

5.12 Deputy G.P. Southern of the Minister for Treasury and Resources regarding the recouping of corporate tax lost through Zero/Ten from foreign-owned non-finance companies:

Following his commitment in the 2011 budget to investigate the possibility of recouping corporate tax lost through Zero/Ten from foreign-owned non-finance companies and to report in December 2010, will the Minister inform Members what measures, if any, he has under consideration; how these measures will comply with the E.U. code on business taxation Articles 1 to 3 and if not will he inform Members when he will do so?

[12:00]

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

This issue was obviously debated at length during the budget debate. This matter is clearly integral to our Zero/Ten regime, which is being reviewed both here and by the Code of Conduct Group. I stated during the budget debate that we need to consider the outcome of that Code Group assessment and now high-level working party before formulating any changes to our regime. When the E.U. announced it would formally assess Zero/Ten we said we would consider the outcome when it was completed, and that is the case today. We will consider the impact of the high-level working party report when it is completed. We will also need to ensure that any changes comply with all 5 Articles of the Code, not just Articles 1 to 3. So, it is important that we continue to demonstrate that the Island's general rate of tax is zero. This is why the scope of entities originally subject to 10 per cent or 20 per cent was limited to certain regulated and utility entities. I can say that I am looking again to see whether the scope of the 10 per cent and 20 per cent bands can be extended further while ensuring that the zero per cent remains our general rate of tax. If that is possible - and work is under way to confirm this - I will propose it. If this is not possible I will look at alternative ways of raising revenues from these entities. However, whatever alternative is considered it is also important to ensure that these entities do not pay a double layer of tax.

5.12.1 Deputy G.P. Southern:

In figures given in an earlier written question the Minister for Treasury and Resources has explained that there are some 12,300 locally-owned, non-finance companies subject to zero tax and some 17,600 foreign-owned, non-finance companies subject to zero taxation. Is it not the case that the issue is that those 17,600 were previously defined as exempt companies ("ex cos"), and that Zero/Ten was a way to find a way round the E.U. code on business taxation? Is it not the case that whatever he does he is still stuck with this problem that locally-owned will be subject to tax, non-locally-owned will not, and that will inevitably break Articles 1, 2 and probably 3 of the E.U. code on business tax?

Senator P.F.C. Ozouf:

I am pleased the Deputy has read the written answer. I also hope that he has read the statement and briefing that Members were provided with prior to the Christmas break in relation to the whole background in terms of Zero/Ten. I have to say that I do not think that Deputy Southern and I are ever going to agree in relation to Zero/Ten. The Island issues and provides services providing tax neutrality. That is the key issue in terms of what the Island offers. Clearly I do not think that Deputy Southern agrees with that situation. He probably agrees with a unified international rate of tax that is

higher than zero. That is not in the interests of the Island and so I will continue to defend Zero/Ten, I will continue to defend our financial services industry and the important services that they provide in delivering tax neutrality.

5.12.2 Deputy T.M. Pitman:

Following on from Deputy Southern, with the benefit of hindsight in the way this lengthy saga is playing out, and I know the Minister still has his fingers crossed but, upon reflection, does he perhaps concede that in a race to the bottom there are no winners at the end of the day and really Jersey should probably be looking for a better, fairer way and perhaps lead the way with the world?

Senator P.F.C. Ozouf:

I certainly am proud of Jersey and I think that Jersey punches well above its weight. However, I do not think that we can ever be regarded as a leader in terms of international tax norms. The Deputy does raise quite an important point, though, about the cost of Zero/Ten as it was implemented and the report that the Chief Minister and I issued before Christmas does remind Members that the £100 million loss which was incurred as a result of the introduction of Zero/Ten was not simply incurred because of the zero, it was incurred to a large extent because of the drop in tax from the 20 to the 10. That is not an issue of international norms; that was an issue of international competition in terms of different jurisdictions competing against tax. As we are seeing, all sorts of countries do compete on tax, we compete on tax and we had to unfortunately compete at 10 per cent instead of previously 20 per cent, which is what we got on a number of entities before. That is something that is not often reminded but I take this opportunity of reminding Members that that was the large part of the £100 million.

5.12.3 Deputy M. Tadier:

Does the Minister acknowledge that when it comes to Jersey punching above its weight that cannot be said, for example, to being able to keep its own heritage sites, its own museum open for a period during the winter; and it does not also extend to being able to afford to pay for school milk for its children and a whole host of other areas; and does the Minister ...

