STATES OF JERSEY

PROPOSED GOVERNMENT PLAN 2024 - 2027 (P.72/2023) – FOURTH AMENDMENT (P.72/2023 AMD.(4)) – COMMENTS

Presented to the States on 7th December 2023
by the Council of Ministers

STATES GREFFE

COMMENTS

Summary

The amendment proposes to (1) insert a requirement for firms to use local RegTech providers, (2) reduce the review period from two years to one, and (3) cap total deductions available under the scheme at £200,000 for the first year of the incentive.

The Deputy has justified the amendment to put conditions on the RegTech Super-Deduction on the grounds that it is being implemented in the context of a cost-of-living crisis.

RegTech Super-Deduction – current position

The proposed pilot programme is the result of a consultative effort between Revenue Jersey and stakeholders including the Jersey Financial Services Commission and Digital Jersey. It would incentivise financial services companies to invest in assets designed to improve productivity. Eligible companies would be able to immediately deduct 150% of operating and capital expenses related to technology used to comply with regulations to:

- prevent financial crime combatting money laundering, and combatting the financing of terrorism;
- manage data, information, and cyber risks;
- manage risk and prevent fraud;
- report on regulatory activities and manage compliance.

The intention of the Super-Deduction is that businesses would be able to free up staff resources to focus on the kind of higher-value work that contributes to Jersey's prosperity.

In response to the Deputy's arguments and proposals:

1. The sustainable way to support Islanders in meeting their costs of living is to grow the economy. Failing to invest today will cause greater harm in the long run.

2. Conditions requiring the use of local firms were considered and rejected because they risk running foul of international trade agreements, fair practice, competition laws, and the practices of the Jersey Financial Services Commission (which is to guide acceptable solutions, not approve specific companies and software packages). Such conditions are also against the spirit of the programme. Ministers want firms to undertake the best possible solutions for their needs and growth. That said, RegTech solutions are by nature best met by providers that understand the local regulatory environment and the programme is expected to accelerate demand which will be largely met by the already booming industry of local providers.

3. A review period of two years was chosen because the policy's announcement in the Government Plan came after firms have largely cemented their spending plans for 2024. From discussions with stakeholders, we expect there to be less than half the take-up next year.

4. It has been confirmed that the intended impact of paragraph (c) is to limit the total amount of tax relief available to the industry at £200,000, rather than the deductions. Whilst this sum corresponds to the estimate included in the Government Plan, is not possible to implement what is effectively a quota in the tax system. Even if it could be implemented, businesses would not know the extent to which they could benefit on an individual basis, thereby undermining the incentive of the proposal.

Potential effect of the amendment

If the amendment were adopted, the RegTech Super-Deduction would potentially create market distortions and sub-optimal investment in RegTech by favouring locally produced suppliers if they are not the most appropriate tool for the job. The cap proposed will lead to lower investment.

Conclusion

This amendment would limit one of the Government Plan's key measures to support innovation and enterprise in Jersey. Alternatives policies to support industry through the tax system are limited, as financial services businesses are one of the few areas facing a positive rate of tax.

The Council of Ministers therefore asks the Assembly to reject this amendment.