

JERSEY HOSPITALITY ASSOCIATION BRIEFING PAPER OF EVIDENCE PRESENTED TO GST SUB PANEL AT PUBLIC HEARING ON THURSDAY 31st AUGUST 2006

In the presence of

Deputy Patrick Ryan (Chairman), Connétables Jackson and Gallichan, panel advisor Richard Thether and Mike Haden, Scrutiny Clerk

JHA representatives

Robert Weston – Co-opted industry member for the purposes of the JHA's response to GST and
Gerald Fletcher - Chief Executive

Preface

Although we are here today to make comment on the proposed implementation of GST and how it will impact on the hospitality industry, we would just like to preface our remarks by reminding the Panel that the hospitality industry is and always has been fundamentally opposed the imposition of a GST for a variety of important economic reasons, which we will not dwell on at this point. Sufficient to say that our alternative proposal was that the £45m 'black hole' should be filled by increasing Social Security contributions by 4% and increasing the SS cap to about £30,000 p.a.

This would have raised £50m to cover the present annual supplementation bill and would have limited the possibility of subsequent increases in GST from 3% to 5% or 10% or more. It would also have had the least economic effect on the less fortunate members of our society. We understand that our proposal was rejected primarily because SS contributions will soon have to be increased anyway by 4% or 5% to provide pensions, healthcare and sheltered housing for our rapidly ageing population.

1. Aim of this Response

To seek that some form of relief from GST be granted to the Hospitality Industry

2. Objectives

In the process of the JHA seeking some form of relief from GST for the Hospitality Industry, the following points should be considered by the GST Sub Panel:-

1. Exemption from GST on the basis that hospitality sector accommodation is an export.

Reasoning: 99% of guests using hotel accommodation in Jersey are visitors from other jurisdictions and thus represent export revenue for Jersey. This is unlike hotel guests in the UK where at least 50% of the guests using hotel accommodation are UK residents. Some suggest that this figure is nearer 75%.

It is recognised and accepted that the finance industry is of great importance to the economy of the Island. It is also noted that the Draft GST proposals recommended that the Island should not

be placed at a competitive disadvantage, resulting from any loss of financial services businesses to other international centres. It appears likely, therefore, that some form of relief will be available to the finance industry.

The hospitality industry is, we maintain, also an important contributor to the economy of the Island yet no relief has so far been recommended. We would urge that this point be considered because it would be inequitable to give relief to the financial services industry but not to the hospitality industry, especially as the produce of the agricultural sector will mostly be exports and thus relatively free of GST.

2. Following years of contraction, the hospitality industry needs support in order to aid recovery. Part of this recovery is to build on the growing potential of the conference market. This will not be achieved if Jersey remains uncompetitive with other destinations that service the same markets e.g. If a UK company holds a conference in Brighton, the VAT it pays may be set off in full against any VAT it receives from its customers. Conversely, if the same company holds its conference in Jersey and pays GST, this cannot be set off against the VAT it has received from its customers as the two jurisdictions will not, as things stand at present, be harmonized in any way as regards setting off output tax against input tax. Therefore, Jersey becomes uncompetitive in this marketplace unless provision is made in the law to zero rate conference business.

Additionally, a UK company may pay 17.5% as VAT on their conference in the UK, but the cost of transporting delegates to the conference is generally only a fraction of the costs involved in sending delegates to a similar conference in Jersey. Thus, the present lack of GST in Jersey has hitherto been a marketing tool assisting Jersey hospitality businesses to be competitive.

We are seeking, as a form of relief, the zero rating of targeted activities such as the conference business or, in the alternative, enable business customers to reclaim any GST suffered when they come to Jersey to hold their conferences.

3. GST will increase overhead costs for the hospitality industry. Balancing the day-to-day demands of running a business with the necessary strategic planning and preparation to enable growth remains a constant problem for most of our members. With the level of bureaucracy being imposed on local business increasing rapidly over the last few years, while economic growth targets get more ambitious in an effort to balance the books and pay for an ever-expanding public sector, the hospitality industry is having to face a raft of new bureaucracy e.g.

