

---

# **STATES OF JERSEY**



## **INTERNATIONAL SERVICES ENTITY REVIEW: GREEN PAPER**

---

**Presented to the States on 8th August 2011  
by the Minister for Treasury and Resources**

---

**STATES GREFFE**



# Green Paper

## PURPOSE OF CONSULTATION

The purpose of this consultation is to seek the views of businesses on the operation of the International Services Entity (**ISE**) regime within the Goods and Services Tax (**GST**) system.

ISE status is an alternative to registration for GST for businesses which primarily serve non-residents, reducing the administrative and compliance burden which GST would place upon them. It was primarily created for and is mainly utilised by the financial services industry.

The ISE regime is unique to Jersey. It has been in operation for 3 years and now is considered an appropriate time to conduct a general review to determine whether it is fit for purpose and where improvements could be made.

Together with a general review, this consultation also seeks the view of businesses on –

- achieving greater equity between the ISE fees charged
- reducing the compliance burden associated with ISEs
- raising additional revenue from ISEs.

The consultation document has been issued by Treasury and Resources following the Minister's commitment in his Budget speech in December 2010 to review the current structure of ISE fees and increase the revenue generated from the financial services industry through ISE fees.

A number of questions are posed in the body of the Green Paper; however, respondents are invited to comment by answering the general questions and those relevant to the business sectors in which they have an interest set out at the end of the paper.

**Public submissions** – Please note that responses submitted to all States public consultations may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a final published report, reported in the media, published on a States of Jersey website, listed on a consultation summary, etc.). If a respondent has a particular wish for confidentiality, such as where the response may concern an individual's private life, or matters of commercial confidentiality, please indicate this clearly when submitting a response.

## HOW TO RESPOND

The deadline for responses is **5 p.m. on Friday 16th September 2011.**

All respondents should indicate the capacity in which they are responding (i.e. as an individual, company, representative body).

If you are responding as a company or representative body, please indicate the nature of your business and/or your clients' business.

Representative bodies should identify on behalf of who they are responding and the methodology they used to gather responses.

*Please send your responses and any additional comments to:*

<p>Tax Policy Unit</p> <p>Telephone: 01534 440532          Fax: 01534 440409          e-mail: <a href="mailto:tax.policy@gov.je">tax.policy@gov.je</a></p> <p>Wendy Martin          Director of Tax Policy          Cyril Le Marquand House          PO Box 353          St. Helier          Jersey          JE4 8UL</p>	<p>Heather Bestwick at Jersey Finance Limited is co-ordinating a finance industry response that will incorporate any matters raised by local firms or entities. Her contact details are:</p> <p>Heather Bestwick          Jersey Finance Limited          48-50 Esplanade          St. Helier          Jersey          JE2 3QB</p> <p>Telephone: 01534 836004          Fax: 01534 836001          e-mail: <a href="mailto:Heather.Bestwick@jerseyfinance.je">Heather.Bestwick@jerseyfinance.je</a></p> <p>It is the policy of Jersey Finance to make individual responses it receives available to Treasury and Resources upon request, unless a respondent specifically requests otherwise.</p>
--	--

