

THE STATES OF JERSEY

**PROPOSAL FOR THE DESIGN OF A  
PROTOTYPE GOODS AND SERVICES TAX**

**GENERAL GUIDE TO GST IN THE FORM  
OF FREQUENTLY ASKED QUESTIONS**

CROWN AGENTS REFERENCE N<sup>o</sup>: T23079

*February 2005*

Crown Agents  
St Nicholas House  
St Nicholas Road  
Sutton  
Surrey SM1 1EL  
UNITED KINGDOM

*Tel:* +44 20 8643 3311  
*Fax:* +44 20 8643 8232

*Email:* [enquiries@crownagents.co.uk](mailto:enquiries@crownagents.co.uk)  
*Web:* <http://www.crownagents.com>



FS33234

*This report is submitted to the States of Jersey but remains the copyright of Crown Agents and should not be used for any other purpose than for evaluation. It should not be reproduced in whole or part without the express written permission of Crown Agents.*

**BSI Registered Symbol and UKAS Accreditation Mark**

*It should be noted that the BSI Symbol and UKAS Accreditation Mark on the cover of this document signify that Crown Agents operate a documented Quality Management System registered with the British Standards Institution to the international quality standard BS EN ISO 9001:2000. The scope of this registration specifically covers the Provision of Consultancy services in Revenue Enhancement and Expenditure and Debt Management, including:*

- ❖ *Customs, Taxation and Trade*
- ❖ *Institutional Development*
- ❖ *Engineering*

---

## TABLE OF CONTENTS

---

*Table of Contents*..... (i)

---

<b>SECTION</b>	<b>PAGE</b>
1. INTRODUCTION.....	1
2. GOODS AND SERVICES TAX (GST).....	2
3. PROTOTYPE GST FOR JERSEY.....	4
4. THE GST CONSULTATION .....	10
5. THE WAY FORWARD.....	12

## 1. INTRODUCTION

This document is a deliverable of the Crown Agents project and is intended as providing basic guidance for States Members / Government Officials on GST systems.

The GST guide is based on some of the frequently asked and most relevant questions posed during the life of the project and more specifically during the consultation phase.

The guidance is not intended to be totally comprehensive and will require further updating if / when a decision is taken to proceed with the implementation of a GST system.

## **2. GOODS AND SERVICES TAX (GST)**

### **Q1. What exactly is a Goods and Services Tax?**

A1. A goods and services tax (GST) is a generic term for any system that taxes the domestic consumption of goods and services. The most common form of GST is the broad based, multi stage tax, applied to a wide range of goods and services.

Under a GST system tax becomes due when money is spent on supplies of goods or services, including imports. It is not paid on exports, or when money is saved or invested. The tax is passed on to the final consumer, with the producers and suppliers of goods and the providers of services acting as collection agents.

### **Q2. Which other countries have a GST system?**

A2. Many countries (in the region of 120-150) in the world have adopted a GST system as their main consumption tax and major source of indirect tax revenue. Most people in Jersey will already be familiar with the European-style of consumption tax called Value Added Tax (VAT), which in the case of the UK was introduced in 1973. This is a broad-based, multi-stage tax, applied to a wide range of goods and services. At each stage, from the purchase of raw materials through to the sale of the finished item, or the provision of a service to the final customer, tax is added as the value of the item or service increases.

### **Q3. Why would a GST suit Jersey?**

A3. We should stress that no decisions have yet been taken on whether a GST is the best solution for Jersey. It is one of a number of options being considered.

However, GST has many features that make it attractive for many countries and, indeed, Jersey is one of the very few places in the Western world without some kind of Goods and Services Tax. Introducing such a tax could increase the stability of Jersey's revenues and give a much more secure economic base from which to plan future policy. (See also section 3.2 of the Crown Agents' Final Report dated January 2005).

### **Q4. Who actually pays the tax?**

A4. GST-registered businesses throughout the supply chain are required to make returns on their sales and expenditure and to pay any tax that is due. They must account for the tax on their sales but can offset any GST costs incurred in the course of their business. The full amount of tax eventually 'sticks' with the consumer.

### **Q5. Are all the systems the same?**

A5. No there are quite a number of variations on the same theme throughout the world. The VAT systems in Europe are required to be similar as a result of the Directives issued by the EU, which are intended to lead to harmonisation and support trade within a common market. Some of the more recently introduced GST systems (for example in New Zealand, Singapore and Australia) are much simplified versions of the European VAT systems.

