

Corporate Services Scrutiny Panel

GST Sub-Panel

TUESDAY, 7th AUGUST 2007

Panel:

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

Connétable M.K. Jackson of St. Brelade:

Connétable J.L.S. Gallichan of Trinity

Mr. R. Teather (Advisor)

Witnesses:

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

Mr. S. Lowthorpe (GST Director)

Mr. D. Nurse (Customs and Excise Director)

Mr. M. de Forest-Brown (Director of International Finance)

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

Good morning everybody, Minister, Steve, Dave Nurse. I have read your letters, Dave, but not met you before. How do you do? Martin, good morning. I think you know Constable of Trinity, John Gallichan, Constable of St. Brelade, Mike Jackson. Our 2 supporting people, Richard Teather, Mike Haden. Apologies from the new Constable of Grouville, Dan Murphy, he is otherwise engaged this morning, so you have the 3 of us. Welcome to members of the public. Nice to see all of you coming this morning to listen to this public hearing. I think if I can just ask you, Senator, where exactly do we lie with your decision-making? What is the status of the regulations? Just for clarity. What is the status of the regulations for the GST (Goods and Services Tax) law and the status of other decision-making that you need to make, particularly around things like *de minimis* levels and what have you.

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

The law itself received Royal assent last month and I think has been, or shortly will be, registered in the Royal Court and that gives us power then to make regulations under the law. Regulations in draft form were in fact seconded last year as part of the consultation process to give a flavour of what might be contained within them and an updated version of those regulations and discussion paper was issued either last Friday or yesterday, in the last few days. The intention is to bring in GST, I think most people know, in April or May 2008 and I would like to have those regulations debated and agreed by the States at least 6 months ahead of that. I indicated to the public in general that I would like 12 months between passing the law and implementing GST because if you have passed a law within that 12 month period in fairness to the public we have to get the regulations also debated and agreed, say, 6 months or

more ahead of the implementation date. Although it is not necessarily crucial so long as there is no impediment to businesses being able to gear up for the transition and change to GST and I am mindful of that. So, in the next few weeks I want that revised consultation document which is not going to be a surprise to most people because it repeats a lot of what was said in the original document, discussed, and any comments fed back, including comments from this panel prior to me lodging regulations probably in September.

Deputy P.J.D. Ryan:

We are on course, I take it, just to repeat for total clarity, for GST to start on 1st May 2008.

Senator T.A. Le Sueur:

Absolutely. That may not be a precise date, but within a couple of weeks either side of it.

Deputy P.J.D. Ryan:

Thank you. We would like to start talking about the various elements that are new in the regulations and we would like to kick off with asking you about funeral directors. I have to say that this was an area that we, as a panel, overlooked. We probably missed a magnificent sound bite. I can imagine that we could easily have said: "Are you going to put a tax on death?" But we missed it. But you obviously have not. Could you explain what lies behind this one?

Senator T.A. Le Sueur:

We started off with a general principle and we tried to make GST apply across the board and we wanted as few exceptions as possible. However, there are certain areas which perhaps one needs to treat somewhat sensitively and also acknowledge some of the residual difficulties there may be in computing what may or may not be accessible to GST within a funeral service. I came to the conclusion at the end of the day one of my objectives is to keep the administration of GST as simple as possible and I can see that the administration costs of GST in respect of what appeared to be superficially a very simple thing out of funeral services created quite a lot of difficulty for a tax yield which I saw as very small indeed in relation to the overall £45 million I am trying to raise. Mindful, as I say, it would be a sensitive subject and mindful of representations we have received from the funeral directors in the Island, who I think all of them would exceed £300,000 turnover threshold. In relation to the yield from the tax the administration costs and the payment of the tax, I am minded to exempt funeral services from the GST regime. I have to check with Steve whether I am exempting, or zero rating it, I think I am exempting.

Mr. S. Lowthorpe (GST Director):

Exempting.

Senator T.A. Le Sueur:

I do not know if you want to hear from the GST Director's point of view because he has obviously been responsible for the technical discussions with the funeral directors' representatives and whether he needs to add anything to that comment.

Mr. S. Lowthorpe:

I think funeral services were always on the policy checklist right from the very beginning. Originally, without having been to the funeral directors themselves, we thought it was possible that the 4 main funeral directors that operate in Jersey were below the threshold and it is even possible, because of the nature of the business, that a lot of the turnover is in fact from disbursements, payments which are being made on behalf of customers to third parties, to the Vicar, to various other people, so we even thought it might be possible to keep things reasonably simple and that the services would be excluded because nobody would be registerable. When we went to visit 3 of the 4 it soon became obvious that even if we treated part of the disbursements as not part of turnover then they still exceeded the registration threshold in 2 cases because they had mixed activities. So, it was then that a formal submission was made and a policy analysis was prepared for the Minister. The treatment is the supplies of goods and services by a funeral director and the intention is to include through regulations an exemption in schedule 5.

Connétable M.K. Jackson of St. Brelade:

If I could just come in, I think we were concerned over the practicality of charging GST on things like the stonemasons, the engraving, the Verger's fees, the pallbearers' fees, the grave diggers' fees and one can see an exemption of the whole trade, if you like, as being a bit of a minefield. Are you confident that we will be able to overcome this?

Senator T.A. Le Sueur:

Yes. I think certainly in terms of people like stonemasons. They may well be supplying the funeral directors with a headstone and sending a bill which would include GST to that funeral director. That will continue whether the stonemason supplies a headstone or supplies a lintel for a gatepost or anything else. It will all be part of that stonemason services if the stonemason was himself registerable beyond the threshold.

Connétable J.L.S. Gallichan of Trinity:

But does the majority not always go to the lawyer, because most of these things all of course come out of the estate; 95 per cent of funerals are all paid by the estate of the person who has died. That is usually taken out before the estate is divided between the family.

Senator T.A. Le Sueur:

That is different. That is a question of who pays but the --

The Connétable of Trinity:

But usually it is the person who has died that pays for his funeral, in most cases.

Senator T.A. Le Sueur:

Yes.

Mr. S. Lowthorpe:

The intention of the exemption does not extend to the supply of legal services.

The Connétable of Trinity:

No, you have me wrong. I do not mean that. Obviously you have your family lawyer and as soon as somebody dies everything has to go through that lawyer and the funeral director will send the account to the lawyer, not to the family, in most cases. Because then they know they will get paid because the lawyer will pay them straight away the cost of the funeral. So, it would normally be a lump sum that would go to the lawyer.

Senator T.A. Le Sueur:

The bill would be made up of a variety of components, some of which would be taxable and some of which might be non-taxable. I think what we are trying to do is make life as simple as we can for everybody.

Deputy P.J.D. Ryan:

In the UK (United Kingdom), for example, there is an exemption, I believe. Are you following this similar model? It sounds to me as if you are in that things like monumental stonemasons would not be part of that exemption. So, you are following a model similar to the UK model. As long as we are clear on that.

The Connétable of St. Brelade:

Would you also acknowledge that those in need at the lower income end will be supported by the social security low income support scheme.

Senator T.A. Le Sueur:

That is outside my direct remit. Certainly there is a funeral grant which would continue to cover the basic costs of a burial. Whether it does or does not is a matter of conjecture but certainly the effects of GST will not have any great bearing on that.

