

STATES OF JERSEY



DRAFT BUDGET STATEMENT 2014 (P.122/2013): SECOND AMENDMENT (P.122/2013 Amd.(2)) – AMENDMENT

**Lodged au Greffe on 26th November 2013
by Deputy S.S.P.A. Power of St. Brelade**

STATES GREFFE

DRAFT BUDGET STATEMENT 2014 (P.122/2013): SECOND AMENDMENT
(P.122/2013 Amd.(2)) – AMENDMENT

1 PAGE 2, AMENDMENT (i) –

For the words “£989,000 by increasing duty on all categories of alcohol by the June 2013 RPI figure of 1.5% and not” substitute the words “£1,254,000 by not increasing duty on all categories of alcohol”.

2 PAGE 2, AMENDMENT (ii) –

For the words “£866,000 by increasing duty on all tobacco products by 4.5% (being the June 2013 RPI figure of 1.5% plus 3%) and not” substitute the words “£1,466,000 by not increasing duty on tobacco”.

3 PAGE 2, AMENDMENT (iii) –

For the words “£100,000 by increasing duty on fuel by the June 2013 RPI figure of 1.5% and not” substitute the words “£399,000 by not increasing duty on fuel”.

DEPUTY S.S.P.A. POWER OF ST. BRELADE

REPORT

I wish to amend the second amendment lodged by the Connétable of St. Helier to the Draft Budget Statement 2014 (P.122/2013).

“except that the estimate of income from taxation during 2014 may be decreased”

- Alcohol duties by as much as £1,254, 000;
- Tobacco duties by as much as £ 1,466,000;
- Fuel duties by as much as £399,000.

My amendment to this amendment will be to alter the provisions for increases in alcohol, tobacco and fuel duties, and proposes no increase in these 3 areas for 2014. The detailed provisions are included on pages 39–44 of the Draft Budget Statement 2014 (reproduced for convenience in the attached **Appendix**).

The Treasury thinks that this annual rite of passage in increasing impôts is a logical and justifiable process. However, Jersey is an expensive place to work and live. The middle-income groups that live and work in Jersey and pay the predominant amount of tax owing to a shift to indirect taxation bear the brunt. The increases proposed in the budget are not modest. These are excessive.

I include here 3 short paragraphs on the 3 areas of proposed impôts increase covered by this amendment to the second amendment.

Alcohol

Using the Health Department as an excuse to raise levels of duty on alcohol and tobacco is not acceptable. It is an old hobbyhorse. Direct experience of attitudes to alcohol abuse are that those that drink alcohol normally and moderately are sensitive to the price of alcohol. They are sensible about how they buy alcohol, spend their disposable income in the local hospitality industry, and have budgets for their entertainment and enjoyment.

Those that have a problem with alcohol, drink to excessive or dangerous levels and are a cost to the Health Department do not care about the price of alcohol. They are insensitive to the cost of alcohol, and will buy alcohol in the local corner-shops where it is most expensive or they will break the law and shoplift in supermarkets. Alcohol abuse and drinking to dangerous levels is largely a sad hidden affliction. It carries on behind closed doors. The unfortunates that are seen most often in parks and adjacent to the Hospital are but a small representation of alcohol abuse in Jersey. People that drink strong lager and wine at 07:00 in the morning are not doing it for pleasure. They are ill and are doing it because they are slowly dying. If the price of alcohol goes up, they will still drink excessively and will find the means to fuel their habit, similar to drug addiction.

If the States were serious about controlling the dangerous levels of consumption of alcohol by a limited number in Jersey, then it would seek to control the supply route. Drinking in well-run licensed premises, restaurants, cafés and hotels is safe and well-managed. There will always be those that drink to excess and cause problems after a night out. They are few.

The real problem lies with the supply of alcohol for retail in corner shops, supermarkets and off-licences. That is available from 06:00 to 23:00 in some cases.