**Q6. Under GST what is meant by zero rating?**

A6. Zero rated supplies are those transactions that are deemed to be taxable but at a zero rate. For social/political reasons this gives relief to the consumer on certain items while enabling the registered trader to recover VAT on business expenses. It provides the maximum possible benefit to businesses and traders alike but obviously has an impact on tax yield. Zero rating applies also to exports, thereby enabling exporters to be competitive in a world market.

**Q7. What then is meant by exemption?**

A7. Zero rating should not be confused with exemption. Exempt supplies are those that are not subject to tax (typically financial services, insurance and postal services). Businesses, which make exempt supplies, may not register for GST/VAT and therefore cannot recover GST on their business expenses. Any GST they incur sticks with them.

**Q8. What about imports?**

A8. Under most normal GST/VAT systems the importation of goods and services are potentially taxable. This applies to commercial, postal and personal imports.

**Q9. What about exports?**

A9. Exports are normally treated as zero rate supplies under most GST/VAT systems. The sales income derived from exports is treated as part of the taxable turnover for registration purposes (registration threshold) and businesses that are below the threshold can apply for voluntary registration.

**Q10. What is meant by GST Registration?**

A10. Businesses involved with supplying taxable goods and / or services must register if their sales exceed a specific annual turnover prescribed in the law (usually referred to as the registration threshold). Once registered for GST the business must charge tax on their taxable sales and they can recover tax incurred on their purchases and expenses. They must keep records and accounts to identify all sales and expenditure and finally submit self assessed returns to the authorities and pay any tax due.

**Q11. Who has to be registered for GST?**

A11. It is the legal entity (for example Sole Proprietor, the Partnership or a Limited Company) that becomes registerable for GST based on the nature and size of its business activities. Each registration covers ALL the business activities of the registered person.

### **3. PROTOTYPE GST FOR JERSEY**

#### **Q12. Is the GST system recommended by Crown Agents a Value Added Tax?**

A12. Yes it is really a simplified form of VAT, which is a tax charged by registered suppliers at each stage of the commercial chain of supply until the final consumer is reached. Thus it is a tax on consumption.

#### **Q13. What are the characteristics of the GST system recommended by Crown Agents?**

A13. The GST system recommended as a feasible option for Jersey is the simple, broad based version with few exclusions and a single rate of 3%. The Crown Agents report issued in January 2005 provides full details of their proposals and recommendations for the system they believe meets the original design criteria contained in their terms of reference.

#### **Q14. What goods and services have been excluded (zero or exempted) under the prototype GST system?**

A14. Exports, the international transportation of people and goods and domestic housing costs (construction and rent) have been zero-rated. Domestic financial services and Postal Services have been exempted. (See also questions 6 & 7 above for the difference in treatment between zero rating and exemption).

Of course it will ultimately be the decision of the Island's politicians as to which supplies (goods and services) will finally be excluded as part of the GST legislation (GST Act). What the Crown Agents' final report does stress is that as more things are excluded the higher the rate would rise and the more complicated the system becomes for both business and government to administer.

#### **Q15. Won't including food in the GST tax base have a serious effect on lower income groups?**

A15. The table on page 35 of the Crown Agents' final report illustrates the effect - if food were to be zero-rated (under the UK definition) the GST rate would need to rise to obtain the same yield. There would also be a significant increase in the cost of administration for the States and in the cost of compliance for the GST registered businesses (particularly at the retail level). The actual reduction of tax imposed on the lowest income group as result of zero rating food would be minimal.

In any event, an income support system is a much more effective and economic means of providing support to the lower income groups. The current income support system is due to be reviewed and reformed before the end of 2006.

#### **Q16. You are suggesting a tax rate of three per cent. Will that be the rate of increase in the cost of living?**

A16. No. Only a portion of the tax rate would be translated into the cost of living (the cost of domestic housing, for example, is not included in the scope of the tax). Also, by

keeping the rate of tax as low as possible, there would be a greater chance of the business community absorbing some of the increase.

**Q17. Won't the rate of tax steadily increase if GST is introduced?**

A17. To address this concern, which was also voiced during the consultation period, the report recommends that the 3% rate is "capped" for a period of three years after the start date (if the tax is implemented). Subsequent changes would be dependent upon the economic circumstances and Government's revenue requirements at the time. However, it would be possible for the States to include a further "capping" clause linked to any increase in rate over a specified period (e.g. not more than 1% per year). In most other countries where the GST rate has been increased it has been part of an overall fiscal reform package and other tax instruments have been reduced.

**Q18. So who would be required to register for the GST in Jersey?**

A18. It is the legal entity (for example Sole Proprietor, the Partnership (including husband and wife partnerships) or a Limited Company that becomes registerable based on the nature and size of its business activities. Each registration covers ALL the business activities of the registered person.