## **1. INTRODUCTION**

- 1.1.** International Services Entity (**ISE**) status is an alternative to registration for Goods and Services Tax (**GST**).
- 1.2.** During the tax's design phase it was determined that GST, when introduced, must not place the Island at a competitive disadvantage. In the context of a financial services industry which primarily provides services to non-resident clients, it was considered that the application of standard GST principles would result in an excessive compliance and administrative burden (e.g. identification of the location of each customer, GST analysis of each supply made, etc.) which might ultimately place Jersey at a competitive disadvantage.
- 1.3.** It was against this backdrop that ISE status was created, its aim being to collect £5 million – £10 million of revenue from the financial services industry, whilst placing a minimal administration burden on both businesses and the Taxes Office.
- 1.4.** The ISE regime is unique to Jersey. Although other jurisdictions are monitoring Jersey in order to decide whether to introduce something similar, there are currently no comparable regimes. This means that in order to gauge the success of and identify the problems with the regime, it is imperative that the views of businesses which are currently ISEs or which may become ISEs in the future are sought. Having been in operation for 3 years, now appears to be an appropriate time to seek this feedback.
- 1.5.** This consultation seeks feedback on whether the ISE regime is fit for purpose. Should the ISE regime be retained or should all businesses be subject to the standard GST rules? If the ISE regime should be retained, does it need a significant overhaul or minor amendment? In this respect, specific identification by businesses of concerns and benefits associated with the ISE regime would be helpful.
- 1.6.** Furthermore, it is understood that certain sectors of the financial services industry consider the current ISE fee structure to be inequitable (i.e. the ISE fees charged to certain businesses are too high, whilst others are too low). As a consequence, the views of businesses are sought on how the fee structure can be made more equitable.
- 1.7.** This consultation also seeks insight into the compliance burden associated with ISE status, including the views of both ISEs and suppliers to ISEs, such that appropriate steps can be taken in due course to reduce any unnecessary compliance burden.
- 1.8.** Finally, in the Budget speech delivered in December 2010, the Minister for Treasury and Resources committed to increase the revenue raised from the financial services industry through ISE fees to approximately £10 million. The total revenue raised from ISE fees in 2011 is currently £9 million, hence the increase required to achieve the revenue target is approximately £1 million. The views of businesses are sought on how this additional £1 million of revenue can be raised from ISEs.

## **2. ISE STATUS – CURRENT POSITION**

### **2.1. Background and purpose of ISE status**

- 2.1.1. ISE status was primarily created for and is predominantly utilised by businesses in the financial services industry and their clients. This is because the treatment of financial services activities under the standard GST system is highly complex, resulting in a greater administrative and compliance burden for these businesses.
- 2.1.2. The benefit of becoming an ISE is that the business pays a flat rate, annual fee to the Comptroller of Taxes rather than registering and accounting for GST in the “normal” way.
- 2.1.3. Supplies made by an ISE are not taxable supplies, so an ISE is not required to charge GST on supplies that it makes.
- 2.1.4. An ISE is also entitled to “end user relief”, which means that, in most situations, GST registered businesses will not charge GST on supplies made to an ISE.
- 2.1.5. Businesses need to meet certain conditions, which are outlined below, to apply to be approved as an ISE. However, becoming an ISE is optional and the benefits of obtaining ISE status are assessed on an individual commercial basis.
- 2.1.6. If a business decides not to seek approval as an ISE, or an application is not approved, the normal rules on registration for GST apply. All businesses with an annual taxable turnover in excess of £300,000 must register and charge GST where necessary.

### **2.2. Businesses which can become ISEs**

- 2.2.1. The following types of businesses can become ISEs –
  - banks
  - trust company businesses
  - fund services businesses
  - fund functionaries
  - collective investment funds and unregulated funds
  - companies, partnerships, foundations and trustees of trusts that, loosely speaking, do not form a link in a value chain leading to the consumption of goods or services by individuals resident in Jersey (“other entities”).
- 2.2.2. Banks, trust companies and fund services businesses are permitted to automatically qualify for ISE status in order to ensure that these businesses are not discouraged from taking on Jersey clients because of the risk of compromising their ISE status. It was considered to be in the best interests of the Island that banking services were available to all and that trust company and fund services (including the management and administration of pension funds for Jersey residents) were not restricted.

- 2.2.3. In addition, it was considered that requiring large, complex businesses such as banks to establish the place of residence of every client on an annual basis would be unduly onerous. One of the hallmarks of Jersey's GST regime is its administrative simplicity. The ISE regime seeks to extend this simplicity.
- 2.2.4. Other businesses can apply for ISE status if they qualify under the "general criteria" – broadly, if they do not make, or make a *de minimus* amount, of supplies to Jersey residents. Further analysis of the general criteria is provided at paragraph 3.8.2.

