

STATES OF JERSEY



DRAFT BUDGET STATEMENT 2015 (P.129/2014): THIRD AMENDMENT (P.129/2014 Amd.(3)) – COMMENTS

**Presented to the States on 16th September 2014
by the Minister for Treasury and Resources**

STATES GREFFE

COMMENTS

Deputy M. Tadier of St. Brelade's amendment seeks to remove GST from supplies and imports of domestic energy.

The Minister for Treasury and Resource strongly opposes this amendment.

1. This is the 5th time that an amendment to remove GST from domestic energy has been made and each previous time the States has rejected the amendment, choosing to ensure that GST remains a low, broad and simple tax.
2. If this amendment is adopted it would –
 - reduce States revenue by £3.4 million in 2015;
 - increase the compliance cost for a wide range of businesses, with a correspondingly increase in the risk of error and, potentially, fraud;
 - increase the States administration burden;
 - do nothing to address the issue of energy affordability over the longer-term.
3. The removal of GST from domestic energy would result in additional complexity and costs for those suppliers impacted. For example, energy suppliers generally supply to both commercial and domestic customers; hitherto they have not needed to establish the status of customers or what the customer intends to use the energy for. If this amendment were adopted, this information would need to be collected from customers in order to ensure that the supplier meets its GST obligations.
4. Additional complication would arise where supplies are made to dual-use premises (e.g. shops/restaurants with flats above, farms with both residential and agricultural/horticultural activities, etc.). This would require more complex arrangements, and in the case of oil supplies may require segregation and marking of oil tanks.
5. This amendment would not just impact the major suppliers (e.g. the JEC, Jersey Gas, etc.) but any retailer that sold, for example, coal, charcoal, fire wood or kindling. This would likely encompass some petrol stations, garden centres and convenience stores. The additional complexity for these retailers is highlighted by the fact that the UK operates 5 different schemes which seek to help retailers who make an amount of VAT-free sales meet their compliance obligations.
6. Complication also increases the risk of compliance error and, in the worse cases, the potential for fraud by misapplication of products sold for domestic use but subsequently applied for commercial purposes. The costs of administering the GST system will correspondingly increase to address these risks.
7. Numerous international studies have concluded that consumption taxes, such as GST, are a poor choice of tax to use to achieve distributional effects. These studies indicate that consumption taxes should be broadly based, while assistance is given to lower income households through other measures. In

this regard the amendment overlooks the impact of the potential withdrawal of the element of income support that relates to the GST on domestic energy.

8. Global experience illustrates that the introduction of GST reliefs cannot be guaranteed to result in an equivalent decrease in the retail price for the consumer.
9. Consistent with research undertaken in 2010, any resulting reduction in retail prices for domestic energy is likely to be substantially enjoyed by wealthier households who have the most significant levels of expenditure on heating and lighting in absolute terms. In addition their spending on other items, which may be subject to GST, may be delayed due to their greater ability to save money over the short-term.
10. If the Deputy is concerned about the affordability of energy bills over the longer term, there are more effective means of addressing this concern than through a one-off measure in the tax system. The right way to address these concerns is by requiring CICRA to utilise its powers to review the prices set by the relevant parties and take action where appropriate.