

### **3.6 Deputy G.P. Southern of the Minister for Treasury and Resources regarding targets for additional tax revenues from personal taxation:**

Will the Minister inform Members why he has set targets for additional tax revenues from personal taxation, but has not done so for revenues from businesses; outline what measures, if any, he has under consideration for raising tax from non-local, non-finance companies who currently trade tax free in the Island; and advise whether he will be coming to the Assembly with proposals for taxing business and, if so, when?

#### **Senator P.F.C. Ozouf (The Minister for Treasury and Resources):**

The business tax review makes it clear that there is an intention to maximise the revenue from businesses without jeopardising our competitiveness. As an offshore centre, we benefit greatly from keeping our corporate tax rates competitive. Non-local, non-finance companies do not trade tax-free in the Island. They pay social security contributions, as do their employees, business rates and their employees also pay income tax and G.S.T. It is true that they do not pay corporate tax in the Island but we must remember that they pay corporate tax in their home jurisdiction and often at higher rates than paid by locally-owned companies here in Jersey. This is not to dismiss the fact that such businesses pay less corporate tax in Jersey but not necessarily less tax overall than they did before the introduction of Zero/Ten. It may be possible, and I hope it is, that through the business tax review we can identify how this can be addressed under the current Zero/Ten regime or any of the alternatives that are set out in the consultation paper. The consultation period for the business tax review runs until 30th August and a summary of the responses will be published later in the year. An announcement regarding the outcome of the review will be made at the point of the budget lodging later on this year.

#### **3.6.1 Deputy G.P. Southern:**

Does the Minister have a figure for how much tax is not currently being paid because of the Zero/Ten regime by non local, non finance companies?

#### **Senator P.F.C. Ozouf:**

The best estimates that were crafted at the time, and well ventilated in this Assembly, I believe are in the region of £10-15 million. That is something that has been well rehearsed in this Assembly. The previous Minister for Treasury and Resources had the identical determination to try and find a solution, which was viable and would collect that type of money, and I share that enthusiasm and I am sharing the work in terms of trying to find a solution. We have not found one yet, and I would point out to the Deputy, neither did Guernsey or the Isle of Man.

#### **3.6.2 The Deputy of St. John:**

I am in receipt of a letter here that the U.K. are introducing - as of September - taking from Flybe employees, who are Jersey residents, a third of their wages because of the time they spend in the U.K., i.e. on flights when they drop in to fuel up in the U.K. and come back. So a third of their wages will be taxed in the U.K. This is a real concern given that we were told that Jersey people would pay tax within the Island and companies would be paying off-Island. Now it appears the U.K. Treasury have changed the goalposts, what action is the Minister going to take? Because if Flybe are going to be charged in this way, or their staff, is the Minister going to be looking into this on behalf of Flybe and all the other companies whose staff will be probably drawn into this net in the foreseeable future?

[15:15]

**Senator P.F.C. Ozouf:**

I am not sure that that is a direct relevant question to the original thing, but I will answer it anyway.

**The Deputy Bailiff:**

I thought it just squeezed in.

**Senator P.F.C. Ozouf:**

It just squeezed in. I have to say to the Deputy that I believe that this is an exceptional case. I do not believe that there is an automatic rollover for other companies that are employing people in the U.K. I am aware of the issue. I spoke to 2 pilots over the weekend who were affected by this and I must take some discussions up with the Chief Minister exactly how we represent properly the interests of those individuals. I am not about to give tax advice to the entity concerned on the floor of this Assembly, but I believe that there is possibly a way round. Not a way round, an appropriate way round. If they are pilots based out of Jersey and they are employed out of Jersey, then they should be paid out of a Jersey entity. The issue is that they are employed out of a U.K. entity, as I understand it, and therefore the U.K. Treasury is legitimately charging tax. It is a matter that Flybe need to sort out, but we will of course make representations as appropriate to the U.K. Treasury for these individuals.

**3.6.3 Senator S.C. Ferguson:**

I understand that Guernsey is considering an overall business tax of 10 per cent for all companies. Have we discussed this during our discussions with Guernsey?

**Senator P.F.C. Ozouf:**

I do not think that Guernsey is proposing an overall 10 per cent tax in business because I do not think that they would have very much of an offshore financial centre or international financial centre business left. Of course, as the Senator will know, Jersey and Guernsey and the Isle of Man and the other offshore centres provide tax neutrality for the underlying business transaction that does not occur within the Island. So, if they are, I am alert to the consultation which is remarkably similar to ours, which is no surprise in relation to business tax; what they are proposing is their preferred potential solution of a territorial system of tax. That is different from a flat rate of 10 per cent tax and it is a territorial tax which is in our consultation and I believe does have some merit in terms of consideration as a potential solution to Zero/Ten; but I also state that Zero/Ten is not non-co-compliant and I believe it is co-compliant. If it is in the best interest of Jersey we will change.