Tobacco

We now know that impôts on tobacco products has fallen dramatically. Tobacco consumption has fallen, but not as fast as impôts revenue. We know that over 40% of tobacco product consumed in Jersey is duty-free. That figure may be higher. Cause and effect has set in and, while impôts continue to drop, consumers have adapted by developing their own methods of buying tobacco more cheaply. The shop at Jersey Airport currently sells 400 cigarettes for £57.00 or 20 for £2.90. This is compared to about £6.50 locally for the retail price of cigarettes. The difference is astonishing. Yet the States licence this operation and take a profit by leasing this large retail operation at Jersey Airport. People will consume tobacco products because it is legal and available. Much of this product purchased at Jersey Airport returns to the Island for consumption.

There are now well-developed and sophisticated routes for personal importation of tobacco product that may be legal or illegal. Much revenue is being lost to the Treasury because of the unofficial importation. It is strange that there is no duty-free at the Elizabeth Terminal. If the Airport shop can compete with the airlines and other airports, why is the Treasury not encouraging duty-free sales at the Harbour? Surely, a source of States revenue is being lost here.

The hard evidence for the above lies in the 2004 budget (agreed in December 2003), when States members agreed to an amendment from Deputy P.J.D. Ryan, which increased tobacco duty by 12.1%, in an attempt to generate an extra £1.19 million. The actual result was an increase of just £578,000 in revenue, less than half of what was expected. The following year, States revenue from tobacco duty fell back even further to a level substantially below the 2003 total: basically, the point of diminishing returns had been reached, and consumers looked for “duty-free” options instead. So, the actual evidence of recent history shows that increasing tobacco impôts so significantly is likely to have the opposite effect to the one desired by States members. Using impôts as a source of funding can never provide the certainty of return, which is clearly needed in order to invest in 39 nurses and adult respite care. It is worth noting that since 2000, tobacco duty in Jersey has already more than doubled, increasing over that period by £1.75 per pack of cigarettes, compared to £0.81 in the UK, and £1.07 in Guernsey. Tobacco prices in Jersey generally have already risen by 96% in that period (Guernsey: 78%, UK: 44%). Source: States Statistics Unit. There should be no increase in the rates of duty on tobacco.

Fuel

The ordinary family unit that comprises “middle Jersey” is being asked to accept almost a 10% increase in fuel charges. This applies to petrol and diesel. Island residents already pay a premium to get on and off the Island. We have the most expensive ferry fares on the English Channel. We have so-called low-cost airlines operating in and out of the Island that charge for the use of debit cards, seat allocation, hold luggage, and so on. Yet we ask these families to send their bright, well-educated local children to UK universities, where these same families pay a premium to have their children educated at a university where they sit in lecture halls beside their

English, Welsh or Scottish fellow students, who pay a third of the Jersey student's university fees.

Transport costs, whether on-Island or off-Island, eat into the disposable income of Islanders. "Middle Jersey" has to put up with all of this. Now this Assembly wants to push the cost of a litre of fuel to a figure whereby the Minister for Treasury and Resources will take almost 60% of the price charged at the forecourt.

In the same vein, duty-free or lowered impôts on fuel could be sold at the Harbour to vehicles leaving Jersey. Again, no effort or attempt has ever been considered as far as the author has been able to establish, to set up a forecourt and fuel sale outlet on States property adjacent to the Harbour to sell petrol and diesel to vehicles leaving Jersey on car-ferries.

I will provide members with further and supplementary information to members in the debate and will circulate beforehand.

Financial and manpower implications

There appear to be no manpower implications. The Minister for Treasury and Resources proposes to raise about £3,163,000 by increase in the 4 areas listed on page 39 of the Draft Budget Statement. If this amendment to the second amendment is accepted, I will show in the debate that significant diminishing returns are setting in because of the increases imposed by Treasury; and that a balance has to be found between reasonable impôts returns to Treasury and the benefits to the local economy of a local and visiting population that can expect reasonable charges within the products sold by the hospitality industry, that leaves locals able to put money back into the economy and for visitors to be encouraged to spend money. The figure of £3,163,000 is over a million less than the provisions of the 2009 budget of £4,250,000, and this does show that diminishing returns are setting into the local hospitality industry, an industry that is already struggling with recession and other increased costs. Treasury estimates may be an over-estimate.

