

Corporate Services Scrutiny Panel

GST Sub Panel

FRIDAY, 15th SEPTEMBER 2006

Panel:

Deputy P.J.D. Ryan of St. Helier (Chairman)

Connétable J.L.S. Gallichan of Trinity

Connétable M.K. Jackson of St. Brelade

Connétable D.J. Murphy of Grouville

Mr. R. Teather (Advisor)

Mr. M. Haden (Scrutiny Officer)

Witnesses:

Senator T.A. Le Sueur (Minister for Treasury and Resources)

Mr. S. Lowthorpe (Income Tax Department)

Deputy P.J.D. Ryan:

Good morning, Minister. Good morning, officers in general. I think everybody knows everybody here? Yes. Good. As agreed, we will leave Financial Services until a little bit later on and concentrate on one or 2 other areas if we can this morning. We have had your recalculation of the yield, which was interesting. Do you want to speak to that for a minute, Gary, is it you primarily that have --

Senator T.A. Le Sueur (The Minister for Treasury and Resources):

Steve --

Mr. S. Lowthorpe (Income Tax Department):

It is Steve.

Deputy P.J.D. Ryan:

Steve, sorry.

Mr. S. Lowthorpe:

Well, I am not the author of the document, but I do not mind speaking to it.

Deputy P.J.D. Ryan:

Right. Well, who was the author of the document?

Senator T.A. Le Sueur:

The Crown Agents did the original calculations the year before based on the figures that OXERA (Oxford Economic Research Associates) had done some time earlier.

Deputy P.J.D. Ryan:

Yes.

Senator T.A. Le Sueur:

But rather than change the methodology the Crown Agents have effectively redone the calculations based on the same methodology but using the up to date household expenditure survey.

Deputy P.J.D. Ryan:

Right.

Senator T.A. Le Sueur:

I think there is a difficulty in that the current household expenditure survey does not fit too easily with these categories that they are talking about within the GST, so there is an element of uncertainty there. Within that I would have said that what this shows in broad terms is that we are still talking in the same sort of figures of somewhere in the £40 million mark, 42, 47, 43, 48.

Deputy P.J.D. Ryan:

Have you calculated it from the other direction? This is from one direction effectively, your calculation.

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

Have you gone from the other direction, from the household expenditure survey, and tried to validate these numbers from that direction at all?

Senator T.A. Le Sueur:

Certainly I have not, and I would not know whether that methodology would be sound or robust and would give anything like a right answer. I think if you are suggesting that these figures might be unexpected or unreasonable then I might put it another way --

Deputy P.J.D. Ryan:

I am not. We have attempted it. Our adviser has done that.

Senator T.A. Le Sueur:

Right.

Deputy P.J.D. Ryan:

You might be interested to know that he comes to about the same number.

Senator T.A. Le Sueur:

Yes, well, that is reassuring, but not entirely surprising.

Deputy P.J.D. Ryan:

No.

Senator T.A. Le Sueur:

Because even if you come from a different direction you are effectively still using the same data for the same population.

Deputy P.J.D. Ryan:

Okay, that is fine, thank you. So, nothing really to add, other than to confirm the overall numbers really that we were always talking about?

Senator T.A. Le Sueur:

Yes. I mean I think clearly there are issues, and thank you for letting me have in advance some idea of your thinking of the line of questioning for this morning, because clearly the yield does depend on the range of goods and services within the scope of tax

Deputy P.J.D. Ryan:

Yes.

Senator T.A. Le Sueur:

That is something which clearly would be debated next month. I was wondering whether it might be worthwhile just going back and doing a quick resume of how we got to where to where we are now. Hopefully, that will not take too long, but going back to the original black hole, if you like, of £80 to £100 million and the need to fund that. We said we would fund 3 ways; £20 million from growth, £20 million from savings, and £60 million from taxation measures. Of those taxation measures the strategy was £5 million from ITIS (Income Tax Instalment System), £10 million from 20 Means 20, and £45 million from GST. I suppose the simple question which I would ask is why choose 3 taxes to raise £60 million, when you only have to use one tax to do the whole damn lot. The answer as far as I was concerned is that I wanted a package which would be progressive overall. If we use GST alone, then in my view that would have been slightly regressive and might have been more difficult to deliver. So, that is why I think it is important for us, or certainly for States Members in general, to be aware that this

is a package and we should not try to look at elements of a package in isolation. I think that will come up. I get the sense, in reading some of the questions I will answering in a moment, of unease that maybe we are hitting the poor more than we should be, or that there are some things that if we took out of the scope of GST might make it easier or better for one section of the community. I think there is a danger in trying to look at that in isolation when the reality is that it forms part of an overall package. Within that package there are measures to address those on higher incomes, 20 Means 20, and to address those on very low incomes with an income support scheme. So, as long as we look at GST and regard it as part of a package, which is how the fiscal strategy came to be agreed in the first place, then I think we are on the right track. There is a danger of us going off and trying to unpick little bits of it and forgetting the wider picture.

Deputy P.J.D. Ryan:

In the context of progressivity versus regressivity that you have just been referring to --

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

-- I am not quite sure of where ITIS fits into that, because I do not think it really would have any effect either way.

Senator T.A. Le Sueur:

No, ITIS is effectively proportional, providing you pay income tax in the first place.

Deputy P.J.D. Ryan:

I mean, where are you getting the extra money from under ITIS, other than a cash flow advantage? Where are you getting the extra money?

Senator T.A. Le Sueur:

It is basically a cash flow advantage, plus the abolition of relief for those here on a short term contract where, in the past, because allowances were given for a full year, even if you were only here for 2 or 3 months of the year, a lot of people work here for 4, 5, 6 months and are be liable for tax.

Deputy P.J.D. Ryan:

So, this is effectively an anti-avoidance --

Senator T.A. Le Sueur:

Well, it was not avoidance, because that was what the law said --

Deputy P.J.D. Ryan:

Yes.

Senator T.A. Le Sueur:

-- but we just changed the law to make the allowances proportional to the length of time that the people were in the Island. But ITIS basically is proportional; the more income you have the more tax you pay, providing you pay tax in the first place. But, of course, the lowest 25 per cent of the population do not pay tax, so they will not pay ITIS either.

Deputy P.J.D. Ryan:

Okay, so it is a question really of the degree to which 20 Means 20 adds progressivity to an overall package under GST that - using your own words - is slightly regressive.

Senator T.A. Le Sueur:

Yes. Well, I think we have probably almost beaten the 20 Means 20 argument to death over the last 6 months, both in the States and in the main scrutiny panel. Quite clearly at the moment the 20 Means 20 arrangements are focused very clearly at the top end of the fifth quintile, fourth quintile, as part of this overall situation. So, yes, for people on very high incomes 20 Means 20 is a significant burden; for those on the lower quintiles no burden at all. That is why I say as part of an overall package, the package itself is progressive and we should not worry if some elements such as the GST element is mildly regressive. When I say "mildly", we can flesh that one out in due course if we need to.

Deputy P.J.D. Ryan:

Anything else on the yields, gentlemen? Or are we happy to take that? Okay. Let us move to the nub of the political shenanigans, to use a word which may not be appropriate, but nevertheless, the proposed zero ratings and exemptions.

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

Either proposed by others, or some indeed proposed by yourself.

Senator T.A. Le Sueur:

Right. I think those proposed by myself, because my objective is to keep the tax as broad as possible. I have used the word "exemptions" which I think are the wrong words to use, but where there are goods or services which are not within the scope of the tax, they are generally there for a very good reason, such as postal services, financial services and so on, and that seems to be typical of a GST system around the world. So, I think I might need to get Steve Lowthorpe to confirm this, but the sort of items

that I am suggesting should not be within the scope are the sort of things which are not within the scope anywhere else in the world either.

Deputy P.J.D. Ryan:

Right, okay. The EU (European Union) has some standard exemptions?

Senator T.A. Le Sueur:

Yes and no. I think it has a section in the law - and Steve has it in front of him - and I do not profess to be an expert, but there are 8 pages of stuff here of things that potentially can be exempted, and it is up to individual countries to decide whether they do or do not. So, first of all, I do not think there is an EU standard necessarily, but equally I would not regard the EU as necessarily the best example of a good GST system. I think the EU - and Britain is perhaps in the forefront of this - came early in the process and did it perhaps in a very legalistic way; the way I think some Europeans tend to think. I think the Antipodean model, the later examples that we see in New Zealand and Singapore and the like, have taken a much fresher approach, and a lot more practical approach, and come up with a different methodology, a different solution. So, certainly, I would not want to slavishly follow the EU and, to put it at its worst, I certainly would not want to slavishly follow the UK. I would hope that the evidence that you see from the existing UK legislation might reinforce that view.

Deputy P.J.D. Ryan:

Okay.

Senator T.A. Le Sueur:

But just as an aside I think what we are going to have to do here is to look at evidence rather than simply at the gut feeling or what might be flavour of the month in the media or even States Members' individual propositions. From a scrutiny point of view we have got to see what the real effect is.

Deputy P.J.D. Ryan:

Okay, thank you for that. Nevertheless, the EU does have some history.

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

Some exemptions that it talks about as being standard.

Senator T.A. Le Sueur:

It talks about the possibility, but I think if you turn back to the paper which I let you have on the revalidation of potential GST base and yield. No, maybe it is not there. Somewhere hopefully you

should have received a paper which shows the comparative rates of GST or VAT (Value Added Tax) --

Deputy P.J.D. Ryan:

In the EU Member States?

Senator T.A. Le Sueur:

In the EU Member States, yes. So, I think we need to look at this in a different context. There is scope within the legislation for differential treatment for a whole range of activities. What the EU States have tended to do in varying degrees is to apply a different rate of tax for certain activities from the standard rate. But you have got to set that against the background of the standard rate, 20 per cent, 21 per cent, 15, 19, 26 per cent, you know, a very high standard rate, then there might be a little bit of logic in having a lower effective rate for certain activities. I think that may be the reasoning behind the EU States taking that line of approach.

Deputy P.J.D. Ryan:

Okay.

Senator T.A. Le Sueur:

I think when they have got a rate of GST of 3 per cent; you are looking at a totally different situation. I think if I pursue that argument if we look to the final 2 figures in that column, which is Singapore and New Zealand, which I call the newer model - the better model as far as I am concerned - they have a lower standard rate, but they apply that lower standard rate across the board. I think the evidence that I see from Singapore and New Zealand is that has worked well. Australia tinkered about with their system and I think they have lived to regret it ever since. But I think you have got a different approach there between the old EU model and the newer Singapore/New Zealand model. I am very much in favour of the newer model, and particularly at the lower rate, simple approach.

Deputy P.J.D. Ryan:

Because the EU has some compulsory exemptions; education, health and welfare?