The Connétable of St. Brelade:

So, you are looking really at more the cost of collection and the tax benefit rather than the sensitivity side.

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

How will this apply to the kind of pre-paid schemes? Have you given some thought to that? The funeral plans sometimes.

Senator T.A. Le Sueur:

Yes, but that is no different to what the Constable of Trinity was talking about - who pays the bills. Maybe the insurance company.

Deputy P.J.D. Ryan:

Fine. So, that is just down to who pays. That is the end of the funeral question that we have. Interesting it looks to us from the outset, and perhaps you would like to clarify, this question of the conversion of non-domestic buildings to domestic that was the subject of an amendment in the States that we put in originally which you opposed.

Senator T.A. Le Sueur:

On a technicality as much as anything else.

Deputy P.J.D. Ryan:

Pardon?

Senator T.A. Le Sueur:

On a technicality to some extent.

Deputy P.J.D. Ryan:

So, you have obviously thought about it again. Would you like to expand?

Senator T.A. Le Sueur:

Yes. It is always going to be a grey area, I think, where a conversion becomes a new building or becomes a renovation or just tidying up. I do not know if there is any perfect solution. What we have come up with I think is a fairly pragmatic approach where if there is clear gain in terms of accommodation then it would be treated as a new build. If you are simply knocking your bathroom and toilet into one room or making 2 rooms out of one that is more of a straightforward internal conversion

and it does not affect things. So, I think to some extent a matter of wait and see but with the addition of maybe some link to housing regulations I think we have a possibility of achieving what the objective is, of fairness to those people doing a real, genuine conversion while not opening the door to every single arrangement that might be made to be classed as a conversion.

Deputy P.J.D. Ryan:

Thank you for that. That is nice to hear. Childcare. Quite simply there seems to be a change of policy here. Could you tell us what has prompted your change of policy?

Senator T.A. Le Sueur:

I think we have a difficulty and I suppose this is not so much a matter of policy as much as political, where you start the policy which seems simple but which allows an exemption somewhere. Then it seems to open a door to further ones and it is then a question of just where does one draw the line? As a result of discussions that we had last year and stimulated to some extent by your own panel at the meeting of Trinity about charities we have endeavoured to be as positive and as generous as we can in respect of local charities. One of the side effects of that of course was those educational establishments which were charities of course fell within that category and that led to an anomaly between one school and another and so politically is it fair that one school should be liable and another school should be exempt? So, from a fairness point of view we extended the arrangements to other fee paying secondary schools. Now, the same principle could apply if ordinary schools are exempt. Should childcare be exempt? Initially I must say I felt that the majority of childcare providers were relatively small establishments, unlikely to achieve the registration threshold. I now find that there are perhaps 3 or 4 that could be over the threshold and that is the centre of further discussions which I have been having with the Childcare Trust. As I say, I have tried to have the GST policy as inclusive of possible of all areas of activity. It may well be that for the sake of clarity and equity in relation to the yield from the nursery schools I may decide to extend childcare provision within the exemptions.

Deputy P.J.D. Ryan:

Well, I think there will be lots of people that will be quite happy about that change, I am sure, and feel that it is equitable. You start to talk about schools and I notice that the 2 private colleges, Victoria College and the Jersey College for Girls, are included. Are there any other private, non-charity-based schools that could be affected?

Senator T.A. Le Sueur:

If there are then I think the exemption extends to those as well. I think that the majority of private schools are now run by charitable trusts.

Deputy P.J.D. Ryan:

I am not sure if there are, I am just questioning you whether you have looked into it really.

Senator T.A. Le Sueur:

I have had no representations myself from any private school which leads me to suggest that they are satisfied with their situation as is. Have you had any representations?

Mr. S. Lowthorpe:

Yesterday.

Senator T.A. Le Sueur:

Right.

Mr. S. Lowthorpe:

So, we have received an approach yesterday from a private school which is not -- I have to meet them but it appears as though they are not an approved charity. So, there is at least one.

Deputy P.J.D. Ryan:

That does beg the question, where do we stop with this? For example, adults. Where do schools end and adult education start or finish and is adult education a non-charitable school? Professional training?

Senator T.A. Le Sueur:

As I said at the start it is one of those things once you start a policy you suddenly find that --

Deputy P.J.D. Ryan:

Highlands, for instance.

Senator T.A. Le Sueur:

Yes, it clearly is an issue and we may have to treat part of Highlands as taxable and part of them as exempt because Highlands certainly does provide some education, or certainly used to I think, for the equivalent of 6th formers and they ought to be treated equally with any other 6th form college. On the other hand in terms of evening classes and so on I think that may be a different situation. The objective I think certainly was to try to get parity across the educational area and possibly I could make a distinction between those for whom the Island has statutory responsibility between the ages of 4 and 16, or whatever it is.

Deputy P.J.D. Ryan:

So, you are not thinking about zero-rating or exempting adult education, or the whole life learning.

Senator T.A. Le Sueur:

No. At this stage I have gone as far as I really feel comfortable with.

Deputy P.J.D. Ryan:

Do you envisage any problems with that?

Senator T.A. Le Sueur:

Well, certainly everyone has a special case that they will want to give to me but not insurmountable problems.

The Connétable of St. Brelade:

Can I just try perhaps the open university side. How would you look at that?

Senator T.A. Le Sueur:

Realistically I think I would go back to my principles of trying to make GST as inclusive as possible but then keeping the rates as low as possible. I am conscious of the fact that the more meaningful exemptions I provide the more the danger of the rate having to go up.

Deputy P.J.D. Ryan:

Okay. We have finished with education. If we can we move on then to the margin scheme. First of all, can we thank you. I mean, we did recommend that you should look closely at a margin scheme for second-hand cars. So, can we thank you for doing that. First of all place that on record. Again, this is the where do you stop question. There is we think possibly a case for a very small number of second-hand boat dealers that fall into a similar category as cars in that they do buy their stock from consumers that are unlikely to be registered, and there are one or 2 businesses -- and the danger of course would be that they did not have a margin scheme that they could very easily operate from Guernsey. I mean boats can travel over water very easily. Would you be prepared to consider that as a small adjunct? I mean, there are probably a small number of businesses concerned, but probably quite significant businesses. I wonder what your reaction is to that?

Senator T.A. Le Sueur:

My reaction is that I looked at the car margin scheme itself with a degree of trepidation because, as I said earlier about starting to open the door, once you open the door to cars, what is the logic of not extending it to boats as well or to grandfather clocks, or anything else you care to think about? The reality I think is that I am satisfied that the motor trade works on the basis of having cars in its forecourt, buying in cars from one person and selling them to another. The impression I get is that the majority of boat sales seem to be on brokerage or commission but I have a person here who probably knows more about boat sales than I do and I will look to him for guidance. Selling on brokerage and selling on

commission is a different situation from buying and taking into stock. If there were boat dealers who were paying stock in their own name, as car dealers do, then I suspect that the logic of that might force me down a similar line.

The Connétable of St. Brelade:

Effectively I have made a comment certainly from a simple brokerage commission point of view there is no difficulty. The concern raised by the Trade Association was that there are situations where boats are brought in on exchange business from individuals and the dealer will hold these in stock and there was concern that there will be quite a significant liability on whole value. While the yacht sales market will stand that on its own it is the economic disbenefit of moving that business away from the Island, possibly to Guernsey, which we are concerned about.