The only way of financing this amendment is for the Treasury to accept that constantly increasing impôts, almost a rite of passage for Ministers for Treasury and Resources, will damage and cause further irreparable damage to the local industry. The Jersey economy is robust, the finance industry is key to this; and we must accept as States members that this Island revolves around the taxpaying and income-earning ability of middle-income Jersey. To risk penalising any further this hugely important sector of the economy is folly. The financial implications are somewhere between zero and £3,163,000. In all probability, the cost will be less. Therefore Treasury will have to find an alternative approach to impôts duty and accept that.



4. Impôts Duty Proposals

Background

Each year, in advance of the Budget, the proposals for impôts duties are reviewed against the prevailing economic conditions, the Island's financial position and the States strategies on alcohol and tobacco.

The Minister's proposals for 2014 take all the above factors into account.

To help inform his decision the Minister has considered the following:

- The most recent rate of inflation.
- The tobacco and alcohol strategies.
- Informed consultation with the Council of Ministers and in particular the Ministers and Officers from Health and Social Services, Home Affairs and Economic Development.

It is proposed that the increases in duty will take effect at midnight on 31 December 2013.

The Budget proposals are set out in detail below and will raise additional revenue of approximately:

- Alcohol duties – £1,254,000
- Tobacco duties – £1,466,000
- Fuel duties – £399,000
- Vehicle Emissions Duty – £44,000

(The above amounts are the estimated additional revenue that will be collected by the Customs and Immigration Service in 2014 and do not take into account any increases already calculated as a result of the MTFP forecast).

Alcohol

Following consultation with the Council of Ministers, it is proposed to increase alcohol duty rates above the most recent rate of inflation.

Accordingly the Minister proposes the following:

- An 11% increase on spirits (£1.27 per litre)
- An 11% increase on strong beer/cider (exceeding 4.9% abv) (6p per pint)



- A 5% increase on wines (7p per bottle)
- A 5% increase on weaker beer/cider (not exceeding 4.9% abv) (2p per pint)

As a result of these Budget proposals, the forecast is that the annual duty collected on all alcohol will total £18,965,000 in 2014. This would be £463,000 more than forecast for 2014 in the MTFP, and £770,000 more than forecast for 2013 in the 2013 Budget (see Figure 13).

Tobacco

It is proposed that the policy of increasing duty on tobacco at a level above the cost of living is continued.

As a result the Minister is proposing to increase the rate of duty on all tobacco products by 11% (47p per packet of 20 king size cigarettes).

There is evidence to show that both locals and tourists are increasingly turning to duty free sources for their tobacco supplies and that this is because of the high cost of tobacco in the Island.

The Customs and Immigration Service has previously reported a significant increase in passengers attempting to import cigarettes in excess of their statutory allowance and there has been no change in this trend during 2013. The Service continues to monitor this activity and though it is having an impact on the revenue yield, at this time there is neither evidence nor intelligence to suggest that commercial quantities of cigarettes are being smuggled into the Island.

As a result of the Budget proposals, the forecast is that the annual duty collected on all tobacco will total £14,789,000 in 2014. This would be £2,976,000 more than forecast for 2014 in the MTFP and £785,000 more than forecast for 2013 in the 2013 Budget (see Figure 13).

Fuel

The Minister continues to consider all issues regarding the duty on fuel, including the current worldwide price of hydrocarbon oil and the retail price of fuel at garages in the Island.

Having taken this into account and having considered the fact that there has been no increase in fuel duty for the last 2 years and an increase of only 2p per litre over the last 5 years, it is proposed to increase fuel duty by 2% (1p per litre).

As a result of the Budget proposals, the forecast is that the annual duty collected on fuel will total £20,363,000 in 2014. This would be £1,174,000 less than forecast for 2014 in the MTFP and £772,000 less than forecast for 2013 in the 2013 Budget. The reduction is mainly due to lower levels of importation than previously forecast.



Vehicle Emissions Duty

Vehicle Emissions Duty (VED) was introduced in September 2010 with an estimated annual revenue yield of £2 million.

The number and type of new vehicles registered has not proved consistent with the original modelling used to formulate the duty banding and in 2012 the total yield for VED was approximately £840,000. It is estimated that the yield will be similar in 2013.