Senator T.A. Le Sueur:

That is part of the political decision I think, if you like, and I cannot necessarily speak for what EU policy is or should be. I believe for our policy is and should be to apply GST as broadly as we possibly can, but as low a rate as we possibly can. Why should we single out any one of those more than the others? If those sorts of activities deserves special treatment, and maybe they do, maybe that treatment can be given in better ways than tinkering with the tax system. I might expand on that when we come to talk about, for example, educational services, which I know you were going to touch on this morning.

Deputy P.J.D. Ryan:

Well, we have just been listening to educational services, but I think more from the angle of the Catholic schools and religious schools than fee paying schools in general.

Senator T.A. Le Sueur:

Yes, but what problem are you trying to solve? If you are trying to solve a problem of funding particular education establishments, is that better done through an educational route, maybe by changing the grants structure to those institutions, or by messing about with the tax system?

Deputy P.J.D. Ryan:

Okay. So, are you saying that you think it would be better done through a grant system than by a taxation system?

Senator T.A. Le Sueur:

I am saying I want to keep this tax system simple. If it means that, for example, you would lose, let us say, £500,000 worth of GST revenue from a school, but equally give them a £500,000 grant to recompense that, well, why go round in circles and make things more complicated? I think there is a danger if we try to solve problems by making the tax system more complicated without making the rest of the operation any simpler.

Deputy P.J.D. Ryan:

So, if there were to be a good case for education being treated differently I think what you are saying is you would prefer to deal with that. I am not saying there is or is not --

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

-- but I think you are saying that you would prefer to deal with it through the grant system rather than through a tax?

Senator T.A. Le Sueur:

Or through some other formula, but the grant system is there, so it strikes me that may be a simple solution. I think equally you had, a couple of weeks ago, discussions about the medical benefit arrangements?

Deputy P.J.D. Ryan:

Yes.

Senator T.A. Le Sueur:

Again, you have got a medical benefit system in the Island which may be unique to the Island, and again is a good example --

Deputy P.J.D. Ryan:

Through the social security system.

Senator T.A. Le Sueur:

Through social security. Why try to tinker with a tax law and discussing what should or should not be regarded as medical products when you have already got a health law and a health scheme which says these products are within the scope of prescription refund and we will reimburse accordingly.

Deputy P.J.D. Ryan:

So, basically, coming back to the compulsory EU exemptions, you do not see that there is a need for us to follow that route?

Senator T.A. Le Sueur:

No.

Deputy P.J.D. Ryan:

I mean, clearly there must be a reason for that in the EU generally; education, health and welfare, as being exempted.

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

But you do not see that that is the way to do it?

Senator T.A. Le Sueur:

I do not see it. I do not think it is desirable for States policy to slavishly follow whatever the EU suggests might be the right way to go. I think we ought to be capable of making up our own minds.

Deputy P.J.D. Ryan:

Right. The original Crown Agents' report - can I address this through you to Steve maybe?

Senator T.A. Le Sueur:

Yes, we will find out what the question is first.

Deputy P.J.D. Ryan:

[Laughter] The original Crown Agents' report on the prototype GST included zero ratings for social protection services, although they are not defined. Exemptions for trade unions, professional fees, museums, zoos, libraries, et cetera, and yet you have gone away from that now. Do you want to give us the reasons why or why was it in the original report if you --

Senator T.A. Le Sueur:

I think you have opened the door to Steve there well. **[Laughter]**

Mr. S. Lowthorpe:

I will put my former hat on then from Crown Agents. I think the section you referred to was in section 4 which was attempting to establish a yield. I would suggest there was a difference between a footnote that was provided and the narrative description of some of the exclusions. I would tend to say, yes, I was responsible for the report. It was probably an incorrect footnote, because that footnote related to the description of further exclusions in the UK system. It is impossible to identify the expenditure stream, so it had no impact whatsoever on the estimate of the tax base.

Deputy P.J.D. Ryan:

Okay, a straight question: was it there because you anticipated originally that the GST rate would be perhaps significantly higher than you in fact ended up with it being, and once you start getting higher rates of GST do you not then start getting more of a case for zero ratings and certain exemptions perhaps? I would suggest that as a reason. Tell me I am wrong.

Mr. S. Lowthorpe:

Yes, I will tell you you are wrong. It was there because it was trying to describe further minor exclusions in the UK system, not what was intended for Jersey.

Senator T.A. Le Sueur:

I think there is a danger here if we try to go back over old ground. The States have agreed that we want a broad based system at a lower rate with a high registration threshold and that is what we are delivering to. I think we should be moving forwards now, how do we implement that policy, not at this stage do we reconsider a policy and having it been put into place.

Mr. S. Lowthorpe:

If I could probably just add one further thing. Again, other than trade union fees, professional subscriptions, which you cannot identify in household expenditure as it is, many of the other issues there, zoos, museums, were supplies that perhaps were going to be made by the States. At the time that this report was put together by Crown Agents, I think it is fair to say that we did not - in the overall time-scale that we had for that project - have as full an understanding of the States' involvement in semi-business activities as certainly we do now. So, many of those oddities were potentially supplies that

would be made by the States.

Deputy P.J.D. Ryan:

Just turning back to your EU Member State VAT rates for a minute, I do not know if you have any comment to make about this, but it seems to me that where you have Island States - well, there is a small number I must say, Cyprus, Malta, are the 2 that stand out - where you might be able to draw a direct line of comparison, say, to Jersey, also an Island, also with high transport costs if everything is imported - I am thinking food here - and both of those 2 States are zero rating food. Do you know how long Cyprus and Malta have had GST, for instance?

Mr. S. Lowthorpe:

I was involved with Malta; it was around 1993 I think, 1994, but again my memory is not as good as it was.

Deputy P.J.D. Ryan:

So, 10 years ago, or something like that?

Mr. S. Lowthorpe:

About that. So, it is, again, an older system.

Deputy P.J.D. Ryan:

You would say that is an old system, would you, 10 years ago?

Mr. S. Lowthorpe:

Yes.

Deputy P.J.D. Ryan:

Most of the EU system would have been more like 25, would not it? 30 --

Mr. S. Lowthorpe:

Very old.

Deputy P.J.D. Ryan:

[Laughter] Right. They interestingly have zero rate on food, for example.

Mr. S. Lowthorpe:

Well, there are certainly options within the EU system. Again, I have the Crown Agents' hat back on, but what I find surprising is that when we first came and took on this assignment; is GST feasible? We had some pre-set design criteria, but effectively it was a blank piece of paper. So, we had to try and

establish what are the options. Of course, one of the options which we put forward in a consultation document was an EU/UK type model GST. We had the simple; we had the EU style. Not being specific, but an EU style of system which inevitably would have meant a higher rate, or something in-between; we called it a hybrid. There is no shadow of doubt following that consultation that people were in favour of the simpler system. So, it is not as if an EU style system had just never been considered, had been completely ignored. It was there in what we felt was a very thorough communications exercise. There is no doubt, whether it was members of the public, whether it was the business community, that it was the simpler system. The standard list; well, it is standard. If previously Crown Agents were involved in a project with a country seeking accession this means something. There is flexibility. You can get derogation, but if you are going to get accession you have got to stick to something like this. But of course there is the other side of the balance sheet that you have to have a standard rate which is not lower than 15 per cent, and you can have another rate in addition to zero rate. So, for an accession country, yes, this means something. But it has grown; this has grown from 30 years. The UK is not complying with this. Many of the Member States are not compliant. This attempts to move to a harmonised system of VAT within Member States, and I think if people are honest, if this is the basis, it is never going to happen. Never! There are 45 sub-headings here; 4 main categories, different articles; 45 sub-headings. To be honest after 30-something years, 40 years of VAT, even I do not understand some of it. So, to me, it is not suitable for Jersey.

Deputy P.J.D. Ryan:

Okay. Let us move to some of the zero ratings and exemptions that you are promoting for a minute. Obviously, there is the export one, which I think we are all clear on. This is consumption by consumers that do not belong to Jersey, so that is the rationale.

Senator T.A. Le Sueur:

Yes, well, GST is effectively taxes on Island consumption, whether that consumption is by Island residents or by visitors to the Island, it is on Island consumption.

Deputy P.J.D. Ryan:

Yes, okay. I mean the tourism industry has made a case that if you are going to allow financial services to be effectively zero rating their exports, not actually but through an exemption or partial exemption system, and the tourism industry has made the case that the consumption is on Island. The consumer might be off Island but the work is done on Island, but you are zero rating it because the final customer is off Island, and they are making the case that a similar thing exists in tourism, and that they might consume something on Island but they are going to take it away with them when they go off Island.

Senator T.A. Le Sueur:

I suppose the simple answer is, well, they would make that case, would they not?

Deputy P.J.D. Ryan:

Yes.

Senator T.A. Le Sueur:

But it is a sound case? In reality the financial services industry is being asked to contribute £5 million or £10 million more than they would have been asked to pay anywhere else. We are not asking the tourism industry to pay any more or any less than any other. If you like, we are penalising the financial services industry over and above anybody else.

Deputy P.J.D. Ryan:

I want to leave the financial services industry. I did not mean us to go into that too much.

Senator T.A. Le Sueur:

Okay, I think if tourism is trying to make out that they are a special case and they want to be compared with the financial services industry, in that case they will be paying more.

Deputy P.J.D. Ryan:

Well, it is not a question of more. I think they are making a case, or they want to make a case to the Economic Development Minister on the basis particularly for conventions and conference-type businesses that they should maybe receive some special consideration by the Economic Development Minister.

Senator T.A. Le Sueur:

I am sure that when I have a conference and my children come over for the weekend to have a chat with their father they will say that is conference business. You are getting into the ridiculous there.

The Connétable of Grouville:

That is called a budget. [Laughter]

Mr. S. Lowthorpe:

Could I just add if I may just one point on that? We are talking of chalk and cheese really. There is nowhere in the world that I am aware of that would treat tourism and hospitality, in a regime as an export. It does not happen anywhere else in the world.

Deputy P.J.D. Ryan:

Is that right?

Mr. S. Lowthorpe:

No, it does not. I can tell you now. The hospitality industry were very kind during the consultation

period and referred us to some efforts being made on the part of hospitality in Europe to get more favourable treatment, but that more favourable treatment is to get a lower rate of VAT in Member States. In most instances that lower rate is already higher than the general rate that we are proposing. So, there are efforts to get different treatment, but that different treatment would still make it taxable. It has never been deemed as an export. The difference between financial services and tourism is financial services have always been deemed in this category difficult to tax. Are they a natural fit in a VAT or GST system? No, they are not. Time of supply, place of supply, value of supply, all the basic things are very, very difficult. Hospitality is simple. It is a natural fit.

