

States of Jersey  
States Assembly



États de Jersey  
Assemblée des États

# **CORPORATE SERVICES SCRUTINY PANEL**



## **DRAFT BUDGET 2018 INTERIM REPORT (IMPÔTS DUTIES)**

**Presented to the States on 23rd November 2017**

**SR.10/2017**



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## Introduction

In preparation for its review of the Draft Budget 2018, the Corporate Services Scrutiny Panel identified a need to undertake some background research and data gathering in relation to three areas of tax policy. The three areas were:

- The link between Impôts duties on alcohol and tobacco and health considerations
- The income forecasting model used by the Department for Treasury and Resources
- Changes in the taxation burden on individual taxpayers and the link between tax revenue income for the States and increases in population

The reason for selecting these particular areas was to follow up on issues identified in the Panel's [report on the Draft Budget 2017](#) and also in the context of a new population policy which the Chief Minister is expected to publish before the end of this year.

This report represents the culmination of the Panel's work on the first of the above areas. The work follows a recommendation in the Panel's Budget 2017 report that the Minister for Treasury and Resources provide the evidence for linking rises in Impôts duties to health considerations. The Minister provided a substantial amount of evidence to support his position, which has formed the subject of this review.

The other two areas of work will be reported on once completed. The review of the income forecasting model takes the form of a report from the Panel's advisor, MJO Consulting, which focuses on proposed changes to the operation of the model.

The review of changes in the taxation burden and the link with increases in population looks firstly at two sources of data on changes in taxation over the last 10 years, and also at the way the Social Security Fund is topped up for lower earners whose contributions fall below the specified "Standard Earnings Monthly Limit".

## Impôts duties and the link with alcohol and tobacco use

### Background

1. The purpose of this review was to examine the available evidence for linking increases in Impôts duties to the reduction in consumption of alcohol and tobacco.
2. The evidence considered in this report has been put forward by the Minister for Treasury and Resources to support his statement in the [2017 Budget](#) that above inflation increases in alcohol duties are “in furtherance of the alcohol policy and in recognition of the costs to the health service of alcohol misuse”<sup>1</sup>.
3. As well as defraying the health costs associated with alcohol consumption, it has also been claimed that increasing alcohol duties will help reduce consumption.<sup>2</sup>
4. In the Panel’s [report on the 2017 Budget](#), it called for more evidence to be presented to justify basing impôts increases on health considerations.
5. The majority of evidence relates to alcohol, however there is also some evidence cited in relation to tobacco.
6. For ease of reference, the Minister’s comments and evidence cited are reproduced in Figure 1 below.

#### **Minister for Treasury and Resources – evidence supplied to Corporate Services Scrutiny Panel**

**Panel Finding:** Increases in Impôts duties for alcohol and tobacco are in part linked to health considerations.

#### **Minister’s response:**

Rather than being in part linked, the strength of evidence for the causal link between the price of alcohol, level of consumption, and related harm to a population is considered extremely robust. Studies demonstrating this link include systematic reviews and meta-analyses, which are considered the gold standard in scientific evidence, as they analyse the results of all available research studies on a particular intervention, in order to calculate an overall effect size.

Pricing policies and taxation are therefore employed as one of the most reliable tools to decrease population-level alcohol-related harm and per capita consumption. This approach should be distinguished from provisions targeted at sub-groups with alcohol dependence, who require specialist care and clinical support – although price increases serve to create a supportive environment for these higher tier measures. Universal price increases impact behaviour at a wider population level, and more so among price-sensitive groups such as young people. This wider population-level approach, by impacting behaviour to a small degree, but for a larger proportion of the population, leads to large economic savings; for

<sup>1</sup> [2017 Budget, p21](#)

<sup>2</sup> [S.R.8/2016 Ministerial Response](#)

example, through increased productivity in the workplace, reductions in preventable cancers and other illness in later life, and reductions in alcohol-related crime, violence and road accidents.

