



The Jersey Chamber of Commerce and Industry Incorporated

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Senator Terry Le Sueur
Minister, Treasury & Resources
Cyril Le Marquand House
PO Box 353
The Parade
St Helier
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21st June 2006

Dear Senator Le Sueur

GOODS & SERVICES TAX - CONSULTATION

Thank you for meeting with us on Tuesday 13th June along with your colleagues from Treasury & Resources, the Crown Agents, Senator Philip Ozouf and representatives from Scrutiny. In our view this was an open and useful discussion and we appreciate your efforts to ensure that there is genuine consultation on what is such a fundamental change to the island's tax structure which will impact every business on the island.

In this meeting and in previous discussions Chamber has presented its views on current proposals in what we hope is a constructive manner and this letter summarises the main points raised.

BACKGROUND

Chamber have supported the introduction of a goods & service tax (GST) since it was proposed as part of the fiscal strategy passed by the States of Jersey in May 2005 as it was felt that it represented the 'least worst' option for clawing back some of the lost tax revenues. A condition of this support was that the rate should be kept as low as possible, it should be applied across all goods and the system of collection should be kept as simple as possible.

It is also worth mentioning that additional taxation was one of a suite of measures to fill the income 'gap' generated by zero/ten, the other key strands being economic growth (at 2%) and a reduction in government's annual expenditure of £20 million. Despite assurances that these expenditure savings are on track, we have yet to be shown any tangible evidence that this is the case. The principle of shared responsibility was an important element of gaining acceptance for additional taxation in the business community.

Chamber's position has remained the same over the past 12 months and we have met extensively with the Crown Agents, Customs & Excise and yourselves to ensure that any proposals were reasonable, workable and most importantly as simple as possible to administer. This has now culminated in the publication of the draft law at the end of March which provided us, for the first time, with more details about how exactly the GST regime might work.

BASIC PRINCIPLES

We are pleased to note that the basic principles agreed in the fiscal strategy have not changed and that it is still proposed to have a 3% rate of tax, across all goods (albeit with a limited number of exemptions) and a high registration threshold of £300,000 turnover.

It is clear that, despite attempts to keep the system simple, there will be a significant administrative burden on business in order to collect the tax on behalf of the Treasury.

It is imperative that every effort is made to ensure that these basic principles are adhered to, particularly in light of the inevitable pressure that will be applied by certain States members to seek further exemptions. Such exemptions will only serve to complicate the implementation process thereby incurring additional costs and complicating matters further.



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We would also re-iterate the importance of an appropriate income support scheme being in place prior to the launch of GST to ensure that lower income households are not unfairly impacted by its introduction.

CAPTURING THE INPUTS

We are pleased to note that original plans to capture the taxable input values at the port of entry are being reviewed in light of the issues raised concerning appropriate shipping documentation. It has been acknowledged (and empirical evidence confirms) that in many cases shipping documentation does not contain accurate values by which such information could be captured.

Due to the way Jersey's supply chain operates (whereby the majority of imports are direct to the end seller and are just-in-time deliveries) coupled with space restrictions at the quayside, it is not viable for goods to be held at the port of entry until the appropriate documentation is received and the taxable value is captured and / or paid.

The 80/20 rule - We estimate that around 80% of the tax will be collected by 25-30 businesses who are regularly importing goods into the island. For these businesses it is important that there should be a simple process in place whereby goods can be released on arrival and taxable values can be captured when the goods are entered on their purchase ledger (or equivalent). An audit trail will still exist with the shipping documentation if any subsequent investigation were required. This would be similar to existing arrangements in place with Customs & Excise for the collection of duty.

For infrequent / one-off importers there is clearly a more fundamental problem for which there does not appear to be an obvious solution. The extent to which the above system could be extended is something that would need to be investigated. For personal imports in particular there would appear to be no easy way to collect the tax. Further work is required to ensure a practical solution can be found which does not unfairly disadvantage smaller businesses / importers.

DE MINIMUS LEVEL FOR IMPORTS

Local businesses are already facing a serious challenge from the rise in off-island shopping, including an increasing trend towards internet shopping. The introduction of a goods and services tax will only serve to exacerbate this problem.

It is important that a reasonable de minimus level is set for imported goods and the challenge will be to agree an appropriate figure. An obvious level would be £100 however we can see reasons why this is both too low and too high. Administratively it does not seem worth the effort to collect £3 of tax. On the other hand a large number of imports would still fall below this figure thereby disadvantaging on-island business.

No matter what level it is set at we are unsure how such a tax could be effectively collected, particularly with goods arriving by post / courier. It is our understanding that the UK experience similar difficulties with the collection of VAT on personal imports. We would ask for further details as a priority as this is a significant cause for concern amongst our retail members.