Deputy P.J.D. Ryan:

Okay. Let us look at something though which may be more debatable, and that is the question of the domestic housing side of things that you are proposing to zero rate. Can you first of all give us the reasons why you believe you should be zero rating that area? Not just housing, but as I understand it from previous meetings, maintenance of domestic housing? Can you go through that scenario for us?

Senator T.A. Le Sueur:

Briefly, although I will hand back to Steve for that lot. My concern is really what are we talking about in terms of, for example, rental income? Because it is a bit like considering the bank interest. You may receive 5 per cent interest from the bank, but the bank is paying the people who put the money in there 4 per cent and the bank making a turn. What is the nature of the turn on the thing? When is that occurring? Where is it occurring? There are all sorts of complications with the financial services industry, and with property it is much the same. If you are charging a rental of £100 a week, that is not a clear profit, because you probably had to buy the property in the first place and maybe you are financing that and paying £99 a week on interest. So, what is GST payable on? You get all sorts of technical complications there. As well as the fact that you are probably going to make GST, again, a bit more regressive if you incorporate housing costs into a GST system. I think both for the regressivity(?) but more so for the simplicity point of view, we felt it was better outside the scope.

Deputy P.J.D. Ryan:

That is the rents side of it.

Senator T.A. Le Sueur:

Okay.

Deputy P.J.D. Ryan:

That is the rents side of it. What about housing maintenance in general, supply of new domestic housing?

Senator T.A. Le Sueur:

It is I suppose a grey area, but maybe Steve can --

Mr. S. Lowthorpe:

Well, again, why is it there? It is there because we listened. I have put the Crown Agents hat back on; it was a Crown Agents' recommendation after the consultation period. What were people really concerned about? Well, they were concerned about probably the largest portion of their expenditure and that was on domestic housing. It was a big shock for me to come to Jersey and see the cost of buying a house, the cost of rental. It is an even bigger shock now because I am now here paying it. **[Laughter]** So, we listened, and of all the public meetings, all of the meetings that we had, that was one of the issues that clearly came over: "Do not tax domestic housing." So, we listened. We looked at the proportion of expenditure in all of the quintiles, and it is a very high amount. Housing costs here in general are very, very high. How do you then disaggregate rental of domestic property? Could you disaggregate repairs and maintenance? I think it is probably easier from now an administrative point of view to say: "Right, try and zero rate the lot. Do not make it complicated."

Deputy P.J.D. Ryan:

You are not going to get problems with definition between domestic housing and business?

Mr. S. Lowthorpe:

Wherever you attempt to define something, for any kind of exclusion - you know, this myth about there is an easy way; it is a simple, easy exclusion. It is a simple easy exemption. It does not happen. But I think listening again to the trade, and we went to the trade body, it is probably easier to find a definition of domestic. What is domestic and what is commercial? Yes, there will be problems. There were problems in the UK with property used for both, but then there has to be some apportionment. So, it will not be easy, but it is a better definition than some, and I know we will come on to foodstuffs later on.

Deputy P.J.D. Ryan:

Well, exactly. But if domestic housing is expensive, is not food?

Senator T.A. Le Sueur:

Well (...overspeaking)

Deputy P.J.D. Ryan:

But, anyway, let us come to food in a minute.

Senator T.A. Le Sueur:

But you have got 3 constables on your panel here who have spent the last year or 2 trying to wrestle between domestic and non-domestic properties for Parish rates. I am sure they can give you the benefit

of their experience.

Deputy P.J.D. Ryan:

Yes. What is the distribution? Putting the rents aside for a minute, just aggregating rents from repairs and maintenance and perhaps supply of new domestic housing, let me ask you what do you think is the distributional effect of that? Which quintiles are we affecting here? I mean, I have a feeling but you can tell me I am wrong. I do not know if you have got the answer to this or not, but I have a feeling, and I have not got the evidence to show me, but I intend to get it through other methods, that you are really talking about probably quintiles 4 and 5 particularly, possibly 3, but very little in the first 2 quintiles, if you exclude rent from that?

Mr. S. Lowthorpe:

Well, we are not excluding rent from the zero rating, and we certainly cannot disaggregate repairs and maintenance. It is not there as a line. You know, we are limited by the statistics that we have got. But what we have recognised, we listened to people and they said that housing costs, whether it be rent in any of the quintiles, is a very high proportion of their overall expenditure.

Deputy P.J.D. Ryan:

If I were to say to you though: "Have you been selectively listening to what people said?" I mean, what I am trying to get over is you will always get a section of the community that will talk to you hard about something that they believe will affect them.

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

Whether it be domestic housing because you are being talked to by the people in the fourth and fifth quintile.

Mr. S. Lowthorpe:

Well, we were not. I mean, it was a public meeting. We certainly did not ask them when they came in which quintile do you fit in and put a badge on.

Deputy P.J.D. Ryan:

Exactly.

Mr. S. Lowthorpe:

But from the general level of abuse that we got [**Laughter**] and Terry was there, then I would say it was a reasonable spread, but I would say that there was better representation from quintiles 1 to 3.

Deputy P.J.D. Ryan:

Surprising.

Senator T.A. Le Sueur:

If you want evidence, and I think you need to get evidence, the latest household expenditure survey shows that the average spending percentage on housing, water, electricity, gas and fuels is 29.2 per cent. That is the average. The lowest quintile spends 31 per cent, and the highest quintile spends 28 per cent.

Deputy P.J.D. Ryan:

Of what?

Senator T.A. Le Sueur:

Of their total income. Their total spend.

Deputy P.J.D. Ryan:

Yes, but in terms of pounds? Because, obviously, yes, to relate that to percentage of income is irrelevant. It is a question of how much money they spend.

Senator T.A. Le Sueur:

Right. All the evidence is there, but the evidence is there for that and the evidence is there for every other area of expenditure as well. The fact is that whatever you do has virtually no effect overall between the 5 quintiles. There is no great redistributed effect whether you put in housing, and take it out, or put it in food and take it out, or anything else. Clearly people in the top quintile spend more money; I am not arguing with that. But proportionately each group spends roughly the same sort of thing, and the differences between the spending in different quintiles has virtually no effect on the overall cost of GST between different quintiles.

Deputy P.J.D. Ryan:

Right.

Senator T.A. Le Sueur:

You would have to do it in some other peculiar way which I cannot imagine how you would do it to say that people on the lowest quintile pay GST at 2½ per cent and people on the highest quintile pay GST at 5 per cent. I do not see that one as being a rational answer.

Deputy P.J.D. Ryan:

I suppose what I am asking is whether you have considered, or done any calculations, on dropping the zero rating? Not on rent, but on the maintenance side, and what extra yield you might get if you were to

reinstate the standard rating on housing maintenance generally and possibly on the supply of new domestic housing?

Senator T.A. Le Sueur:

I am sure --

Deputy P.J.D. Ryan:

Take the analogy of a new car and a used car. You can impose GST on the supply of a new car from a registered trader. I am using this purely as an analogy, but where you have used car trading presumably you are going to follow the kind of margin scheme that there would be in the UK on used car trading from a registered business where you just take the margin between buying and selling and extract the GST out of that margin? Is that the way you --

Senator T.A. Le Sueur:

I think that is a policy decision I have not yet made. That is one option really.

Deputy P.J.D. Ryan:

That is one option. Yes. I mean you could use the same kind of thing, and the same kind of arguments, on domestic housing in that the market will find its own level. In other words, what I am trying to say is the price of houses, new or second-hand houses, is dependent more on supply and demand than it is on -- it would not necessarily mean if you put GST on the supply of new domestic housing that the market simply would not absorb that, because it would be held to what supply and demand was for housing and it could be a good way of raising revenue because it may well come out of the pockets of housing developers rather than the consumer. Do you have a feel for that?

Senator T.A. Le Sueur:

I have a feel for trying to deliver what the States has already agreed it will deliver and I think we can get sidetracked into all sorts of economic arguments about whether sticking GST (Goods and Services Tax) on new houses is a good thing or a bad thing. I think that might be outside the scope of this particular issue, certainly for me.

Deputy P.J.D. Ryan:

Except that you have zero rated it.

Senator T.A. Le Sueur:

Yes, but I think if you were to look, for example, at the economic arguments is it wise to increase the cost of housing which presumably gets fed back into higher rentals, which presumably gets fed back into other costs? What are we trying to achieve? We are trying to achieve a yield of £45 million from GST and I would like to try to achieve that in a way which is in the best economic interests of the Islands. I

have tried to do that by designing a scheme here based, after consultation with people in the Islands, on what is appropriate for the Island's needs. On that basis, we said we keep the broad base scheme, you include things like foodstuffs but you treat housing in a particular way.

Deputy P.J.D. Ryan:

I suppose the question is this, by zero rating the things that you are suggesting are zero rated, it has a distributional effect. It affects certain quintiles differently and my question is --

Senator T.A. Le Sueur:

Yes, but only very mildly.

Deputy P.J.D. Ryan:

-- whether the zero rating of domestic housing and supply of new domestic housing, in fact, is progressive or regressive in taxation terms and I suspect it is regressive because it benefits the higher quintiles.

Senator T.A. Le Sueur:

If we look at the evidence in all sections of spending, GST across the quintiles is mildly regressive and it does not matter whether you are talking food or housing or motoring, that is the case. I do not think you can single out any one particular area of expenditure and say, that area is significantly different from others in terms of its regressivity. They are all much of a muchness and that is why I say no matter how much you shuffle the pack you do not change the nature of the regressivity to any great extent.

Deputy P.J.D. Ryan:

Except dependent on which things you zero rate or exempt seems to have a great deal of difference on the degree of progressivity or regressivity.

Senator T.A. Le Sueur:

No. I think you would have to show me the evidence of that because the evidence I have is that the difference or this significant --

Deputy P.J.D. Ryan:

Let us take 2 examples. If you take food and education, we have done the calculations, and assuming you can keep the yield the same, it means that you have got to put up the rate for everything else when you zero rate anything.

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

Taking each one as an example, food is highly regressive.

Senator T.A. Le Sueur:

No. Food is slightly.

Deputy P.J.D. Ryan:

It is regressive.

Senator T.A. Le Sueur:

Yes, slightly.

Deputy P.J.D. Ryan:

It is regressive. Educational fees are also regressive because they benefit. If you zero rate education it benefits the higher income quintiles and it has no effect. So, the lower quintiles have to pay for that. Similarly, and that is what I am saying --

Senator T.A. Le Sueur:

I am not sure how you are defining education for a moment.

Deputy P.J.D. Ryan:

Private education fees, if you zero rate them, as has been suggested.

Senator T.A. Le Sueur:

It is just private fees.

Deputy P.J.D. Ryan:

Just private and nothing else.

Senator T.A. Le Sueur:

Not Highlands or courses or anything like that?