WHO and OECD both recommend tax increases as part of a strategy to reduce the harm caused to society by the use of alcohol.

It is also important to note that while increases on impôts duties are linked to reduced consumption and therefore need to be considered as measures to improve health, these fiscal measures form part of a strategic response that together impact on the known health and social harms.

**Panel Finding:** There is a lack of clear statistical evidence showing the impact that rises in impôts duties have on consumption of alcohol and tobacco.

**Minister's response:**

Meta-analysis of 112 research studies on the link between taxes and price and alcohol consumption:

<http://onlinelibrary.wiley.com/doi/10.1111/j.1360-0443.2008.02438.x/full>

Systematic review of 50 research studies on impact of price of alcohol on alcohol-related disease, traffic crash deaths, sexually transmitted disease, violence and crime:

[http://ajph.aphapublications.org/doi/abs/10.2105/AJPH.2009.1860\\_07](http://ajph.aphapublications.org/doi/abs/10.2105/AJPH.2009.1860_07)

Global research and policy advice:

<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3860576/>

<http://www.who.int/mediacentre/factsheets/fs349/en/>

<http://www.oecd.org/health/oecdoutlinesactionforgovernmentstotackheavycostofharmfuldrinking.htm>

The relationship between alcohol taxes and binge drinking:

<http://onlinelibrary.wiley.com/doi/10.1111/add.12818/abstract>

Relationship between small increases in tax above inflation on violence-related injuries in England and Wales.

<http://injuryprevention.bmj.com/content/early/2016/06/16/injuryprev-2015-41884.abstract>

Relationship between alcohol tax policies and health inequalities.

<https://www.ncbi.nlm.nih.gov/pubmed/26905063>

When taken alongside the considerable scientific evidence of pricing impact, our own local evidence of *per capita* consumption alongside above-inflation impôts duties appears to support the idea that Islanders' alcohol consumption levels are similarly influenced by price mechanisms.

<https://www.gov.je/SiteCollectionDocuments/Health%20and%20wellbeing/R%20Alcohol%20Profile%202015%2020151112%20MC.pdf>

Much of the evidence presented above links price and consumption having impact on younger people. Locally, we are able to identify, similarly to other jurisdictions, that with above-inflation rises alongside other strategic measures, that both self-reported alcohol consumption and tobacco consumption have steadily fallen amongst school-age children and young people over the same periods. This is particularly important in delaying unhealthy behaviours and setting healthier behaviours as our Islands young people grow into a healthier adulthood.

<https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20A%20Picture%20of%20Health%20Jersey%202014%2020150302%20HI.pdf>

Price and tax measures are an effective and important means of reducing tobacco consumption by various segments of the population, in particular young persons.

[http://www.who.int/tobacco/publications/economics/tax\\_administration/en/](http://www.who.int/tobacco/publications/economics/tax_administration/en/)

Smokers are no different to other consumers when spending money: price dominates decision-making. Consequently, increasing the price of tobacco through taxation remains the single most effective way of reducing smoking rates (Wilson L.M., Tang E.A., Chander G., *et al* 2012) Impact of tobacco control interventions on smoking cessation, and prevalence: a systematic review. *Journal of Environmental and Public Health* Article ID961724.

Economic models show that a 10% increase in price leads to a 4% drop in smoking prevalence across the population, with higher quit rates among lower-income smokers and younger smokers (Jha & Chaloupka, 2009). *Curbing the epidemic: Governments and the economics of tobacco control* World Bank.

