= bad, 100= good).

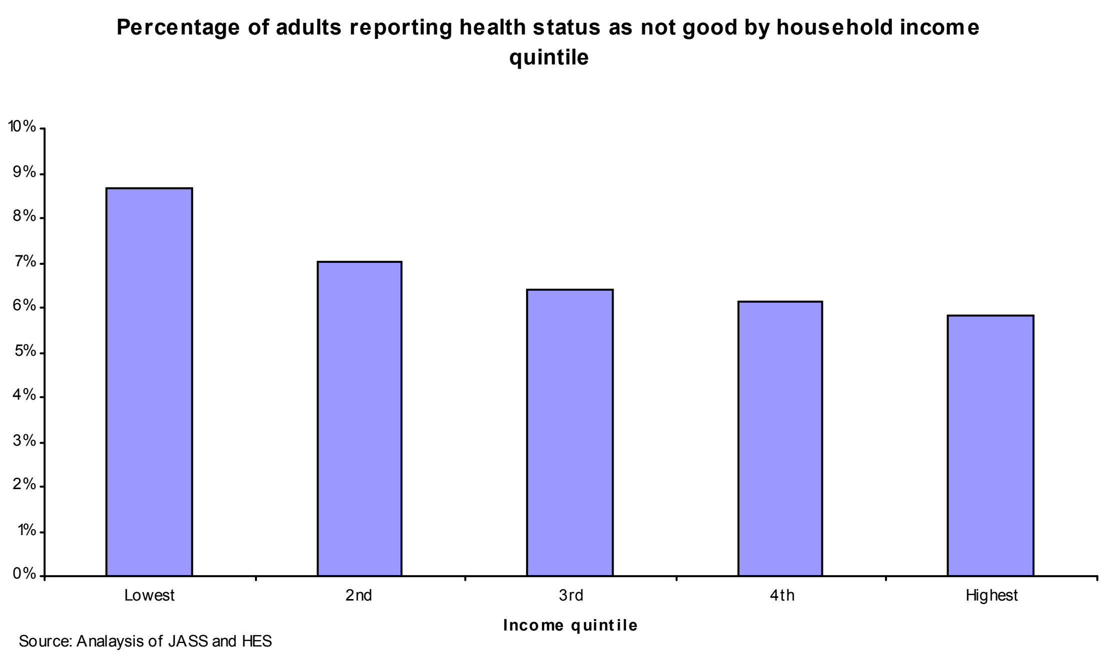



**This evidence demonstrates quite starkly the fact that poorer people experience worse health. It should also be noted that this picture is reinforced by many studies which prove the actual health of poorer people to be worse than higher income groups.**

This graph demonstrates it more starkly (using health = good; fairly good; not good)




The graph below is not directly comparable to previous graphs since it was produced by the Statistics Unit for these questions raised by using the recent Jersey Annual Social Survey data and Household Expenditure Survey data. Not quite the same picture as the 1999 JHS data but still this evidence demonstrates that those on lowest incomes are more likely to report their health as not good.




**The above evidence demonstrates that low income is a real barrier to better healthcare. We will not succeed in addressing such "health inequalities" if we add another layer of cost to health care. Again, it should be pointed out that, whilst great claims have been**

**made for Income Support, no detailed supporting evidence has been produced to demonstrate which groups of people will be the 'winners' and which the 'losers'. In the absence of such evidence we must conclude that health inequalities will remain. It is not therefore appropriate to begin taxing health care.**

The Panel may be interested to note the exemptions from VAT that currently apply in the UK. These are also EU compliant. These exemptions relate to Institutions, Professionals and Suppliers (See separate attachments).

**FOOD**

Basic foodstuffs should not be taxed. Public health policy across all developed societies will have to focus more and more on preventing ill health – rather than simply treating the illnesses when they arise. Poor diet and obesity are one of the principle causal factors in the growing incidence of chronic diseases. We need to influence diet through such mechanisms as not taxing basic healthy foodstuffs.

The list of foods which should be exempted is quite short and easily understood.

8. Fresh fruit and vegetables (inc potatoes and fruit juices/smoothies)
9. Skimmed and semi-skimmed milk
10. Bread (all types)
11. Fresh and dried pasta, rice
12. Fresh and tinned fish
13. Fresh poultry
14. Pulses

The rational behind this is set out in Dr Rosemary Gellar's, first annual report as Medical Officer of Health issued on 22nd September 2006 that made 33 recommendations which were supported in general by Council of Ministers for action. This included recognising that Obesity is the new public health threat for the 21$^{st}$ century. The upward trend in obesity among Jersey children and adults will lead to poorer health and damage to the economy if not reversed. Diabetes is the fastest-growing, life-threatening condition in Jersey. The upsurge in diabetes is linked to the 'obesity epidemic'. **It is not an exaggeration to say that the epidemics of serious chronic diseases, such as obesity and diabetes, will become an unmanageable and unaffordable problem for society if we do not succeed bringing about better public health. Jersey is presently on the same pathway to crisis as the USA. It would be utterly perverse if we taxed healthy food, at a time when we should be making it easier for people to make healthy choices.**

## Appendix 4 Analysis of the Impact of GST on H&SS Budgets i

**Indicative I**

**Potential Impact on Service Budgets**

**Analysis of Indicative Supplies and Services Budgets:**

Payments in respect of residential, community and nursing care in Jersey
Grants made to voluntary bodies in Jersey
Other payments for goods and services received in Jersey
Payment for services received overseas

**Potential Impact on Charges made by H&SS**

**Analysis of Indicative Income Budgets:**

Private Patient Charges
Residential care charges
Residential care pension income
Reciprocal Health
Accommodation
Catering
Radiology, pharmacy and pathology
Other income

Representatives of the Treasury have given verbal assurance that the impact of GST on the department will be
explanation of how this is to be achieved. It is, therefore, not possible to be certain what the impact might be.

However, for illustrative purposes, the above tables give an indication of what 3%,5%,10% and 15% increases o
income budgets would equate to.

Note 1 - Pension income relates to those client who assign their pensions to H&SS as a contribution towards the
would not under any circumstance be possible to charge GST on these amounts, although, again, we have no indic

Note 2 - Reciprocal Health income from the UK Government is charged in accordance with the Reciprocal He
do not charge VAT on the cost of healthcare provided to the island, it would not be possible to charge GST to

Note 3 - It is highly unlikely that services provided and received overseas would, under any circumstance, be s
many goods for importation ,some of great cost, which we may be charged GST upon.