### 2.3. Fees payable by ISEs

- 2.3.1. The following ISE fees are set out in the Goods and Services Tax (International Services Entities) (Jersey) Regulations 2008 –

Type of business	ISE fee payable per business
Banks	£30,000
Trust company businesses	£7,500
Participating members of a trust company business affiliation	£200
Fund services businesses and fund functionaries	£2,500
Managed managers	£500
Other entities	£200
Vehicles administered by a trust company business	£200

- 2.3.2. The fee paid by a trust company business (**TCB**) is partly calculated by reference to the number of vehicles it administers (**TCB vehicles**). Further details regarding the calculation of the fee paid by a TCB are outlined in paragraph 3.4.1.
- 2.3.3. The fee payable in respect of TCB vehicles was increased from £100 to £200 on 1st January 2011. As a consequence, it is not currently proposed to change the fee charged in respect of TCB vehicles.
- 2.3.4. A similar increase was also applied to participating members of TCBs, hence no change to the fee charged in respect of participating members of TCBs is proposed at this time.
- 2.3.5. The total revenue raised from ISE fees in 2011 is currently £9 million. This represents an increase of 61% from the total revenue raised from ISE fees in 2010. This increase has been primarily caused by the doubling of the fee charged for TCB vehicles.

### 3. DETAIL AND PROPOSALS

#### 3.1. Options under consideration

- 3.1.1. As part of this review, consideration is being given to whether the ISE regime should be retained and, if so, whether it should be retained in its current form.
- 3.1.2. Three potential options exist –
- the ISE regime is retained with some minor amendments to address perceived inequity, administrative burden, etc.
  - the ISE regime is retained but with some major changes; or
  - the ISE regime is abolished and all businesses have to apply standard GST rules.
- 3.1.3. Examples of minor changes in the regime could include changes to the basic level of fees charged, or the introduction of tiered fees within business sectors.
- 3.1.4. Examples of major changes in the regime could include ISE status being made compulsory for certain categories of licensed service providers, only licensed service providers being able to obtain ISE status (i.e. those businesses which qualify solely under the general criteria could be excluded from ISE status in the future) or the number of businesses which can automatically obtain ISE status could be extended (e.g. to insurance providers).
- 3.1.5. Neither of these lists of potential changes should be considered exhaustive.

*Q. Does business support the continued existence of the ISE regime and why? Is it achieving the aims of collecting revenue from the financial services industry in an administratively simple manner and without placing the Island at a competitive disadvantage? What would be the implications if the ISE regime were abolished and businesses were subject to the standard GST rules? Are there any alternatives to the ISE regime which would meet the aims outlined above?*

The remainder of this Paper assumes that businesses do support the continued existence of the ISE regime, and asks questions which will help determine whether minor amendments or major changes are required. Broadly, this is separated into 2 parts: Section 3.2. looks at a simple, across-the-board increase in ISE fees, and Sections 3.3. to 3.8. look at issues associated with particular businesses which can, or may in the future, obtain ISE status.

### 3.2. Simple “across the board” increase in fees

- 3.2.1. All other ISE fees would have to increase by 52.1% to raise an additional £1 million in revenue, assuming that the fees charged for TCB vehicles and participating members of TCBs remained at £200 and there were no other changes to the ISE regime. The table below indicates the impact that this would have on the fees payable by ISEs.

Type of business	Current ISE fee payable per business	Potential ISE fee payable per business	Potential increase
Banks	£30,000	£45,621	£15,621
Trust company businesses	£7,500	£11,405	£3,905
Participating member of a TCB affiliation	£200	£200	Nil
Fund services businesses and fund functionaries	£2,500	£3,802	£1,302
Managed managers	£500	£760	£260
Other entities	£200	£304	£104
TCB vehicles	£200	£200	Nil

- 3.2.2. Alternatively, if all these ISE fees were increased in line with the percentage increase in GST from 1st June 2011 (i.e. 66.7%), the fees payable by the various businesses would be as outlined below and the total revenue raised from ISEs would be increased by £1.4 million.

Type of business	Current ISE fee payable per business	Potential ISE fee payable per business	Potential increase
Banks	£30,000	£50,000	£20,000
Trust company businesses	£7,500	£12,500	£5,000
Participating member of a TCB affiliation	£200	£200	Nil
Fund services businesses and fund functionaries	£2,500	£4,167	£1,667
Managed managers	£500	£833	£333
Other entities	£200	£333	£133
TCB vehicles	£200	£200	Nil

- 3.2.3. In producing the estimated revenue figures outlined above, it has been assumed that all businesses which are currently ISEs would continue to be ISEs after the increase in fees. However, because ISE status is optional, the increase in fees is likely to lead to some businesses opting out of ISE status, and therefore the estimated revenue figures should be considered a best case scenario. Indeed, the overall effect of increasing the fees as outlined above is extremely uncertain and may even lead to a fall in the total revenue raised from ISEs.

