

GOODS AND SERVICES TAX

Consultation Document – M.S Lewis F C A Meeting on 30th August 2006

Background

I now run my own Financial Consultancy business providing financial and accounting services to a number of clients. These include consultancy on many business matters and Directorships at B G Romeril & Co Limited and Highlands Hotel Limited. Prior to setting up this business my career includes positions of Finance Director at the Jersey Evening Post Limited and both Finance Director and Managing Director of Le Riches Stores Limited. You will see from the above my career has been dominated by experience in the Retail sector.

Introduction:

The principle of the introduction of a Goods and Services Tax is supported by B G Romeril & Co Limited (and other clients of M S Lewis) as a means of increasing the options available to Government to increase the tax revenues in the future. However it is expected that there will be a commitment by the States of Jersey to produce efficiency savings across the spectrum of Government to keep the increased tax burden to a minimum.

The principle of the minimum of exemption from tax is agreed provided:

(A) Income Support Scheme is in place prior to implementation of GST to support the lower income members of our community.

(B) Government commit to a low level of tax for a minimum number of years and does not use it as an initial rate and then increase this rate as a means of bolstering tax revenues (as happened with the removal of vehicle licence fee some years ago).

(C) Charities need to be considered separately (I am a Trustee and Treasurer of ACET Jersey a local charity – who have to seek 100% of their funding from the private sector and individuals) for exemption or assistance in some form.

Major Points of concern:

(A) Identifying true import costs

The capture of import data by Government at port of entry is unworkable. Shipping documentation does not contain correct and accurate cost information. An alternative method of capture has to be found.

We suggest import cost data is captured by purchase ledger departments from actual invoices. Companies can automate this routine to reduce additional employment cost. There remains a problem for infrequent and personal imports for which some other method may be appropriate.

De-minimus level of imports:

It is accepted that a reasonable minimum level for imports needs to be applied. However, Government must not look at this solely from their position of "tax take per item". Local businesses are facing a difficult challenge from internet trading and offshore (UK and France) shopping where prices and choice are greater and more competitive. A high limit will only increase this pressure and, I believe have a sizeable effect on our retail industry. As a guide to you 78% of Romerils transactions are under £50.00, and 86% are under £100.00.

The higher the limit the higher will be the loss of jobs in the Island. "The explanation & Summary of the Draft Law" states there will be a "level playing field for Jersey Businesses". A high limit will not constitute a level playing field. We need to keep the de-minimus level as low as is sensible.

Cost of compliance:

The cost to businesses will be great depending on details of the final legislation. Companies will incur substantial costs of changing systems, training staff, possibly doubling the input process for purchase ledger staff. This will inevitably lead to increased prices to a greater or lesser degree. My clients are in low margin sectors of trade and there is no room to absorb additional costs.

Pricing of Goods:

In examining this problem we are similar to USA/Canada with different sales taxes in adjacent States. The most sensible is to show the prices exclusive of GST and the tax is added at the point of sale. The benefits of this method have been highlighted already by other bodies.

Exemptions:

Implementation of articles 46-49(b) would appear to be totally unworkable. How does Romerils (or any retailer) identify each sale as being for domestic/residential accommodation and therefore zero rated. We could argue all sales by B G Romeril & Co Limited are zero rated. Practical thought with regards to exemptions need to be thought through before such exemptions are incorporated in legislation.

General Points:

(A) The proposed timetable for implementation is unachievable. It is now 16 months away and businesses will need time to make modifications to their systems **well before** implementation to allow for testing etc. to ensure accuracy of performance.

(B) The Income Tax Department, under whom the tax is due to be administered, has, with additional staff, struggled to cope with IT IS and for it to add GST and then 0/10 and "Twentymeanstwenty" within a couple of years is, in my opinion, simply foolhardy.

(C) The States of Jersey have embarked on a very dangerous strategy by altering the entire tax structure over a five year period.

History has shown that our track record has not been good in recent years with our "new taxes" (boat fuel, VRD, benefit in kind, ITIS) and to continue with GST/Zero10 and 20 means 20 within a short time span is a recipe for potential disaster.

(D) On top of this the Government are seeking significant growth in the economy at a time when increased tax burden is being placed on individuals. Uncertainty that all these changes make will not encourage individuals to spend at the levels required to achieve such ambitious growth targets.

Final Point

The need to find alternative tax revenues is accepted. The current tax proposals will have the following effect (particularly 0/10):

- (A) No business will want to invest in itself for the future
- (B) In the medium term it will discourage anyone to own local businesses and shares in local companies.

Why not therefore as an alternative to GST and Zero/10:-

Increase the employers social security contributions by X% (I accept that the Law will need to be changed). The benefits of doing so will cascade across the entire tax restructure currently on the table as follows:-

- A) No GST means employers will not be facing extra pay demands from staff for recompense to cover the increased costs and hence no inflationary pressures that will come otherwise.
- B) With company taxation reducing to zero the payroll tax will recover revenue from local and U K companies alike.
- C) RUDL charge will be unnecessary.
- D) The collection systems are already in place and working and require no extra costs by Government and business.
- E) Zero/10 will become redundant (It is unworkable and self defeating in its present form anyway)
- F) Government should become more accountable and live within its means or justify any further increases to the Social Security rate in the future.
- G) Local businesses will be able to operate on a more level playing field with OK and other companies.
- H) All companies will seek to avoid increasing staff and remain as lean as possible.
- I) Government departments may become more cost conscious if employment costs are high.