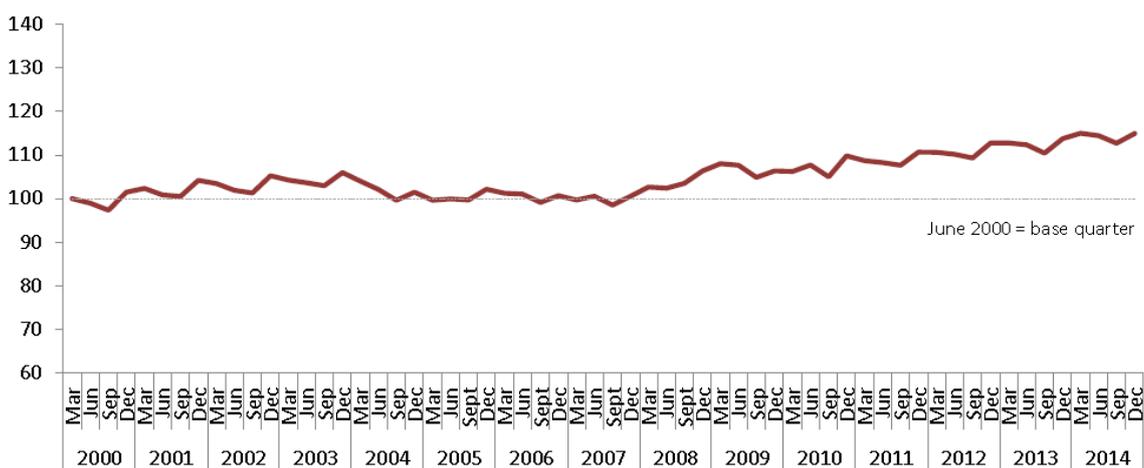
Additionally, it should be borne in mind that the Economics and Statistical Departments of the World's largest Treasuries calculate the price-elasticity of demand for excisable goods such as alcohol and tobacco. These calculate the relationship between price increases and demand. It would be disproportionately expensive for Jersey to attempt such analysis. However, we can conclude from available data that Jersey has not yet reached the tipping point where a duty-increase not only generates reduced demand but also reduces States revenues.

Figure 1

## Alcohol prices

- Since 2000, alcohol prices in Jersey have increased more than the retail price index<sup>3</sup>.

Graph 18: Relative alcohol price index: 2000 to 2014



Data source: States of Jersey Statistics Unit

Figure 2

<sup>3</sup> [Jersey Alcohol profile 2015](#)

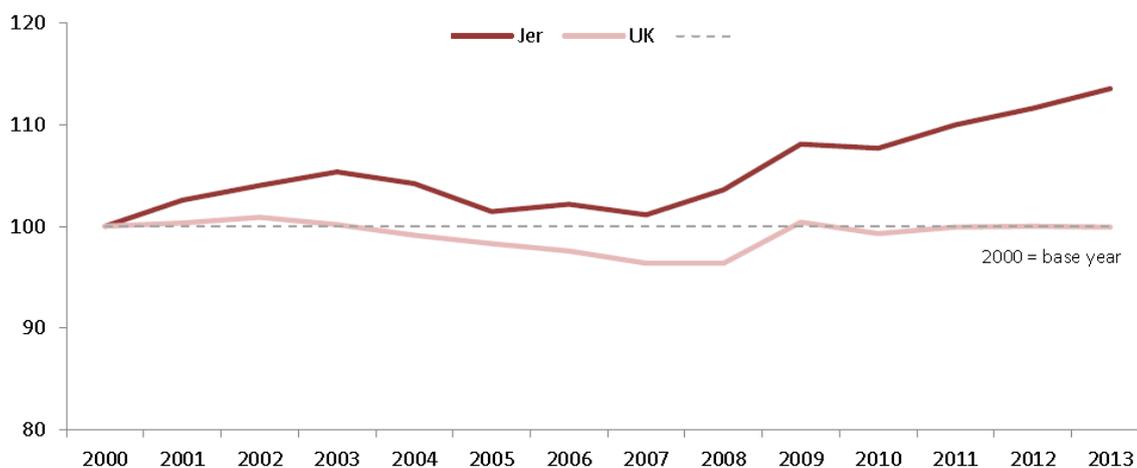
8. Similarly, annual impôts duty increases in most years have exceeded RPI<sup>4</sup>:

Year	Impôts increase	RPI (June)
2018 <i>(proposed)</i>	2.50%	2.50%
2017	5.20%	1.50%
2016	3.90%	0.90%
2015	5.76%	1.60%

Figure 3

9. Over the period since 2000, UK alcohol prices have remained in line with inflation, while Jersey prices have risen 14%<sup>5</sup>

Graph 19: Relative alcohol price index, Jersey and United Kingdom, 2000 to 2013



Data source: States of Jersey Statistics Unit, HSCIC Lifestyle Statistics (based on ONS data)

Figure 4

10. Taking some specific examples, the Panel notes that between 2004 and 2017, the duty on a litre of whisky rose by 82% while duty on a bottle of table wine rose by 62%.<sup>6</sup> This compares to UK duty rises over the same period of 11.1% and 20.7% respectively.
11. Looking at the impact of duty rises on retail prices, the retail price in Jersey for whisky increased by 39.8% between 2004 and 2017, while the UK increase was 23.6%.<sup>7</sup>

<sup>4</sup> Source: Impôts increases - States of Jersey Annual Budgets, RPI increases - States of Jersey Statistics Unit, Retail Prices Index report

<sup>5</sup> [Jersey Alcohol Profile 2015, p31](#)

<sup>6</sup> Based on data contained within the [2004 budget](#) (p28) and [2018 budget](#) (p25)

<sup>7</sup> Based on data contained within the [2004 budget](#) (p28) and [2018 budget](#) (p25)

## Alcohol Policy

12. The "[Alcohol and Licensing Strategy for Jersey](#)" was published by the Council of Ministers in September 2014<sup>8</sup>.
13. Parts of the Strategy have now been superseded by the ongoing work on a new Licensing Law, however the new law does not cover Impôts duties.
14. The Strategy published in 2014 gives 4 areas of action in relation to alcohol pricing:
  - Equalisation of Impôts duty
  - Review of hypothecation of impôts duty
  - Control of drinks promotions and pricing incentives review
  - Minimum pricing review
15. The equalisation of impôts duty seeks to ensure that the duty on a unit of alcohol is the same, whether it is beer, cider, wine or spirits. This recognised the higher duty on spirits as well as other anomalies that had occurred over time.
16. Aside from the equalisation of duty, there is no other reference in the strategy to annual increases of impôts duty or specifically to using impôts duty increases to discourage consumption.

## Summary of evidence

17. A large amount of evidence has been presented in support of the link between increasing alcohol taxes and the corresponding health benefits.
18. There have been many academic research studies carried out in this area. The evidence presented includes individual reports as well as two systematic reviews of 50 and 122 other studies. These are explained by the Minister for Treasury and Resources as "*the gold standard in scientific evidence, as they analyse the results of all available research studies on a particular intervention, in order to calculate an overall effect size*"<sup>9</sup>.
19. The majority of the studies presented are from American institutions. The systematic reviews may have included UK research within their scope, but this is not clear.
20. The evidence also includes international guidance from global bodies such as the World Health Organisation and OECD. Both of these organisations suggest using pricing mechanisms in relation to alcohol to reduce demand.

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<sup>8</sup> [R.139/2014](#)

<sup>9</sup> [S.R.8/2016 Ministerial Response, p2](#)

## Academic evidence

21. A systematic review of 112 studies of alcohol tax or price effects by academics at the University of Florida in 2009 found that:

*“A large literature establishes that beverage alcohol prices and taxes are related inversely to drinking...Public policies that raise prices of alcohol are an effective means to reduce drinking”<sup>10</sup>*

22. Another study by academics at the University of Florida looked at 50 articles on the effects of alcohol taxes. This study found that:

*“Public policies affecting the price of alcoholic beverages have significant effects on alcohol-related disease and injury rates”<sup>11</sup>*

23. An article in the journal “Alcohol Research and Health” in 2011 reviewed studies investigating the effects of prices (or taxes) on alcohol use and abuse:

*“...numerous studies over the last two decades using a variety of econometric and statistical methods and different types of data have confirmed that higher prices substantially can reduce alcohol use (and abuse) and related adverse consequences even among heavier drinkers.”<sup>12</sup>*

24. The review concluded by quoting another study:

*“From a public finance perspective, raising alcohol taxes also is among the most cost-effective instruments to reduce harm and promote public health.”<sup>13</sup>*

25. Most studies found that increasing alcohol taxes had an impact on younger drinkers and binge drinkers in particular.

*“...nearly all studies investigating the effects of price on drinking, both in the general population and in population subgroups (e.g., heavier drinkers or youth and young adults), have identified a downward-sloping demand curve, indicating that the consumption of alcoholic beverages would be reduced if prices were raised. The impact of such measures seems to be larger in the long run than in the short run and tends to be particularly strong for adolescents and young adults”<sup>14</sup>*

26. In light of the evidence that increased prices reduces demand among younger drinkers, the Panel considers that this is an area that could be explored further by policy setters.

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<sup>10</sup> [A.C. Wagenaar, M.J. Salois, K.A. Komro, Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies, 2009](#)

<sup>11</sup> [A.C. Wagenaar, A.L. Tobler, K.A. Komro, Effects of Alcohol tax and Price Policies on Morbidity and Mortality: A Systematic Review](#)

<sup>12</sup> [Xu, Xin, and Frank J. Chaloupka. “The Effects of Prices on Alcohol Use and Its Consequences.” \*Alcohol Research & Health\* \(2011\)](#)

<sup>13</sup> [Xu, Xin, and Frank J. Chaloupka. “The Effects of Prices on Alcohol Use and Its Consequences.” \*Alcohol Research & Health\* \(2011\)](#)

<sup>14</sup> Xin and Chaloupka, 2011

The Panel would be interested to know whether consideration has been given to increasing impôts duties on alcoholic drinks that are popular with younger drinkers.

27. A UK based study in the journal “Injury Prevention” looked at the impact of alcohol price increases on violence related injuries in England and Wales:

*“Small increases in the price of alcohol, above inflation, in both markets, would substantially reduce the number of patients attending EDs for the treatment of violence related injuries in England and Wales”*

28. While excise taxes/ impôts duties are the most common form of alcohol taxation, other methods such as minimum unit price or value based taxes are utilised in some countries. A UK study looked at the effectiveness of different types of pricing strategies and found that:

*“Alcohol-content based taxation or minimum unit pricing would lead to larger reductions in health inequalities across income groups... alcohol-content based taxation and minimum unit pricing would have the largest impact on harmful drinking, with minimal effects on those drinking in moderation.”*

### International guidance

29. Guidance issued by the World Health Organisation outlines a number of ways to reduce the problems associated with alcohol consumption. The recommended strategies include:

*“reducing demand through taxation and pricing mechanisms”<sup>15</sup>*

30. The WHO guidance goes on to suggest 10 policy options and interventions. One of these is pricing policies.
31. In a report, “Tackling Harmful Alcohol Use”, the Organisation for Economic Co-operation and Development (OECD) outlines policy approaches to reducing alcohol use. This includes the option to increase alcohol costs, whether through increased taxes or minimum pricing.
32. Minimum pricing has a more direct impact on the price of alcohol, however taxation policies are more commonly used by OECD countries.
33. The OECD report also notes that where duties are levied at different rates across different products, this can have the effect of inducing consumers to switch to other products, rather than reducing alcohol consumption overall.<sup>16</sup>

<sup>15</sup> [WHO Alcohol fact sheet, January 2015](#)

<sup>16</sup> [OECD report, page 131](#)

## Relevance to Jersey

34. None of the evidence presented is based on actual experience or research conducted in Jersey (which perhaps reflects the size and scale of institutions that usually undertake this type of research).
35. The Minister's response is based on a presumption that parallels can be drawn between experience in Jersey and other larger Western jurisdictions such as the UK and the USA.
36. For example:

*"When taken alongside the considerable scientific evidence of pricing impact, our own local evidence of per capita consumption alongside above-inflation impôts duties appears to support the idea that Islanders' alcohol consumption levels are similarly influenced by price mechanisms."<sup>17</sup>*

37. In relation to work undertaken by other larger countries to analyse pricing mechanisms, the Minister also states:

*"Additionally, it should be borne in mind that the Economics and Statistical Departments of the World's largest Treasuries calculate the price-elasticity of demand for excisable goods such as alcohol and tobacco. These calculate the relationship between price increases and demand. It would be disproportionately expensive for Jersey to attempt such analysis. However, we can conclude from available data that Jersey has not yet reached the tipping point where a duty-increase not only generates reduced demand but also reduces States revenues."<sup>18</sup>*

## Tobacco

38. The majority of evidence presented relates to alcohol duties. There is much less in relation to tobacco duties. This is perhaps because the links between tobacco use and adverse health consequences are generally well rehearsed and accepted.
39. The World Health Organisation Technical Manual on Tobacco Tax Administration sets out that:

*"Of all tobacco-product taxes, excises are the most important for achieving the health objective of reduced tobacco consumption, since they are uniquely applied to tobacco products and raise the prices of these products relative to the prices of other goods and services."<sup>19</sup>*

40. The WHO Manual goes on to outline some of the evidence for linking tobacco taxes with health considerations:

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<sup>17</sup> [S.R.8/2016 Ministerial Response, p3](#)

<sup>18</sup> S.R.8/2016 Ministerial Response, p4

<sup>19</sup> [WHO Technical Manual On Tobacco Tax Administration](#), p11

*“Growing evidence clearly shows that as taxes on tobacco products increase, a significant number of premature deaths will be averted as youth are deterred from taking up tobacco use and adult users quit, leading to substantial reductions in the health and economic burden caused by tobacco use.”<sup>20</sup>*

41. The WHO Manual recognises the problems of tobacco smuggling when high tax increases are implemented and suggests a number of ways to combat smuggling:

*“Looking at other tobacco products, smuggling in hand rolling tobacco (HRT) remained a serious problem: more than half of HRT consumed in the UK is illegal (ASH, 2009)”<sup>21</sup>*

42. The [States of Jersey Tobacco Strategy 2017-2022](#) includes a policy goal to reduce the affordability of tobacco products.<sup>22</sup>

43. The Strategy outlines the rationale for increasing tobacco taxes:

*“As effective tobacco taxes lead to lower smoking rates this contributes to the reduction of governments’ expenditures for the health care costs associated with preventable illness caused by tobacco consumption. Increasing tobacco taxes is particularly important and effective for protecting young people from initiating or continuing tobacco consumption (WHO, 2015c).”<sup>23</sup>*

44. The Actions identified by the strategy in this area include agreeing an appropriate minimum annual above inflation price/tax escalator for tobacco products and reducing the price differential between rolling tobacco and other forms of tobacco.<sup>24</sup>

### The counter-arguments

45. The purpose of this report has been to review the evidence put forward in support of linking alcohol and tobacco impôts duty rises with the health benefits arising therefrom.

46. A number of counter arguments to the routine annual impôts increases have been put forward. These counter arguments do not directly challenge the evidence presented, but offer a different perspective.

47. The Panel received a number of submissions from key stakeholders as part of its review of the Draft Budget 2017. The [submissions](#) from representatives of the tourism, brewery and tobacco industries raised a number of points about increasing impôts duties.<sup>25</sup>

48. It has been argued that it is difficult to quantify the health costs in Jersey that are directly attributable to alcohol and tobacco use. This makes it problematic to compare these costs with the overall amount of alcohol and tobacco impôts duties raised.