## Appendix 5 GST treatment by Household Expenditure Survey classification

| | |
|---|---|
| **1. Food** | 0% |
| Except: | |
| Processed potatoes & potato products | Full rate |
| Chocolate | Full rate |
| Confectionary products | Full rate |
| Edible ices & ice cream | Full rate |
| Soft drinks (inc. fizzy & ready to drink fruit juices) | Full rate |
| **2 Alcoholic Drinks & Tobacco** | Full rate |
| **3 Clothing & Footwear** | Full rate |
| Except: | |
| Boys' girls' & infants clothes | 0% |
| **4 Housing, Fuel & Power:** | |
| Net rent paid, including 2nd dwelling rent | 0% |
| Materials for maintenance & repair of dwelling | Full rate |
| Services for maintenance & repair of dwelling | 0% |
| Water supply | Full rate |
| Sewerage & other services | Full rate |
| Electricity, gas & other fuels | Full rate |
| House purchase costs | 0% |
| Rates | Outside scope |
| Mortgage endowment payments | exempt |
| **5 Household Goods & Services** | Full rate |
| (includes furniture, appliances, utensils, tools, cleaning) | |
| **6 Health** | 0% |
| (includes doctors, medicines, hospital, dentists & opticians) | |
| **7 Transport** | Full rate |
| (includes public transport and private cars) | |
| **8 Communication** | |
| Postal services | 0% |
| Telephone & telefax equipment | Full rate |
| Telephone & telefax services | Full rate |
| **9 Recreation & Culture** | |
| Audiovisual, photographic & information processing equipment | Full rate |

| | | |
|---|---|---|
| | Other major durables for recreation & culture | Full rate |
| | Other recreational items & equipment, gardens & pets | Full rate |
| | Recreational & cultural services | Full rate |
| | Newspapers, books & stationery | 0% |
| | (except cards, etc) | Full rate |
| | Package Holidays | Full rate |
| **10** | **Education** | 0% |
| **11** | **Restaurants & Hotels** | Full rate |
| **12** | **Miscellaneous Goods & Services** | |
| | Personal Care (hairdressing & toiletries) | Full rate |
| | Personal effects n.e.c. | Full rate |
| | Home care | 0% |
| | Nursery, creche & childcare | 0% |
| | Insurance | Exempt |
| | Financial & other services n.e.c. | Exempt |
| **13** | **Other Expenditure Items** | |
| | Capital improvements, main dwelling | 0% |
| | Second dwelling mortgage, rates etc. | Exempt |
| | Holiday expenditure | Outside scope |
| | Money transfers & credit | Exempt |
| | Licenses, fines & other non-consumption expenditure | Outside scope |

(NB – although some items have been shown as ‘exempt’ or ‘outside scope’, for analysing HES expenditure these have been treated the same as zero-rating, i.e. no attempt has been made to model the amount of ‘trapped’ GST that is passed on to consumers. Similarly no account is taken of small retailers who are below the GST threshold)

## Appendix 6 GST on new build houses

**The following report on applying GST to house sales was prepared for the Sub Panel by Peter Seymour and Jody Whittingham of Mortgage Shop Plus**

**Preface by the authors**

We are grateful to the following for the provision of data and information:-

- The States of Jersey Statistics Unit in respect of the report on the Jersey House Audit Expenditure survey and also the House Price Index report
- Planning and Environment Department for the provision of figures relating to completions of new dwelling houses
- Geoffrey A Wills Associates for the provision of statistics relating to residential property transactions
- The Chamber of Commerce for a summary of the proposed GST exemptions
- The Economic Adviser for the States of Jersey for his comments
- Valuers, surveyors, estate agents and property developers for their comments and input

**In preparing the report we have taken a snapshot of statistics from the year 2005 as these are the most up to date available across all sectors. There are considerable gaps in the data available and it has been necessary to make certain assumptions and to average out some of the costings.**

# THE FACTS

In 2005 a total of 1,322 freehold and flying freehold transactions were registered through the Royal Court. As share transfer* transactions are not recorded in the public domain, we would normally add 10% to cover these, approximately 132. However 2005 was an exceptional year for share transfer transactions because of the Century Buildings and Spectrum projects and one should assume therefore that a further 20%, namely 264, should be added to this, making a total of 1,586 transactions occurring during this period

Total mortgage lending on freehold transactions was £597,533,226 for the period. Lending on share transfer would have been in the region of an additional £40,000,000, making a total of £637,000,000 for the year.

In determining the total number of new and used units sold in 2005, we have resorted to information available from the Planning Office, the States Statistical Unit as well as the mortgage registrations and house sales registered through the Royal Court. This information does not provide a full picture and as a consequence we have followed the format of the Jersey House Price Index by applying averages. The principal elements of the market will comprise 1 and 2 bedroom flats, 2, 3 and 4 bedroom houses. Bedsitters and studio flats as well as any houses having more than 4 bedrooms, have been excluded.

Average prices for 2005 were as follows:-

**Table 17: Flats and Houses**

| | 1 bed flat | 2 bed flat | 2 bed house | Smaller 3 bed house | Larger 3 bed+ house | Total |
|---|---|---|---|---|---|---|
| **Purchase Price** | 152,000 | 235,000 | 283,000 | 356,000 | 472,000 | |
| Number sold Freehold & F/F | 74 | 227 | 267 | 206 | 548 | 1322 |
| **Number sold Share Transfer** | 164 | 100 | | | | 264 |
| Average total value | 24,928,000 | 76,845,000 | 73,425,000 | 66,950,000 | 356,200,000 | 1,149,573,000 |

Due to the lack of suitable information, there is no way of determining how many units in both new, as well as used sectors, were acquired by First Time Buyers, Buy to Let investors or buyers trading up or down the market. It has been possible however to make objective comment upon the 1,586 sales which included the majority of the 737 newly built completions recorded in 2005.

Not all new completions will have been constructed speculatively, and indeed not all new completions would have been sold during their year of completion. An allowance of 20% has been made to cover these.

The total of 996 used units and 590 new builds is split into the categories shown above.

If one assumes that a first time buyer will generally acquire 1 and 2 bedroom flats as well as 2 bedroom houses and a proportion of small 3 bedroom houses, the snapshot of 2005 transactions will suggest that 74 one bedroom flats, 227 two bedroom flats, 267 two bedroom houses and, say, 103 three bedroom houses were acquired by first time buyers. This totals 671 individuals or couples entering the market for the first time.

Linking this demand to the 590 new completions for the year it would be safe to assume that this sector of the market has been devoted almost entirely to first time buyers and buy to let investors, with the latter being responsible for say 10% of the market, leaving 531 newly built units.

** the introduction of flying freeholds resulted initially in far fewer flats being sold by share transfer, although a trend emerged in mid 2004 where developers began to re-favour share transfers, as this enabled them to sell to non-residentially qualified individuals as well as to 'J' Category purchasers.*

# THE THREE CATEGORIES OF PURCHASER

There are 3 clearly defined types of purchaser in the Island.

**First Time Buyer**

In this market it is clear that more people are purchasing at a younger age than ever before spurred on no doubt by the high cost of renting. It is not logical to assume, however, that a first time buyer will acquire a house at the lower end of the price bracket as so many are now entering the market as highly paid professionals enjoying significant salaries giving them access to property in every price category.