Senator T.A. Le Sueur:

Certainly I have had no great strength of feeling that the economic disbenefit would be so catastrophic as to ruin the local yacht industry.

The Connétable of St. Brelade:

I think Steve met the Trade Association and answered some questions but there were certainly some unanswered detail, if you like, which I think they would be keen to have answers to principally on that basis. So, it may be once again a question of detail.

Senator T.A. Le Sueur:

I think it is one of these things. We are bringing in a new law and certainly it may well be over a period of 10 years. Circumstances will change and we will need to revise certain aspects of the law basically on experience but I think we will probably start with as simple a situation as we can and then play it by ear.

Deputy P.J.D. Ryan:

I think your statement that logic would tend to suggest that you would have to treat like-with-like if there were boat dealers that bought their own stock and physically owned it. Then I think that statement would be of interest to those 2 or 3 businesses that might fall into that category, so that is nice. Thank you. If we can just talk about the parishes very quickly, although perhaps you could just clarify, we have a query that services supplied by one parish to another could incur GST in one way or another; things like driving licences or warrant costs I think were mentioned by the Constables.

Senator T.A. Le Sueur:

That has not crossed my horizon. I thought that if there were any inter-parish services they would be effectively treated as group relief.

Mr. S. Lowthorpe:

I have been to the administrators' meeting and I have attended a number of meetings with the parishes and this has been brought up. The parishes will be registered separately so there would be the potential of perhaps some supplies from one parish to another being taxable supplies and I think one of them, if they provide general administrative support, accounting services, they would clearly be taxable supplies which would be recoverable as input tax. So, there would be no net sticking tax. The issue of driving licence was raised. Driving licences is not a supply in the course of furtherance of business so I think that one has been answered already, but of course I think I am due to go again just to remind people.

Deputy P.J.D. Ryan:

I think there is a general acceptance though, and this is the question, that it is not intended that parishes would incur GST costs.

Mr. S. Lowthorpe:

No.

Deputy P.J.D. Ryan:

That is fine. I think as a general acceptance that there might be little anomalies that will need to be ironed out perhaps. Okay, that is fine. Constables, is there anything more on that?

The Connétable of St. Brelade:

Principally the concern was over driving licences.

The Connétable of Trinity:

It is only because in the last few months, using the parish of St. Helier as our main --

Mr. S. Lowthorpe:

Yes, right.

The Connétable of Trinity:

We used to do it all in the parishes before but it has gone. The equipment is now based in St. Helier so we pay the parish to do the administration of doing the driving licences. That is the only thing that has changed really in the last 6 months.

Deputy P.J.D. Ryan:

If we can move on to something that might interest you, Martin, perhaps and that is the finance industry as a whole. Could you update us on the current status of the regulations as regards the financial services

industry? Where are we on that? The question to you, Minister, but obviously --

Senator T.A. Le Sueur:

Well, firstly, as a general principle the provision of financial services would not be taxable as normal GST or VAT (Value Added Tax) regime. Nonetheless I was anxious from a political point of view that we should get a contribution from the finance industry which I have suggested to them should be between £5 million and £10 million a year. That is in theory possible to achieve under the existing arrangements with what you might call sticking tax in respect of each of the supplies but it would mean considerable administrative burden for those financial service providers. So, they I think were quite keen and I was quite amenable to a simpler administrative arrangement provided it generated the same tax yield and so I have tasked the industry with coming up with alternative arrangements to provide the same level of tax in a fair way with far less administrative cost because I am conscious of the fact that we have considerable pressures from a migration point of view on staff. Employing staff to just pass bits of paper around is not particularly productive. The industry seem to be generally in favour of this and I have a further meeting with them this coming Friday. It is basically that service providers would pay a fee based on the number of clients in a particular operation or in terms of their activities. I think the danger with any scheme like that is that it works for 95 per cent of businesses and the other 5 per cent may have a concern. That is something I think can be ironed out within the industry itself because they recognise that the administrative costs of trying to go for a formal scheme would outweigh any possible savings they might have. But in terms of actual discussions with any particular part of the industry -- I think for example it would be fair to say that at the moment banks seem to be relatively comfortable with it. Some of the trust companies may be expressing concern, particularly smaller trust companies, and it may not quite suit their needs in the same way as it suits the banks' needs. We will just have to try to resolve all those. If we cannot resolve it, it could mean ending up with a compromise where some people might go for a presumptive scheme and some people might go for the elective scheme.

The Connétable of St. Brelade:

There is a public perception that the finance industry are getting off quite lightly. Notwithstanding what you have just said, how would you deal with that accusation?

Senator T.A. Le Sueur:

I have to get my communications in order. Although I have said this a couple of times there is still this feeling that because we have tried to come up with a simplified arrangement for the finance industry the perception is that they are having a special deal. They may be having a special deal but they are still paying the same amount of tax, which is more tax than they would pay in an equivalent situation in the UK.

Mr. S. Lowthorpe:

I think you are absolutely right. Some of the questions raised at general seminars are exactly in that tone that the financial services are getting away lightly. The problem is first of all to define what do people mean by the financial services industry because I think most people include accountants, lawyers, a block of people that are just treated in exactly the same way as generic GST. So, the provisions if there are special provisions, these are for the pure financial service providers like a bank, for example, and it was recognised elsewhere in the world the genuine difficulties that they have faced with VAT and with the amount of sticking tax that they have incurred and having to administer very complicated partial exemption schemes. So, it was an attempt to try to reduce the administrative burden and still derive a sensible revenue yield from that sector and that is what we are trying to do and that is what would also be considered in other sectors of normal commerce and business. If they come up with a suggested flat rate scheme it would always be considered because flat rate schemes can be used to identify input tax, repayments for input tax, they can also be used for payments of tax. So, it is not something which is just for the financial services industry. I think to answer the question, where are we? The regulations which will expand on part 12 of the law are not contained in the regulations that have been issued because we cannot, at this stage, give clear instructions to the law draftsmen but it is work in progress. I also have a meeting with Jersey Finance this week and we are very near to being able to give instructions to the draftsmen.

Deputy P.J.D. Ryan:

I think there is an element that you just mentioned, Minister, that is new to us because we thought that you were considering a flat rate scheme, a trust company would pay X, a bank would pay Y, but you started, if we have the understanding of the right word, to talk about the rate being based on a number of clients, I think was the word you used.

Senator T.A. Le Sueur:

Yes. I think that is a possibility of a variation because one has to say, is it fair to treat, say, a trust company with 500 staff the same way you would treat a trust company with 10 staff? This is really what I am saying that at the moment there is flexibility within my mind that you could have a straight across the board scheme or you could try to tailor it a little bit more to the particular circumstances.

Deputy P.J.D. Ryan:

So, one of the questions that I was about to ask you, and I will read it out: "One concern with the flat rate scheme is that it would disadvantage small and start-up trust companies. Is there any possibility of a tiered fee such as we understand is operated by the JFSC (Jersey Financial Services Commission)?" In fact that is what you are doing, I think.