It is not known the extent to which the introduction of VED has influenced consumers' decisions on vehicle purchases, but the current economic situation must have also been a factor. In addition it is apparent that new vehicles are being manufactured with reduced carbon dioxide (CO₂) emission figures. As a result these vehicles are either falling into a lower revenue VED band or the band where the revenue collection is zero.

For 2014 the Minister proposes an increase of 5% to all VED bands.

As a result of the Budget proposals, the forecast is that the annual duty collected for VED will total £924,000 in 2014. This would be £76,000 less than forecast for 2014 in the MTFP and £126,000 less than forecast for 2013 in the 2013 Budget. This is mainly due to different numbers and types of vehicles being imported and registered to those originally modelled.

Detailed Duty Increases for 2014

FIGURE 8 – DUTY INCREASES PROPOSED FOR 2014

	Current Duty	Proposed Duty	Increase (rounded to the nearest penny)
Litre of whisky at 40%	£11.49	£12.76	127p (11%)
Bottle of table wine	£1.38	£1.45	7p (5%)
Pint of beer ≤ 4.9% abv	£0.33	£0.35	2p (5%)
Pint of beer > 4.9% abv	£0.51	£0.57	6p (11%)
20 King size cigarettes	£4.29	£4.76	47p (11%)
Litre of unleaded petrol	£0.43	£0.44	1p (2%)



FIGURE 9 – PROPOSED RATES OF VEHICLE EMISSIONS DUTY BASED ON CO₂ MASS EMISSION FIGURE

CO ₂ mass emission figure:	LPV first registered in Jersey	LPV first registered outside Jersey 1 year or less ago	LPV first registered outside Jersey more than 1 but 2 years or less ago	LPV first registered outside Jersey more than 2 years ago
120g or less	£0	£0	£0	£0
More than 120g but not more than 150g	£46	£46	£28	£23
More than 150g but not more than 165g	£139	£139	£92	£69
More than 165g but not more than 185g	£208	£208	£133	£105
More than 185g but not more than 225g	£348	£348	£226	£174
More than 225g but not more than 250g	£695	£695	£453	£348
More than 250g but not more than 300g	£1,158	£1,158	£753	£579
More than 300g	£1,448	£1,448	£944	£723

Note: LPV means a light passenger vehicle, being a motor vehicle designed and constructed for the carriage of passengers and comprising no more than 8 seats in addition to the driver's seat.

FIGURE 10 – PROPOSED RATES OF VEHICLE EMISSIONS DUTY BASED ON CYLINDER CAPACITY OF ENGINE

Cylinder capacity of engine	Vehicle first registered in Jersey	Vehicle first registered outside Jersey 1 year or less ago	Vehicle first registered outside Jersey more than 1 but 2 years or less ago	Vehicle first registered outside Jersey more than 2 years ago
1000cc or less	£0	£0	£0	£0
More than 1000cc but not more than 1400cc	£174	£174	£116	£87
More than 1400cc but not more than 1800cc	£290	£290	£191	£145
More than 1800cc but not more than 2000cc	£440	£440	£284	£221
More than 2000cc but not more than 2500cc	£579	£579	£376	£290
More than 2500cc but not more than 3000cc	£868	£868	£568	£435
More than 3000cc but not more than 3500cc	£1,158	£1,158	£753	£579
More than 3500cc	£1,448	£1,448	£944	£723



Comparisons with neighbouring jurisdictions

FIGURE 11 – 2013 RETAIL PRICE MARGINS – COMPARISONS WITH THE UK (JUNE 2013)

	Jersey Retail Price	Jersey Duty	GST	Price net of duty & GST	Duty & GST as % of price	UK Retail Price	UK Duty	UK Vat	Price net of duty & VAT	Duty & VAT as % of price
Litre of whisky	£20.18	£11.49	£0.96	£7.73	62%	£19.00	£11.29	£3.17	£4.55	76%
Pint of standard beer	£3.79	£0.33	£0.18	£3.28	13%	£3.30	£0.49	£0.55	£2.26	31%
20 King size cigarettes	£6.80	£4.29	£0.32	£2.19	68%	£7.77	£4.68	£1.30	£1.80	77%
Litre of Unleaded Petrol	£1.23	£0.43	£0.06	£0.74	40%	£1.34	£0.58	£0.22	£0.54	60%

Note: These figures are before the impact of the Budget proposals and the prices shown are based on a narrow range of sources but are for equivalent products. There will be considerable price variations in each jurisdiction, especially for wine and beer. Fuel prices are also subject to rapid change.

