

2.16 Deputy G.P. Southern of the Minister for Treasury and Resources regarding the difference between “exempt” and “zero-rated” supplies under G.S.T:

Will the Minister define exactly what the difference is between “exempt” and “zero-rated” supplies under G.S.T. (Goods and Services Tax), outline how they will be treated as they pass through the supply chain by registered and non-registered companies, with special reference to the pharmacy trade and assure Members that there will be no costs passed on to the consumer from “exempt” supplies?

Senator T.A. Le Sueur (The Minister for Treasury and Resources):

We have debated the range of exclusions in the States at least 4 times. In my comments I have tried to explain the difference between exemption and zero-rating. It has also been covered in various presentations to States Members and in the public information material, including our original G.S.T. consultation document. I shall try, nonetheless, to explain the difference once again as simply as possible. G.S.T. is not charged on either zero-rated or exempt supplies. The difference between them is that any G.S.T. incurred by a G.S.T. registered person on business expenses involved in making zero-rated supplies may be reclaimed because they are classed as a taxable supply, admittedly at a zero rate. The G.S.T. incurred in the course of making exempt supplies may not be reclaimed. Zero-rating gives complete relief from G.S.T. but exemption only partial relief. Businesses that only make exempt supplies cannot be registered for G.S.T. because they do not have a taxable turnover. If they make a mixture of exempt supplies and taxable supplies - that is supplies that are taxed at the standard rate or the zero-rate - they may claim the G.S.T. on their business expenses - their input tax - in proportion to their sales of taxable and exempt supplies. I can assure the Deputy that in the case of the pharmacy trade there will be no costs passed on to the final consumer for exempt supplies because their supplies are fully taxable, either at the zero-rate in the case of medicines on prescription or at the standard rate in respect of other goods.

2.16.1 Deputy G.P. Southern:

I do apologise for asking the Minister yet again to explain this sort of detail. The question has come to me from a pharmacist out there who is confused, so the message is not quite getting across yet. Is the reality for pharmacists then that medical supplies sold on prescription will be zero-rated and bear no cost, but all other forms of supply non-prescription will be taxable and that there will be a quite large demand on the pharmacist in order to get his sums right and that there will be costs passed on to the public as a result of medicines being zero-rated only on prescription?

Senator T.A. Le Sueur:

No, Sir, I think the Deputy is confusing himself. All the costs on the pharmacist's input will be offsetable because all his sales are either sold at the zero rate or at the standard rate. All the input costs can be matched by the output costs. It is only when there is a mixture of taxable and exempt supplies that there is the confusion or the situation that the Deputy talks about. In this case there is no such confusion.

2.16.2 Deputy G.P. Southern:

A final point of clarity for one and all, and perhaps for ever: could the Minister again explain to Members the difference between the treatment of goods by a company which is operating below the £300,000 threshold and that which is above and is registered?

Senator T.A. Le Sueur:

A company that has a taxable turnover below £300,000 and is not registered for G.S.T. cannot charge G.S.T. on its sales, but equally it cannot recover any G.S.T. on its inputs. If its turnover is below £300,000 and if it elects to register for G.S.T. then it can offset its input taxes against the taxes on its sales. I hope that clarifies the situation, Deputy, and the Members who are similarly confused.

2.16.3 Deputy G.P. Southern:

Finally, if I may, Sir, the net result is that it is to a company's advantage to register for G.S.T. and thereby if that happens with very many companies that will place a severe stress on the department in order to get everybody registered and to deal with that volume of companies?

Senator T.A. Le Sueur:

It will depend from business to business whether or not they elect to register for G.S.T. assuming they have a turnover below £300,000. If their turnover is below £300,000 for taxable supplies and they wish to register, firstly they will have to demonstrate that they have the capacity to maintain accounting records. Secondly, they will be faced with the additional administrative burden of keeping those records, separating their supplies if needs be, and reporting them to the tax office. Whether they feel the overheads of that are beneficial in relation to the G.S.T. they may be able to recover will vary from business to business. I do not think one can make a blanket suggestion that all companies will register or that none will register. It will depend from company to company.

2.16.4 Deputy R.G. Le Hérisier:

Although Members of the House may be crystal clear about G.S.T., I wonder, Sir, if the Minister could confirm the kind of feedback he is getting from the retail sector and whether he feels people are fully prepared or whether the kind of confusion rightly manifested in Deputy Southern's mind is in fact reflected in the retail sector?

Senator T.A. Le Sueur:

I think, again, it will vary from business to business, but I agree there is still a large degree of uncertainty among the business community and the public about G.S.T. Part of the activities over the next few months will be to try to remedy that. In conclusion, Sir, maybe to avoid any further supplementary questions, can I suggest to the Deputy that the helpdesk and the G.S.T. Director would be quite happy to try to explain things still further and so would I, but perhaps it would be easier outside this meeting.