Deputy P.J.D. Ryan:

I am just saying private education fees. I do not know about Highlands education because it is probably insignificant in the total calculation. But if you take education fees and zero rate them that means everybody else has to be pay for that zero rating and primarily it is the lower quintiles that pay for it. If you take food and zero rate it, primarily it is the top quintiles that pay for it. That is the evidence that we have got from what we have been seeing.

Senator T.A. Le Sueur:

Well, I would just like to be able to scrutinise that evidence. Maybe in the same way I will pass you the figures I have got, you can pass me your figures and you can convince me of this.

Deputy P.J.D. Ryan:

We will do.

Senator T.A. Le Sueur:

As I say, the evidence I have is that the degree of regressivity, if that is the appropriate phrase, does not seem to vary very much from area to area.

Deputy P.J.D. Ryan:

Okay. We will pass the evidence and our calculations across and perhaps you would like to comment on them.

Senator T.A. Le Sueur:

Yes, by all means.

The Connétable of St. Brelade:

Can I just come in briefly on the income support system, Terry? The details of the scope of the financial support will not be available until February and the budget standard researched by the Centre for Social Policy appear to be unaffordable. Do you think the scheme will be adequate in compensatory terms for the lower income groups?

Senator T.A. Le Sueur:

Yes, I do. I think what we did when we looked at the effect on the lower income groups was to see what the likely cost would be for those groups and the cost we came out was something like £1.75 million a year. So, it was not a question saying: "Well, here is a pot of money of £1 million. Now let us see how it goes." It was done from the other end and said: "What is the impact on the lower income groups? Now, what would be the cost of that?" So, it is a calculated figure which I think is realistic on that basis that we had agreed last year, I think that was £1.75 million.

The Connétable of St. Brelade:

We have heard from the Minister for Social Security saying that effectively they will be providing for low income and it will cost what it costs. One feels that there is (...overspeaking) --

Senator T.A. Le Sueur:

But, having said that, what it costs in our calculations is £1.75 million. Now, it may be £1.6 million, maybe £1.9 million. The estimate that we had is £1.75 million but any estimate is subject to a

reasonable margin of error. If we said between £1.5 million and £2 million, I would be satisfied that was a more than adequate margin of error.

The Connétable of St. Brelade:

What we are concerned about to a degree is what makes up a decent standard of living in Jersey because clearly that is what it is focused on and we have not really got the firm information on that at this stage. How can we decide what a decent standard of living in Jersey will be?

Senator T.A. Le Sueur:

I do not know. That is a wider question than simply GST because I think the point I keep coming back to is that we are going to take £45 million out of consumers' pockets in one way or another. Now, the effect on low income families whether we take it out in this way or that way - as I say, on my calculations - it is brought in similar. So, it is not a question of, is there an adequate standard of living? It is going to be the same effect either way whatever we do so you may have a different problem. Are our basic social care standards in funding high enough? That is a question you need to ask yourself irrespective of the way in which GST is applied. Putting it in a wider context, is the old age pension of £250 a week for a married couple high enough, too high, too low? That is not within the scope of my analysis and not within the scope of this particular scrutiny panel I would have thought but that is a different issue, which may need to be addressed as well.

Deputy P.J.D. Ryan:

This whole issue came out of the conversation that we had last week with the Social Security Minister, where we asked him whether he felt there was going to be enough money made available to him out of GST receipts to fully compensate to the levels that he needed, so that there was no effect from GST on people on benefits. He said that he had an assurance from the Treasury that it did not matter what that number was, he would get that number. Is that your understanding?

Senator T.A. Le Sueur:

We have been working pretty closely together between Treasury and Social Security on the design of the income support scheme and the design of the GST scheme. Now, provided that the design of the income support scheme is maintained in the way that the Social Security Minister has been talking about all along, the answer is yes because our £1.75 million is calculated on the basis of that scheme. Now, if someone stands up in the States and amends the income support scheme and gives income support to, say, the bottom 2 quintiles, say 40 per cent of the population therefore, that gives you a totally different ballpark figure for income support, let alone for GST. Now, I have got to work with what I know and on the basis of the principles that the States have agreed, and on those principles and on that knowledge and on that information and on my calculations, yes he will have all the money he needs because, as I say, it is within £1.5 million and £2 million.

Deputy P.J.D. Ryan:

I suppose the question is if it turns out to be £2.5 million or £3 million that he needs, will he get it or will it be budget driven or: “Sorry we do not have that much available”? Would you then turn around and tax slightly more in order to make that amount available?

Senator T.A. Le Sueur:

I think that is a question which I would address as and when it arose. I have got no reason to assume that it is likely to arise. If it did, my philosophy would be that we might have to look to either increase the yield of GST or to accept the fact that we will get a slightly lower net yield. I would be inclined to put it up the £2.5 million or £3 million if I thought that was the likelihood but the evidence I have to date is that is not a likelihood. Now, if you can give me evidence to the contrary, then I need to build that in at an early stage.

Deputy P.J.D. Ryan:

I think it is just an important matter of principle as we go forward with GST; it is not just going to be this year, it is going to need to be each and every year thereafter.

Senator T.A. Le Sueur:

I think the principle that we had was that GST was designed to yield £40 million to £45 million net of administration costs and allowing, therefore, from that money you could put enough aside to fund the impact on people in need of income support, which might shave a bit off the top of your £45 million which we said was going to be about £1.75 million. I am aware of that. If the figure comes out to be £5 million, we will say, and the net yield from GST goes down to £41 million that is something I have got to live with for the time being. If that figure were to continue, I would then say well maybe we need to adjust the scope of GST. At this stage, we are talking purely hypothesis because I have no information, no evidence to suggest that my calculations are wrong.

Deputy P.J.D. Ryan:

Well, we have a certain amount of evidence, if that is what it is. Certain amount of analysis from other jurisdictions which goes down the line of saying that compensating for the non zero rating of, for example, food through an income support scheme, through the social security benefit system, is all very well but, in practice, over a period of time, it gets eroded and there is no guarantee that that money continues to rise and it becomes part of the political landscape of how much money is available and is not available through the benefit scheme into the future years. That is the kind of analysis and evidence that we have from certain other jurisdictions and, in fact, that is the reason why those same jurisdictions decided, in the end, to zero rate food. So, that it was clear for ever.

Senator T.A. Le Sueur:

I think certainly it is true that the States budget is going to be under pressure year on year on year and

that any aspect of States spending is under review and might need to be reduced. I see no indication from a strategic policy point of view that those cuts are likely to affect things like income support. Our strategic policy this year has been primarily to focus on areas of social need. Additional money for health, additional money for education, additional money for social security. That is the policy. Focus it on those areas of need rather than other areas. Are you telling me that the policy might change in the next strategic plan 5 years hence? Yes, it might but I suspect not.

Deputy P.J.D. Ryan:

Income support. Anything else? Let us move on. Anticipated yields and impact of exclusions or zero ratings. Do you have any numbers to confirm for us what would be the effect, for example, of zero rating food on the rate?

Senator T.A. Le Sueur:

I have, I think. I saw them for the first time yesterday and I would just like to make sure and firm them up. I will give an undertaking you can have those figures by the end of the month. In broad terms, I think you could be talking something in the region of £3 million a year from food. I think if we look at the original Crown Agent's report here which suggested we would get about £30 million a year GST out of household consumption and if the consumption of food within the household expenditure survey is 11 per cent, then 11 per cent of £30 million is £3.3 million. That is pretty much a rule of thumb calculation but if you are talking orders of magnitude it is £3 million rather than £30 million and the same for other areas as well.

Deputy P.J.D. Ryan:

I mean, the kinds of things that we are interested in is foodstuffs obviously.

Senator T.A. Le Sueur:

I think perhaps rather than try to look at individual ones we might say, are there any which distort the spending pattern or the tax yield significantly? If my hypothesis is that they are all much of a muchness, the argument you put forward for food could be the same argument you could put forward for clothing or anything else.

Deputy P.J.D. Ryan:

The arguments for food are many and varied and they are quite widely based and covered. They are multi-faceted as far as food is concerned. Certainly, the others, though, are more clear cut. Household fuel, fees for private education, all kinds of things although they are multi-faceted. If we give a list of them maybe you could furnish us with that when you --

Senator T.A. Le Sueur:

Certainly you can try but even if you talk of domestic fuel, where do you draw the line there?

Presumably you count bottled gas but does the bottled gas I consume for my barbeque count as domestic fuel? I suppose it does. Whether you are cooking outdoors, you are still eating the food. But what appears to be a very simple question suddenly becomes more complicated when you try to look behind it. If you buy that same bottle of gas, are you going to use it to heat your domestic house or are you going to use it to heat your commercial premises? Are you going to have special coloured fuels for commercial purposes? It is a nice simple theory but it gets more complicated and the reason why I do not want all these exemptions is because it makes a simple tax a hell of a lot more complicated. For what purpose? Does it improve the regressivity? Does it have any affect apart from adding more civil servants to the job? No.

Deputy P.J.D. Ryan:

I think you have probably answered the question **[Laughter]** which was: “Are there pressing arguments against taxing some of these categories in your view?” There may be arguments. It is a question of matter of degree of pressing, I think, is what you are saying.

Senator T.A. Le Sueur:

Steve might have a different point of view.

Mr. S. Lowthorpe:

No, as I have been trying to establish the revenue, on the definition that I was given on basic foodstuffs, obviously both for yourselves and for the future debate, the imminent debate, then it was a wonderful exercise to refresh my mind as to what on earth is intended by basic food. I found it to be a nightmare using both UK guidance notes and interpreting the Syvret proposition in terms of basic food, junk food. There are so many different definitions, variations, and I do not know exactly what he has got in mind but it was just a reminder yet again of what an absolute minefield this is. Although we quoted in the past, the famous jaffa cake; was it a biscuit, was it a cake, was it confectionery, I find in the latest UK guidance it is zero rated but there is a wonderful new example of the gingerbread man. So, if you buy a gingerbread man as a gingerbread man, it is zero rated. If you buy the gingerbread man with 2 chocolate eyes, it is still zero rated but if you get the gingerbread man with a mouth and a nose, it is taxable. **[Laughter]** The guidance that is available is just unbelievable. So, it is a very difficult exercise to even get to the basic concepts of what is being suggested as exclusions and I do not want to go back but repair and maintenance of property is again, in my experience in the UK, to determine what was new, what was regarded as repair, you had extensions to houses, you had boilers. If there was a boiler replaced by a boiler of a different BTU (British Thermal Units) output, it could be zero rated. The liability notes grew from that size to that size to that size to that size so that you could not fit them on a table and it meant that tax officials were sitting down with builders and architects going through plans to try and establish whether something was repair or maintenance or could still be regarded as new.

