

The impact of a goods and services tax on the arts in Jersey

A response to the public consultation by the Jersey Arts Trust

The proposed goods and services tax (GST) will have implications for the artistic community in the Jersey. In this submission the Jersey Arts Trust identifies the key issues and suggests measures that may be taken so that the arts in the Jersey do not suffer should such a tax be introduced.

There are three specific groups that will be affected by a goods and services tax, these will be addressed separately:

- Self employed artists
- The subsidised arts sector
- The creative industries

The Jersey Arts Trust deals with those working within each of these sectors and is uniquely qualified to advise the States of Jersey regarding the impact of future policy in these areas.

Why support the arts sector?

Supporting the arts sector will allow the States of Jersey's to fulfill key strategic aims. In particular a strong cultural sector acts as a catalyst to encourage skilled people in other sectors to want to live and work in Jersey, more specifically the arts sector supports the following key aims:

- ▶ **to enhance quality of life;** a thriving artistic community is integral to delivering this aim. Artists remain central to the cultural fabric of society. Art is all about improving quality of life.
- ▶ **to invest in Jersey's Youth;** arts based courses are the most popular choices for local students studying at university. **The States of Jersey currently funds over 300 students working in arts related areas.** Supporting the arts community locally will provide opportunity for these students to return to the Jersey and use their skills locally.
- ▶ **to promote pride in Jersey;** developing local artists will continue to build upon local cultural traditions. A thriving cultural sector is integral to developing local pride within the Jersey.
- ▶ **to develop Jersey's international personality;** nurturing local artists will enable them to develop their skills and work within international markets. Local artists working internationally have an important role to play in developing Jersey's personality and profile.

The Education, Sport and Culture Committee's draft Cultural Strategy highlights the current threat to Jersey's finance, tourism and agricultural sectors. It suggests that cultural activity has something to offer all three sectors:

'It can be a mainstay of tourism, it can help to find other productive uses for land and buildings and through the encouragement of creative industries it

can help to diversify the Jersey's economy, reducing dependency on a fairly narrow spectrum of activity.' (Education, Sport & Culture Committee, 2004)

The need for the Jersey to look after its cultural assets is also highlighted in Jersey Tourism Board's latest strategy document. The strategy outlines the need for Jersey to develop a broader market mix and capitalise on niche and special interest markets such as arts and event led tourism (Jersey Tourism Board, 2004, p.11).

The success of each of these States of Jersey policies and objectives depends on Jersey maintaining and building on its cultural life. UNESCO¹ sees providing a special tax status for artists as a fundamental aid to promoting cultural growth.

'The promotion of a special tax status for artists is a prerequisite for the development of cultural life. Differences between countries with regard to taxation of artists' incomes and the application of value-added tax (VAT) can at times give rise to direct or indirect discrimination.' (UNESCO, 2003)

UNESCO encourages countries to allocate a special tax status to works of art under the consideration that they are not consumer goods (UNESCO, 2003a). Many countries have applied a lower rate of tax to works of art:

- **Denmark** reduces its general VAT rate from 25% to 5% on the sales of visual arts and handicrafts. If the artist is selling the item for the first time it is completely exempted from VAT.
- **Germany** also offers a reduced rate of 7% (general rate 15%) on various objects of art.
- **The Netherlands** offers a reduction on their general rate of VAT (17.5%) and charges 6% on sales of art works and tickets to performing arts events.

The Jersey Arts Trust would encourage the States of Jersey to allocate a special tax status to works of art, in line with the UNESCO recommendations and other jurisdictions. Preferably a work of art should be exempt from such a tax. This should also apply to tickets for arts events. The Jersey Arts Trust would be able to advise further if appropriate.

Impact on the arts community

If introduced and applied to the arts, GST will have an impact on the arts community. The following sections outline the specific points in relation to each group within the arts community.

Self employed artists

In countries with goods and services taxes all businesses need to register with the appropriate authority. As artists' profits tend to be low, many fall under the threshold that enables them to register for sales tax in their particular country. It is likely that a high income threshold for business registration would mean that artists in Jersey would not be able to register as a business for GST purposes. This would mean that the tax burden would stick with the artist.