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

Okay. That answers that question.

The Connétable of St. Brelade:

Do you envisage the whole insurance industry coming into this section as well?

Senator T.A. Le Sueur:

Not primarily, no. Insurance is primarily not within the scope of GST. So, that makes that part a lot simpler. Where you have mixed businesses which combine insurance and management and everything else, there could be a difficulty but I am not aware of any representations in that area. I think insurance is more or less a self-contained operation.

Mr. M. de Forest-Brown (Director of International Finance):

I think that is right. I think the summary here is that we were going from a position where quite literally everybody was a loser, to a position where everybody was a winner and just to be clear on that, and coming from my own background within the private sector, when you allocate resources within a bank or whatever obviously you have to do your must dos first and so anything that is required by law or tax or anything that is a must do must be done. What we had on the table was we had what could be a fairly complicated scheme, and indeed a very complicated scheme, which would have required significant resources to deal with, especially to the extent there were a lot of flows coming in from outside of Jersey. So, it would have sucked critical financial accounting resources into an area which was totally unproductive for the Island and likewise, as I think we have discussed in other areas, we know that the ability for structuring transactions within the finance industry, their area of expertise, meant we had uncertainty about the amount of money that would be raised. Once you have set the rule book then to what extent can they find ways of reducing the sticking tax? So, here we had a best solution where we did not have a demand from companies for additional unproductive resources, reduced the problem of having to have resources within Steve's area, within government's area, to address all of the schemes that they might have come up with and we had a certain amount of tax that can then be agreed on an annual level rather than wait and see how much we end up with as a result of the structuring that they might undertake. So, I think clearly you can see we are moving from 3 losing positions to 3 winning positions.

Deputy P.J.D. Ryan:

I think you are probably aware, Minister, of the letters and questions that we have asked and I think I need to ask you quite unequivocally that you have satisfied yourself that there are no - to use a vague simile - Exocet missiles about to come in from the flanks on this one to do with taxation laws and

harmful tax practices and what have you? You are fully satisfied that that has been fully -- because that was one of the concerns we had because it was sprung on us at such very short notice.

Senator T.A. Le Sueur:

Yes, I appreciate that. No. Extending your Exocet analogy, I can see nothing on my radar.

Deputy P.J.D. Ryan:

Okay, and you are happy that it has been fully investigated and everybody is sure of our ground here.

Senator T.A. Le Sueur:

As far as I am concerned, yes.

Deputy P.J.D. Ryan:

Good. Okay. That is fine.

The Connétable of St. Brelade:

How do you see the financial services industry being policed or monitored? Will it be through the Financial Services Commission, or do you see Customs being involved on that side of it?

Senator T.A. Le Sueur:

I think to a large extent it will be self-policing but also the sort of operations we are talking about are very visible. You cannot hide an HSBC Bank in a corner of St. Helier. You cannot persuade me that they only employ 2 staff. So, to a large extent it will be self-policing and it is in the interests of all the financial services companies to ensure that they do run this operation smoothly and properly because the effect of having to change it would be totally detrimental to all their interests. So, it is really a question of, yes, we will do spot checks as we will do in any normal tax arrangements but the policing need not be a heavy-handed approach I would have thought, at all.

Deputy P.J.D. Ryan:

Just one other small one, more at a practical level, you are going to be issuing companies effectively with end-user certificates I think so that they will not be charged GST by suppliers, is that correct?

Mr. S. Lowthorpe:

Correct.

Deputy P.J.D. Ryan:

We are just slightly concerned that that could cause a little bit, or a few problems for some suppliers and maybe even for Mr. Lowthorpe's area on policing in that it could just generally cause confusion where

they would be charging zero-rating for the same goods to one client and not zero-rating to another. Have you considered whether there would be some kind of a *de minimis* on this? Whether there would be a level below which you would try and cut out some of that confusion.

Mr. S. Lowthorpe:

We have not, as yet, come to the *de minimis*. I mean, to try and make things easier we have moved forward in that quite a number of the eligible bodies will be of a slightly different status as was intended before where these were special purpose vehicles. So, we are moving now more to establish service providers and the agreement, the negotiations that are going on so far is that there will be a list of eligible entities on the income tax website. So, it will be fairly easy to find out who is entitled to end-user relief and who is not.

Deputy P.J.D. Ryan:

What about when the trust company administrator, secretary, wants to go to the corner shop to buy a bag of tea or biscuits? Always assuming of course that tea and biscuits are not going to be zero-rated.

Senator T.A. Le Sueur:

For their personal consumption, or for the business?

Deputy P.J.D. Ryan:

For the business.

Senator T.A. Le Sueur:

Realistically, if you look at the expenditure of the average business tea and coffee will be relatively low down the pecking order but, yes, it may well be that that could be in the area for a *de minimis* or it could well be that you would say that is susceptible to fraud that we want to make an exception. I think realistically let us give businesses the benefit of the doubt here. We have a simple system which we want to keep simple. I think perhaps we would exaggerate the extent to which end-user relief might become an issue but if it did then clearly there would be powers to make more stringent regulations. But I have no great desire to do that, particularly as the costs of trying to police it may well outweigh the benefit you will get from collecting GST on a pound of tea.

Deputy P.J.D. Ryan:

That is fine. Thank you on the financial services side. Obviously we will hear some more fairly soon. If we can move on to imports and obviously to some degree the question of a *de minimis* level is linked very closely to the treatment of imports. We will come on to the *de minimis* in a second if we can, or rather in 5 minutes. If we can ask some general questions on the import side, if you would not mind. I am just quoting on some work that Crown Agents have completed for you where it seems there are

roughly 3,000 parcels arriving by post and courier every day but of these some two-thirds do not have the adequate documentation to decide how much GST is due on them. We understand that the Customs side are working with carriers and the UK Post Office to try and resolve this but are you worried that there is a risk that at least in the first few months of GST there is going to be a number of packages that are going to come in without the documentation, and what are you doing about it basically?

Senator T.A. Le Sueur:

One needs to look at the whole importation of goods into Jersey and so who imports goods, on what basis, through what routes? The good news is we only have 2 ports of entry; one at the airport and one is at the harbour, and the majority of goods coming in, in fact, are coming into registered retailers through acknowledged shipping agents. What we are talking about, and I think what you are concerned about, is the fringe end of the market of individual persons sending individual packages maybe through primarily the post office, I suppose, but in some cases through shippers. With them there is clearly a danger that if goods are not adequately identifiable then either they slip through without paying GST or they are held up in transit because we need further documentation. It is really a matter of degree and practicality in the same way as you might have at the present time with dutiable goods. But I speak from a theoretical knowledge. Dave Nurse will speak from a more practical knowledge.

Mr. D. Nurse (Customs and Excise Director):

Could I mention that on those figures that you quoted a large majority of the goods at the airports that are imported without any value are documents, letters and this kind of thing. So, they would not come into the equation. The post office is a different matter than up at the airport. A lot of those are documents.

Deputy P.J.D. Ryan:

You say a lot. We are talking about 3,000 parcels a day. What is a lot of 3,000? To try and get a handle on this literally.

