

2015.10.05

### **3.8 Deputy M.R. Higgins of the Minister for Treasury and Resources regarding levels of tax revenue lost to the Treasury since Zero-Ten was introduced:**

Will the Minister advise Members how much tax revenue has been lost to the Treasury overall, and on an annual basis, since Zero/Ten was introduced, breaking it down into its component parts, and, in particular, how much was lost from the finance sector by reducing the tax from 20 per cent to 10 per cent, and how much from reducing other company taxes to zero?

[15:30]

#### **Senator A.J.H. Maclean (The Minister for Treasury and Resources):**

I answered a very similar question from the Deputy on 28th April of this year. As I said at the time, it is very misleading to present the adoption of Zero/Ten simplistically as solely a reduction in corporate tax revenues. The fact is that a fiscal strategy was developed at the time which included broadening our tax base and, as a result, our overall tax revenues have continued to rise. Furthermore, if we had not adopted Zero/Ten as a competitive and internationally acceptable regime, the outlook for our financial services sector and economy as a whole would have been bleak, as was made clear by, among others, Oxera. The tax collected from financial services companies in 2008 at the 20 per cent rate was £116 million and for the year of assessment 2013 at the 10 per cent rate the figure was around £63 million. The best estimate, based on 2008 data of tax lost from 0 per cent non-locally owned trading companies, is £7.6 million.

#### **3.8.1 Deputy M.R. Higgins:**

Supplementary. Yes, the reason I asked this question was because I heard the Minister on Radio Jersey and he was asked a question specifically: “How much tax had been lost from companies because of the introduction of Zero/Ten?” The Minister mentioned £7 million or just over £7 million. I assume he is referring to the ordinary companies, non-financial services, but we can also see that not only did we lose £7.6 million from that sector, we have also lost, was it about £42 million, from the banks. So, in other words, by bringing Zero/Ten as a policy it has caused tax revenue to fall quite substantially and although the Government brought in G.S.T. (Goods and Services Tax) to try and counter it, we are still faced with the situation that going forward we have a black hole and it is largely as a result of this Zero/Ten policy. What is the Minister going to do to try and restore a growth in tax revenue from companies?

#### **Senator A.J.H. Maclean:**

As I pointed out in my opening comment, we have seen our tax revenues grow over the period. If I can emphasise the point, in 2008 there was a total of £512 million in revenues of corporate and personal tax. In 2013 the corporate/personal and - as the Deputy quite rightly pointed out - G.S.T. total was £517 million, that is excluding other tax receipts. So we are seeing a growth in our tax revenues. The disreputable issues are clear for Members to see and for members of the public to be clear about. We were absolutely clear at the time with the fiscal strategy that was developed to broaden our tax base and, as a result, that strategy is to ensure that we have seen growing revenues over the period, despite the fact that there has been a recession, despite the fact that there has been low interest rates as part of that, which has impacted on the banking sector, one of our biggest contributors, and despite the fact there have been increasing international regulations and other costs which have impaired the growth of profit and, therefore, tax revenues.

### **3.8.2 Deputy M.J. Higgins:**

Supplementary. Would the Minister tell Members then the percentage of tax that is paid by individuals and the percentage of tax that is being paid by companies at the present time, on the last figures that we have? Because what has happened, over that period, is the burden has been placed on the individual. This is the reason why ordinary members of this Island are feeling - or in fact are -19 per cent worse off than they were, largely because of the change in the tax system, so the burden is falling on individuals rather than companies. Is that not correct? Will you provide a figure?

### **Senator A.J.H. Maclean:**

That is not entirely correct. The Deputy is right in part and the broadening of the tax base had exactly that effect, 20 means 20. G.S.T. did exactly that in many respects but, do not forget - and I am sure the Deputy will not either - that what we have seen is that companies themselves, the zero-rated companies, are not paying tax but, nevertheless, the employees are and the shareholders, who are Jersey resident, are also paying tax in the Island, so it is just a distributional change in many respects, although I do accept the point, which is why I mentioned the figure earlier, there are non-local trading companies which we have seen a loss in terms of the region of about £7.6 million, although that is based on 2008 data.

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

Does the Minister have any figures to state how many companies are foreign-owned, non-finance companies, and therefore pay no tax at all in the Island, despite doing business here?

### **Senator A.J.H. Maclean:**

Not to hand.

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

Will the Minister for Treasury and Resources ensure that he does discover what that number is and the proportion of companies in the Island which are paying no tax? Will he bring that figure back to the Assembly?

### **Senator A.J.H. Maclean:**

I see no reason not to supply that to the Deputy.

### **3.8.5 Deputy S.Y. Mézec:**

Does the Minister accept that it was the poorly handled transition to Zero/Ten which has eventually led to the situation now where we are facing a £145 million black hole on the way?

### **Senator A.J.H. Maclean:**

No.

### **3.8.6 Deputy S.Y. Mézec:**

In which case could he point out where the incompetence did really lie?

### **Senator A.J.H. Maclean:**

If the Deputy is asking specific issues around forecasting and, in particular, forecasting of income, forecasts are exactly that. There will be variances in forecasts. We have seen it in the past; we will certainly see it in the future. What we have to do, is ensure that we have necessary contingencies in place to manage such variations and, particularly, in such incredible circumstances as we have seen over recent years. That may not necessarily be the case in the future, but we have ensured with the introduction of the new Income Forecasting Group that

we are taking a very prudent and conservative position with regard to forecasting for the current Medium Term Financial Plan and I expect that into the future.

**3.8.7 Deputy D. Johnson of St. Mary:**

My understanding is that Guernsey is contemplating introducing a tax on trading companies owned by non-residents where their profits exceed £500,000. Is that something the Minister will consider here?

**Senator A.J.H. Maclean:**

I did not get the start of the Deputy's question but I think he was referring to Guernsey?

**The Deputy of St. Mary:**

I refer to Guernsey, yes.

**Senator A.J.H. Maclean:**

Also the Isle of Man?

**The Deputy of St. Mary:**

Well I mentioned only Guernsey.

**Senator A.J.H. Maclean:**

All right. Yes, indeed. In fact, the Isle of Man have introduced what has been dubbed "The Tesco Tax" for large retail entities, and they introduced that a year or 2 ago. Guernsey have announced in their budget proposals to do exactly as the Deputy suggested. It is certainly a matter that will be considered, but at the moment we are not in the position where we have enough data to be able to support that. We have got a far broader application of the tax under Zero/Ten than Guernsey currently has, although I accept the attractions, to a certain extent, for a retail tax of that size. We must bear in mind that we have to be compliant with the Code Group and until we have the data to be able to support that, we would not be able to bring such a move forward. I would also point out that the expected revenue, as I understand it, in Guernsey from such a move is around £1.5 to £2 million. It may be slightly more here, of course, but that is the type of revenue we are talking about, so there is not a massive collection but certainly an area that needs to be looked at further.

**3.8.8 Deputy M.R. Higgins:**

Is the Minister aware that the Organisation of Economic Co-operation and Development, the O.E.C.D., is today publishing proposals that companies should pay tax where their revenue is earned and does the Minister support this principle?

**Senator A.J.H. Maclean:**

That is a much wider question that, obviously, would need some further consideration. I think we will give that thought in due course when we have had an opportunity to look at the detail.

**The Bailiff:**

We come to question 10, which the Deputy of Grouville will ask of the Minister for Economic Development. Sorry, I beg your pardon, I have missed number 9. Deputy Tadier will ask of the Deputy Chief Minister.