**Buy To Let**
For many years the share transfer market was dominated by first time buyers. However the trend in recent years has been for many share transfer flats to be acquired by individual Jersey based investors or by members of UK based investment clubs – classic examples of this were the two Dandara projects at Century Buildings and Spectrum. Buy To Let investors have also started to acquire many of the buildings in multiple occupation which were converted in the 1960's when share transfer was first introduced. These properties are mainly situated in the north of St Helier or on the ring roads.

**Home Mover**
Due to the shortage of suitable housing stock in Jersey the incidence of home moving has not been as great as in the UK where the average home owner moves once every seven years. In Jersey, house owners will consider extending their property more so than trading up to a larger unit due principally to the extremely high cost of buying and selling and the relatively small benefit that will be gained when paying another £75,000 to £100,000 for a more expensive property.

# BUYING A HOME IN JERSEY

Houses and flats are acquired in four different forms of ownership in Jersey.

**Freehold**
This applies to all houses with ownership of the building and the site upon which it is constructed is being vested in the owner in perpetuity.

**Flying Freehold**
A relatively new form of ownership where shares are acquired in a housing association owning a building in multiple occupation and vesting full ownership of the section of the property acquired by the owner.

**Share Transfer**
Shares are purchased in a holding company which owns the building in multiple occupation giving the owners of the shares rights to occupy a flat within that building.

**Leasehold**
A method of ownership which was applied by the States of Jersey when selling flats at Quennevais Park, Clos des Sables and Maison D'Azette. This is not used any longer except in exceptional circumstances and therefore excluded from the comments within this report.

Freehold and flying freehold attract stamp duty upon the value of the purchase as well as on the mortgage secured thereon although first time buyers are entitled to significant reductions where the value does not exceed £250,000. No stamp duty is currently levied on share transfer transactions or the mortgages attaching although it is understood that proposals are in hand to apply stamp duty to this form of transaction in due course.

Total costs of acquisition are broken down as follows:-

- Valuation report
- Legal fees to purchase
- Search letters
- Stamp duty upon the purchase
- Lenders booking fee to reserve an interest rate
- Lenders legal fees
- Borrowers legal fees
- Stamp duty upon the transaction
- Telegraphic transfer charges
- Wills
- Equity participation agreement if one of the two parties in a freehold purchase is not residentially qualified and the purchasers are not married

Total cost therefore to acquire flats and houses are as follows:-

**Table 18: Total Cost of houses and flats**

| | **Flat S/T** | **Flat S/T** | **Flat S/T** | **House Freehold** | **House Freehold** | **House Freehold** | **House Freehold** | **House Freehold** | **House Freehold** |
|---|---|---|---|---|---|---|---|---|---|
| Purchase at | 150,000 | 200,000 | 250,000 | 250,000 | 300,000 | 400,000 | 500,000 | 600,000 | 750,000 |
| **Mortgage of** | 142,500 | 196,000 | 237,500 | 237,500 | 285,000 | 360,000 | 450,000 | 540,000 | 600,000 |
| Deposit | 7,500 (5%) | 10,000 (5%) | 12,500 (5%) | 12,500 (5%) | 15,000 (5%) | 40,000 (10%) | 50,000 (10%) | 60,000 (10%) | 150,000 (20%) |
| **Legals etc** | 3,301 | 3,876 | 4,811 | 4,866 | 5,491 | 6,595, | 7,766 | 8,941 | 10,441 |
| Stamp duty on purchase & mtg | NIL | NIL | NIL | 2,568 | 5,433 | 7,858 | 10,308 | 13,208 | 17,508 |
| **Total** | 3,301 | 3,846 | 4,811 | 7,434 | 10,924 | 14,453 | 18,074 | 22,149 | 27,949 |

With access to more innovative mortgage products first time buyers, from the beginning of 2006, may now benefit from 100% mortgages. Making provision for a deposit therefore is no longer a requirement and legal fees, stamp duty etc. are funded either by parental gift or by means of unsecured personal loan.

# THE FIVE INCOME QUINTILES

An examination of chapters 2 and 4 of the Household Expenditure Survey 2004/2005 shows that in the lowest and second quintiles over 30% of the sample were owner occupiers, although the average household annual incomes are barely enough to support a mortgage of any description. One has to assume therefore that these are families raising children on one income, individuals who have inherited their property or are single parents occupying property which they have acquired through divorce settlement, or are in retirement.

The third, fourth and highest income quintiles are those which are most likely to be active in property acquisition, with the third and fourth falling generally speaking into the category of first time buyers, buy to let investors in the third, fourth and highest categories and homemovers in the fourth and highest categories.

A general rule of thumb that is applied to mortgage eligibility shows that Jersey lenders will offer income multiples of between four and six times gross sustainable income, having made provision for:-

- Unsecured debt
- Childcare/education costs
- Life assurance and ITIS provision

The average household incomes applicable to each of the quintiles is as follows:-

| | |
|---|---|
| Lowest | Not available |
| Second | £17,500 + |
| Third | £28,000 + |
| Fourth | £40,000 + |
| Highest | £63,000 + |

Mortgage availability will also be governed by age of the borrowers with some lenders requiring a cut off age at 65, whilst others will be happy for the mortgage to continue into the borrowers' 70's or even 80's if they have a sufficiently robust income in retirement to support the borrowing. Mortgages available to each of the five quintiles would start from the following:-

| | |
|---|---|
| Lowest | Nil |
| Second | £87,500 |
| Third | £140,000 |
| Fourth | £200,000 |
| Highest | £315,000 |

It must be emphasised that these are guideline figures only as additional income from lodgers, investments or savings, overtime, profit shares, bonuses, can all be used to significantly increase the borrowing to much higher levels if required.

We have already shown that first time buyers deposits are no longer necessary with the introduction in 2006 of 100% and Guarantor mortgages although a clear rule of thumb exists in that first time buyers will either require 100% or put down a 5% deposit. Second time buyers frequently still require a 5% deposit as their 'profit' from the disposal of their first house is regularly whittled away through the high cost of selling and buying. Third time buyers will usually have a minimum of 10% deposit, sometimes as high as 30%.

# The implication of applying GST to the sale of newly built property and the sale of property purchased by homemovers

It should be remembered that currently stamp duty is not applied to property in the first three flat types discussed in this report due to the fact that they are exempt from the provisions whilst first time buyers of houses in the bracket up to £250,000 will enjoy reduced stamp duty.