Mr. D. Nurse:

From the analysis that was done I must admit there is not an awful lot of data to go on, so we have only been able to do very limited analysis on the items that are coming in. The week of 1st December to 7th December 2006 with some of the couriers up at the airport there were 795 items with no values and they were mostly documents. The week 7th May to 13th May, the same kind of thing, 522 no values and they were mostly documents as well. There is a problem, as you quite rightly say, with goods that do not have any values on them and this is where we work very closely --

Deputy P.J.D. Ryan:

I mean, even if they were declared as nil value because they were documents one would assume that

would be one step forward.

Mr. D. Nurse:

This is what we are arranging with the carrying companies to do, to declare them on the manifest and this kind of thing as documents with no value.

Deputy P.J.D. Ryan:

So, the question was, do you have a strategy to deal with this? What are you doing about it? If you could elucidate on that one. We are concerned that you are addressing this problem aggressively.

Mr. D. Nurse:

We are addressing it aggressively both with the post office and with the couriers up at the airport to educate their businesses to put values on parcels and packages. It is a legal requirement to have a value on the parcels and packages and we are intending to enforce that legal requirement.

Deputy P.J.D. Ryan:

Okay. Over a period of time or ...?

Mr. D. Nurse:

Well, we have already started and the courier people at the airport and the post office are doing it in accordance with ourselves at the moment.

The Connétable of St. Brelade:

Clearly there is a resource implication for doing all this and I am sure we will talk about that later, but at this stage have you built up staff numbers, or is that going to remain until after May next year?

Mr. D. Nurse:

At the moment we have 2 additional staff who are working on a specific GST implementation team with customs and immigration and they are the ones that are working closely with Crown Agents and the trade importers and this kind of thing at the moment.

Connétable of St. Brelade:

Do you envisage that number increasing after May next year?

Mr. D. Nurse:

I would hope so.

The Connétable of St. Brelade:

In terms of numbers, any ideas?

Senator T.A. Le Sueur:

In terms of numbers I have said a total staffing of about 10 with some customs people and some income tax people so I suspect so long as we keep the system relatively simple you might be talking about 4 or 5 people in total.

The Connétable of St. Brelade:

Do you consider you will have to review the staffing numbers as time goes on after 6 months, 12 months, or a certain period? Because clearly there are quite a lot of unknowns involved here.

Senator T.A. Le Sueur:

As I say, it really depends on how simple we can keep the system. I have no desire to add to the number of staff employed, particularly if it is not on a productive basis and while I clearly have an obligation to have a system in place which is robust enough to discourage fraud one also has to be pragmatic about how one operates. I think you talk about resources in terms of staffing it is not simply a matter of staffing. I can see a danger if you were to stop every single package until it had been thoroughly examined by some of the customs officers. You would have to have a warehouse the size of an aircraft hanger in order to put up the backlog of goods. There are different resource implications and one has to be realistic. What we need to try to do is to establish a system which importers and shippers understand and which they comply with in order that goods flow through, in and out of the ports, as quickly as possible with the facts being collected on the way.

Deputy P.J.D. Ryan:

There is anecdotal evidence by looking at the UK system that it is extremely weak with their *de minimis* that the checking of goods and what have you is quite weak and that there are lots of goods that come in and simply, whether they are below or not, they just do not -- and the question is, what do you feel that you are going to have in place? Are you going to have spot checks on goods that are stated to be below *de minimis* when it comes in? How do you feel that you are going to deal with it?

Senator T.A. Le Sueur:

I do not think customs department normally like to disclose what systems they use to detect evasion, it tends to defeat the object, but within reason, yes, I am sure there are standard arrangements in place. I would say in fairness Jersey has 2 ports of entry and specific goods tend to come into one of those 2.

Deputy P.J.D. Ryan:

Minister, have you done any sort of analysis of what kind of compliance you are expecting with any *de minimis*, whatever it is? Has that kind of research been done?

Senator T.A. Le Sueur:

When you say compliance ...

Deputy P.J.D. Ryan:

Compliance to any *de minimis* level so that you do collect. So that we really do have as water-tight a situation as we can get to comply with the law, whatever it is.

Senator T.A. Le Sueur:

Yes. I mean, as I say, I think one has to appreciate the vast majority of goods coming in here are coming in to registered suppliers and they will come in on properly documented invoices, cargo manifests. So, that will account for the bulk of the tax receipts and I am satisfied that procedure is in place and can work in place properly. It is already there and at the present time in dealing with the importation of goods now. Certainly David can expand on it, if he wants to. So, we are talking about the market and that in due course will take us on to the *de minimis* level and clearly, yes, the lower you put that level the more administrative burden potentially there is. But you want a simple and robust system irrespective of that *de minimis* level.

Deputy P.J.D. Ryan:

Just talking a slightly different one where a person who drives a car or in a suitcase in a bag brings in goods on a personal basis through the customs areas, how much revenue loss do you expect from those routes? Do you have those kinds of figures, or are you going to be looking at them?

Senator T.A. Le Sueur:

You talk about revenue loss but of course personal imports exist now. People come back from holiday with a new this, that or the other and we do not charge any duty or anything on that coming in, provided it is within reasonable levels. To the extent that people may bring in things that they have purchased elsewhere that is, I think, a difficulty which can exist in Jersey in the UK, France, anywhere else around the world.

Deputy P.J.D. Ryan:

You mention we only have one port but of course we have several ports as far as private boats are concerned.

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

The whole Island is a port. Every bay is a port from a private boat perspective.

Senator T.A. Le Sueur:

In the same way as Customs recognise this now in terms of illegal activities in the importation of goods they can recognise that equally for the importation of genuine purchases. It something which is a normal part of Customs procedure and I do not think GST adds any great level of extra burden in that area.

The Connétable of St. Brelade:

Given that there is an enormous amount of tobacco brought into England privately, a significant amount, do you envisage any difficulties arising over here in that same vein?

Senator T.A. Le Sueur:

No. I think this seems to be a probability that there is quite a bit of personal importation now from people returning from holiday and using up their legitimate duty free allowances, possibly even extending that or getting friends who do not smoke to bring in stuff for them. We have seen, for example, duty revenues for tobacco a flattening situation I think you would have to talk to the tobacco importers and to Customs about the extent of that.

Mr. D. Nurse:

We have heard anecdotally that there are importations, or that there is a lot of importations of duty free tobacco into the Island, but it is only within people's personal allowances. We do not have any evidence or intelligence to suggest that there is large scale smuggling going on of tobacco into the Island. Where we differ from the UK is that the UK the allowances are open virtually for travelling within the EU (European Union) whereas our allowances are a third country allowance so you are still only allowed 200 cigarettes, a litre of spirits, 2 litres of wine. As the Minister has said I think people are now making more use of their duty free allowances. The Island does have a lot of people that do travel on a very regular basis to the UK and they make use of their duty free allowances to bring tobacco in. But, as I said before, we have no evidence or intelligence to suggest that there is any what they call bootlegging in the UK, which is commercial importations of duty free goods.

Deputy P.J.D. Ryan:

I would like to ask a question. Senator, your economic advisor has suggested that GST on imports could be collected by self-assessment. That means that the individual consumers would declare on tax returns how much they had imported and pay GST on it. Does your economic advisor live in the same world as I do? Please tell us that you are not really taking this one seriously.