*Q. What would be the impact of these potential increases in ISE fees and why?*

### 3.3. Banks

- 3.3.1. A business which is regulated as a deposit taker by the Jersey Financial Services Commission (“**JFSC**”) may obtain ISE status on application and the payment of an annual fee of £30,000.
- 3.3.2. This fee is equivalent to the GST charged on expenses incurred by the business in Jersey of £600,000 (using a GST rate of 5%).
- 3.3.3. 38 deposit taking banks are currently regulated by the JFSC. Of these, just under a third did not apply for ISE status in 2011. From this it is assumed that many of these businesses consider that the irrecoverable GST and cost of administration which they suffer is less than the £30,000 ISE fee. However, it is not clear whether this is the only factor taken into account in this decision making process.

*Q. Why have certain banks decided not to adopt ISE status?*

- 3.3.4. The ISE fee currently paid by deposit taking banks is not linked to the size of their business (i.e. the largest banks on the Island pay the same fee as the smallest banks). There is a perception that this is inequitable as the administration saving achieved by the largest banks is greater than the smallest banks, but they both pay the same fee. In addition, there is a perception that the ISE fee paid by the largest deposit taking banks is low when compared to the fees paid by other businesses.
- 3.3.5. The regulatory fees payable by deposit takers to the JFSC are, in part, determined by size of the deposit taker; “size” in this context being determined by consolidated income. To improve the equity of the ISE fees paid by banks, a similar approach is being considered to link all, or part, of the ISE fee to the size of the bank. “Size” could be determined by consolidated income or some other suitable measurement. A proposal for ISE fees based on consolidated income is outlined below –

<b>Level of consolidated income</b>	<b>ISE Fee</b>
£5 million and under (or a loss or zero income)	£15,000
Over £5 million and up to and including £10 million	£25,000
Over £10 million and up to and including £20 million	£35,000
Over £20 million and up to and including £30 million	£45,000
Over £30 million and up to and including £50 million	£55,000
Over £50 million and up to and including £100 million	£65,000
Over £100 million	£75,000

*Q. How could the ISE fee payable by banks be amended such that the fee is related, wholly or partly, to the size of the relevant bank? What would be the impact of the proposal outlined above and why? Could this tiered approach be better based on another criteria?*

- 3.3.6. The views of banks are sought on whether the current ISEs fees they pay are equitable as compared to TCBs, fund functionaries/FSBs and other businesses.

*Q. Do deposit takers consider the current ISE fees to be equitable as compared to TCBs, FSBs, etc.?*

### **3.4. Trust company businesses**

- 3.4.1. A business which is regulated as a TCB by the JFSC may obtain ISE status on application and the payment of a fee calculated as follows –

- the sum of £7,500 per registration of an entity as an affiliation leader or as a non-affiliated person, plus £200 for each vehicle administered by the entity in its capacity as an affiliation leader or non-affiliated person; or
- the sum of £200 per registration of an entity as a participating member of an affiliation where the affiliation leader has paid £7,500 in respect of the same period and affiliation, plus £200 for each vehicle administered by the entity in its capacity as a participating member; or
- the sum of £7,500 per registration of an entity as a participating member of an affiliation where the affiliation leader has not paid £7,500 in respect of the same period and affiliation, plus £200 for each vehicle administered by the entity in its capacity as a participating member.

- 3.4.2. In order to meet the definition of a “vehicle” in the calculation above, an entity must broadly be capable of being eligible to be an ISE in its own right under the general criteria (see paragraph 3.8.2. for more detail). To reduce the administrative burden placed on TCBs, consideration is being given to removing this part of the definition, such that a “vehicle” is any entity to which TCB services are provided (excluding trustees) regardless of whether the entity could or could not be an ISE its own right. This measure would not affect the ability of vehicles to be classed as ISEs, merely the calculation of the fee payable by the TCB.

*Q. What would be the implications of this change in the definition of “vehicle” and why?*

- 3.4.3. The basis under which the fee payable by a TCB is calculated should result in larger TCB paying a larger fee. However, it is not clear whether this is true in practice.