<sup>20</sup> [WHO Technical Manual On Tobacco Tax Administration](#), p76

<sup>21</sup> [WHO Technical Manual On Tobacco Tax Administration](#), p82

<sup>22</sup> [States of Jersey Tobacco Strategy 2017-2022](#), p16

<sup>23</sup> [States of Jersey Tobacco Strategy 2017-2022](#), p16

<sup>24</sup> [States of Jersey Tobacco Strategy 2017-2022](#), p17

<sup>25</sup> Submissions received included Channel Island Tobacco Importers and Manufacturers Association, Jersey Hospitality Association and Randalls.

49. It is also argued that excessive impôts rises could threaten jobs and investment within the hospitality industry, which overall contributes significant amounts to Jersey's economy and the States Treasury. This is set against the background of a pub industry that has already lost over 60 pubs, inns and bars in the last two decades.<sup>26</sup>
50. Concern is also expressed that duty rises could force problems of alcohol and tobacco misuse out of the legally controlled pub or restaurant sector and into the unlicensed home environment, therefore potentially exacerbating the problem.
51. Some stakeholders have pointed to a UK study commissioned by the British Beer and Pub Association which outlines the positive effects of the UK decision to scrap its beer duty escalator in 2013.<sup>27</sup>
52. This study points out that scrapping the beer duty escalator led to increased investment in the UK brewery industry. It also notes that beer duty increases were failing to deliver increased revenues to the Government and scrapping them cost very little.
53. Criticism was also made of Jersey's duty bands, which are not arranged on a sliding scale. Therefore, a pint of lager at 8.6% strength attracts the same duty as one at 5% strength.
54. In relation to tobacco, it is pointed out that while the quantity of tobacco imported each year is falling, evidence suggests that actual tobacco consumption has not fallen by the same proportion.<sup>28</sup>
55. The tobacco industry has proposed an annual "duty escalator" which would keep the cost of tobacco rising at a rate above inflation, but would bring certainty and visibility to the industry over future duty rises.

## Summary

56. There is clearly a significant weight of evidence linking alcohol tax increases and health benefits.
57. Much of this is based on evidence in the United States of America, and none of it is based directly on experience in Jersey.
58. Less evidence has been presented to support the health benefits of tobacco duty increases, although this may be because the link between tobacco consumption and health consequences are generally accepted.
59. Guidance issued by some of the largest international policy forums also points to tax measures as one of the levers to reducing alcohol and tobacco consumption and misuse.

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<sup>26</sup> [Budget 2017 review, Randalls submission](#)

<sup>27</sup> ["From a bleak future to confidence and stability, the story of beer duty: 2008 to 2016"](#)

<sup>28</sup> [Budget 2017 review, CITIMA submission](#)

60. A different perspective is offered by industry stakeholders, who draw attention to the wider benefit to the economy of the hospitality industry and of the risk of forcing alcohol and tobacco use both out of a regulated environment and towards the illegal trade.
61. The purpose of this report is to consolidate the evidence put forward for linking impôts duty rises with health considerations. The Panel has therefore not sought to draw conclusions from the evidence by way of particular findings and recommendations.
62. The Panel hopes that summarising the available evidence in this way is a useful contribution to the debate around alcohol policy and impôts duties and will be of assistance to States Members and policy makers.

## Panel Membership and Terms of Reference

### Panel Membership:

Deputy John Le Fondré (Chairman)

Deputy Simon Brée (Vice Chairman)

Deputy Kevin Lewis

Senator Sarah Ferguson

*N.B. The [Connétable of St John](#) was a member of the Panel at the commencement of the review, but resigned on 10th October 2017 following his appointment as Chairman of the Public Accounts Committee.*

### Budget 2018, Phase 1 – Terms of Reference

1. To examine the available evidence for linking increases in Impôts duties to the reduction in consumption of alcohol and tobacco.
2. To assess the outcomes of the review of the Income Forecasting Model undertaken by the Department for Treasury and Resources and consider any proposed follow up work.
3. To evaluate the change in the total tax burden (taxation and all significant charges) on individual tax payers.
4. To examine the correlation between changes in tax revenue income for the States and increases in population.
5. To review the level of supplementation required by the Department for Social Security.