Senator T.A. Le Sueur:

Okay. I will deal with the second one first. I am not taking it seriously in that I am not following that suggestion. It was a suggestion and it is realistic, I think, in trying to devise a simple tax GST system to look at all alternatives, however extreme, perverse or ludicrous they may seem to be, because sometimes looking at that you find a grain of truth or something helpful in that which you can then utilise. So, I think the suggestion was a well-meaning one. I think it has worked to some extent in the USA (United States of America) but I have no evidence of how widespread that is. My gut-feeling, as a Senator, is that economic advice goes so far and then I make the decisions and the decision I made was not to follow that particular line of thought too closely.

Deputy P.J.D. Ryan:

Thank you. There is a technical one that I have here. This is to do with those people who are registered businesses that will also be recognised as importers. The question is, will they get a cash flow advantage over other registered businesses that are not registered importers? Is there some kind of cash flow advantage there, or are we going to find that it makes no difference? It is a slightly technical one but it is a question that we have perhaps of Steve.

Senator T.A. Le Sueur:

I think it probably is one more for Steve. I think in any situation like this there are going to be cash flow variations business to business and it is up to us as Government to try to minimise any detrimental effect that may have and it could be in terms of collection of tax and repayment of tax on a monthly or quarterly basis rather than ... but, yes, I think if you could, Steve.

Mr. S. Lowthorpe:

I think the answer is that there will always be circumstances where somebody has a slight cash flow advantage and it will vary from individual case-to-case as to whether they are a repayment taxpayer overall. When the actual GST on import is paid in relation to this submission of return and recovery of that amount as a credit. So I think the answer to your question is that there will always be some differences in cash flow depending on the individual circumstances of a business.

Deputy P.J.D. Ryan:

How onerous will it be for a business to become an accredited importer then? What would be our concern, I think, is that from keeping the Island as competitive as possible it is important for small local businesses to be able to get the best possible prices and possibly that would mean buying outside of the Island. How onerous would it be?

Mr. S. Lowthorpe:

The GST registration is as simple as you can get so to be registered for GST is relatively easy. As we say, it is only a 3-part form. To be GST registered and approved by Customs is ...

Mr. D. Nurse:

We already have approved traders for excise goods so approved traders is nothing new. Steve mentioned about the 3-page form for the registration; I think a 3-page form is what we are looking at for the approval as well. All we are really going to ask for somebody to become an approved trader is that they are a regular importer of goods and that they are willing to declare the goods and pay the GST on import electronically.

Mr. S. Lowthorpe:

It is not 3-page, it is 3-box. So as long as they can give an income tax reference number and they are reasonably compliant then that is it.

Deputy P.J.D. Ryan:

I suppose in terms of how onerous it is and difficult it is to apply for that, when you register a business for GST, and you are talking about businesses with turnovers in excess of £300,000 anyway --

Mr. S. Lowthorpe:

Or a voluntary registration.

Deputy P.J.D. Ryan:

Or voluntary. I just wonder whether it would not be possible to combine the 2 and have everybody as approved importers if they are GST registered.

Mr. D. Nurse:

It depends. It is something that we looked at but there are businesses that will be GST registered who will not be importing.

Deputy P.J.D. Ryan:

Yes, but the question was would it not be possible to combine them? If they do not import, they do not import; you have not lost anything. It just removes a level of bureaucracy that may not be necessary.

Senator T.A. Le Sueur:

On the one hand it might and on the other you might say why would those businesses not wishing to import have to fill in a 3-page form which they are never going to use? It is one of those things you never win.

Deputy P.J.D. Ryan:

It only needs doing once.

Mr. S. Lowthorpe:

To be fair, I am a big believer in if you can combine a form, combine it. So I think it is something that we did discuss at the very beginning. I think there were some uncertainties about the final procedure for imports at the time. I think it is one of these things that it would be better perhaps to see what happens and then if during the first year we can find any easy way to simplify compliance costs then we will do it.

Deputy P.J.D. Ryan:

There is a question from some air freight and courier companies that they would get treated in a different way to Jersey Post. Could you explain what those differences are and why they are there, and are they significant and just expand on that?

Senator T.A. Le Sueur:

We did have a discussion with those couriers last week and they alerted me to that. It may well be that we needed to amend some postal regulations.

Mr. D. Nurse:

In actual fact, Deputy, we had a separate meeting with the courier people up at the airport after the meeting with the Minister where we went into the differences between the postal requirements for goods being entered and the couriers. There was some misunderstanding with the courier people about what the requirement was for the post office. They were worried that it was not an even playing field and they were interested that some of the parcels did not need manifest entries and such like. In fact, some of the postal goods that come in are entered on a manifest and the normal postal traffic up at the post office for parcels were presented to us by the postal officers. The courier people up at the airport did not realise this and when we mentioned that to them they obviously were not very keen to go down the line of presenting all their parcels to us the same way as the post office.

Deputy P.J.D. Ryan:

So that concern has dissipated?

Mr. D. Nurse:

That concern, as far as I am aware, has dissipated.

Senator T.A. Le Sueur:

I think there is a technical difference in that postal traffic throughout Europe is governed by international postal regulations whereas we are free to make our own individual GST regulations so we need to keep an eye on the wider picture as well.

Deputy P.J.D. Ryan:

I would like now, if we could, to move to the *de minimis* level itself. Would you like to explain where you are with this and what has happened and what your current position is?

Senator T.A. Le Sueur:

My current position is that I have received submissions from various directions as you might expect. Some, such as the importers, are looking for a higher limit and other smaller retailers are looking for a low limit. I thought I had got a reasonable sort of consensus from everyone including the Chamber of Commerce a couple of weeks ago as a result of which I made an indicative judgment pending discussions I was going to have with the panel this morning. Nothing, I think, has made me change that but I think it is important perhaps from a scrutiny point of view to try to get a handle on what goods come into the Island, what value possibly we can ascertain for those goods and what are we talking about in terms of revenue versus the cost of collection. It is merely where there is a limited amount of objective information and the rest of it tends to be on hearsay and I think that is going to be a difficulty on both sides from a scrutiny point of view. One man's hearsay is another man's truth. In terms of information, the main source of information as far as I am concerned is through the Customs and Excise Department.

Deputy P.J.D. Ryan:

Do you accept that it may be necessary to apply a *de minimis* level in order to ensure a level playing field between local retailers and their counterparts off-Island regardless of the cost of collection? There are wider economic issues here; much wider.

Senator T.A. Le Sueur:

Yes, I do not agree there is such a thing as a level playing field in retailing in that if you take a large international retailer, their buying power is massive compared with even the largest retailer in Jersey. So right now, if I choose to buy a book through Amazon UK, I can probably buy that book more cheaply than I can at Waterstones in Jersey and that is irrespective of any GST implications. To start from the premise that there is a level playing field now is a total mistake.

Deputy P.J.D. Ryan:

I did not say that there was a level playing field overall now. My question was do you think it is appropriate that a government would make a *de minimis* that would, by the absence of a tax, further distort whatever differences in playing field there are, inequalities that there are? Obviously, if you do not apply a tax under certain circumstances to off-Island businesses but you do apply a tax to on-Island businesses, would you accept that to whatever extent the GST level is - okay it is 3 per cent, but nevertheless in principle that might be further distorting whatever market there is that are outside of your

control and anybody's control; in other words the purchasing power of other larger companies?