The application of GST will mean that two forms of tax will be applied to the same transaction and the effect this will have on the purchase cost is illustrated as follows.

| | **Flat S/T** | **Flat S/T** | **Flat S/T** | **House Freehold** | **House Freehold** | **House Freehold** | **House Freehold** | **House Freehold** | **House Freehold** |
|---|---|---|---|---|---|---|---|---|---|
| Purchase at | 150,000 | 200,000 | 250,000 | 250,000 | 300,000 | 400,000 | 500,000 | 600,000 | 750,000 |
| **Mortgage of** | 142,500 | 196,000 | 237,500 | 237,500 | 285,000 | 360,000 | 450,000 | 540,000 | 600,000 |
| Deposit | 7,500 (5%) | 10,000 (5%) | 12,500 (5%) | 12,500 (5%) | 15,000 (5%) | 40,000 (10%) | 50,000 (10%) | 60,000 (10%) | 150,000 (20%) |
| **Legals etc** | 3,301 | 3,876 | 4,811 | 4,866 | 5,491 | 6,595, | 7,766 | 8,941 | 10,441 |
| Stamp duty on purchase & mtg | NIL | NIL | NIL | 2,568 | 5,433 | 7,858 | 10,308 | 13,208 | 17,508 |
| **Total** | 3,301 | 3,846 | 4,811 | 7,434 | 10,924 | 14,453 | 18,074 | 22,149 | 27,949 |
| GST @ 3% | 4,500 | 6,000 | 7,500 | 7,500 | 9,000 | 12,000 | 15,000 | 18,000 | 22,500 |
| **Total** | **7,801** | **9,846** | **12,311** | **14,934** | **19,924** | **26,453** | **33,074** | **40,149** | **50,449** |
| % increase on original cost provision | 136.3% | 156% | 155.9% | 100.88% | 82.39% | 83% | 83% | 81.27% | 80.5% |

Discussions with a number of the Islands developers understandably did not meet with a favourable response with none even contemplating the prospect of absorbing the cost themselves, thereby passing responsibility on to the purchaser.

The conclusion drawn from these specific discussions was that the proposal could affect margins and might result in projects being delayed or abandoned if there was sufficient downturn in the market. It is also noted that the Planning & Environment's current stance in promoting a higher specification for new projects would in any case result in increased costs.

Estate agents were unanimous in their view that there would be an inflationary impact on the market and that if GST, for example, were imposed solely upon newly built accommodation the effect would still be felt throughout the whole sector.

A number of people interviewed described the proposal as being tantamount to double taxation due to the fact that most transactions are already subject to stamp duty.

**The Economic Adviser comments as follows:-**

*" I think the issue is wider than just would the tax on new build be absorbed by a property developer? The first issue is whether the property developer will be able to pass on the tax to the purchaser. Clearly if they can then this will increase the price of new build properties. The circumstances in which they can do that are likely to be where there is strong demand for property. The price increase for new build will increase demand for resale properties (putting*

*up their price too) as long as demand is still strong enough to clear property in the market. Higher prices could well feed through into higher rents".*

*"If developers cannot pass on the GST to purchasers then they will absorb it but the effect does not stop there. This will reduce the return they make on new development and is therefore likely to reduce the supply of new development. Reduced supply will of course put up prices and more so where there is strong demand for property".*



*"The upshot of such a move is that either way in a strong housing market where supply is inelastic, prices are likely to rise. The Jersey market is strong and prices are high relative to average earnings – housing is a cost that we need to try to contain in an Island with limited supply of land".*

*"The impact on inflation is worth considering. Where it can feed through into inflation is where it leads to higher wage demands to compensate. The risks of this happening would appear to be greater the larger the share of peoples expenditure covered by GST – given that housing is a large part of peoples expenditure the risk of this would appear to be greater if housing was included".*

Regardless of whether or not the proposal is introduced to one or all sectors one has to consider whether the market, as a whole, can absorb a price increase.

Market trends during the past fifteen months have clearly shown an increasingly buoyant market and as a consequence any increase in GST will have a reduced impact for this very reason.

We entered 2006 with a noticeable upsurge in activity across all sectors of the market and this resulted in purchasers finding that they could no longer negotiate reductions and with clear evidence of gazumping occurring on a increasing basis as the year progressed.

We are now seeing firm and possibly slowly increasing prices and the overall feeling from estate agents and valuers is that 2007 will see a further increase in house prices as supply of fresh stock to the homemover market continues to dwindle.

More specifically looking at the first time buyer market it is our experience that the main problem for market entrants centres around their ability to raise the funds they need to cover the deposit and legal fees more so that their ability to service a mortgage on their new purchase.

We have already stated that with the introduction of 100% and guarantor mortgages in the middle of 2006 life has been made a lot easier for first time buyers and that any shortfall in savings is made up by family contribution and/or short term unsecured borrowings. The latter is clearly not a desirable situation as this places an additional burden on borrowers who have until this stage been accustomed to either living at home with parents and paying a nominal rent or renting from the public or private sectors and having access to the rent rebate schemes which are available in both of these sectors.

It is felt that the high cost of purchase and borrowing in the Island is such that any further increase could well prevent many people entering the market and therefore falling back upon the public and private rental sectors. In the private sector it is noteworthy that rents have not been increasing in recent times and in fact it has been reported to us that a number of landlords have been offering property at reduced rents merely to retain occupancy. It is logical therefore that an increased demand for rental accommodation could therefore have a detrimental impact on rents and more particularly impose an increasing burden upon the rent rebate schemes of sectors.

In conclusion the impact of applying GST on the sale of a new built accommodation in the sample year of 2005 would have resulted in increased revenue from the 590 new builds of approximately £5.3M. The 996 homemover sales are far more difficult to quantify but would raise an estimated minimum of £10.3M based on the current sample.

The Mortgage Shop Plus
05.10.06

## Appendix 7 Supplementary note on charging GST on new-build homes

This note was prepared by the Sub Panel's adviser

## Data sources:

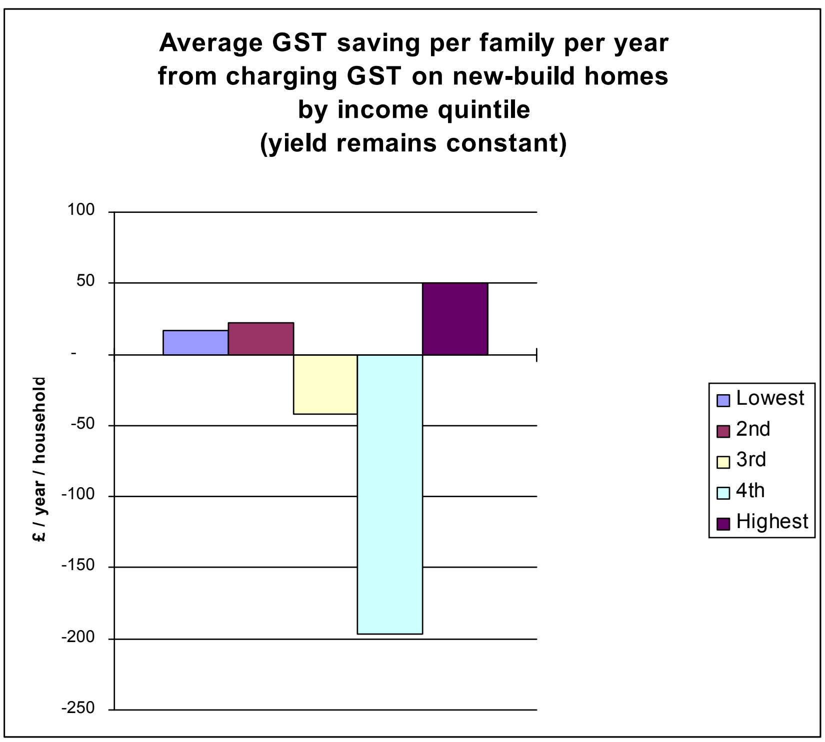
- Housing Department for estimate of annual number of new-build homes, split by size;
- Jersey House Price Index for average price of each size;
- Peter's estimate that new-builds will be bought 90% by first-time buyers and 10% buy-to-let;[81]
- Peter's estimate of mortgage borrowing capacity for each quintile, and his assumption that first-time buyers will borrow 95-100% of house price
- RPT existing estimates of annual household GST bill by quintile (derived from Housing Expenditure Survey)