¹ United Nations Educational, Scientific and Cultural organisation

It has been suggested that retailers may absorb some of the cost of the additional tax, this is highly unlikely within the arts sector. When goods and services tax (GST) was introduced in Australia, for example, most artists still had to increase the price of their work, even if they are not registered for GST, so as not to be out of pocket. This will mean that the cost of artistic goods will be increased within the Jersey by 5%. The Jersey Arts Trust believes that this price increase will potentially discourage locals from buying artworks and attending arts events. This, in turn, will affect the revenues generated by artists and arts organisations as they will achieve fewer sales.

The Jersey Arts Trust has recently completed a broader study looking at the tax and benefit status of artists in the Jersey. There are three key recommendations within the report that should be considered if a goods and services tax was introduced and applied to artistic goods and services:

- **The term 'artist' needs to be defined within the Jersey for tax and benefit purposes.**
- **Artists need to be recognised as having an established trade under the income tax system.**
- **The specific needs of artists will need to be addressed within any goods and services tax registration system. Enabling artists with a relatively low income to register if they wish to do so.**

These measures would ensure that self-employed artists would benefit through being able to register for GST purposes, meaning that the tax burden would not stick with them. This will mean that artists would be able to offset any tax paid on supplies and other services against the tax that they owe.

If introduced GST would also affect the majority of self-employed artists in a secondary way. As artists tend to be low earners with fluctuating incomes they are particularly sensitive to any increases in the overall cost of living. It has been widely stated by many other groups including the TGWU, that those who will be hit hardest by a sales tax will be low earners, the majority of artists would fall into this category. Currently self employed artists cannot benefit from any income support system in the Jersey. The Jersey Arts Trust would advise that if GST is to be introduced there would need to be a suitable income support system available that would ensure that the needs of those on low incomes are adequately met.

The subsidised arts sector

The Jersey Arts Trust funds many individuals and arts organisations through its grant scheme. If GST is applied to artistic products and services the subsidised arts sector will be affected in two ways.

Increased cost of goods and services being brought by arts organisations will mean that funding levels will need to be increased. Without increased funding, in real terms, arts organisations would be facing a cut in funding at a time when all arts organisations are already under funded.

Grants given to individuals will in real terms be reduced as up to 5% will be going towards paying GST on goods and services purchased.

If GST is applied to arts products and services that are subsidised the States will effectively be taking back with one hand what they have given with another. It is one of the Jersey Arts Trust's roles to maximise attendance and ensure that the arts are available for all sectors of society to enjoy. Adding 5% GST to the cost of a theatre ticket, for instance, will mean that ticket prices would need to be further subsidised in order to keep that at an affordable price.

If GST is levied on venues, arts organizations (currently under increasing financial pressure) may not be able to absorb the additional burden of 5% GST on hiring costs for the venues.

If arts goods and services are to be taxed under GST the Jersey Arts Trust recommends that Treasury and Resources create a specific category for the subsidised art sector so that the services provided by them are zero rated and that GST paid out by the subsidised organisations is reclaimable.

The creative industries

The Jersey Arts Trust believes that supporting the creative industries will help the States of Jersey attain its target for economic growth through diversifying the economy. The creative industries include: advertising, architecture, the art and antiques market, crafts, design, designer fashion, film and video, interactive leisure software, music, the performing arts, publishing, software and computer games, television and radio.

Research conducted by the Jersey Arts Trust shows that although the creative industries are currently one of the biggest economic growth areas worldwide the industries face possible decline in the Jersey unless they are properly supported. This is unacceptable as there is great potential for these industries to boost the local economy.

The Jersey Arts Trust notes that consultation documents regarding GST have stated that the design criteria set out aims to protect key industries such as finance, agriculture and tourism. At a time when the States of Jersey is seeking to diversify the economy the Jersey Arts Trust would ask Treasury and Resources to consider the impact that GST would have on potential growth sectors such as those within the creative industries.

JAT research at the end of 2004 found that a potential goods and service tax was felt to be a threat to the creative industries. One of the biggest factors affecting local creative businesses is competitors from the UK obtaining local work. Any GST system would need to take this into consideration so as not to further disadvantage these local businesses.

Conclusion

In conclusion the Jersey Arts Trust **recommends that the arts be given a specific category and exemptions under the proposed GST system.** This will support the States of Jersey's Strategic Aims. The arts are an essential contribution towards quality of life and economic development within the Jersey community. The role of the arts in sustainable economic development is increasingly recognized. In 2006 Chancellor Gordon Brown has publicly acknowledged that culture is at the centre of economic development for the UK. Jersey Arts Trust exists to support the development of grass root talent and initiative. We believe that GST in its current form is false economy.

Jersey Arts Trust

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