

**QUESTION TO BE ASKED OF THE PRESIDENT OF THE FINANCE AND ECONOMICS
COMMITTEE ON TUESDAY 25th MAY 2004,
BY DEPUTY G.P. SOUTHERN OF ST. SAVIOUR**

Question

Figures released by the Comptroller of Income Tax show the following as the costs of collecting several forms of tax -

Income Tax (Jersey)	0.87 pence per £1
Income tax (UK)	1.64 pence per £1
Capital Gains Tax (CGT) (UK)	2.73 pence per £1.

The proposed Goods and Services Tax (GST) is estimated to cost £1.75 million to raise £45 million. This equates to –

GST (Jersey)	3.88 pence per £1.
--------------	--------------------

Will the President confirm that this estimate remains accurate and, if so, explain the reasons why the Committee continues to support this tax proposal in view of the expense in collecting it?

Answer

[N.B. Assuming that there is a typo in the question and that the stated collection costs for UK income tax, UK CGT and Jersey GST actually refer to p rather than £.]

It is not possible to confirm precisely the exact costs of administering GST as detailed design work on the proposed tax has not taken place. The Impôts Department have been asked to provide a best estimate. In arriving at the estimate, comparison with the resources required to administer such a tax in a comparable jurisdiction was sought, and the Isle of Man was selected as being appropriate. Thirty full time officers are employed by Isle of Man's Customs and Excise Department to work on VAT and it has been assumed that Jersey would require at least the same resource. Based on this assumption, the current best estimate of the ongoing costs of collecting VAT is £1.75 million per annum. This cost takes into account total staff costs, (circa £1.5 million), and the annual running costs of the VAT office, (circa £0.25 million).

Assuming that GST would raise £45 million in Jersey then a rough guide to the collection costs would be 3.88p per £1. Collection costs, however, are only one small aspect to take into account when assessing the suitability of a tax measure to address the projected fiscal shortfall in Jersey. There are another five convincing arguments in favour of GST, which is why the Finance and Economics Committee supports the proposal for its introduction:

- **High yield.** The fact that the projected fiscal shortfall is in the region of £80-100 million means that any measure has to make a significant contribution to this shortfall. The prospect that GST could raise £45 million means that it is one of the few tax changes that could raise the sufficient sums of money required. In doing so, this prevents a proliferation of small measures that simply increase the complexity of the tax system.
- **Incidence.** GST would apply to all on-island expenditure, by all residents and tourists that purchase the relevant goods and services. This means that the better-off will pay the tax, (and even if they have a low taxable income), as will visitors to the Island who would not be directly affected by income tax/payroll tax changes.
- **Widening the tax base.** The fact that there is currently no GST in Jersey means we are one of the few developed countries with no such tax. Its introduction would widen the tax base and make the revenue

base less prone to volatility. This is because it would focus on expenditure rather than income, which can at times hold up better than income because it can be supplemented by savings, borrowing or realising wealth.

- **Competitiveness.** GST could be designed to exclude exports of goods and services, which means it could have less of an impact on firms that export than an increase in payroll tax and under certain circumstances income tax. It is essential that we encourage our export industries, because they bring in revenues from outside the Island, rather than taking income from local residents. Of particular importance to Jersey businesses is the fact that GST could apply to imports, treating Jersey produced goods and imports the same; which is something that would not be possible with income tax or payroll tax.
- **Fairness.** While one drawback to GST is that it can be mildly regressive this can be addressed, as the Committee intends, by being accompanied by a mechanism to protect the poorest in society i.e. through the income support scheme. The fact that one of the key disadvantages to GST can be limited only serves to increase the suitability of GST for Jersey.