

3.7 Deputy J.A.N. Le Fondré of St. Lawrence of the Minister for Treasury and Resources regarding the administration costs of G.S.T. exemptions in respect of food and fuel:

What are the estimated administration costs within the States of G.S.T. (Goods and Services Tax) exemptions in respect of food and fuel and what impact, if any, would there be on income support, G.S.T. bonus and tax exemption limits as a result?

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

I thank the Deputy for an important question. The complexities of zero-rating food and domestic energy will of course increase the cost of administration by the Taxes Office and Customs and Immigration. The stated amount of additional costs as set out in the report by Treasury is in the region of £200,000 to £300,000 a year but more importantly, over and above that, it would also increase of course the cost of compliance for businesses in the Island, and that is not easily quantified but is perhaps underlined very well by the strong line that the Chamber of Commerce and I.O.D. (Institute of Directors) have come out against a complicated system of exemptions. In relation to what G.S.T. has given back - and Members have in the past voted for a range of measures to compensate Islanders for the difficult decisions that Members have been called to make on G.S.T. and increasing Income Tax thresholds in 2008 and 2009, increasing Income Support in 2008 and again in 2009 and of course the G.S.T. bonus scheme - the total amount of financial benefit to those on low and middle income families is in the region of £12 million and that is, of course, over and above the existing benefits system that we have. If G.S.T. is removed from food and domestic energy, then consideration will of course have to be given - in fact that is what the States has already required us to do - to removing or reviewing some of these measures and potentially revoking or adjusting these measures. But I recognise these are very difficult issues.

3.7.1 Deputy J.A.N. Le Fondré:

Just a quick follow-on from that. Could the Minister confirm what the compliance rate is for the current Jersey G.S.T. system and how might that compliance rate change with a more complex G.S.T.?

Senator P.F.C. Ozouf:

The compliance rate is one of the real concerns that the Tax Department has about having a complex system. This is all set out interestingly in the report that we have issued. The compliance rate in the U.K. is much less than Jersey. The compliance rate in Jersey is significantly high because it is simple and therefore not only are we collecting tax in a simple way that is administratively efficient, we are also collecting all the taxes due because there are no uncertainties. When there is complexity, there will be a falling in the amount of compliance, and I do not want to see that.

3.7.2 Deputy T.M. Pitman:

I hope you will not say this is too wide of the mark. Would the Minister concede that some of this potential damage could be offset if we were to ensure companies who contribute no tax at all to the Island did so and perhaps some of our very wealthy tax evaders also paid a reasonable amount of tax?

The Bailiff:

I fear your hope is going to be dashed, Deputy. I think that that is too wide off the mark. No doubt that can be raised in the debate in due course.

3.7.3 Senator A. Breckon:

I wonder if the Minister could say what the reduction will be in administration costs if some of these things are removed for all the things you mentioned before, and also is he aware that utilities have a list of domestic users, therefore it is not difficult to implement at all.

Senator P.F.C. Ozouf:

If the Senator is going to suggest that putting in food and domestic heating exemptions is going to reduce cost, then he lives in a different world than I do and he needs to listen to the expert advice that we are being given by the people that are asked to discharge decisions of this Assembly. If he does not believe our local experts in relation to tax collection, then I suggest that he re-reads the Sir James Mirrlees Report which set out U.K. recommendations on their own tax system. You would not set out to design a system that the U.K. has, or indeed some other places have, if you had a blank piece of paper. You want efficient collection and frankly I would prefer to spend the £300,000 that we would spend on increased costs collecting an exempted system of G.S.T. and I prefer to direct that towards lower income families. **[Approbation]** I would also like to use some of the 2,500 hours of debate this Assembly has had on this matter by individual Members and perhaps do better by supporting people that he is concerned about.

3.7.4 Senator A. Breckon:

May I ask a supplementary? That is a very interesting answer but it does not address the question I asked about the cost of the existing administration and whether it would be reduced if we do not have to produce all this mumbo jumbo.

Senator P.F.C. Ozouf:

I simply do not understand. The Senator is suggesting a complex system of tax which will cost more. His exemptions will not cost us less, they will cost us more, £300,000 worth, and it will cost the companies that are asked to run this system significant amounts of money, and they have been telling him that they do not want that.