**Q19. How do I work out whether I have to be Registered?**

A19. You must apply for registration if, in the course of your business, you have supplied, or expect to supply, taxable goods and/or taxable services (turnover) above a fixed amount. This is known as the threshold for registration. The Crown Agents report recommends a threshold of £300,000 per annum. There would also be the provision for businesses below the registration threshold to apply for voluntary registration (if they considered doing so was an advantage - for financial or commercial reasons).

**Q20. Won't the exclusion of small businesses from GST be detrimental to the revenue yield?**

A20. If the data given in Table 3 of the Crown Agents' report is broadly accurate, it would seem that the 75 per cent of Jersey businesses have a turnover of only about five per cent of the Island's total turnover of about £4,300 million. Exempting them from GST would mean that 75 per cent of the 5,200 or so total enterprises in the Jersey, or 3,900 businesses, would be exempt from GST; leaving less than 1,300 firms in total to be really taxable under the tax.

**Q21. What about imports?**

A21. Imports of goods and services are potentially taxable unless they are specifically excluded under the law.

**Q22. Who will administer the GST?**

Q22. Crown Agents have recommended that the Income Tax Department has prime responsibility for the tax but as in most countries the Customs department will be involved and will collect the GST charged on all forms of imports (commercial, postal and personal).



**Q23. How many extra civil servants would be needed to administer the GST?**

A23. It is not possible to assess the exact costs of administering such a tax until its final structure is decided. However, based on the experience of other countries and having examined the existing staffing in the Income Tax and Customs Departments, the consultants, Crown Agents, believe that, if the prototype tax they have proposed is adopted, approximately ten (10) additional Civil Servants would be needed.

**Q24. So what will the GST system cost to administer?**

A24. If the additional Civil Servants identified above are accommodated in existing offices of in the Customs/Income Tax departments then the overall cost would be in the region of one penny for every £1 of revenue collected. This would mean that the administration of a Jersey GST would be very cost effective.

**Q25. OK - how would a GST actually affect me?**

A25. Being a general consumption tax, GST affects practically every household in the society, depending upon its overall consumption level and the pattern of consumption. The burden of taxation on the household is also affected by the structure of the tax (what is taxed and what is not) - i.e. the scope of zero rated and/or exempt items, as well as whether the taxable good or service is purchased from a small trader or a large GST-registered business. Finally, the burden will depend upon the rate of the tax or the structure of rates of the tax, if there is more than one positive rate.

A detailed answer to this question must wait till all the parameters affecting this calculation have been decided upon. However, Table 5 of our Report gives an “order of magnitude” estimate using the available average expenditure data per household by quintiles (five groups).

Depending upon what the GST rate decision might be (3, 4, or 5 per cent); we derived the proportion of the expenditures of these households that would go towards the payment of the GST under three different scenarios - i.e. a Broad Base, a UK Model and an EU 6<sup>th</sup> Directive Model.

**Q26. Whatever the rate of tax, surely GST would unfairly affect low paid Islanders who still have to buy everyday essential goods and services?**

A26. The Consultation responses demonstrated that there is a great deal of interest amongst the public as to how consumers, especially those in the lower income groups, would be affected.

A similar interest exists on the part of the policy makers who have publicly committed to an income support scheme to mitigate the impact of the GST on lower income groups. The President of the Finance and Economics Committee has already given an assurance that such a scheme would be in place if GST were to be adopted.

Such a scheme would be the most effective and economic means of helping the lower paid.

**Q27. Won't a sales tax just add to inflation and pay awards - so you will be no better off?**

A27. It must be stressed that to gain the full benefits of the proposals the economy should avoid an inflationary spiral, whatever tax measures are used. All of the major tax measures looked at - Income Tax, GST, Payroll Tax and even environmental taxes - have the ability to add a twist to a wage push inflationary spiral.

Income Tax decreases the disposable income of those bearing the increase. If they obtain an increase in wages to compensate, then government costs will rise, as will the costs of business - so prices are likely to rise as well.

Employee payroll taxes have the same impact as Income Tax, except that those with unearned income and pensioners are not likely to be directly impacted (but they will be affected if there are subsequent price rises)

Employer payroll taxes raise the cost base of doing business on the Island, and are likely to be reflected in higher prices.

However, over the longer term, the effect of all the realistic options will be to reduce the total demand in the economy, which will help contain the underlying inflationary pressures in the economy.