*Q. Does the current basis of calculation result in the ISE fee paid by TCBs being commensurate to the size of their business? If not, why not?*

- 3.4.4. Legally, the fee is due and payable by the TCB, however it is understood that in the majority of cases the £200 payable in respect of each TCB vehicle is passed onto the relevant vehicle.
- 3.4.5. It appears that the majority of businesses which are regulated as TCBs by the JFSC have applied for ISE status. For those which have not applied for ISE status, it is assumed that the irrecoverable GST and cost of administration which they suffer is less than the ISE fee payable. However, it is not clear whether this is the only factor taken into account in this decision-making process.

*Q. Why have certain TCBs decided not to opt for ISE status?*

- 3.4.6. The views of TCBs are sought on whether the current ISEs fees they pay are equitable as compared to the banks, fund functionaries and other businesses.

*Q. Do TCBs consider the current ISE fees to be equitable as compared to banks, FSBs, etc.?*

### **3.5. Fund functionaries and fund services businesses**

- 3.5.1. A business which holds a permit under the Collective Investment Funds (Jersey) Law 1988, but is not itself a collective investment fund (**CI**F) may obtain ISE status on application and the payment of a fee of £2,500, other than where the entity is a managed manager (see paragraph 3.6.1.).
- 3.5.2. CIFs themselves are entitled to become ISEs on the payment of a £200 fee.
- 3.5.3. A business which is registered under the Financial Services (Jersey) Law 1998 to carry on fund services business (**FS**B) may obtain ISE status on application and the payment of a fee of £2,500, other than where the entity is a managed manager (see paragraph 3.6.1.).
- 3.5.4. It appears that a number of businesses which are regulated as fund functionaries/FSBs by the JFSC have not applied for ISE status. For those which have not applied for ISE status, it is assumed that the irrecoverable GST and cost of administration which they suffer is less than the ISE fee payable. However, it is not clear whether this is the only factor taken into account in this decision making process.

*Q. Why have certain fund functionaries/FSBs decided not to opt for ISE status?*

- 3.5.5. Currently, the flat rate fee paid by fund functionaries/FSBs is £2,500; whereas it is £7,500 for TCBs. In order to improve equity and raise additional revenues, consideration is being given to increasing the fee payable by fund functionaries/FSBs to £7,500 to make it consistent with TCBs.

*Q. Is there a justification for the difference in the basic fee charged to fund functionaries/FSBs (£2,500) and that charged to TCBs (£7,500)? What would be the impact if fund functionaries/FSBs were charged the same basic fee as TCBs (i.e. £7,500) and why?*

- 3.5.6. Due to the manner in which the overall fee paid by a TCB is calculated it should be, broadly, related to the size of its business. Currently this is not the case with fund functionaries/FSBs. *Prima facie* it appears inequitable for business of different sizes to be charged the same ISE fee. As a result, consideration is being given to identifying methods under which the fee paid by fund functionaries/FSBs could be related to the size of the relevant business.

*Q. Should the fee charged to fund functionaries/FSBs be related to the size of their business and why? If yes, how should this fee be calculated?*

- 3.5.7. The views of fund functionaries/FSBs are sought on whether the current ISE fees they pay are equitable as compared to the banks, TCBs and other businesses.

*Q. Do fund functionaries/FSBs consider the current ISE fees to be equitable as compared to banks, TCBs, etc.?*

### **3.6. Managed managers**

- 3.6.1. An entity which falls within the definition of “managed manager” is entitled to a reduced ISE fee of £500, reflecting the reduced activity undertaken by that entity.
- 3.6.2. The term “managed manager” is defined in the ISE Regulations, and broadly captures an entity which is regulated as a fund functionary/FSB but is managed under a service contract by another entity which is itself a fund functionary or FSB.
- 3.6.3. The fee paid by a managed manger is currently 20% of the fee paid by fund functionaries/FSBs, and that difference would be increased significantly if the flat fee payable by fund functionaries/FSBs was increased to £7,500. In order to improve equity and raise additional revenues, consideration is being given to increasing the fee payable by managed managers to £1,500.