## Buyers of new-builds:

Based on the above, the burden of GST on new-build properties will fall most heavily on the 4th quintile. The bottom 2 quintiles do not have sufficient income to raise a mortgage to buy a Jersey property, and new-build homes are rarely of the size bought by the top quintile. The buyers of new-build properties appear to be split as follows:

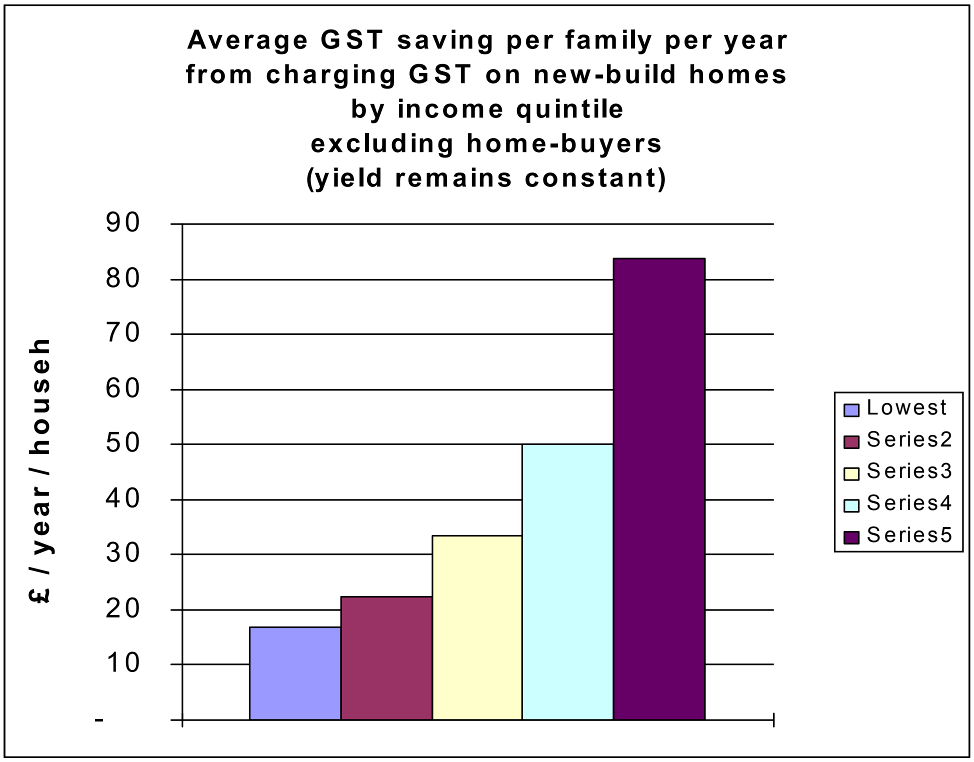
| Quintile | Lowest | 2nd | 3rd | 4th | Highest |
|---|---|---|---|---|---|
| % of new-build buyers | - | - | 31% | 63% | 6% |

This means that charging GST on new-build homes gives small gains (~£20 p.a.) to the lowest and 2nd quintiles (because the rate can be reduced from 3% to 2.82%), increases the GST paid by the third and (particularly) 4th quintiles, and gives the largest reductions to the richest quintile (because that quintile seems to rarely buy new-builds, but pays most GST so benefits from the rate reduction):




## Effect on individual families

House purchase is such an occasional occurrence for an individual family that using averages to assess the impact of GST is less helpful. What will actually happen is that the vast majority of households (who do not buy a new-build home during the year) will benefit from the reduced rate of GST, but a small number will pay substantially higher amounts:




| Quintile | Lowest | 2nd | 3rd | 4th | Highest |
|---|---|---|---|---|---|
| % of households affected | 0 | 0 | 1.7% | 3.4% | 0.3% |
| Typical GST on purchase | - | - | £4,800 | £7,500 | £12,400 |

i.e. nearly all 4$^{th}$-quintile households will benefit by £50, but 3.4% of them will pay nearly £7,500 more GST than under the Treasury proposal.

**Secondary effects**

If charging GST on new-builds does push up the price of second-hand homes, this will of course not generate any extra GST and so will not allow any further rate reductions.

The distributional effect of this would be to transfer wealth from home-buyers to home-owners, and from families ‘trading up’ to people higher up the property ladder. In terms of quintiles, this primarily means a transfer from younger people in the 3$^{rd}$ & 4$^{th}$ quintiles to older people in the 4$^{th}$ % 5$^{th}$ quintiles, but there will be many variations within that.

## Appendix 8 Weekly household expenditure by an average low-income single-parent family

Paper prepared by the Sub Panel's adviser

Using the Jersey Household Expenditure Survey (HES), I took the average expenditure for all single-parent families (because these tend to be less well off, so are a good approximation for a low-income family with children). I then removed items that very low income families would not have to pay (doctors' bills & prescriptions, covered by the HEI, and bus fares which are free for HEI claimants). This then gave a weekly expenditure (excluding housing) of £349.40. I then compared this to published Welfare levels, and found that a single-parent family would receive £354.59 per week in cash benefits (excluding rent rebate). In other words, any single parent family should be able to afford this average 'basket' of purchases, because the benefit system supports them at that level.

The breakdown of this expenditure, per the HES, is shown in the table below.

Because this level of expenditure is supported by welfare, it is therefore a reliable picture of what Jersey's poorest families are actually spending, and hence the effect of GST zero-ratings on the most vulnerable. Of course the figures are averages across a group of families, and spending choices will differ. However if one family spends less on some items (e.g. a non-smoker will not be buying tobacco), there is no reason to assume that they will spend the amount saved on food rather than some other discretionary product (because the average basket must already provide enough food, otherwise we would have widespread starvation).