Senator T.A. Le Sueur:

In theory you are absolutely right and even if you had an import of £10 which would have a GST element of 30 pence, or 3 per cent, then that would be a competitive disadvantage compared with some UK import. Any *de minimis* limit other than zero is going to have an affect and one has to be practical about where one sets it. Should I set it, therefore at £1? I certainly hope not otherwise I will need more than 4 customs staff who are going to police it or simply going to have a *de minimis* level that everyone ignores and that is one of the worst of all worlds. So one has to be realistic and say at what level of GST or what level of cost does it become a realistic threat to purchasing off-Island? I come back to my original situation, that there is far more to purchasing than simply the GST differential of 3 per cent or a VAT differential of 17 and a half per cent. You may well find that goods which one purchases now from a supplier in the UK, even including the 17 and a half per cent, are still cheaper than they are within Jersey with no GST or VAT at all. That is a feature of the marketplace and that is why there is no such thing as a level playing field in this area. Now, yes, you are going to have a further slight distortion as a result of GST. In the overall scheme of things it is really how much the customer is prepared to pay, where they wanted to buy, what sort of service they want, what sort of after sales service they want; there is a whole range of reasons why people buy locally or off-Island and those trading patterns changed over the last 10 years and I have no doubt they will change even more over the next 10 years and 20 years. That is the nature of life; we live in changing times. To try to suggest that we can somehow protect every retailer from every impact of competition you would simply on that basis have to ban every import of goods other than to those retail suppliers and that, I think, would be totally contrary to anyone's commonsense approach. So I have tried to take a realistic approach and say at what level is it fair to retailers, is it fair to consumers, is it fair to the taxpayer who is going to have to pay the administrative costs of collecting this lot? It is easy to say we have to protect the retailer. Do we not also have to protect the taxpayer? Do we not also have to look after the interests of the consumer? My job is to try to balance the perhaps competing requirements of the retailer, the consumer and the Government.

Deputy P.J.D. Ryan:

I think we all accept it is a difficult task and this is a particularly difficult one but do you not accept that you are asking businesses, retailers, to accept an administration cost which they cannot charge on presumably? They are the tax collectors of the majority of the GST so if you have an inappropriate *de minimis* it is not just the 3 per cent distortion, it is also the administrative distortion that you are placing on local retailers as well. That is the first point I would like to ask you.

Senator T.A. Le Sueur:

Can you expand on that, please?

Deputy P.J.D. Ryan:

Basically, you are asking local businesses to be unpaid tax collectors for GST in addition to the 3 per cent. If you therefore have a *de minimis* at such a level that for a large proportion of the value of what they sell you are going to place them at a further 3 per cent disadvantage, it is not only the 3 per cent, it is the administration cost as well of collecting the rest of the tax.

Senator T.A. Le Sueur:

Yes, but the administration cost is going to be there whatever *de minimis* rate you set. It is simply a question then of when does it become uncompetitive for that business to maintain that stock?

Deputy P.J.D. Ryan:

Are you worried about the messages that you would be sending to consumers through this *de minimis* level, the messages of: "Support local retailers". Are you worried about that or are you worried that possibly, depending upon what you set as a *de minimis*, you might be sending a message which is: "Look, buy off-Island because I am going to give you a tax advantage"?

Senator T.A. Le Sueur:

I suspect that if the message were to get through via Government I would be at present issuing a message saying: "Why shop off-Island because you will be paying 17 and a half per cent more than you will be paying on-Island?" That is not, in fact, the truth so I cannot give that message now.

Deputy P.J.D. Ryan:

But surely if someone buys off-Island they would not be paying the 17 and a half per cent because it would be zero rated as an export?

Senator T.A. Le Sueur:

Very often suppliers do not bother to do that for a trip into Jersey on a one-of item. The consumer simply swallows the 17 and a half per cent and does not mind.

Deputy P.J.D. Ryan:

That I find surprising.

Senator T.A. Le Sueur:

Well, maybe but even a VAT inclusive price in the UK is often less than a basic price in Jersey simply because of shops purchasing power and competitive situation.

Deputy P.J.D. Ryan:

I am just very quickly working out that on a purchase of, say, £500 in France or the UK, the UK or French VAT content over £500 ...

Senator T.A. Le Sueur:

Would be £80-£90, yes.

Deputy P.J.D. Ryan:

I would have thought that certainly any consumer that I know, if my wife is anything to go by, is certainly going to be trying to get that VAT zero rated.

Senator T.A. Le Sueur:

Yes, if they can, they will but if the price even with VAT on is less than it is in Jersey and the supplier cannot be bothered to refund the goods then it is up to the consumer whether they choose to maintain their purchase or go elsewhere. I have done some investigations, compared prices in the UK, VAT inclusive and VAT refunded, against Jersey prices and in a number of cases particularly in popular goods even the VAT inclusive price in the UK is far less, or certainly less, than the price in Jersey and that is a fact of life.

Deputy P.J.D. Ryan:

Yes, I think our analysis would comply with that largely. I suppose the question is does that mean that you should make it worse?

Senator T.A. Le Sueur:

I think what I was trying to say a bit earlier in the discussion is that one has to strike a balance between how much worse it would make it and a *de minimis* limit, we will say, on it of £100, an extra £3 on the price, is probably not going to sway a customer's choice significantly and will certainly mean additional administrative cost for the States which ultimately the taxpayer and the customer has to meet.

Deputy P.J.D. Ryan:

Do you think the effect that this *de minimis* level might have on local business owners' morale is significant? Particularly what is going through my mind is the perspective those individuals will have with the onset of Zero-Ten and zero corporation tax and their attitude towards avoiding tax. Do you feel that the overall climate of co-operation between business and government and taxation, is this significant?

Senator T.A. Le Sueur:

I would have said that retailing in Jersey is becoming more and more difficult irrespective of GST. Margins are being squeezed; people's buying habits are changing. The retail environment is not a

particularly easy one to be in. Whether you set a *de minimis* limit at £10, £100 or £1,000, I do not think you are necessarily going to significantly change the difficult economic retailing climate in which retailers exist. They will be unhappy at whatever level you set it simply because of the nature of retailing but I accept that if you set it at a very high limit then their morale and disaffection will probably be higher than at a lower limit. I would say it is just one of the factors, not the only factor, which I have to take into account.

Deputy P.J.D. Ryan:

I made a bit of a throw-away comment about 20 minutes ago about your economic advisor and I think I am going to have to make it again because your economic advisor's comment - and I do not know if you comply with this; I would ask you to maybe comment on this - goes along the lines of that the collapse of Jersey retailers would be beneficial to the Island: "Because resources that would otherwise have been tied up in a relatively low value added activity such as retail could be allocated to higher value activity." Are we on the same planet here; are you on the same planet?

Senator T.A. Le Sueur:

He was a theoretical economist talking in purely economic theory and pure economic theory --

Deputy P.J.D. Ryan:

Do you go with that attitude?