The Connétable of Trinity:

It has to be said that builder's merchants over here are very concerned that they would have to be the ones who would have to be in a position of deciding and they are not (...overspeaking) about that.

Mr. S. Lowthorpe:

Well, I think the builder's merchants themselves slightly misunderstand and unless materials are being supplied in a zero rated supply of service, then those goods are taxable. So, I think the builder's merchants have slightly misunderstood. But it is a minefield but what we have done in addition to what is the definition of the exclusion; is it goods or services or both, because that has an impact on complication? Then I have also tried to give some assessment on normal voluntary compliance and also an assessment of the impact on administration because there is a difference. They do differ. So, that information has been prepared and as Terry said, we are refining it a bit but it will be available --

Deputy P.J.D. Ryan:

I suppose the interesting argument that people have is if you can cope with maintenance, domestic, as you were saying - and you, yourself, have said how complicated that can get - if you can do that and you are proposing to do it, but you are using the opposite argument for not doing it on food. That is the interesting argument and particularly as the one that you are proposing to zero rate would be highly regressive.

Senator T.A. Le Sueur:

Let us skip this highly regressive.

Deputy P.J.D. Ryan:

Regressive in that it would benefit those in the top quintiles, whereas the food one would benefit those --

Senator T.A. Le Sueur:

Yes, food is regressive as well.

Deputy P.J.D. Ryan:

You see, that is the kind of argument. It is the consistency of the argument.

Mr. S. Lowthorpe:

The consistency is the complication in terms of building will be on definition between commercial and domestic full stop. That is it. If it is domestic, you can zero rate, new, repair, anything, everything. There is no problem in having to define what is repair maintenance, what is new so the only problem - and it will be a problem but I do not think it will be a major problem if what I believe from the trade is true - is that the definition between domestic and commercial is reasonable to arrive at.

Deputy P.J.D. Ryan:

We have moved off this, zero ratings, I had thought. **[Laughter]** Let us move on and leave it.

Senator T.A. Le Sueur:

Before we move off food though, can you imagine the administration arrangements? We have got fresh food coming into the docks. Now, at the moment what we are going to do, presumably, we are going to let the fresh food come off the boats down to Marks and Spencers before 8.00 a.m. so they can get them on the shelf, on the basis you have got a shipping manifest that says 1,000 gingerbread men. That is fine. But do you think the shipping manifest is going to say 1,000 gingerbread men, 500 with one ear, 500 with a nose and a mouth?

Deputy P.J.D. Ryan:

Sorry, you have got the same problem with all goods coming in, in that on the docks you have not got enough information anyway. We are moving off to something else entirely and you are going to have to use the purchase ledger control from the actual suppliers, the actual merchants, to control the GST so I do not think it is going to make any difference with food or anything else.

Senator T.A. Le Sueur:

Well, I think it is easier to define a Camray boiler 160 kilowatts as opposed to a gingerbread man with or without ears, and particularly if a boiler is stuck in the docks for a day or 2, it would not matter. If your fresh food is stuck in the docks for a day or 2, you may as well chuck it straight over the side.

Deputy P.J.D. Ryan:

You are going to have to use purchase ledger controls.

Senator T.A. Le Sueur:

And audit them.

Deputy P.J.D. Ryan:

And audit them, regardless of whether it is food or bits of tack for domestic --

Senator T.A. Le Sueur:

Gingerbread men may be an extreme example but if you multiply that by the 10,000 different items which will be coming in on shipping manifests and you have got to try to analyse each one --

Deputy P.J.D. Ryan:

Is that bolt going to be used for a commercial premises or is that bolt going to be used for a domestic premises?

Senator T.A. Le Sueur:

That does not matter.

Mr. S. Lowthorpe:

The liability comes when you supply it with a supply of services but we are going back over old ground again.

Deputy P.J.D. Ryan:

But if you use a gingerbread man and cook it, it is the same thing. The liability is on the supplier. I do not see the difference particularly but, anyway, we have moved on.

Mr. S. Lowthorpe:

A gingerbread man is a supply of goods.

Deputy P.J.D. Ryan:

Okay, let us talk about charities a little bit. We had a long talk about charities the other evening. How did you feel that went? How did you feel after that meeting? Are you in a better position to draw some conclusions and no doubt you will say you would have made them anyway without the meeting but --

Senator T.A. Le Sueur:

Yes, I imagine we would have come to very much the same sort of conclusions. I do not think we made any concessions because we had not many any promises in the first place but it is helping me to finalise the approach that I would take.

Deputy P.J.D. Ryan:

Are you in a position to enlighten us any further yet?

Senator T.A. Le Sueur:

No, I think not. Certainly the view I expressed at Trinity as far as whether we go for pay and recover for the other schemes or end user relief, I would still go for pay and recover. I think it is far easier to cope with. We have still got difficulties and this is where I have got to see what the effect will be in terms of where charities are running, what I call, a commercial operation and I think the same argument will apply in respect of the States. If the States are running a commercial operation, say a car park, should that be within the scope of GST? Presumably it should because if someone else runs a private car park on the same basis, you would want parity of treatment. But those are, if you like, arguments at the periphery. The general approach to charity, as I said at the meeting at Trinity, was one of trying to support and help them.

Deputy P.J.D. Ryan:

We are going to be left with some special cases which, if you are not careful, are going to fall into the

category of us shooting ourselves in the foot.

Senator T.A. Le Sueur:

The experience of VAT in the UK is that there are more special cases than there are general cases and the more complicated the law becomes the more special cases there will be and the more legal cases there will be. I think, even though I am not an expert on the UK VAT, and I have no desire to become one, that strikes me, reading the taxation press over the last 20 years, as being a great source of revenue for a few VAT experts and a great source of revenue for the legal profession. But it has made a nightmare of a law to the extent that if the UK began with a clean sheet of paper, they would not start from where they are now. Why would we, starting with a clean sheet of paper, try to start where they are now?

The Connétable of Grouville:

I was going to say we obviously are stumbling on charities all over the place and we are looking basically, I think, at situations where in fact they are substituting their work for work that would have to be paid for by the State.

Senator T.A. Le Sueur:

Yes, and on the basis if the States were providing a service and it would not be liable, then the charities would be in the same situation, I think, in terms of areas like Family Nursing and things like that.

The Connétable of Grouville:

That is right. That is what we are looking at. I mean, there is quite a wide range of these things and the State would have to substitute something for them.

Senator T.A. Le Sueur:

There are. I think that is understood. It is a question of whether we should allow a shop at the zoo to escape the rigours of GST when the shop in town selling the same goods is having to suffer it.

The Connétable of Grouville:

Yes, I am thinking along the lines of things like Hospice and, as you said, Family Nursing and things like that, where they are taking over the duties of the State or the liabilities of the State.

Senator T.A. Le Sueur:

On the basis, it would be foolish of the States to try to penalise them for doing that service.

The Connétable of Grouville:

I am glad you said that.

Deputy P.J.D. Ryan:

I think you were on record at that meeting though as saying that you intended to provide for Jersey charities a situation where they did not suffer the consequences of GST as a generalisation.

Senator T.A. Le Sueur:

As a generalisation.

Deputy P.J.D. Ryan:

As a generalisation, and I believe it is true to say that that is a better treatment in fact than charities would receive in the UK.

Mr. S. Lowthorpe:

Absolutely.

Deputy P.J.D. Ryan:

So, I just wanted to expand on that. I do not want to repeat things but I want to be clear and as a result of that statement and commitment, I think charities were much happier after that meeting and I just wanted to explore it again today to make sure that there had been no drift since then.

Senator T.A. Le Sueur:

There is no drift as far as I am concerned but I have not thought much more since that last meeting about charities. While GST of charities is of huge importance to those charities, as far as I am concerned we have a Goods and Services Tax Law which covers a very wide of activities here, of which charities is one, and it takes a place in the queue, if you like. In the last 7 days, I have been thinking more about the business plan than GST.

Deputy P.J.D. Ryan:

But you have not thought again since then?

Senator T.A. Le Sueur:

I have not thought again since then. I have tried to give myself an hour off thinking. **[Laughter]**

Deputy P.J.D. Ryan:

I am sure we will all have sympathy with that one. Any more, gentlemen, on charities or are we happy with the Minister's assurances that there is no drift from the assurances and commitments made?

The Connétable of Trinity:

I think the general twist is if anybody has got a special case, you talk to the Treasurer.

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

Okay, let us move on to what it is going to cost to administer this tax. Expected staffing levels, first of all, for GST. Is there any change there? I mean, I seem to remember going way back at the start there were some numbers quoted, very roughly. I have got it in my head something like 10 members of staff. Remind me? You may be familiar with it.

Senator T.A. Le Sueur:

That was the figure that comes to my mind as well.

Deputy P.J.D. Ryan:

It sort of had a cost implication of about £500,000 at that time. Are we still in that scenario or has it changed? Depends what happens with exemptions I am sure you are going to tell me. **[Laughter]**

Senator T.A. Le Sueur:

On the basis that we deliver what we are asked to deliver, I have got no reason to believe that that figure should change, except I think that £500,000 was raw staff costs. You have got office overheads, rent and rates and cleaning and light and so on, which will add to that. In terms of raw staff costs, 10 staff and a salary cost of £500,000.

The Connétable of St. Brelade:

Given that there was --

Senator T.A. Le Sueur:

If Steve could add to that.

Mr. S. Lowthorpe:

Well, if I could just add that those figures again were put in the Crown Agent's report 2005 as a very base level at that time but it did have severe caveats that it was based on the system being simple and that there would be full utilisation of a modern automated system.

Deputy P.J.D. Ryan:

Are you sure we made the decision to have a simple system at that time?

Mr. S. Lowthorpe:

No. **[Laughter]** The decision had not been taken and it was quite clear that this was an indicative staffing level, staffing costs, based on what had been proposed at that time and subsequently accepted by

the States as the simpler system.

The Connétable of St. Brelade:

There was concern expressed by the business community that the imposition of ITIS was not dealt with in perhaps the way that it could have been and that the department were not able to deal with this tax coming in. Do you agree with that and do you feel that the department would be able to cope with the present timescale we have got laid out?