I then used this basket to analyse the effect of zero-rating, and came to much the same conclusion as the simpler analysis of the whole bottom income quintile:

| | |
|---|---|
| Annual GST bill under Treasury proposal (3%) | £ 502 |
| Annual GST bill with basic foods 0-rated (3.2%) | £ 497 |
| Annual GST bill with full 'Syvret' 0-ratings (4.1%) | £ 457 |

Therefore, looking at the poorest possible family with children, the impact of zero-rating basic foods only will be negligible; a saving of £5 per year. The full range of zero-ratings would reduce their GST bill by £45 a year, which is of course significant for a poor family, but far more important is that this still leaves them paying over £450 in GST per year - over 90% of what they would have had to pay without any zero-ratings.

**Table: Weekly household expenditure by an average low-income single-parent family**

| | Weekly expenditure | |
|---|---|---|
| | **£** | **£** |
| **Non-GST items** | | |
| Home maintenance | 3.50 | |
| Insurance | 23.90 | |
| | | 27.40 |
| **Potentially zero-rated items** | | |
| Basic food | 23.30 | |
| Other food (UK model) | 20.10 | |
| Children's clothes | 6.00 | |
| Fuel, water & sewage | 21.00 | |
| Medical | 6.00 | |
| Books & magazines | 5.10 | |
| Education | 7.40 | |
| Nursery, creche & childcare | 20.30 | |
| | | 109.20 |
| **Taxable items** | | |
| Other food (sweets, crisps etc.) | 12.10 | |
| Alcohol & tobacco | 9.80 | |
| Adult clothes | 16.00 | |
| Household Goods & Services | 18.10 | |
| Cars, taxis, etc. | 46.50 | |
| Communication | 14.90 | |
| Recreation & Culture (inc. TVs) | 56.40 | |
| Bars, cafes & take-aways | 20.40 | |
| Personal Care | 18.60 | |
| | | 212.80 |
| | | **£ 349.40** |

*Source: Jersey Household Expenditure survey, excluding housing costs (covered by housing benefit), doctors' fees (exempt under HEI) & bus fares (exempt to HEI claimants)*

**Cash benefits available:**

| | **£** |
|---|---|
| Parish Welfare grant: | |
| Lone parent allowance | 196.20 |
| 1 additional child | 45.51 |
| Family Allowance | 112.88 |
| | **354.59** |

*Source: Parish Welfare 2004 figures uplifted for inflation; Family allowance from States website.*

## Appendix 9 Definition of food used in the UK VAT regime

**VAT Act 1994 - Schedule 8, part II**

Group 1 – Food

The supply of anything comprised in the general items set out below, except –

(a) a supply in the course of catering; and

(b) a supply of anything comprised in any of the excepted items set out below, unless it is also comprised in any of the items overriding the exceptions set out below which relates to that excepted item.

*General items*

Item No
**1** Food of a kind used for human consumption.
**2** Animal feeding stuffs.
**3** Seeds or other means of propagation of plants comprised in item 1 or 2.
**4** Live animals of a kind generally used as, or yielding or producing, food for human consumption.

*Excepted items*

Item No
**1** Ice cream, ice lollies, frozen yoghurt, water ices and similar frozen products, and prepared mixes and powders for making such products.
**2** Confectionary, not including cakes or biscuits other than biscuits wholly or partly covered with chocolate or some products similar in taste and appearance.
**3** Beverages chargeable with any duty of excise specifically charged on spirits, beer, wine or made-wine and preparations thereof.
**4** Other beverages (including fruit juices and bottled waters) and syrups, concentrates, essences, powders, crystals or other products for the preparation of beverages.
**5** Any of the following when packaged for human consumption without further preparation, namely potato crisps, potato sticks, potato puffs, and similar products made from the potato, or from potato flour, or from potato starch, and savoury food products obtained by the swelling of cereals or cereal products; and salted or roasted nuts other than nuts in shell.
**6** Pet foods, canned, packaged or prepared; packaged foods (not being pet foods) for birds other than poultry or game; and biscuits and meal for cats and dogs.
**7** Goods described in items 1, 2 and 3 of the general items which are canned, bottled, packaged or prepared for use –

a. in the domestic brewing of any beer;
b. in the domestic making of any cider or perry;
c. in the domestic production of any wine or made-wine.

*Items overriding the exceptions*

Item No
**1** Yoghurt unsuitable for immediate consumption when frozen.

**2** Drained cherries.
**3** Candied peels.
**4** Tea, maté, herbal teas and similar products, and preparations and extracts thereof.
**5** Cocoa, coffee and chicory and other roasted coffee substitutes, and preparations and extracts thereof.
**6** Milk and preparations and extracts thereof.
**7** Preparations and extracts of meat, yeast or egg.

NOTES:

(1) "Food" includes drink.
(2) "Animal" includes bird, fish, crustacean and mollusc.
(3) A supply of anything in the course of catering includes –
  (a) any supply of it for consumption on the premises on which it is supplied; and
  (b) any supply of hot food for consumption off those premises;
  and for the purposes of paragraph (b) above "hot food" means food which, any part of which – (i) has been heated of enabling to be consumed at a temperature above the ambient air temperature; and (ii) is at the time of supply above that temperature.
(4) Item 1 of the items overriding the exceptions relates to item 1 of the excepted items.
(5) Items 2 and 3 of the items overriding the exceptions relate to item 2 of the excepted items; and for the purposes of item 2 of the excepted items "confectionary" includes chocolates, sweets and biscuits; drained, glacé or crystallised fruits; and any item of sweetened prepared food which is normally eaten with the fingers.
(6) Items 4 to 6 of the items overriding the exceptions relate to item 4 of the excepted items.
(7) Any supply described in this Group shall include a supply of services described in paragraph 1 (1) of Schedule 4.

# Appendix 10 GST PUBLIC INFORMATION LEAFLET: Treatment of Charities

Paper provided by the Income Tax Department

**What is a "charity"?**
Charity means a body of persons or trusts established for charitable purpose only.

**What is meant by "charitable purpose"?**
Income Tax currently uses a standard interpretation of "purpose" under four activity headings to determine exempt status:-

- *Poverty*
- *Education*
- *Religion*
- *Other (of benefit to community)*

**What is GST?**

- *GST is a tax on consumer expenditure*
- *It is a tax on domestic supplies (made in Jersey) of goods and services*
- *It is also charged on imports of goods and services into Jersey*

GST is applied on the value added to goods and services at each stage in the production and distribution chain.

**Who will be responsible for collecting GST?**
A registered taxpayer is responsible for charging and collecting GST. The taxpayer passes the tax on to the customer by including the tax in the price of the goods or services being supplied. The taxpayer must then pay over the tax charged on sales less any tax credited on his purchases and expenses to the Income Tax Office (ITO).