3.7.5 The Deputy of St. Mary:

Without prejudice to what I might say in the debate but the question is still important in the context of reducing costs or what the additional costs would be rather. Could the Minister give some response to the idea that if instead of having the U.K. system, which we all know leads to extraordinary amounts of litigation and problems with advocates and so on, would he care to comment on if there was a simpler system that food is simply anything that people eat or consume, whether it is liquid or solid and then you would have no legal hassles at all. Would that not reduce the additional cost somewhat?

Senator P.F.C. Ozouf:

I do share and I genuinely understand what Members would like to do in a perfect world in respect of helping low income families in creating something simple. The debate before us later on today is U.K. exemptions, so that is the matter which we are having to address. I have to say to the Deputy that all the experience of having looked at G.S.T. systems around the world is that it is not easy to find a definition of what you can eat. There is, for example, whether or not you can eat ferret food. There has been the recent example that after the 2009 ferret census, now ferret food is zero-rated or is it not exempted - I cannot quite remember - but it is either in or out. Rabbit

food; all these things. It is extremely difficult to construct a list of things which you can eat and not eat and, at the end of the day, if we are not going to collect money on food, it is going to come from and is going to be asked to be raised in other areas. These are not simple issues. I plead with Members, let us keep our G.S.T. simple and direct money to those that need it.

3.7.6 The Deputy of St. Mary:

A supplementary, if I may. That was an extraordinary answer. I do not think anyone is talking about people in Jersey eating ferret food or rabbit food although if things get really, really tough. **[Laughter]** No, the question is, and I say without prejudice to what I might say in the debate because I think it could be that exemptions is the wrong way to go to help poor people but nevertheless, in terms of reducing the additional cost of exemptions, the Minister has not really addressed the issue that if we define anything that goes into a human being's mouth as food or drink then it excludes, by definition, rabbit food and ferret food.

Senator P.F.C. Ozouf:

That is not before the Assembly. The Assembly is considering the U.K. exemptions and that is the matter which I have had to respond to, and other Members have on previous occasions explained that they would try and find a simpler list but a simple list is not easy. The devil is in the detail I am afraid and that is always the problem which we have come back to. Keep it simple is the advice and direct the money where it is necessary after you have collected it from everybody.

3.7.7 Deputy J.A. Hilton:

I may have missed something here but is it not possible for us to keep G.S.T. at 3 per cent on food and raise G.S.T. on other things? Really the question I wanted to ask the Minister was is there an additional cost to keeping G.S.T. at 3 per cent but raising it on other items so at least we give people on fixed incomes - low incomes - a chance to buy affordable healthy food?

Senator P.F.C. Ozouf:

I understand what the Deputy is suggesting. The advice is that it does not matter, once you have a system which effectively divides up different categories, you are incurring the same costs in terms of tax collection because you will have to separate out between the categories of food that are 3 per cent or 5 per cent. It does not matter whether it is 0 per cent or 5 per cent; it is the difference. It does not make any difference in terms of if it is 3 per cent or 5 per cent, but the Deputy makes an important point. We are at a G.S.T. level of 5 per cent. I do not want to see it go any higher than that. I do not think there are reasons for doing that.

The Bailiff:

I think, Minister, you have answered that particular question. Very well. Final question, Deputy Le Fondré?

3.7.8 Deputy J.A.N. Le Fondré:

Especially given a couple of the comments made already in some of the questions, would the Minister indicate whether he thinks it is likely that exempting food and domestic energy would leave those on low and middle incomes, including many pensioners, better or worse off compared to the present systems which are in place?

Senator P.F.C. Ozouf:

These are complicated issues but, in very simple terms, low and middle income households have been compensated twice for the introduction of G.S.T. The changes to income support and the introduction of the G.S.T. bonus in 2008 ensured that households were compensated by the additional cost of G.S.T. bonus, *et cetera*. Then, following the Deputy's second round of proposals, there was a further compensation. Overall, in my view, if one was to remove those issues, then at least the issue would be neutral but they were going to be very difficult to withdraw and, of course, the other issue - and I wish no offence to members of the Chamber of Commerce - but there is absolutely no guarantee that removing food from the list of exemptions will lead to lower prices. At least this way, these individuals get the money, they have had the money twice, in income support and bonus payments. I would say that the first order effect is that we would be in this Assembly as a result of the decision, meaning that lower income people were worse off. I think that is an important issue for Members who say that there is something uncaring about the debate in relation to G.S.T. exemptions.