Senator T.A. Le Sueur:

I think if ITIS had initial problems at the start of this year they were far less than there might have been in the provision of a totally new tax, but I do not think you can necessarily say that what problems there were were necessarily the Income Tax Office's fault. I think until November of last year there was almost a denial of the fact that ITIS was coming in. Suddenly in the last 2 months just before Christmas when everyone is doing this, that and the other, they suddenly say: "Oh, hell, we have got ITIS next month. Better do something about it." So, is it surprising that there were some initial hiccups? I think not. But I think to blame the Income Tax Department who had been promoting this for several months, as were the Chamber of Commerce, people who were listening were prepared. People who were listening to other things or doing other things were not prepared. Yes, there have been some teething difficulties. There have been maybe some additional unnecessary bureaucracy and that is being reviewed after the first 6 months to see how we can simplify it. I think, for example, company returns can be done on an annual basis, rather than a monthly basis when there is nothing to return. But, I would say - and it has nothing to do with GST - overall the imposition of ITIS and the way which it has come in has surprised me for its smoothness. I mean, we had cries of gloom and doom and how the economy was going to bottom out and we would all be in recession and unemployment after 3 months. I think that has passed through more or less unnoticed. GST, I think, can be equally well brought in if we plan in advance and if we keep the systems simple. ITIS is a nice simple system. Far simpler than PAYE (Pay As You Earn), which Richard is nodding his head there in confirmation of that. The Jersey GST system has the potential to be far simpler than the UK or EU VAT. If we choose to make a simple system complicated we reap the consequences of that. I have got no desire to reap those consequences and I think the business community are certainly not wanting to reap the consequences of that. Indeed, their approval or acceptance of GST - I do not know if approval is too generous a word - their acceptance of GST is based on the basis that it is a simple system at a low rate.

The Connétable of St. Brelade:

Given that clearly lessons would have learnt by the imposition of ITIS as a new tax, are you still confident that - I suppose also taking on board human nature which will dictate that nothing will be done until the last minute - the present timescale of 2008 is achievable?

Senator T.A. Le Sueur:

Yes, I am. I think, if you like, what ITIS has demonstrated is you must take nothing for granted. You must not assume that because you have put all the paperwork out and because Chamber of Commerce run a meeting that the whole Island is up to speed and aware of it. I think we have got to go out and beat the drum and hammer the message home more clearly. I think if I had one concern, it would be that the timescale seemed impossibly generous a couple of years ago when we were discussing this, I think, in 2004. We are now at the end of 2006. Because of certain amendments, we are not going to be able to debate the law until early 2007. We are down for the first sitting in January 2007. This is going to make our timeline very tight and I thought, because I see a question mark in the Chairman's eyes, if any of the Syvret amendments are successful, there is, I gather, some quite significant legal drafting work to do to put those into words. I thought it was a 5 minute job being naïve in these areas. The Law Draftsman tells me it is a lot more complicated than that and it could take up to a month. Now, if we do not debate that until 24th October, we cannot get the law lodged until the end of November. On that basis, we cannot debate the law until January. So, I think the good thing, if you like, from the scrutiny panel's point of view is that I can give you a draft of the law next month, October, assuming that the Syvret amendments are not successful. You can scrutinize that part of it now and get on with that bit. If any Syvret amendments are acceptable there will have to be an amendment to the law which you can then scrutinize that aspect of it. But what I would ask is that I will not have lodged the draft law at that stage - the only people who will know about it will be myself and my officers and your scrutiny panel - so it would have to be given to you on the understanding that it was confidential to the panel and it could be subject to change as a result of any decisions on that debate. I hope that explains to you the timescale but also if I can put it the other way around, I do not want that debate to slip any later than 15th January for obvious reasons.

Deputy P.J.D. Ryan:

I think the concerns on ITIS were around the State supplied software that there were problems with in the early months which resulted in late debiting for certain businesses or maybe a number of businesses, I am not sure. There was that concern.

Senator T.A. Le Sueur:

If I thought you could introduce a new law as radically different as GST and have no problem whatsoever, I would be a foolish optimist. There are going to be problems. We have got to be realistic about that. We have got to make sure that they are not significant. We have got to make sure that they are dealt with swiftly and sensibly. I have got no doubts as we have seen from the ITIS experience that that will happen but let us not kid ourselves we will get it spot on right the first time and everyone is going to understand it.

Deputy P.J.D. Ryan:

Without getting on to the financial services treatment as such, but nevertheless referring to the Jersey Finance submissions, they made a couple of points of a general nature which were that the powers that

the Comptroller had under the draft law are significantly stronger than the income tax law and first of all, do you think that is appropriate? This is Jersey. The income tax laws worked pretty well. There are inconsistencies there. Are you intending dealing with those inconsistencies? That was the first point. You can answer them both together. The second point was that the general complexity of the draft legislation seems to have been lifted directly from the UK VAT laws, I think was the point they were making. Are you going to be able to rationalize the law, the language and the --

Senator T.A. Le Sueur:

I will let Steve talk about the complexity of the law, and complex though it may be it is still a lot simpler than it could be. As far as any inconsistency is concerned, yes there are inconsistencies. The Income Tax Law is inconsistent with the Customs and Excise Duty Law, but so what? They are designed to deal with different activities.

Deputy P.J.D. Ryan:

Sorry to interrupt, Terry, but I think the point was they were inconsistent in that the powers that the Comptroller has are significantly - the choice of wording is significantly in legal terms - harder tougher in the GST law than is deemed in the past to be necessary on the other sort of (...overspeaking) of Jersey.

Senator T.A. Le Sueur:

I think the Income Tax Law has a very simple and very good article 134(a) which allows the Comptroller of Income Tax to take a shovel and broom to any example that he may want to pick up of avoidance of tax. That is a broad brush approach which has worked well in a simple income tax system. I think I am seeing in, of course, the move to Zero 10 the need to review and perhaps strengthen our anti avoidance procedures for income tax. GST, I am not aware of the blanket provision in GST laws elsewhere in the world which simply says if the Comptroller of Income Tax thinks you are getting around VAT, he has got the power to impose something else. I think that could be even more complicated that to try to put into words. I think the fact is we need powers for the control of income tax appropriate to the income tax law. We need powers of the Chief Agent of the Impôts consistent to the customs duty law. We need power to control income tax in respect of GST which are consistent and proportionate to the GST law and if those powers happen to be different for different laws, so be it. Steve.

Mr. S. Lowthorpe:

The legislation, as it stands, obviously is a first draft, was put out quite rapidly as a consultation exercise to stimulate debate really and it has and the power certainly is one area where there is some debate both from the Attorney General, the law offices, the revenue agencies, the Police, the business community. There is nothing in there which is unusual that gives special powers, different powers. I think before we discussed: "Are there too many discretionary powers?" So, this whole range of punitive powers, the light touch, to me it is the way the powers are applied and any legislation it has to have a measure of

punitive clauses but there must be equally protection there for the business community and I think there is a balance of protection. It is something where is there consensus? No, there is not. It is something which is probably one of the hottest topics still to be resolved in terms of what goes in. When I first looked at the income tax legislation here I was very surprised. I had heard that there was a light touch regime. It is finding the right touch for Jersey. The powers are unusual. To me, they are exceedingly weak as far as the agency is concerned so we are still working on it. Complexity, well again this was mentioned before. I have yet to see any legislation, major revenue tax legislation, which is given as a shining example of simplicity. I think the draftsman happens to be Australian and the Australian GST legislation is meant to be one which set a new tone in presentational style with examples, but, again, I do not find it particularly easy. So, I think it would be very unusual to get legislation that somebody could just sit through and easily understand and this is why we said before that the legislation has to be supported by publicity material, public notices, leaflets which provides an interpretation. So, I think just to summarise, that was a draft. We knew that there were gaps. There are amendments to be made. We have got to fit in the missing pieces. There will be revisions as a result of the consultation exercise and hopefully it will be a cleaner, better understood document and in terms of the balance of power, I think we will get something which, at the end of the day, is not a light touch, not a heavy hand. It will be the right touch. But GST does introduce new ways of avoidance and evasion that were not there in income tax. So, there will naturally be some unusual and different clauses.

The Connétable of St. Brelade:

Do you think that we run the risk of starting a black market economy of any description?

Mr. S. Lowthorpe:

I mean, in any regime, people like to say nicely that it is the informal sector, black economy, whatever you like. With a 3 per cent rate I honestly do not believe that there will be a massive incentive but tax evasion not avoidance does take place right now. ITIS, I was dying to come in, that the gentlemen that moved my contents of the house from the UK to Jersey, it was a Jersey firm, and when he finally asked me what I did [Laughter] he nearly fell off the back of the removal van. He said, and he was honest, that for the first time in 13 years he was having to pay income tax through ITIS. So, I do not naturally think the implementation of -- and my removal went ahead smoothly [Laughter].

Deputy P.J.D. Ryan:

You waited till the end before you told him. [Laughter]

Mr. S. Lowthorpe:

It is here but how do you establish it? It is in a very controllable level and I do not see the implementation of GST will naturally increase the problems of the informal sector or black economy.

Deputy P.J.D. Ryan:

Well, to finish we want to visit how the States are going to be treated themselves, and the parishes, and then we just want to review after that previous things that we have said and if there is any further news on resolving the issues that were identified at our last meeting. So, if we come back to the States, you have got situations where the States are going to be providing residential care and childcare, for example, in competition with the private sector. How do you see that working? I mean, surely there is an equity problem there if the States are providing it free, it is a service they are providing free, but still competing with the private sector. How do you see this being resolved?

Senator T.A. Le Sueur:

I think services being provided free are a tricky one because, in some cases, it is a statutory requirement that there will be free State education available or free secondary health care with certain exceptions. I think where you have got a genuine commercial competition then the States will have to be treated on a similar basis for commercial competition even if money goes around in a circle and it gets paid in one way and the tax comes back to the Treasury in the other way. Just for sake of parity with those activities. But where, for example, Transport and Technical Services are providing a service to Health or some department is providing a service to another department in the States organisation there is no point in trying to levy GST or VAT between one department and another. That is just moving paper around. But externally, yes, there could be a discrimination if we did not treat commercial activities of the States in a comparable way with commercial activities carried out by the private sector.

Deputy P.J.D. Ryan:

I mean, that private sector supplier of, for example, childcare would argue you should not be forcing them to charge GST then, should you, because States are doing it free? They will argue, well, we are competing with the States. How can you charge GST? What mechanism would you use for levelling the playing field? There is not one. It is already an unlevel playing field. You are just making it an even more bumpy playing field.

Senator T.A. Le Sueur:

That is certainly a difficulty which I have to try to resolve. I still want to try to have a tax system which is fair and which is simple and I think whatever you do here there is going to be some people who are going to try to call foul. Maybe, on a more philosophical level, a lot of things the States are doing, we might be asking should the States be doing them? Are they the core business activities of the States? But that goes well beyond the scope of GST. That is a general policy discussion. To the extent that States provides childcare and so do other childcare providers, I think we probably need to look at the practical realities of what those providers are going to suffer and if it is not the providers that have suffered, it will be parents of the children concerned who will suffer because they will be end user consumers. It is a matter of their choice, I suppose, if they choose to go to private nursery care provider or a state nursery care provider, in the same way that they can choose whether they go to a private school or a state provided school. Consumers have got the element of choice and the element of choice

may include differential costs. The differential cost of a private childcare provider may be different.