**Q28. Won't businesses and the holiday trade suffer as a result of a GST?**

A28. When examining the impact of GST on businesses and/or the cost of living, you have to compare it in relation to the effects of the alternative forms of taxation. Given that the States has identified a £100m revenue deficit due to occur in 2010, some form of new taxation becomes almost inevitable. Whatever form of taxation is decided upon, there will be a cost of living impact. With regard to GST, it is our view that the very low rate of tax proposed in the GST prototype will have a minimum impact on businesses and the consumer.

Also, by adopting a very high threshold, the majority of Jersey businesses would not fall within the GST system. This would protect relatively small traders and businesses from the burden of complying with the GST by receiving and retaining tax invoices for all their purchases; charging of GST and issuing of tax invoices on all their sales; and preparation of financial accounts and filing of GST returns to the tax department.

At the same time, it would assist the tax administration tremendously by limiting the number of taxable businesses and the tax returns that the tax department has to deal with; and limiting the size of tax staff and the costs of GST administration.

**Q29. You are suggesting that the Financial Services Industry should be registered for GST. Won't that defeat the object of persuading the FSI to remain in Jersey?**

A29. During the public consultation, there was a considerable body of opinion that the FSI should make a contribution towards the services it enjoys that are provided by the States. This view is indeed accepted by many in the industry.

We have therefore recommend that the providers of financial services should be registered for GST but that a scheme should be devised that would establish a GST burden by reference to the type of activity and the customer profile of individual firms. Tax borne on inputs would be offset against this figure to determine a balancing liability/repayment.

Their supplies would not be subject to tax and they would not be involved in partial exemption calculations (to determine their deductible input tax). The various legal entities (“vehicles”) that underpin much of the activity in the sector would be subject to special provisions that secure their existing tax neutral status.

This should allay the fears expressed by many in the industry of increased costs of administration, as is the case in the United Kingdom and Europe. Importantly, this solution would offer sufficient flexibility to prevent the loss of business to competing jurisdictions. A scheme that has some similar features is in place in Singapore.

The GST yield that this scheme would realise cannot be estimated without detailed work on the present competitive position of the sector which goes beyond the scope of this assignment.

We recommend that, should it be decided to proceed with a GST system, detailed consideration should be given to this issue to enable the Jersey Government to give a clear and early message to the financial services sector that they will remain competitive under a GST, while satisfying public opinion that the industry is making a fair contribution to the tax yield.

This is not something that needs to be decided immediately and we would recommend that the Jersey Government should work with the FSI to achieve an equitable scheme.

**Q30. Some people in the Financial Services Industry are saying that if they have to pay more tax, they will be driven away from Jersey**

A30. There are many factors that make it desirable to do business in Jersey. It would be a matter of judgement for the States (presumably after further consultation with the industry) whether to seek a contribution as we have described. This issue is not something that has to be immediately decided and it is a matter for discussion with the Financial services Industry. In any event, the FSI has given a positive response to the proposals contained in the Crown Agents’ final report.

**Q31. How would a Goods and Services Tax affect businesses dealing with exports?**

A31. A common feature of taxes such as the proposed GST is that direct exports from the relevant jurisdiction are not charged the tax. Thus sales made to persons outside of the Island and delivered directly to them, would not be subject to GST.

**Q32. What are you going to do about local people purchasing off the internet or on trips to the UK?**

A32. Private purchases bought outside Jersey would be potentially subject to the 3% rate of GST when they arrive in the Island (unless specifically excluded under the law). In order to ease the administrative burden goods sent to Jersey by post or courier could have a ‘de minimis’ waiver below which no tax would be paid and people bringing goods back themselves would be given a tax free personal allowance.

It is too early to identify the exact amounts for a de minimis waiver and a personal allowance but it may be useful to look at how they are applied to VAT in the UK - the de minimis waiver for post and courier traffic is £18 and the travellers' personal allowance is £145.

**Q33. A GST is unacceptable because people in Jersey appear to be paying UK VAT inclusive prices. What can be done about this?**

A33. Goods and / or services consumed in Jersey are NOT subject to a tax levied by any another jurisdiction, be it the UK or any other EU state. However Jersey does have a high cost of living because of its very buoyant economy, its high wages and the additional transport costs of bringing goods to the Island. The tight restrictions on housing development may also impact on the cost of living on the Island.

The current retail prices in Jersey reflect the higher costs of doing business on the Island. If current prices are excessive then enhanced competition between suppliers should help bring down prices to reflect actual costs.

It is important to stress that no matter how it is done, raising additional tax revenues involves additional payments by Islanders - either by reducing disposable income through increases in income tax or employee payroll tax, or by increases in prices as a result of a sales tax or employer payroll taxes.

