

Deputy S J Luce
Chairman
Economic Affairs Scrutiny Panel
Morier House
St Helier
JE1 1DD

19th December 2013

20 DEC 2013

Your Ref: 515.29 (5)

Dear Deputy Luce

Retail Policy Review

I refer to your letter dated 4th December which requested a written submission on the above review to be forwarded by 20th December. The letter mentions information / observations regarding tax related matters relevant to the retail sector and any other wider economic challenges / initiatives.

This submission relates to the role / responsibilities of Treasury & Resources as they apply to, and impact on, the business sector (including retailers) mainly through the work of the Taxes Office (TO) and Tax Policy Unit (TPU).

For ease of presentation I have attempted to separate the information provided under two main headings for Tax Policy and Tax Administration. The headings cover the current treatment; issues identified and any future initiatives (over next 3 years).

Tax Policy

The key message from the Fiscal Policy Panel, based on the current state of the island's finances and the economic climate, is that any policy change which permanently reduces taxation or increases spending should be accompanied by a compensating measure.

Tax systems as such are not used to favour certain business sectors and as a consequence discriminate against others. In Jersey the retail sector is not treated differently to any other type of business taxpayer and this is in line with best international practice.

The States long term policy approach is outlined in the Medium Term Financial Plan (MTFP) at Appendix 11 and can be summarised as follows:-

"no fundamental reform of key aspects of the tax regime being 0/10; a low, broad based and simple GST system and a stable personal tax rate. Fiscal certainty and stability are considered critical to encouraging economic growth".

Current financial forecasts indicate that expenditure can be met from existing revenue inflows but without creating substantial surpluses. This would indicate there is no need to introduce new taxes or raise any taxes but there is little, if any, scope to reduce existing taxes.

Tax Administration

There is a cost to the business community in meeting their legal obligations under any tax instrument and the policies adopted can either help or hinder the businesses involved.

This cost of compliance for a business is therefore directly linked to the number of tax types they are legally required to comply with; the level of complexity with each tax type and the quality of modern user-friendly taxpayer services provided by the TO.

In Jersey there are three main tax instruments a business (including a retailer) could be required to comply with: -

- 1) Business Tax (direct tax applied to profit);
- 2) Income Tax Instalment System [ITIS] - (a form of withholding tax for each employee); and
- 3) Goods and Services Tax [GST] – (applied to taxable supplies of goods and / or services made by the business).

Brief features of the three tax types are outlined in the boxes below:-

Business Tax

After a long period of stability the business tax regime was changed from 2009 to comply with the EU code of conduct on business taxation. The 0/10 company tax regime was introduced with a default rate of 0% which will apply to retailers. Returns are still required to be filed but there is no financial liability on the business. The income from other non corporate business entities (e.g. sole proprietors and partnerships) will be taxed under the personal tax regime at the standard rate 20% or marginal rate of 27% (26% form 2014).

ITIS

The system started in 2006 to collect personal tax from all employees. Employers are charged with deducting the required percentage from their employees and submitting the data on a return with any payment due to the TO. ITIS follows other generic systems used around the world that require employers to deduct tax from salaries. There is no direct financial burden on the employer who reduces the salary paid to the employee by the tax content.

GST

GST was introduced in 2008 to partly make up the shortfall of revenue resulting from 0/10. Registration is mandatory for businesses with an annual taxable turnover above £300K. This was a deliberate policy decision to keep the number of registered taxpayers within the management capacity of the TO and free smaller businesses from the compliance costs. Any business below the threshold can volunteer to be registered if they consider doing so will be advantageous.

At best a Jersey retailer's tax obligations are limited to the submission of an annual tax return but with no financial burden (no tax liability) and monthly ITIS returns (if they have employees). If a retailer is required to be registered for GST (or volunteers to do so) then in addition they will submit self assessed returns on a quarterly basis.

Tax policy / administration issues specifically linked to the retail sector

There are some features within one of the tax instruments (GST) that are specifically relevant to, and designed, for the retail sector. These are not unique features of Jersey GST but are included in most generic VAT/GST consumption tax systems.

These are briefly described in the boxes below:-

Import de-minimis

A value is used at import under which Customs do not charge and collect any duty and / or GST. The figure was set initially by the States to coincide with the existing revenue figure applied by Customs (£12). As most goods imported into Jersey are not subject to Tariff or Excise duty but are subject to GST the revenue figure was translated into value (inclusive of carriage, insurance, and freight) of £400. When the rate of GST increased from 3% to 5% the value automatically decreased to £240. It is difficult to arrive at an equitable figure as the consumer will prefer a high value and the business community argue that the figure should be low or nil.

Retail schemes / cash accounting

Special schemes allows retailers to sell goods at tax inclusive retail prices and account for tax on the basis of gross daily takings (monies received). This provides a much more cost effective solution which eliminates having to account for tax before payment is received (as can apply to non retailers who issue tax invoices). Limiting the number of exclusions (by zero rating or exemption) has also kept the retail scheme simple and only one is required.

Visitor Refund Scheme (VRS)

The scheme was introduced in 2011 as a joint initiative with Chamber of Commerce to allow retailers to effectively supply goods tax free to eligible visitors/tourists. The scheme was started as a pilot and applied to visitors leaving by air. The scheme was self funded by engaging G4S to act as outward control and apply a transaction charge to the visitor. The scheme has been subject to review in 2013 and will be:- i) continued; ii) available at the port; and iii) extended to include aggregate purchases within a retail outlet [not just a single item].

E-governance / on-line facilities

Over recent years the TO has introduced a range of on-line facilities to follow international best practice in improving efficiency and in response to the expectations of the business community To assist business taxpayers / retailers fulfil their legal obligations the TO has introduced the following on-line facilities:-

- filing of business tax returns from 2012;
- filing of personal tax returns (for taxpayers using agents) from January 2013; and
- payments from February 2013.

The on-line facilities are planned to be expanded over the next 3 years to provide further options and flexibility and thereby keep business taxpayers compliance costs to a minimum. Details are as follows: -

- Combined returns – submit manpower / employer return for Population (combined with ITIS) through the TO - (as from Jan 2014)

- Introduce Self Assessment for business tax returns (with a tax liability) - first year 2014 returns due in 2015)
- Taxpayer access to information – enquiries / returns / payments / ledger - (2015)
- Personal tax returns (will apply to some business/retailers operating as sole proprietors, partnerships) - (on or before Jan 2015)

Other potential business friendly administration initiatives

- Combine two sets of tax legislation into a single Tax Code - (yet to be agreed)
- Improve Commissioner's appeal system – (part of legal change above)

Submission summary

I am not aware of any other initiatives from Economic Affairs; Chamber of Commerce or Institute of Directors that directly relate to the fiscal treatment of the retail sector (other than GST visitor refund scheme and the de-minimis import values). My position on these is outlined / described above.

The current and future tax policy and administration treatment is not considered a major obstacle for a retailer in Jersey.

Further initiatives are under way to improve understanding; simplify and further extend taxpayer services and on-line facilities.

Compliance costs are already relatively low (but difficult to quantify) by international standards and should come down even further as and when the initiatives described above are implemented.

If you need any further information or clarification of the above please do not hesitate to contact me or (Steve Lowthorpe).

Please note the content of this submission is not considered confidential and can be released into the Public Domain.

BEST WISHES,

Yours sincerely

Senator P F C Ozouf
Treasury and Resources Minister

cc: Laura Rowley
Steve Lowthorpe