*Q. What would be the impact if managed managers were charged a fee of £1,500 and why?*

- 3.6.4. In addition, under GST Direction 2008/17, the Comptroller of Taxes directed that a person may obtain ISE status for a fee of £200 if they are –
- a general partner of a limited partnership or a limited liability partnership that is an unregulated or unclassified fund; or
  - a trustee of a unit trust that is an unregulated or unclassified fund.
- 3.6.5. It is acknowledged that, as a minimum, the £100 fee contained in the published Direction should be updated to £200 to reflect the changes made to the fee payable by TCB vehicles and other entities.<sup>1</sup>
- 3.6.6. It is understood that ordinarily many of these entities would fall within the definition of a managed manager and hence would be subject to the £500 fee. Consideration is being given as to whether Direction 2008/17 should be removed. In order to inform this decision, the implications of removing this Direction need to be understood.

*Q. Is GST Direction 2008/17 still justified? Why? Would your answer be different if the standard managed manager fee was increased to £1,500? Is the current level of the fee appropriate even if the managed manager fee remains at £500?*

### **3.7. Financial services businesses not automatically eligible for ISE status**

- 3.7.1. Currently, businesses are eligible for ISE status via one of two routes –
- automatically eligible businesses: regulated banks, TCBs and fund functionaries/FSBs; or
  - businesses eligible under the general criteria (outlined at paragraph 3.8.2.): all other businesses which, broadly, do not form part of a supply chain ending in the Island.
- 3.7.2. Views are sought on whether any other sectors of the financial services industry should be automatically eligible for ISE status. This is considered particularly important in situations in which businesses have turned down Jersey-based clients because it would risk their ability to claim ISE status under the general criteria.

---

<sup>1</sup> In practice these entities have paid £200 during 2011 in accordance with the spirit of the treatment outlined in the Direction.

*Q. Should any other sectors of the financial services industry be automatically eligible for ISE status and why? If yes, how should the ISE fee be calculated for these other sectors? Have any businesses turned down Jersey based clients because it would risk their ability to claim ISE status under the general criteria?*

- 3.7.3. The current position is that no business sectors outside the financial services industry are automatically eligible for ISE status. As part of this consultation, representations are welcomed from business sectors outside the financial services industry which consider that they should be automatically eligible for ISE status.

*Q. Should any other business sectors outside the financial services industry be automatically eligible for ISE status and why? If yes, how should the ISE fee be calculated for these sectors? What would be the impact on ISE/GST revenues?*

### **3.8. “Other” ISEs**

- 3.8.1. Other businesses which are not automatically eligible for ISE status can become ISEs if they meet the general criteria set out in Article 60 of the GST Law.
- 3.8.2. The general criteria are –
- not more than 10% in value of all the supplies made by the entity of goods and services are made to individuals who belong in Jersey;
  - to the extent that the value of all the supplies of goods or services made by the entity in Jersey exceeds 10% of the value of all supplies of goods and services made by the entity, the supplies in Jersey are made only to an ISE;
  - no individual who belongs in Jersey has the effective use, or the effective enjoyment, of any asset owned or administered by the entity; and;
  - no individual who belongs in Jersey has the effective use, or the effective enjoyment, of any goods, or service, supplied to or by the entity.
- 3.8.3. The aim of the general criteria is to allow businesses which primarily transact with non-residents, such as providers of goods and services to clients outside the Island and/or with ISEs, to register as ISEs.
- 3.8.4. However, it is acknowledged that the criteria outlined above are open to interpretation, which leads to the creation of uncertainty as to which businesses fall within its scope.

- 3.8.5. This is partly addressed, as the GST Law allows businesses to apply for ISE status from the Comptroller of Taxes where the business is “substantially consistent” with the general criteria and the avoidance or reduction of GST is not the main purpose of the application.
- 3.8.6. However, the interpretation of the general criteria is important, as they are also utilised when calculating the ISE fee payable by TCBs; a set of criteria which is open to interpretation could result in different TCBs treating similar vehicles differently, with the result that one TCB pays more than another.