#### 4. THE GST CONSULTATION

**Q34. You say that few people contributed to the consultation. Doesn't that demonstrate that the consultation process was inadequate?**

A34. Given the importance of the GST debate for everyone on the Island, and the widespread publicity about the consultation, we were surprised that the public meetings attracted less than 200 people in total and that the responses from individuals and the business community were so few in number. We leave you to draw your own conclusions from that. Nevertheless, we are satisfied that every opportunity was available to anyone who wanted to contribute to the debate.

We did receive some valuable contributions, however, and our wide ranging discussions with various sections of the business community enabled us to have a good understanding of the economic situation in Jersey and the situations of individual business sectors.

We have taken full account of the views expressed during the consultation and these have assisted us greatly in proposing a prototype GST.

**Q35. How can you say you have taken account of people's views when you are proposing a tax that people said they didn't want?**

A35. Our terms of reference were specific - to propose a prototype GST that would raise a specific amount of revenue with the minimum impact on the Island's economy and the cost of living, taking account of the views expressed in a public consultation. We have done just that.

There were, of course, conflicting views on a number of issues. While many opposed the principle of GST there were others who thought it was a good idea and a fair way forward. This is not unusual and in many cases there may have been an element of self-interest in preferring other tax measures which might have impacted on the respondents.

It is therefore not possible to please everyone. Nevertheless, many of the suggestions made during the consultation have been incorporated in our proposals and we have attempted to deal with the concerns that were raised. Overall, we believe the solution we have proposed should maintain Jersey's competitiveness, while having a relatively small impact on prices and relieving the majority of Jersey businesses from the administrative burden of registering. In addition, the lower income groups could be protected by a form of income support.

I hope that, on reading our Report in full, many of the concerns that were expressed during the consultation will be allayed.

**Q36. If you have listened to people's concerns, why are you proposing that children's clothes and food should be taxed?**

A36. We understand the concern about this. However, the more exclusions you make to a GST system, the more complicated it becomes and the more costly it is to administer.

If you exclude children's clothes, food (and a number of other things that were suggested during the consultation), you have to raise the rate of tax on other items. This can distort the economy and, importantly for the consumer, it could mean that overall you pay more tax to raise the required amount of revenue.

The success of the system we are proposing depends upon its simplicity. Look at the UK, for example, where there is a very complicated system and where the standard rate of VAT is 17½ per cent.

**Q37. Have you taken full account of the impact on the lower paid?**

A37. In designing a prototype tax, we were mindful of the assurances given by the President of the Finance & Economics Committee Senator during the public consultation that an income support scheme would be in place to protect the lower paid if a GST were to be adopted. In our view, an income support scheme is by far the best way of alleviating the impact on the lower paid, rather than complicating the system with exemptions, etc.

## 5. THE WAY FORWARD

### **Q38. Have the decisions already been made?**

A38. No - definitely not. The final decision rests with the States. The Finance and Economics Committee will be making proposals for the States' debate in May of this year.

### **Q39. Do you (Crown Agents) think Jersey should adopt a GST?**

A39. That is not a matter for us to comment upon. It is not our function to 'market' or promote GST over another form of tax. What we have done is to design a prototype that we believe will meet the criteria set out by the Jersey Government.

Whether it is in the best interest of Jersey to adopt a GST and whether the principle of a GST and our proposals in particular, are right for Jersey, having regard for all of the other factors, are properly matters for a political decision that must be taken by the States.

What we are saying is that, if it is decided that a GST is right for Jersey, there will never be a better time than now to introduce it and the opportunity exists for Jersey to introduce a GST at one of the lowest rates of tax in the world and with one of the highest thresholds in the world, which will raise the required amount of revenue and meet the other criteria set out in our original terms of reference.

### **Q40. How do I find out more about GST?**

A40. More detail is available in the consultation document issued by the Finance and Economics Committee: 'Facing up to the Future'. It's available from the States Greffe Bookshop, Morier House, parish halls, the Library and online at [www.gov.je/taxandspending](http://www.gov.je/taxandspending)

The Crown Agents' Report is also available on the same website and you will be able to see how your views have contributed to the design of a prototype GST.

### **Q41. What more can I do to make my views known?**

A41. Although the initial consultation exercise has been completed, your views will continue to count and, if it is decided to proceed with a GST, there will be plenty of opportunity for you to continue to contribute to the debate.

Feedback can be made by writing to Tax Proposals, States Treasury, P O Box 353, Jersey JE4 8UL, or by emailing [taxproposals@gov.je](mailto:taxproposals@gov.je)