The Bailiff:

This has nothing to do with the question so please ask a question that is relevant.

Deputy M. Tadier:

Thank you for the direction. The question I was asking, are those simply symptoms of a failed Zero/Ten policy which has eroded our tax base? Does the Minister acknowledge that there is a downside to the zero aspect of Zero/Ten, because in reality we have seen an erosion of public services rather than a promotion of being able to afford those services which we have been able to hitherto?

Senator P.F.C. Ozouf:

I do not know what the references and comparatives are that Deputy Tadier makes, but as I stand here at the start of 2011, which is going to be a year where we are going to have to reform our public services, we are going to have to trim government expenditure, we are going to have to deliver services less to our community; I would say that we are in a much stronger position than most other places. Deputy Tadier seems to erase almost the economic activity that has happened in this Island - that

continues to happen - which funds a social welfare system, a health service, an education system to a much greater extent than most other places. My work over the next year is to maintain that, to deliver revenue for the benefit of our Island community.

5.12.4 The Deputy of St. Mary:

Other people used the phrase “race to the bottom” and I just want to ask the Minister whether, in his toolkit of policies, he has considered going to the Isle of Man and Guernsey - and possibly other jurisdictions but certainly those 2 - and talking about harmonising between us so that we can (a) be competitive (in his words) and (b) also preserve our tax base. Because it seems to me that as long as we constantly compete with the other 2 and always try to have the lowest possible tax rates we are going to be in serious difficulty.

Senator P.F.C. Ozouf:

The Deputy raises a good point in relation to competition and he is correct in saying that the competitive rate that we now trade on in Jersey is 10 per cent, and that is a lower rate than we used to have. But I am afraid that that is the competitive world of the globalised economy and we cannot change that and it would require... and I do have good communications - as the Chief Minister and I both do - with our colleagues in the Isle of Man and in Guernsey, but we will always be in a competitive position across the Crown Dependencies. But it is wider than that; the competition extends to jurisdictions outside the field of the British Isles. The overseas territories in the Caribbean, in the Middle East and Dubai, in Singapore and in Hong Kong, those are the issues of competition and as important as Jersey is I am afraid we are not strong enough in order to set minimum tax rates. I know that some supporters in this Assembly believe that we should have international minimum standards of tax, and if there are going to be normalised rules in terms of tax in the future then Jersey will comply. But I am afraid that is not the situation and we have to be realistic about competition and tax competition and the Island’s role in it.

5.12.5 Deputy G.P. Southern:

Given that it appears unlikely that the Minister will be able to solve the conundrum of the 2-tier system on zero tax rates for local and non-local companies, can the Minister inform Members how much is raised in charges and fees from the 17,600 foreign-owned, non-finance companies and how much he is prepared to raise those charges and fees by in order to raise further revenue for what is a damaged economy at the moment?

Senator P.F.C. Ozouf:

Let me just be clear that Deputy Southern is not going to write my script in terms of saying that I will not find a solution. We will find a solution to any issues which the international community put to us. We will respond to the high-level working party and any findings that they have and the Island will respond, with this Assembly’s approval, to any changes in terms of global norms. As a result of the Deputy of Grouville’s amendment to the budget, which was accepted, I will be working on trying to find ways of raising revenue from those entities in Jersey and I would refer the Deputy to the answer that I gave, that I will be looking, among other things, at the issue of whether or not we can extend the 10 per cent or 20 per cent rate while preserving the general rate of tax at zero to the Island. But I am confident that with

this Assembly's help, with the support of the Council of Ministers and officers, we will find solutions to whatever problems the international community puts to us.

5.12.6 Deputy G.P. Southern:

If I may insist that the Minister addresses the question. Will the Minister inform Members how much is currently raised from charges and fees on the 17,600 companies he refers to in his answer and how much is he prepared to target some increase in that in order to balance our budget?

Senator P.F.C. Ozouf:

That is a very wide question. Is it the direct contribution? Is it the indirect contribution? The Island provides services to entities which pay a zero rate of tax but of course there is the revenue that is provided on the services that are provided to that. That is the whole aim of what the Island provides in terms of services and, indeed, other offshore centres as well. So, if he is more precise in his question I may well be able to attempt to answer it.

The Bailiff

I think the question was to fees and charges.

Senator P.F.C. Ozouf:

Direct fees and charges, I will have to calculate that. The Deputy is aware of the international service fee and I would have to do a quick calculation in my head in terms of the direct contribution from those entities, but I will provide that to Members later on today.