*Q. Is the retention of eligibility for ISE status under the general criteria justified and why? If yes, how could the general criteria in Article 60 of the GST Law be improved?*

- 3.8.7. There is no one particular type of entity that claims ISE status under the general criteria; however, some of the most common include –
- property companies, where property is rented to other ISEs;
  - property companies, where property is located outside the Island;
  - group service companies, where services are provided to other ISEs.
- 3.8.8. Currently, the ISE fee charged to these businesses is set at £200.
- 3.8.9. In order to improve the equity of the ISE fees, consideration is being given to amending this fee so that it more accurately reflects the benefit obtained by the business.
- 3.8.10. It is acknowledged that this is a difficult task, as many of these businesses could register for GST and reclaim any GST suffered if they were not ISEs. Therefore these businesses tend to register as ISEs to achieve administrative and cash flow savings, rather than GST savings. In order to be effective, the fee therefore has to be related to these administrative and cash flow savings that the businesses achieve.
- 3.8.11. The views of business are sought on how this can be achieved. Potential suggestions include relating the fee to total turnover, turnover which would be subject to GST at the standard rate if ISE status were not in place, or factors which indicate the scale of the business’s presence in Jersey (e.g. staff employed, floor space utilised).

*Q. How could the fee charged to “other entities” more accurately reflect the benefit these businesses obtain from ISE status?*

#### 4. QUESTIONS FOR RESPONDENTS

##### General review

1. Does business support the continued existence of the ISE regime and why?
2. Is the regime achieving the aims of collecting revenue from the financial services industry in an administratively simple manner and without placing the Island at a competitive disadvantage?
3. What would be the implications if the ISE regime were abolished and businesses were subject to the standard GST rules?
4. Are there any alternatives to the ISE regime which would meet the aims outlined above?
5. Are there any other business sectors, either within or outside of the financial services industry, which should be automatically eligible for ISE status and why? If yes, how should the ISE fee be calculated for these sectors?
6. Have any businesses turned down Jersey-based clients because it would risk their ability to claim ISE status under the general criteria? Please provide detail.
7. Is the retention of eligibility for ISE status under the general criteria justifiable and why?

##### Achieving greater equity between the ISEs fees charged

8. Are the fee levels currently charged to ISEs considered equitable? If not, why not? How could the equity of ISE fees be improved?
9. How could the ISE fee payable by banks be amended such that the fee is related, wholly or partly, to the size of the relevant bank? What issues would be created if the proposal outlined in paragraph 3.3.5. were adopted and why? Could this tiered approach be better based on other criteria?
10. Does the current basis of calculation result in the ISE fee paid by TCBs being commensurate to the size of their business? If not, why not?
11. Is there a justification for the difference in the flat rate, standard fee charged to fund functionaries/FSBs (£2,500) and that charged to TCBs (£7,500)? What would be the impact if fund functionaries/FSBs were charged the same flat rate fee as TCBs and why?
12. Should the fee charged to fund functionaries/FSBs be related to the size of their business and why? If yes, how should the fee be calculated?
13. How could the ISE fee charged to “other entities” more accurately reflect the benefit these businesses obtain from ISE status?

Reducing the compliance burden associated with ISE status

14. In the context of TCBs, what would be the implications of the change to the definition of “vehicle” outlined in paragraph 3.4.2. and why?
15. How could the general criteria in Article 60 of the GST Law be improved?
16. What aspects of the ISE regime discourage businesses which are automatically eligible to be ISEs from seeking such status? Specific examples would be helpful.
17. What factors are included in the decision-making process that businesses go through when deciding whether to opt for ISE status? Is the decision based on a straightforward comparison of costs, or are other factors involved? If yes, what are those factors?
18. What practical changes could be considered which would improve how ISE status works? (e.g. registration, payment, making supplies to ISEs, etc.)

Raising additional revenue from ISEs

19. The Minister for Treasury and Resources committed in his Budget speech to increase the total revenue raised from ISE fees. What is the most appropriate way of achieving this? An “across-the-board” increase in all ISE fees?<sup>2</sup> A tiered approach to each category of ISE? A broadening of the number of businesses which can become ISEs?
20. What would be the impact of the potential increases in ISE fees outlined in section 3.2. and why?
21. What would be the impact if managed managers were charged a flat rate fee of £1,500 and why?
22. Is GST Direction 2008/17 still justified? Why? Would your answer be different if the standard managed manager fee was increased to £1,500? Is the current level of the fee appropriate even if the managed manager fee remains at £500?
23. In light of the answers to questions above, would your suggestions improve the equity of the fees charged?
24. Are there any further comments that you would like to make in relation to ISEs which have not been adequately covered by the answers to the questions set out above?

---

<sup>2</sup> As outlined above, there is currently no proposal to increase the fees paid in respect of TCB vehicles or the fees paid by participating members of TCBs.