

# STATES OF JERSEY



## **REVIEW OF GOODS AND SERVICES TAX: DE MINIMIS WAIVER – FOURTH REPORT (S.R.1/2008)– RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES**

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**Presented to the States on 26th February 2008  
by the Minister for Treasury and Resources**

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**STATES GREFFE**

**REVIEW OF GOODS AND SERVICES TAX: DE MINIMIS WAIVER – FOURTH REPORT  
(S.R.1/2008) –  
RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES**

(1) Introduction:

**I have read the comments of the Corporate Affairs Scrutiny Panel, whose work I have generally found very helpful in ensuring that the States Assembly reach a reasoned and reasonable decision. In this instance I fear that they have been able, at the present time, only to reflect the views of those who have spoken to the Panel, since in this case the conclusions of the Panel are based largely on personal opinions and beliefs rather than evidence.**

**As the Panel recognise in their report, I could have made a Ministerial Decision to set a level of *de minimis* waiver, but in fairness both to States Members and to the community generally, I felt it was only right that I should first bring the matter to the Assembly. I was therefore pleased that the Assembly agreed that the *de minimis* waiver of duty or Goods and Services Tax on imported goods below which the duty or tax due will not be collected should be fixed at £12.**

(2) Key Findings of the Review:

- (i) The Treasury and Resources Minister's proposal to set a *de minimis* waiver at £12 (which would allow tax free importation of goods up to the value of £400) is based almost exclusively on the issue of collection costs and resource implications. A decision on the *de minimis* waiver should take into account a broader view of the island's economy.

**Response:**

**In deciding on a figure of £12, which would translate into an import value of £400 if no other duties or taxes were payable, I have had to rely on the limited amount of information and evidence currently available to me. I have tried to take a middle of the road approach between those whose business is the importation of goods, who would like a higher figure, and some local retailers, who would like a lower figure. However, I have not chosen the sum of £12 simply because it is a sort of halfway figure between two extremes. Notwithstanding the scarcity of data available, I have considered the impact on the economy of the Island of setting the *de minimis* level at different figures and I consider £12 appropriate.**

- (ii) Local Retailers play an important role in the Island's economy and they have a strong case for believing that a high *de minimis* level will give external competition an unfair advantage which will harm their businesses and ultimately harm consumer interests.

**Response:**

**I appreciate that pressures are already faced by local retailers, many of whom have voiced their feelings, but given the analysis that most imports are currently valued at under £100, I do not think that, of itself, a £12 *de minimis* will significantly worsen the problem.**

- (iii) A high *de minimis* level would provide a further price incentive to consumers to search for cheap options on the Internet. There already exist substantial price incentives for local residents to purchase goods off-island. A 3% margin on goods will not by itself create a substantial movement away from local purchasing but is likely to exacerbate an existing trend. It is possible that the introduction of GST will encourage more consumers to investigate options on-line.

**Response:**

**For many countries, including Jersey, the nature of consumer purchases is changing, with more purchases being made over the Internet. A 2007 report by the UK Office of Fair Trading referred to the rapid growth of Internet shopping and estimated that the UK Internet shopping market to be worth over £21.4 billion with over 20 million people shopping online.**

**Web-based businesses are able to offer very competitive prices through an ability to buy in bulk with minimal overheads compared to retailers and wider choice. Also, consumers are able to shop in the comfort of their own homes at times suitable to busy working lives. Internet retailers are also very efficient at offering speedy and cheap delivery.**

**It may well be that such advantages mean that there is already a significant incentive to purchase goods in this manner, and that a further 3% differential driven by GST or the agreed *de minimis* waiver would do little to alter purchasing patterns and trends.**

- (iv) To make a significant difference to retailers the level of *de minimis* would need to be set in the region of £150 (this would mean the *de minimis* for GST reduced to £4.50).

**Response:**

**See 2(ii) above**

- (v) It is not only retailers that would lose out. If a significant amount of retail purchasers switch to off-Island suppliers, the States could lose not only the GST on those sales but also income tax on the lost company profits and reduced employee wages.

**Response:**

**This is only part of the picture and it is important to look beyond this gross loss of revenue. It has to be balanced against the collection costs that would be incurred in collecting the revenue. At a certain level it will cost more to collect the revenue than the value of the revenue itself, and this makes it pointless from a purely fiscal standpoint for the States to try and collect the revenue. Purchasing goods from off the Island in any form can bring economic gains for the Island as a whole.**

**Where those goods are cheaper than those provided in the Island (or the competition keeps prices lower in the Island), there will be an economic gain through increased efficiency and a better allocation of resources. Where competition helps to keep prices down and lowers inflation, this will also help the competitiveness of Island businesses.**

- (vi) A high *de minimis* also means that the majority of consumers who continue to purchase goods locally and pay GST on these purchases are effectively subsidising a minority of other consumers who are avoiding GST (legitimately) by buying from off-Island suppliers.