Deputy P.J.D. Ryan:

I want to just try and constrict our discussions to the GST because there are all sorts of other things. Maybe we better leave childcare alone because there are a whole load of other issues which need to be addressed beyond the scope here so I do not want to spend too much time talking about childcare, to be honest.

The Connétable of St. Brelade:

Could I come in perhaps on residential care to a certain point? I mean, you will aware that St. Helier and St. Brelade have these homes which are run on a non profit making basis. I suppose they have residents possibly 50 per cent that are the supported category and 50 per cent private category. Perhaps one would accept that the private people would pay GST. We have got this circumnavigation business or circulatory charging business with the social housing people.

Senator T.A. Le Sueur:

Certainly there is a circulatory element and I appreciate, in St. Brelade, it could be a complication for you. I think that those may need to be dealt almost on an ad hoc basis. I am not sure that we can put into the law every single category like that and try to deal with them in that way. I think there definitely needs to be a practice note or a guidance note issued by the tax office on how we dealt with those things. The law needs to have capacity within there for that sort of thing to happen and I am hoping that Steve can tell me that there is capacity in the law for these sort of things to take place.

Mr. S. Lowthorpe:

I cannot quote the articles but I would be very confident that there are a number. I think we quoted them at the seminar on charities. There are a number of articles which are quite broad ranging in their ability to remit, to include in the definition of States other bodies. There are about 3 articles which can be used for these anomalies, the odd instances. So, I think it is already there within the law. One of them requires regulatory powers.

Deputy P.J.D. Ryan:

Any other issues on States treatment?

The Connétable of Trinity:

I presume then the parishes --

Senator T.A. Le Sueur:

The same thing that I have already spoken to the Committee of Constables and given the assurance that we treat the parishes as 12 units in one respect but they are also one group of providers. Very similar to

the States in another respect and we treat them in the same way as we treat the States.

The Connétable of St. Brelade:

There are a multiplicity of services provided by the parishes.

Senator T.A. Le Sueur:

I am well aware of that.

The Connétable of St. Brelade:

One that came to light fairly recently was the Branchage fine which is quite interesting. But things like what used to be called parking tickets but it is now called excess parking charges and this sort of thing. Where do we lie with all this? We need to know at a fairly early stage so it is quite clear provision will have to be made within the parish.

Senator T.A. Le Sueur:

We are getting around to the law drafting and I am getting out of my depth but I would have thought that a charge or a parking fine is not a service or goods so I am not sure they would be in the scope of GST.

The Connétable of Trinity:

It would be similar to being caught drunk in charge or speeding.

Senator T.A. Le Sueur:

Yes, yes.

The Connétable of Trinity:

If you are not going to put it on that, you will not put it on parking fines, would you?

Senator T.A. Le Sueur:

No.

The Connétable of St. Brelade:

In terms of that we have got dog license, driving licenses, firearm licenses. Is that a service?

Mr. S. Lowthorpe:

No. Licenses, anything which is granted on statutory provisions normally, is not a taxable supply so from what you have just gone through that list, I would not like to go through too many, but I think parking certainly would be taxable but if somebody is being fined --

Senator T.A. Le Sueur:

Parking charges.

Mr. S. Lowthorpe:

Parking charges normally would be taxable but I think from the rest ...

The Connétable of St. Brelade:

Marriage fees, burial fees?

Mr. S. Lowthorpe:

Outside the scope normally.

The Connétable of Trinity:

All rates exempt?

Mr. S. Lowthorpe:

Oh, blimey how many are we going through? **[Laughter]**

The Connétable of Trinity:

You have in your rates now in the parish, domestic rates, commercial rates.

Mr. S. Lowthorpe:

Oh, rates themselves? Outside the scope.

Deputy P.J.D. Ryan:

Are burial fees exports? **[Laughter]**

Mr. S. Lowthorpe:

You will if it is me.

The Connétable of St. Brelade:

I think one of the concerns with rates was that the rate cost covers things like the refuse collection which really is a service, or is it?

Mr. S. Lowthorpe:

If you charged separately for refuse collection, then it is usually a taxable supply. If it is subsumed into a global charge which is just a rate payment, a rate itself is outside the scope of the tax.

The Connétable of Trinity:

Can we ask the question then, if you do it out to contract, has the contractor got GST on his quote to my

parish for picking up the refuse?

Mr. S. Lowthorpe:

You have engaged the contractor to carry out refuse services?

The Connétable of Trinity:

At a fee.

Mr. S. Lowthorpe:

That is normally a taxable supply.

The Connétable of Trinity:

So, there would be GST on his side, I presume.

Mr. S. Lowthorpe:

Charging to you.

The Connétable of Trinity:

To me?

Mr. S. Lowthorpe:

Which you would recover.

The Connétable of Trinity:

Which we can reclaim?

Mr. S. Lowthorpe:

Which you can reclaim as a parish. Yes.

The Connétable of Trinity:

There would be a lower charge and a higher GST, is that right? I am only joking **[Laughter]**

Mr. S. Lowthorpe:

Parishes and States have equal treatment.

The Connétable of St. Brelade:

Once again, roads are a fundamental cost within the parishes.

Senator T.A. Le Sueur:

If a contractor makes a charge which includes a GST element, as a parish you are entitled to recover the GST element of those costs in the same way as the States. That was a confirmation I gave to the Committee of Constables a month ago.

The Connétable of Trinity:

When you stop to think about it, there are so many things we do have. Little things that you do not think about all the time.

Deputy P.J.D. Ryan:

I would advise constables to go and seek proper consultation with the -- **[Laughter]**

Senator T.A. Le Sueur:

The constables are quite happy with what they have been told.

Deputy P.J.D. Ryan:

There were some issues raised in the past and really this is just an update on if you have reached any conclusions and you may or may not have and if you have not then fine. One of them was the *de minimis* level for imports. Is there any further news on that?

Senator T.A. Le Sueur:

Still work in progress but I am just saying, in broad terms, looking at a 3 per cent rate in the effectiveness of trying to police all this lot, we are certainly talking of a *de minimis* level in 3 figures. Now, whether that be £100 or £500 is still up for discussion among us and the parties involved in that. That is the sort of ballpark figure that I am working to.

Deputy P.J.D. Ryan:

The second one which we have already touched upon a little bit is this question of how you capture the taxable input value at the port of entry. Do you have any news on that?

Senator T.A. Le Sueur:

I think there were some concerns and I think Steve is more up to date on that than I am.

Mr. S. Lowthorpe:

We have made a visit to the UK Revenue and Customs to see whether it was possible to transfer electronically information which was being supplied through the system in the UK which is called CHIEF (Customs Handling of Import and Export Freight) in terms of export data. That is not possible because of the system in the UK. We have reached a sort of informal period of grace of, say, 10 to 15 days. So goods would arrive here, if these are approved commercial importers that are known, then effectively they would just go through.

Deputy P.J.D. Ryan:

Of course, there is a finite number; you are not dealing with a large jurisdiction so the scales involved in Jersey would probably make that possible.

Mr. S. Lowthorpe:

I think anybody within what we would call a commercial importer is about 30 to 40 entities and that takes care of about 90 per cent of both volume and value of commercial goods coming in. They are saying that the information that would be required would be available probably within 10 days.

Deputy P.J.D. Ryan:

From an audit perspective?

Mr. S. Lowthorpe:

Yes. Well, from both the provision then of a declaration on which they would account for 3 per cent GST. The audit side? How would we make sure that that information was correct? Well, we would be able to do it in a number of ways. One would be manifest reconciliation which does occasionally happen now, but that is one way of doing it. But there would be post-clearance audit visits, obviously risk-based, on a selected basis. So we are moving to a system which the business community, and this has been mainly through the Chamber of Commerce, seem reasonably happy with. I think we have not lost hope yet of the ability still to transfer information electronically from the point of export because one of the shippers is attempting to move to a generic electronic manifest in the near future. We are going to Portsmouth next week to have a look at their systems. So it is one where we seem to be moving to what is sensible and, again, a Jersey fit.

The Connétable of Grouville:

It sounds a bit expensive to me, having auditors at this end.

Mr. S. Lowthorpe:

There are not too many. We are looking at that audit capacity being within the staffing figure of 10 that we had already quoted at the beginning. There are not many. I mean, we are not going every other week, every other month. The selection for audit is one which is entirely risk-based. Some people perhaps would not have an audit visit but certainly there has to be a selection system. The whole audit programme, audit strategy, is yet to be worked out. It is not something where you are walking in and out.

The Connétable of Grouville:

Yes, it is not going to be one of these financial service commission type jobs that starts off with a staff of 50 and ends up with 150, just through natural growth.

Senator T.A. Le Sueur:

I would not have thought so. The Financial Services Commission is talking about preserving the Island's reputation and integrity.

Male Speaker:

There is a growth scenario there, is there not?

The Connétable of Grouville:

We know the excuses, Terry. What we are talking about is the effect.

Senator T.A. Le Sueur:

As I say, GST is a tax on domestic, on-Island, consumption.

The Connétable of Grouville:

These things do have a habit of expanding, do they not?

Senator T.A. Le Sueur:

They have a habit of expanding because sometimes there are international requirements that we have got to meet. Here we are talking about a purely local operation. To what extent do we want to spend money employing 50 auditors that generate another £50,000 in revenue?

The Connétable of Grouville:

That is what I am afraid of.

Mr. S. Lowthorpe:

Well, the assurance that was given in this report was that there was this target figure of 10 additional staff and that compliance measures like debt management and audit would be contained within the organisation as it is, both within income tax and customs. So as long as we have a sensible and reasonable audit programme, and I feel we do have a reasonably compliant business community, then the 2 things should be sensible and reasonable.

Senator T.A. Le Sueur:

I do not see audit compliance as being something which is the top of my agenda or possibly needs to be at the top your agenda in terms of this discussion.

Deputy P.J.D. Ryan:

Can I just revisit for a second because there is something I forgot to ask you about on the *de minimis* level for a moment? We have had evidence, and I think quite convincing evidence, that certain retailing

businesses, and it could be many retailing businesses in certain areas, are rather worried about internet purchases. They felt that if you were not very careful with your *de minimis* levels it would be a significant problem to them.