**What is the current status of implementing GST in Jersey?**
We are currently nearing the end of a consultation period covering the GST law, regulations and treatment of FSI**.** All contributions received will be considered, reviewed, analysed and amendments will be made to the proposed legislation, as necessary. The legislation will also be subject to debate by the States later this year. Part of the consultation exercise was specifically aimed at agreeing on the future treatment of charities. Although no decision has yet been made on final treatment the GST consultation document clearly indicates that the States will consider the provision of some type of relief.

**What is the tax status of charities in Jersey?**
Currently charities apply to the Comptroller of Income Tax for "exempt" status. This relieves the tax burden on any income. Charities can also recover directly from ITO the tax content of any taxed donations.

**What will be different under GST?**
Nothing as far as income tax is concerned. But as described earlier GST is a new form of taxation that could have an impact on the expenditure and/or income of charities.

**What are the difficulties under GST?**
The main difficulty is that charities vary greatly in legal status, size, activities, levels of expenditure/income and sources of income. Some can be compared to quite large and complex "normal" businesses.
As a result two main issues emerge:-

- *Whether the commercial activities of charities should be treated as taxable supplies and render the* *charity potentially registerable for GST; and*

- *Whether input tax incurred on purchases/expenses should be rebated to charities and if so the manner in which the rebate is to be made.*

**How are charities treated elsewhere?**

Charities are recognised throughout the world by a range of special reliefs and concessions. An obvious comparison for Jersey is to look at is the VAT treatment of charities in the UK. Relief is provided in different forms on both supplies to, and made by, charities. Unfortunately, as with the rest of the UK system, (which must be compliant with EU directives), it is complex and difficult to understand. Internationally there is no simple one fit solution that is considered to be best practice or that provides blanket exemption.

**So what are the options for Jersey?**

For most charities operating in Jersey it is unlikely that they will be required to register for GST as businesses.

They will not have a taxable turnover in excess of the £300,000 limit (note: taxable turnover would not include income from donations/legacies). They would not be required to charge GST on any taxable supplies they make but they would not be able to recover GST incurred on some expenditure (utilities etc).

Any charity considered to be making taxable supplies (by way of business) in excess of the registration threshold would be required to register in the normal way.

They would account for GST on their taxable supplies and be entitled to reclaim any GST incurred on business purchases and expenses.

Any charity with a taxable turnover below the threshold could volunteer for GST registration. They would only do this if it was considered to be of financial benefit (this would very much depend on their activities and income mix).

As previously stated inevitably most charities will not be required to register for GST but this could mean an increase in costs as a result of the GST incurred on some expenditure.

A rebate scheme could be provided based on either “end user relief” or a “pay and claim” basis to allow full or part recovery.

“End user relief” – tax is not charged by the supplier based on the “status” of the customer.

“Pay and claim” – tax is paid in the normal way but then recovered from the tax authority.

What is required for Jersey is something that can be applied fairly (does not give charities a competitive advantage over normal commercial businesses), is cost effective and is simple to understand and operate.

As such any system is likely to provide treatment that offers at least parity with the UK (no worse).

When all representations have been considered the Minister for Treasury and Resources will include new provisions (as required) in the legislation to be debated by the States. Further guidance will also be available in the form of a public notice/leaflet.

This leaflet is issued by the Income Tax Office for general guidance only. The content reflects the tax position at the date of publication and is not a substitute for the legislation (Law or Regulations). If you need any further assistance please contact the Income Tax Office (help desk).

August 2006

[1] Calculations from Jersey Household Expenditure Survey. Due to difficulties of measuring average incomes at the top of the range, the percentage for the highest quintile is likely to be a little lower than that shown.

[2] See Appendix One - VAT % rates applied in EU member states (plus Singapore and New Zealand): Source: Comments of Finance and Economics Committee on Senator Syvret's amendment to the Fiscal Strategy P.44/2005.

[3] Crown Agents: Proposal for the design of a Prototype Goods and Services Tax, Final Report, January 2005

[4] Note: In analysing the effect of GST on Jersey households, Crown Agents and the Sub Panel have used income quintiles (5 groups) for their calculations following the model used by the Statistics Unit in the Household Expenditure Survey.

[5] Crown Agents: Proposal for the design of a Prototype Goods and Services Tax, Final Report, January 2005

[6] Life Assurance has been ignored in terms of revenue shortfall as it is already excluded under the draft law (together with most other forms of insurance). This follows generic international treatment.

[7] Treasury Paper: Impact of Further Exclusions under GST' - see Appendix Two

[8] Average meat prices in Jersey are about a sixth higher than in the UK, fresh fish are about a quarter higher and fruit and vegetables are around a third higher locally. Source: The Statistics Unit report 'Comparison of consumer prices in Jersey and the UK: June 2006

[9] Comments of Finance and Economics Committee on Senator Syvret's Amendment to Fiscal Strategy (P.44/2005).

[10] Table 2.4 Average weekly household spending by income quintile

[11] Source: The Statistics Unit report 'Comparison of consumer prices in Jersey and the UK: June 2006

[12] Source: Treasury

[13] Source: Treasury

[14] The current subsidy is £15

[15] Prescription charges are currently £2.10

[16] Source: Treasury

[17] The views of all the other private schools were sought by the Panel. Replies were received from the Governing Bodies of St. Michael's, Victoria College and Jersey College for Girls, St George's and the Headteacher of Helvetia. The schools made clear their expectation that any relief applied to private schools should apply to all the schools, not simply to the Church schools.

[18] Source: Education, Sport and Culture Department

[19] The grant from the States would not be regarded as part of the value of the supply for the purposes of GST.

[20] Primary: 25% of mainstream funding formula (FCJ Primary receives 40% due to experiencing financial difficulties); Secondary: 50% of mainstream funding formula

[21] The argument for providing full displacement funding arrangements for faith schools is outside the scope of the present consultation on the draft GST law. The Sub Panel has assumed that the Catholic schools would not be treated as a special case for GST treatment differently from the other private schools or States fee paying sector. Any exclusion from GST for school fees would therefore apply to all schools.

[22] The current school's contribution to the teachers' pension fund which was approximately 9.9% is to rise to a rate above 16%.

[23] Source: Principal, Highlands College

[24] Source: Treasury

[25] Comprising 678 day nursery, 304 pre-school, 297 family day care 407 after school registered places. Source Jersey Childcare Trust

[26] 974 taxpayers in the marginal band got the full benefit of Childcare Tax Relief with a total claim of £2.8 million; 353 taxpayers outside the marginal band received some relief, amounting to £950,000. Source: Jersey Childcare Trust

[27] 42 families currently access Childcare Allowance compared to 158 when this was introduced in 2000. the maximum earning ceiling, £18,000 for a single income, has remained unchanged. Source: Jersey Childcare Trust

[28] Source: Jersey Childcare Trust

[29] Source: Education, Sport and Culture Committee report ‘Investing in Our Future: A vision for early childhood education and care for children in Jersey’ (RC 54/2005)

[30] Source: Education, Sport and Culture Committee report ‘Investing in Our Future

[31] The Sub Panel was informed by the Jersey Childcare Trust that a scheme called Support of Places had been established to support children who were desperately in need of pre-school education to access private nursery placement for one to three terms. The scheme however was in abeyance due to lack of funding.