EXPORTS

At the meeting on the 13th June you stated that there was no plan to introduce a system for reclaiming tax on goods purchased on the island which are subsequently exported. Whilst there would be nothing stopping a private company from offering such a service (under authority from the treasury and resources ministry) it was felt that it would be difficult to make an economic argument for such a service due to the low rate of tax being applied.

The impact on high value on-island transactions (e.g. the purchase of jewellery) could be very significant and we would ask you to consider other ways in which such a tax could be reclaimed on goods of significant value. The impact of not designing this into the proposals could result in a transfer of this business to Guernsey or elsewhere.



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EXEMPTIONS / ZERO-RATING

Exemptions only serve to complicate the administrative process, as seen with the VAT system in the UK. We accept the reasoning behind the currently proposed exemptions but would request that whatever exemptions are finally agreed upon are clearly defined to ensure that the opportunities for misunderstanding and avoidance are minimised.

PAYMENT OPTIONS

We believe that there should be various timing options for payment of the tax collected to the Treasury. Depending on the industry and cash flow considerations there may be an argument for businesses to pay monthly, bi-monthly or even quarterly.

COST OF ADMINISTRATION

When the tax proposals were originally presented to the States in 2005, it was our understanding that the additional costs of administering GST were estimated at no more than 1% of the tax collected (circa £450,000). Please can you confirm that this is still your expectation. Looking at the draft law and considering many of the issues raised it seems optimistic to expect this is still the case.

The cost to business of such proposals has never been quantified but it will be significant. Government must be aware that the introduction of GST along with other legislation increasing the burden of compliance on business will put pressure on prices at a time when every effort must be made to minimise the impact GST will have on inflation.

PRICING OF GOODS

The approach to pricing is a subject which has already been picked up by the local media and will inevitably be an area of much discussion over the coming months. Following a meeting with Senator Philip Ozouf we were surprised to learn that a decision on the method of pricing had already been made in the absence of any consultation with the industry or consumers.

Leaving this aside we believe there are two basic approaches to be considered:

Prices displayed inclusive of GST:— This appears to be the option favoured / agreed upon and it would mean that all products were priced and displayed inclusive of GST. At first glance you can see why such an approach makes sense, mirroring as it does the UK and many countries with a similar tax regime.

Advantages include:

- Price marked on the product / shelf edge is the price paid by the consumer
- Exerts pressure on UK businesses operating in the island who are already charging VAT equivalent prices to absorb the tax
- Most till systems are designed to operate VAT-style pricing

Disadvantages include:

- Issues relating to handling of pre-priced products (e.g. newspapers, books, flash-marked consumable products, other pre-priced products zero-rated in the UK)
- Unclear to consumer what element of the price is tax (whilst this could be illustrated at the foot of the bill this would not be possible on a per product basis)
- Potentially high administrative cost to businesses, particularly where businesses operate in both islands (two price files would have to be held, separate advertising)
- May lead to rounding up of prices increasing inflationary impact



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Prices displayed exclusive of GST:- This does not appear to be the favoured option but would be similar to the US / Canada whereby individual products are priced exclusive of GST and the tax is added at the till to the total bill amount.

Advantages include:

- Taxable element clearly stated for the consumer
- No risk of rounding up of prices
- No issues regarding pre-priced products
- Little or no additional administration cost for businesses

Disadvantages include:

- Actual price of each product is not clear to consumer
- Possible issues with till systems if not designed to support US style system

On balance Chamber supports the option for prices to be displayed exclusive of GST although we can see issues with both approaches. We believe that there are ways in which customers can be educated using clear signage at appropriate locations in retail outlets to ensure the consumer is properly informed.

It is important to note that for the vast majority of businesses GST will not and cannot be absorbed into their bottom line. Suggestions that local businesses are making excess profits are without foundation and you should expect the 3% rate of tax to be passed on to the consumer virtually without exception.

TIMESCALES

We understand that a proposed implementation date of early 2008 still stands. This is now only 18 months away and there is clearly much detailed design work to be completed. We would ask for further details of the consultation process and the timetable for implementation. It is essential that sufficient time is given to the industry to ensure that the necessary system changes can be applied.

FINANCIAL SERVICES

We understand that Jersey Finance Limited will be responding on the specific discussion paper concerning the financial services industry (and Chamber are represented on their working party) so we will not cover these points here.

CONCLUSIONS

Whilst progress has been made there is still much detailed design work to be completed and consulted upon. This is before any proposals go to the States which may result in revisiting certain aspects of the proposals. Chamber remain committed to taking an active and constructive role in the consultation process and we urge you to push forward with the next stage. Maintaining a close relationship with industry during this process is essential.

We thank you for the opportunity to respond at this time and await the feedback from this consultation exercise with interest.

Yours sincerely

RAY SHEAD
CHAIR, RETAIL & SUPPLY COMMITTEE

CC: SENATOR PHILIP OZOUF
CC: GST SCRUTINY PANEL