The Figure below illustrates that in all of the above examples of dutiable products the proportion of price made up by duty and tax is lower in Jersey than the UK. Even allowing for other cost factors in Jersey there would still appear to be a much greater margin in the retail price of products in Jersey than exists in the UK.

FIGURE 12 – A COMPARISON OF TYPICAL 2013 TAX AND DUTY LEVELS FOR A RANGE OF COMMODITIES

	Jersey Duty	Jersey GST @ 5%	Guernsey Duty	UK Duty	UK Vat @ 20%	France Duty	France TVA @ 19.6%
Litre of Whisky @ 40%	£11.49	£0.96	£10.62	£11.29	£3.17	£5.79	£3.16
Bottle of table wine	£1.38	£0.31	£1.48	£2.00	£1.17	£0.02	£0.99
Pint of beer/lager @ 4.5% abv	£0.33	£0.18	£0.37	£0.49	£0.55	£0.16	£0.82
Pint of beer/lager @ 5.5% abv	£0.51	£0.19	£0.37	£0.60	£0.55	£0.19	£0.82
20 King size cigarettes	£4.29	£0.32	£3.48	£4.68	£1.30	£3.56	£0.80
Litre of Unleaded Petrol	£0.43	£0.06	£0.47	£0.58	£0.22	£0.53	£0.23
Litre of Diesel	£0.43	£0.06	£0.47	£0.58	£0.23	£0.38	£0.20



FIGURE 13 – SUMMARY OF DUTY REVENUES

	MTFP (July 2012)		Budget 2013 (Dec 2012)		Budget 2014 (Oct 2013)	Contribution to Budget measures 2014
	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2014 £'000	2014 £'000
Impôts on Spirits	4,157	4,133	4,161	4,137	4,747	610
Impôts on Wine	7,248	7,504	7,256	7,512	7,729	217
Impôts on Cider	1,039	1,107	1,040	1,108	930	(178)
Impôts on Beer	5,732	5,758	5,738	5,764	5,559	(205)
Impôts on Tobacco	12,392	11,813	14,004	13,425	14,789	1,364
Impôts on Motor Fuel Including Fuel Duty Rebate	21,221	21,537	21,135	21,451	20,363	(1,088)
Impôts on Goods Imported	150	150	150	150	150	-
Vehicle Emissions Duty	1,000	1,000	1,050	1,050	924	(126)
TOTAL IMPÔTS DUTY	52,839	53,002	54,534	54,597	55,191	594

Note: the 2013 Budget agreed increases to Impôts duties for alcohol, tobacco and VED.

FIGURE 14 – EXPLAINING THE NET VARIATION TO FORECASTS

	2014 Budget Proposals 2014 £'000	Less: Original MTFP Assumptions 2014 £'000	Changes in Volume assumptions 2014 £'000	Net variation to Forecasts 2014 £'000
Impôts on Spirits	470	(107)	247	610
Impôts on Wine	368	(184)	33	217
Impôts on Cider	65	(21)	(222)	(178)
Impôts on Beer	351	(131)	(425)	(205)
Impôts on Tobacco	1,466	(334)	232	1,364
Impôts on Motor Fuel Including Fuel Duty Rebate	399	(498)	(989)	(1,088)
Vehicle Emissions Duty	44	0	(170)	(126)
TOTAL IMPÔTS DUTY	3,163	(1,275)	(1,294)	594

The table shows the estimated net variation to forecasts after allowing for the duty assumptions in the MTFP for 2014 of 2.5% and the estimated effect of the changes in the assumption for the volume of each commodity imported since the MTFP and Budget 2013 assumptions in March and September 2012.