- Goods and Services Tax
- Income tax installment system
- Changes to the Regulations of Undertakings Law
- Employment Legislation
- Zero-ten company taxation
- Competition Law
- Food Labelling
- Planning law updated
- Anti-money-laundering compliance
- Benefits in Kind Taxation
- Anti-discrimination legislation
- Smoking Ban

The hospitality industry is primarily made up of small businesses that do not benefit from any economies of scale; so the impact of these additional costs on them is all the more acute. Inevitably these costs must be passed on to the consumer or absorbed by the businesses, thus reducing their profitability and thereby impacting adversely and directly on the Island's ability to compete in the international hospitality market and also on Jersey income tax revenues from the

industry. The consistent impact over the last decade has also resulted in the halving of the Jersey tourism industry. As a result of the extra workload imposed on hospitality industry proprietors for less financial reward with each year that passes even more of them are deciding to leave the industry annually.

4. Article 35 of the proposed law enables the Comptroller to withhold the repayment of input tax where, for example, the business has not made any taxable supplies during the return period. This is a feasible occurrence in the bed sector of the hospitality industry, of which some three-quarters is seasonal, operating for only six or seven months each year.

In the case of businesses that operate seasonally they should be able to claim their input tax relief automatically and it should not be able to be withheld by the Comptroller, we would welcome confirmation that the ability to deny input tax relief will not be automatic (i.e. computer driven) and that each case will be considered on merit by reference back to the business concerned before relief is denied.

5. Many hotels in Jersey operate during the winter months by accommodating extended stay guests for periods of up to six months. In order to maintain a level playing field with other similar forms of accommodation providers, such as lodging houses, it would be appropriate not to charge GST on this type of trading activity.

The precedent for this is the UK VAT Law, which exempts hotel accommodation from VAT after the accommodation has been occupied continuously for more than 28 days by the same guest, on the grounds that the room charges of such guests are effectively rent, which should not be subject to VAT.

6. We have previously asked that all tourism industry capital expenditure items and improvement programmes be fully deductible against taxable profits. Such relief would go some way to alleviating the additional costs our industry will face as a result of the imposition of a GST e.g. if a hotel decides to build new bedrooms at a cost of £100,000, 3% GST would be added and we now propose that GST, in cases of bone fide improvement and maintenance projects, should be reclaimable.

Otherwise GST would represent an additional cost to the industry and a disincentive to invest. These added costs to business reduce their ability to be competitive in the international tourism marketplace. Every additional cost will reduce further our ability to compete with other destinations.

7. In light of the timetable proposed, we recommend an upward review of threshold levels from the currently proposed £300K. Reviewing threshold levels to a higher level will assist many small businesses by exempting them from GST and the administration thereof.
8. We understand that there is no current proposal for Jersey to be harmonized with the UK unlike the case whereby the Isle of Man harmonized its tax with the UK. We understand that at, at first, their rates were materially different though they were subsequently synchronized at 17.5%. The question of some form of harmonisation (albeit at different rates) should be reviewed to avoid double taxation i.e. VAT charged on some goods supplied to Jersey from other jurisdictions and then GST also being charged in Jersey on the same goods.
9. British tour operators selling holidays to Jersey are required to charge their clients with UK VAT. However, this involves a complicated formula depending on the holiday destination. As regards Jersey, however, it could mean that UK VAT has to be charged on top of Jersey GST, which would make the holiday in Jersey about 3.5% more expensive (i.e. 3% GST + 17.5% VAT on 3% GST). This point needs to be investigated by Treasury and Resources Department and some feedback provided to the JHA and the States.

10. In the event that the hospitality industry is required to pay GST on its turnover, the industry believes, that this would be an opportunity for the tax revenue thus generated to be ring-fenced for projects that would enhance the prospects of the hospitality sector as a whole.

3. Further points for clarification

Will there be GST on flights and other transport (e.g. buses, insurance, rents, education, sale of shares and sale of property because, if so, there would be a direct adverse effect on the hospitality industry.

This response has been prepared by Jersey Hospitality Association under the auspices of its Management Committee.

Any communication in connection with this response or other related matters should be addressed to:-

Gerald Fletcher
Chief Executive
Jersey Hospitality Association
22 Hill Street
St Helier
Jersey, C.I.
JE2 4UA

Telephone 721421

Email: hospitality@jerseyhols.com

31st August 2006