**3.6.4 Deputy A.E. Jeune of St. Brelade:**

Going on from what the Deputy of St. John said, does the Minister believe there will be other U.K. companies who will be affected similarly, or will it only be airlines and, as a result that, will affect all our other airlines. Sort of: "Who are you? Are you registered?"

**Senator P.F.C. Ozouf:**

It is probably not appropriate to deal with the specifics of an individual company, because I am aware of some of the reasons why there is a specific issue with Flybe. Nothing inappropriate; it is just a function of the fact that those pilots are probably

operating in U.K. airspace to a greater extent than perhaps pilots that will be on long haul or other European destinations. It is not an issue that they are going to be ... they are able to offset their tax as I understand it from the U.K., because obviously we have got a double tax treaty between Jersey and the U.K.; but I am not aware that there is any further problem that I have been briefed on so far of any other companies. But we will assist these individuals as appropriate.

### **3.6.5 Senator A. Breckon:**

It is understood that there is some general leakage, and against the current background where we are looking to perhaps introduce charges and raise taxes, and there were failures in the result of perhaps some property tax and a tax on employees under Regulation of Undertakings and Development. Coming back to the original question, can the Minister say what measures, if any, he has under consideration for raising tax from these companies?

### **Senator P.F.C. Ozouf:**

I have already mentioned the territorial system of tax would present a solution to it, in terms of taxing those entities, because the concept of territoriality is that you tax it in the territory where the activity takes place. So that is very clearly a solution. If we maintain Zero/Ten, clearly we need to find a variant of the already discussed Blampied proposals or otherwise. We have already put in place half of the Blampied proposals in terms of superannuation funds. That is good; that is working. But clearly there still is to be a solution found to the underlying issue. But the Senator and the Assembly have my categorical assurance that we will work on this over the summer, and if we can find a solution, of course we want to gather that £10 million or £15 million tax back. That is in everybody's interest to do so.

### **3.6.6 Deputy M. Tadier:**

I look forward to the day when we can talk about tax neutrality for personal income in Jersey as well, but in the meantime I would ask the Minister for Treasury and Resources, does he believe that personal taxation should be done in principle on disposable income rather than on the totality of earned income, and given that the cost of living has gone up in Jersey dramatically in recent years, would he be in favour of increasing the threshold for unearned income?

### **Senator P.F.C. Ozouf:**

I had a very interesting morning with Hautlieu students and talking about tax and spending, and in fact one of the questions was very similar. I think the Deputy is suggesting that we go ... it is almost some liberal policy from the U.K. of increasing the exemption limit for earned income. I would just remind the Deputy very carefully that we already have one of the highest exemption limits around for earned and unearned income. I think there should be similar arrangements for earned and unearned income as a matter of general principle. Work does need to be rewarded. But we are looking at the whole issue of social security and income tax, and looking at how the collection can work, and also the fairness issue of the total tax and social security contributions. I would just remind him that he mentioned the concept, I think, of businesses paying tax. It is ultimately people that pay tax, and we have got to find a fair and mildly progressive system for tax.

### **3.6.7 Deputy G.P. Southern:**

In the 2011 Annual Business Plan there is as a target of £22 million additional taxation to be raised from personal taxation. Why is there no target, or no estimate, of additional taxation that might be raised equally from businesses as well?

**Senator P.F.C. Ozouf:**

I think it is quite clear that you cannot put a target for business tax. What does the Deputy expect me to do? Put a target of £75 million worth of business tax? This year in terms of collection is based upon last year's figures. I do not know the profitability of the financial services industry and the other businesses sectors in Jersey. I can make some estimates, but I cannot start putting targets for business tax because it is so mobile and it is so unpredictable and it is so volatile. The Deputy winces, but it is true. No Treasury ... sorry, I did not hear what the Deputy said.

**The Deputy Bailiff:**

We are not going to have a debate.

**Senator P.F.C. Ozouf:**

I just thought it was something unparliamentary, but I do not know. The fact is that you cannot have a target for business tax when you do not know what the performance in the long term of the economy is. I have published a G.A.A.P. (General Accepted Accounting Principles) which is to be dealt with if we are to keep the deficit below £50 million next year. That is the target for additional taxes.