[32] Source: Treasury: revalidation of potential GST base and yield, September 2006

[33] Source: Economic Development Department: These figures are based on a per night financial amount as recommended by Visit Britain. It was suggested that the figure used by Visit Britain does not reflect the fact that Jersey is predominantly 4 star and was therefore a little lower than the real expenditure by about 15%.

[34] Parliament of Australia Senate Select Committee report on a new tax system (chapter 8), April 1999

[35] Note: The Sub Panel accepts that it would only be possible to apply GST to the sale of new build houses, not to the sale of ‘second hand’ homes. This in effect would be double-taxing because the same building would be taxed each time it changed hands (so the amount of tax overall would depend on the number of sales, not the value). This breaches the principle of GST - on the sale of a second-hand house there's no new consumption (goods or services) to tax. For further information on the VAT treatment see the following article by Sijbren Cnossen, chapter 7 **Tax Law Design and Drafting** (volume 1; International Monetary Fund: 1996; Victor Thuronyi, ed. www.imf.org/external/pubs/nft/1998/tlaw/eng/ch7.pdf#search=%22gst%20on%20imputed%20domestic%20rent%20for%20owner-occupiers%20%22

[36] on 10th October 2006

[37] This figure has subsequently been revised by the Treasury and is estimated to be £1.75. The Sub Panel was provided with details regarding the calculation of this figure.

[38] The 2001 Budget Standards for Different Household Types in Jersey Summary CRSP 433 Final Report

[39] Note: Once the ‘basket’ of goods has been decided whatever is in it will be protected from future price rises. When the retail prices index changes, as a result of GST and the usual rise in prices, rate of benefits will increase. The increase in rates will not however be automatically indexed by RPI for the simple reason that some components may have to cover a cost that increases more or less than RPI (Housing, Medical Costs etc). Source: Social Security Department

[40] Note: this is the average for all single pensioners, so will include some quite wealthy ones.

[41] Source: Social Security website

[42] to plug part of the ‘Black Hole’ reduction in tax revenues arising from the move to 0/10

[43] Calculations from Jersey Household Expenditure Survey. Due to difficulties of measuring average incomes at the top of the range, the percentage for the highest quintile is likely to be a little lower than that shown.

[44] For a full list showing the GST treatment (zero rating and full rate) by HES classification on which the calculations in this section are based please see Appendix Five

[45] Centre for Research in Social Policy, Loughborough University: 2001 Budget Standards for Different Household Types in Jersey Summary CRSP433 Final Report

[46] Household Expenditure Survey 2004/05, Table 2.2.

[47] For a detailed explanation of this analysis please see the paper entitled ‘Weekly Household Expenditure by an average low income single parent family’ at Appendix Eight to this report

[48] Food, healthcare, education, childcare, books, children’s clothes, fuel

[49] Calculations from Jersey Household Expenditure Survey. Due to difficulties of measuring average incomes at the top of the range, the percentage for the highest quintile is likely to be a little lower than that shown.

[50] Calculations from Jersey Household Expenditure Survey. Due to difficulties of measuring average incomes at the top of the range, the percentage for the highest quintile is likely to be a little lower than that shown.

[51] Table 1 Corporate Services Panel Scrutiny Report: Review of the Financial Framework in the draft Strategic

Plan, June 2006, SR3/2006. It must be noted that the Treasury and Resources Minister provided these projections to the Panel with a health warning saying that estimations beyond a five year period showed that there could be difficulties in the future if nothing else changed. The projections were a sort of mathematical extension to where we are now, rather than a realistic position.

[52] Equity and efficiency effects of Food Taxes, James Cook University (1998) J. Quiggin Australian Research Council Senior Research Fellow

[53] In fact tobacco taxes tend to be the most regressive.

[54] *Tax Reform Equity and Efficiency, Report No.2, Indirect Taxes: Evaluation of Options for Reform,* Melbourne Institute of Applied Economic and Social Research, March 1998, pp. 9-10

[55] This is a standard way of examining household income or expenditure. It gives a weighting to additional adults and children in the household and recognises economies of scale and differences caused by household structure.

[56] Treasury Paper: Impact of Further Exclusions under GST' - see Appendix Two

[57] Main Report of Australian Senate Select Committee on a New Tax System, April 1999

[58] Note: this phrase should be corrected to read: 'zero rated'

[59] For the definition of food used in the United Kingdom VAT system see Appendix Nine

[60] The Experian report for Economic Development suggests that these four have about 75% of the market, with 9% for M&S and independents making up 18%.

[61] Figures taken from 2005 average prices and based on exchange rates on 6th October 2006 (1GBP = 2.973 SGD)

[62] Figures based on exchange rates on 6th October 2006 (1GBP – 2.829)

[63] The States of Jersey Income Tax Office, "Goods and Services Tax: Treatment of Charities" GST PUBLIC INFORMATION LEAFLET

[64] See website for Charities Tax Reform Group http://www.ctrg.org.uk/

[65] Several more charities sent information subsequently.

[66] Treasury & Resources Minister, Public Meeting held at Trinity Parish Hall on 6th September 2006. Based on a 3% GST. From the figures supplied to Scrutiny, this appears to be a realistic estimate.

[67] Estimates vary considerably depending on the individual charity's circumstances. Estimates were based on annual accounts provided to Scrutiny by a range of Jersey charities, but we did not examine or discuss the underlying figures with the charities and instead relied on many assumptions and estimations.

[68] This could also change the allocation of States resources, because the GST would be paid out by the commissioning department but collected by the Treasury.

[69] provided they are employed directly; GST is charged on agency staff fees

[70] The States of Jersey Income Tax Office, "Goods and Services Tax: Treatment of Charities" GST PUBLIC INFORMATION LEAFLET see Appendix Ten

[71] VAT for Charities - State of Play and Plans for the Future - EU Commissioner for Taxation and Customs, International Philanthropy Conference, September 2005

[72] Except commercial rents

[73] Except domestic rents

[74] Except commercial rents

[75] In the UK there are many more zero ratings or exemptions, particularly in the medical sector; but these are complex and some services do not qualify.

[76] One of the leading UK cases on this involved the RSPCA, which provides cheap veterinary treatment for animals whose owners are unable to afford the full cost. However by concession UK charities can avoid having to charge VAT on fees where there is a substantial subsidy element.

*[77]* Bowthorpe Community Trust (1995)

[78] For some charities examined the breakdown between donations and fundraising events was not clear.

[79] Presumably the cost would have to be substantial, rather than a nominal penny.

[80] The assumption made at the time was that £100-200/week was generally the level above HIE in 1999.

[81] Buy-to-let buyers will presumably be able to reclaim GST on purchase, because rent is zero-rated.