Senator T.A. Le Sueur:

I think internet shopping is a commercial problem irrespective of whether GST exists or not. If I can buy goods in England for £100 that will cost me £120 here, I will buy them for £100 in the UK rather than spend £120 here, all things being equal and you have no customer loyalties and things like that. If the price is £100 in Jersey and £100 in the UK but the UK is going to charge me £5 to ship it over here, I might as well buy it over here. That is the situation assuming there is no GST in Jersey. If the price differential is sufficient to outweigh the hassle and the cost of postage and the fact there are risks in buying abroad, internet buying and everything else. Assuming I was prepared to take those risks because the cost differential is so great, a 3 per cent GST differential is not going to make a significant difference to that. Where prices are broadly similar now and the 3 per cent would make a difference, I would say is that any more than the postage costs or shipping costs? Conversely, from my point of view, if I am going to look at a £20 import from the UK, if that £20 import is the same value of £20 of goods in Jersey, the yield I get from that is 60 pence, 3 per cent. There is a lot of manpower going into collect an additional 60 pence. Why am I buying that £20 item from the UK rather than Jersey? Probably because it costs £30 in Jersey and that is not a GST issue; that is a competition issue, that is a commercial issue. It may be economies of scale, that a warehouse in the UK can hold a million copies of the item and a Jersey shop only holds 2 copies. Economies of scale are going to happen inevitably in a small jurisdiction. GST at 3 per cent is not going to have a significant impact either way on that particular problem.

Deputy P.J.D. Ryan:

I think the point they are making is that you would not only get the 3 per cent GST from the Jersey business that sells those goods but you would also get the 20 per cent on their profits and you could be forcing people out of business.

Senator T.A. Le Sueur:

I think the consumer is going to force people out of business. If that shops prices are consistently 25 per cent higher in Jersey than they are in the UK, consumers are moving with their feet or with their computer.

Deputy P.J.D. Ryan:

Yes, but what they are also saying is that their costs are that much higher, often through not fault of their own.

Senator T.A. Le Sueur:

If that were the case there would be no retailers in Jersey now. The nature of competition is that it is a competitive market place and we have seen how maybe making people more aware of competition in the market place is driving prices down. There has been, for example, a cosy relationship for years among the garages - with all due respect to the Chairman - that petrol prices used to be very similar. That is no longer the case. On the other hand, maybe because the market is smaller, things like tobacco prices or alcohol prices are very similar across the Island. You begin to wonder is there absolutely full competition there? I think as we see media coverage, for example, which highlights the fact that you pay different prices for the same goods in different parts of the Island, customers are beginning to vote with their feet and that is going to happen more and more. Loyalty, where you will go to a particular garage to get your petrol because you have known the family for 50 years but they charge another 20 pence per litre, does not last very long these days.

Deputy P.J.D. Ryan:

So you are not a market protectionist, I do not think, Senator? I think you are a free marketer.

Senator T.A. Le Sueur:

I think the reality is that you cannot protect the unprotectable. You can try to build up quality or values. In the end it just does not work. But we are talking here about a 3 per cent raise on *de minimis* value goods. Yes, if we are talking about goods worth £5,000 or £10,000 you might be in a different ballpark. Realistically I would put the question back to the panel. At what level do you think it is cost-effective for me to have a *de minimis* level?

Deputy P.J.D. Ryan:

Well, let me ask you a question in return.

Senator T.A. Le Sueur:

You have not answered my question. **[Laughter]**

Deputy P.J.D. Ryan:

When you make a decision, will it be based purely on what it costs to collect the GST versus what the GST is worth or will there be some consideration of the sociological infrastructure of local business retailing? Will you take that into account when you make your decision?

Senator T.A. Le Sueur:

I have taken it into account and I have already distanced that in the consultation process. You have got to be realistic. If you have, for example, a bookseller who says: "I have got a book which is £5 here, and you are going to stick another 15 pence on that book. People are going to import that from Amazon and I am going to go out of business?" So are you going to have a 5 per cent *de minimis* level? It may be that he will go out of business.

Deputy P.J.D. Ryan:

The issue that they are making, the point that is being made, is that if you went purely on financial grounds there could well be a case that you need to get to £300 or £400 worth of *de minimis* before you start making more money out of collecting the GST than it cost you to collect it.

Senator T.A. Le Sueur:

Yes. So my analysis is not purely on financial yield, it is also on looking at the sort of value of goods which are imported. Now that work has not been done by me; it has been done by Steve. Maybe Steve can just fill you in on the sort of value and nature of goods imported at the current time. It has influenced my thinking that we are talking of a figure of £100 plus.

Mr. S. Lowthorpe:

Yes, we are continuing to do work with the post office in terms of sampling. I think it is probably better to wait until we have gone through the next exercise in terms of giving the kind of values, the lower values, that have been brought in of, I think, about 60 per cent. I have forgotten the number but it is under £500. I think we are never going to win on this in a way; it is a no-win, other than that we would obviously prefer to have a single figure rather than have different figures for commercial *de minimis*, personal *de minimis* and mail order *de minimis*. I think Customs are very keen to sign up to Kyoto so we are looking for a single figure and I agree with everything Terry has said. The implementation of GST is going to be an opportunity, another instrument, that the business community will use to be more competitive. There is anecdotal evidence to suggest already that some businesses will absorb the 3 per cent, without a shadow of doubt, if it is 3 per cent. So there will be a new competitive instrument that we will use with the GST so the retailers here are in a very competitive market.

Senator T.A. Le Sueur:

I have to accept that retailers come in all shapes and sizes. We are never going to get a solution that fits everyone.

Deputy P.J.D. Ryan:

Shelf-edge pricing. Have you got anywhere with that? Point-of-sale pricing or add-on at the till?

Senator T.A. Le Sueur:

My prime focus is just to get the revenue in. What I need is to see is an invoice to a customer which has the GST element shown on it. Now, how the shop translates that between what it has got on the shelf and what the customer pays is really a matter, at the end of the day, for the consumers, I think, who will vote with their feet. I would far sooner try to let the market decide what is the better way rather than let us think for it. My guess is the market will say: "We want to know what we are paying when we see it on the shelf."

Deputy P.J.D. Ryan:

So the law will be silent on this?

Senator T.A. Le Sueur:

As far as I am concerned, the law is reasonably silent. The law should say that the invoice will give sufficient information for the customer to know what GST they are suffering and for the tax office to know what GST should be collected.

Mr. S. Lowthorpe:

In some regimes, in many regimes, there is no provision which says: "You must do this." There are a few where quite clearly somebody is given an option. So it is not silent. It will say: "Under the law you, as a retailer, can opt for one of 2 systems. One is that you sell on an exclusive basis, and one is that you sell on an inclusive basis, and it is down to you" and I am quite sure customers here will force them in one direction or the other.

Deputy P.J.D. Ryan:

I do not have any more questions. Maybe the other Constables might?

The Connétable of St. Brelade:

My small one was by a taxi driver yesterday **[Laughter]** which I thought might be food for thought. How do you envisage that taxi fares will come into this because it is clearly a public transport element?

Senator T.A. Le Sueur:

Taxi fares, to me, are a service. If they manage to turn over more than £300,000 a year they will be registerable. Individual taxi drivers may not; taxi firms probably will. Now, to the extent that they exceed the registration threshold then their input costs and the like would be able to be offsetable against GST, which I am confident they would have to levy on their service which would be the taxi fare. I do not see in that respect taxi drivers being any different from shop-keepers. If they exceed registration threshold, they charge and make an offset; if they do not exceed the registration threshold they will suffer the taxable inputs and they will not be able to cover it.

Mr. S. Lowthorpe:

I think I must have had the same taxi driver **[Laughter]**.

Senator T.A. Le Sueur:

Did you have the same answer?

Mr. S. Lowthorpe:

He more or less got the same answer but then when I told him where I worked he decided to move on to the weather. **[Laughter]** We did do some research. Just to add to that. It would appear from the income tax records that very few of those that are submitting returns would be registered. Whether that is a true reflection of whether there should be or not but if Malcolm was here, this is one of his favourite subjects.

Deputy P.J.D. Ryan:

Just one last little one. How much voluntary registration below threshold do you think there will be and what is the yield implications?

Senator T.A. Le Sueur:

I do not think you would want voluntary registration below £300,000 for taxi drivers.

Deputy P.J.D. Ryan:

In general?

Mr. S. Lowthorpe:

It is a fair question and it really is one that I would say is almost impossible to answer at this stage, until the legislation is finalised. Preparing the RFP (Request for Proposal) for the automated system, in terms of transaction volumes, we have to estimate voluntary registrations for the total data base so I believe about 10 per cent and that is only based on an average. I look back over previous implementations but --

Deputy P.J.D. Ryan:

Are they included in the numbers, in your current yield numbers?

Mr. S. Lowthorpe:

The yield are not included.

Deputy P.J.D. Ryan:

So you have got no voluntary registration below threshold extra yield in your calculations?

Mr. S. Lowthorpe:

Usually voluntary registrations are volunteering because there is no financial benefit to the Revenue.

Deputy P.J.D. Ryan:

But, of course, with such a high threshold would you accept that you are going to have a significant voluntary?

Mr. S. Lowthorpe:

I have never heard one person yet that has said: “Oh, yes, I am interested in voluntary registration.” In the export sector there may be some but as yet in terms of numbers based on questions feedback it has been very, very low on the agenda. What you would have to point out is that, again, the 2 sides of the balance sheet; there may be a financial benefit in theory but there is also a cost to you in terms of keeping records and submitting returns. So they have to get a full picture of what is involved by volunteering.

Deputy P.J.D. Ryan:

Is there a danger that, in fact, by voluntary registration you would get a reduction in yield?

Mr. S. Lowthorpe:

Based on the legislation as it is now, I would say whatever it was it would be negligible.

Deputy P.J.D. Ryan:

You could have someone registering voluntarily because most of their supplies are to businesses and so you would suffer the input GST?

Mr. S. Lowthorpe:

Yes. You could have those that would be in a net repayment position because they are exporters. Other than those 2 categories, the other category is usually because they are just in it for status. They want their business to appear to be bigger. I think we are looking at very small numbers. We are looking at small numbers in terms of the total taxpayer population in any case.

Senator T.A. Le Sueur:

Realistically, if you are talking about small businesses, those businesses like to keep their admin simple. They do not want to sit up half the night after they have done a day's work doing additional bookkeeping work. If all they are going to get back this 3 per cent on some of their services, which by definition are going to be less than £300,000 a year, is it worth all the hassle to them? In many cases even if it was slightly beneficial, the extra headache and sleepless nights, it is not worth the bother. That is not evidence-based, and in fact that the businessman alongside you is nodding his head in agreement.

The Connétable of St. Brelade:

It depends on the size of the pay packet. **[Laughter]**

Deputy P.J.D. Ryan:

I think that pretty much concludes what we want to talk about this morning and we look forward to talking to you on financial services.

Senator T.A. Le Sueur:

I will do my best to provide you with the evidence that you need to come back with a rational response to this. I gather that you wanted to make an interim report anyway in advance of the Syvret one. I will make sure I do have all the evidence you need to do that. Equally, if you have got anything else you can give me for wide fluctuations I would be interested to see them.

Deputy P.J.D. Ryan:

Thank you very much. Good morning.

ADJOURNMENT