**Response:**

**I am pleased to note that the Panel recognises that the majority of consumers will continue to purchase goods locally, however I do not agree that this will ‘subsidise’ the minority who purchase goods from off-Island suppliers given the analysis that most imports are currently valued at under £100.**

- (vii) We recognise that a low *de minimis* level of £150 would have significant resource implications in terms of additional operatives and storage facilities for the Customs Department, Jersey Post and courier operators.

**Response:**

**I agree with the findings of the Panel regarding the resource implications of a *de minimis* level that would waive the liability to GST on goods to the value of £150.**

- (viii) We believe that a commercially minded approach to the processes of assessment and collection of the tax, together with the competitive nature of the free market in parcels and packets, would be capable of finding solutions to the logistical issues, whilst minimising the extra resources and costs that carriers might wish to pass on to their customers in their pricing structures.

**Response:**

See comment to 2(ix) below.

- (ix) For this reason we believe that the assessment, collection and submission to government of taxes and duties on unaccompanied personal imports should be the responsibility of the carriers, with Customs involvement focused on risk based auditing and the monitoring of 'ro-ro' car and van traffic, and airport passenger traffic as at present. We believe that a de-minimis level closer to the European norm (equivalent to about £100 at Jersey's 3% tax level) would protect the tax base and ensure greater fairness for retailers and consumers.

**Response:**

**I see little evidence that this method of collection would protect the tax base or ensure greater fairness for retailers and consumers. I believe that whilst such a scheme would have little positive effect on the resource implications for the Customs and Immigration Service, it would greatly increase the resource and storage requirements for the Post Office and fast courier companies, with additional costs being passed to the final consumer.**

**GST is designed to be a simple tax with low administration costs, and it is my belief that such a scheme would complicate the tax and cause confusion and additional cost to the consumer.**

(3) Recommendations in the Report:

- (i) the de minimis waiver in respect of the Goods and Services Tax and duty on personally imported goods below which the tax will not be collected should be reviewed within a period of 12 months from the start of GST.

**Response:**

**It is my intention that a general review of GST is undertaken within 12 months following its introduction. This review would include all matters pertaining to the tax including the *de minimis* waiver.**

- (ii) the States request the Treasury and Resources Minister to prepare any necessary legislative changes to allow parcel and packet carriers to calculate and collect GST and duty for items imported unaccompanied by members of the public and other 'non approved' importers.

**Response:**

**It would be inappropriate to prepare any changes at this time. Any recommendation for legislative changes should be included in the findings of a future review.**

- (iii) full and accurate records are kept by value for all incoming personal consignments (at whatever value) so that more accurate statistics on the revenue loss can be built up.

**Response:**

**The new Customs and Immigration Service computer system will have the facility to provide reports on manifested goods that have been released under a *de minimis* waiver, as well as reports on consignments charged to duty or tax via un-manifested routes. However, the Service has insufficient resources to compile full and accurate records of personal consignments imported through un-manifested routes which do not incur a charge to duty or tax.**

**I consider that the risk to the revenue with the current *de minimis* is acceptable for the reasons already stated – however, additional research will be undertaken as part of the overall review mentioned in 3(i) above.**

- (iv) that the Comptroller and Auditor General be requested to undertake an independent process review on the procedures for assessing incoming parcel traffic for GST and collecting the tax, at some point in the near future.

**Response:**

**I do not consider that a specific process review is required in isolation, but all processes for the assessment and collection of GST will be included under the general review mentioned at 3(i) above.**

- (v) the possibility of having a fixed-amount GST for low-value imports should be given full consideration by the Attorney General, as an alternative to lowering the *de minimis* waiver.

**Response:**

**The legal implications of a different approach whereby the onus for collection of the duty or fee rests with the carriers or the importers, rather than with the Customs Service, will be considered as part of the General review of GST mentioned in 3(i) above.**

(4) Conclusion:

**I appreciate that the Panel may feel that they were hampered by the lack of time available to them, although my proposed *de minimis* limit had been public knowledge for several months prior to the debate.**

**I am grateful that the Panel accepts the need to keep the operation of the Customs Service as simple as possible, and in this context I note that they would therefore like a further review within the first 12 months of operation of GST to see whether an alternative, quite radical, approach would be beneficial. As mentioned above, it is my intention that a comprehensive review of GST is undertaken within the first 12 months of operation and the *de minimis* waiver will be included in this review.**

**As part of that process the legal implications of a different approach will be considered, whereby the onus for collection of the duty or fee rests with the carriers or the importers rather than with the Customs Service.**

**I have tried to keep to the guiding principle agreed at the initial stage, of trying to keep GST as simple as possible and trying to keep the costs of administration as low as possible. On that basis I believe that the figure of £12 is a reasonable one to apply and was pleased that 38 members of the Assembly, including 3 members of the Corporate Services Scrutiny Sub-Panel, agree with me.**