Senator T.A. Le Sueur:

In pure economic theory, yes. In terms of human society, no, but you are asking an economic theorist an economic question and he gave you an economic answer which I agree with. If one followed the same argument then you would say that perhaps we ought to have 10,000 people working in agriculture, 10,000 people working in tourism and 10,000 fisherman on the Island because that would make a nice balanced society. It would not generate much revenue for the Island.

Deputy P.J.D. Ryan:

But in the real world that we live in surely ...?

Senator T.A. Le Sueur:

Exactly. Yes.

Deputy P.J.D. Ryan:

So you are saying that in the real world we live in ...?

Senator T.A. Le Sueur:

In the real world we live in we expect to have retailers, we expect to have plumbers, we expect to have bankers.

Deputy P.J.D. Ryan:

I think that needs to be made clear, quite honestly.

Senator T.A. Le Sueur:

Yes, but you have to read economic advice as economic advice, answering the question that was being posed.

Deputy P.J.D. Ryan:

I think we accept that but we wanted to be sure that in the real world that we both live in ...

Senator T.A. Le Sueur:

Yes, but I think, if I digress, your sub-panel is also looking at migration policy and that is a different aspect of your work. If you were to have to grant another 10 licences for immigrants would you grant that to 10 more shopkeepers or 10 more bankers? I think the economic advice might be that you would employ another 10 bankers rather than another 10 shopkeepers. If you take that point maybe it puts it in that context.

Deputy P.J.D. Ryan:

I think we are talking about the whole level. The whole purpose of this, the whole line of this questioning, circulates around the morale of the business community over this *de minimis* level and I really am asking you whether you would accept that there are huge issues here of morale, of acceptable behaviour of government in the way that they treat businesses? It would be very easy for you to base a decision on purely economic cost of collection grounds that could have quite significant detrimental political and socio-economic effects here that go quite a lot further than just the economic argument: "Look, it is not worth our while collecting £3 or £5."

Senator T.A. Le Sueur:

Yes, there are issues. I would not call them huge issues. I would say there are issues. If one assumes that there is going to be some form of *de minimis* level, and I am not saying at the moment what that would be, whatever level that will be some people will feel disadvantaged. You will never stop that; that is human nature.

Deputy P.J.D. Ryan:

Would you accept that we live in the euro zone? Jersey is offshore Europe but nevertheless we are pretty much in the European economic area one way and another. The level of *de minimis* throughout

Europe is set at £18 or 22 euros. If one were to follow that model, and whether we like it or not we live within that economic area, then the *de minimis* level would be based on like-for-like - 3 per cent GST in Jersey, between 17 and 20 per cent throughout most of Europe - that would indicate a level at around £100. Would you not accept that was a reasonable model?

Senator T.A. Le Sueur:

Yes, mathematically 3 per cent on £100 is roughly the same as 17 and a half per cent on £22.

Deputy P.J.D. Ryan:

On the basis that we will collect the same amount as you collect in Europe on a like-for-like basis.

Senator T.A. Le Sueur:

I think what you might want to do from an objective scrutiny point of view is to understand from Customs and Excise the sort of limits they are talking about on cost of collection as being appropriate around Europe.

Deputy P.J.D. Ryan:

There is, of course, pressure to both directions in Europe. There is pressure from couriers and postal operators to increase the level of *de minimis* because it costs them too much to collect. There is also pressure, is there not, from business groups of one variety or another, to go the other way *vis-à-vis* Jersey's industry? It seems to be staying roughly where it is as a result. I would also add that those that are lobbying for higher levels of *de minimis* have a commercial axe to grind in increased traffic that may result from it in the same way as the business groups that are lobbying for a lower *de minimis* also have a commercial axe to grind because they are talking about protectionism from outside influences.

Senator T.A. Le Sueur:

On that basis, whatever figure I come up with is going to be a wrong one.

Deputy P.J.D. Ryan:

Oh, I am sure. I started by saying that this is a particularly difficult one and I would not like to be in your shoes.

Senator T.A. Le Sueur:

I am not sure how far this is getting us. We are acknowledging the fact that it is a difficult issue where there are competing demands for consumer, retailer and government. I was just asking Dave Nurse to give some indication of the thinking of Customs generally as towards the future.

Mr. D. Nurse:

As you quite rightly say, the EU regulations do give a low value relief from GST at 22 euros for imports. There is also one for gifts which are non-commercial, which is if you were to send something to a member of your family which is £36 relief. VAT, as you quite rightly say, in the UK is 17 and a half per cent; it goes right the way up to 25 per cent in Denmark and Sweden so *de minimis* does go up. But at £18, I think it is £110 it would equal out at. I am speaking on behalf of the Customs and Immigration Service obviously rather than retailers or anybody else and one of our core responsibilities is to properly, and I stress the word properly, account for the revenue of the Island from duties on imported goods and with the *de minimis* issue to properly account for the revenue for the Island. There are obviously resource implications for us regarding this. The main challenge for us with this is at the post office, as I have explained before, because of the way that parcels arrive at the post office. They are not manifested; the parcels arrive on a daily basis and at the moment any parcels which are liable to excise duty or customs duty are presented to us by the postal authorities and they are physically entered into our system by our officers and a bill is then sent out to the person who is importing the goods. At the moment these items are very much in the minority for the goods arriving at the post office. The data that we have is very limited because we have historically never had a reason to collate data on goods arriving from within the EU or the UK so I have only got very limited data to base my calculations on. From my experience as a customs officer for a great many years and speaking to other officers, looking at the time that it would take an officer at the post office - if a parcel arrived that was to be charged a duty which would include GST, if *de minimis* was set at £6 which would be a £200 value - to get the parcels ready for charging on the day that we examined would have taken 12 and a quarter hours of an officer's time to do those parcels, but with a £9 *de minimis* that drops considerably.

Deputy P.J.D. Ryan:

Can I stop you there and ask you to clarify that? So 12 and half hours work to collect how much revenue?

Mr. D. Nurse:

The revenue collected on that would be £447. Again, these are very rough calculations that I have done on some of these, but the general aim for GST is that it should cost a penny to collect a pound. At those *de minimis* levels, again I say specifically at the post office - I am not talking about the courier traffic up at the airport because that is a different form of traffic - to collect £1 in GST would cost, purely on the customs officers, 75 pence. That is not including the cost to the postal officers to sort the parcels, present them to us and then collect the duty.

Deputy P.J.D. Ryan:

So £1 of revenue costs 75 pence?

Mr. D. Nurse:

Yes.

Deputy P.J.D. Ryan:

My question now is to the rest of the GST team. If it protects the integrity of the overall GST system is it not worth paying 75 pence to collect £1?

Senator T.A. Le Sueur:

Well, I suppose the answer is yes, it might be. If you had a system which only cost 50 pence to collect £1 of GST and still maintained the integrity of the system, would you not go for the 50 pence system rather than the 75 pence system?

Deputy P.J.D. Ryan:

That is a judgment that you are going to have to make.

Senator T.A. Le Sueur:

Absolutely, but I am trying to say there are no absolutes here. It is all a matter of relativities.

Deputy P.J.D. Ryan:

But it is not costing you more money than it is to collect it. Let us get that straight, it is not costing you more money; it is just that you are not making as much GST out of it as you would like to.

Senator T.A. Le Sueur:

It may not cost Customs directly more money but if you add the time costs of Customs' 75 pence, the postal department's 50 pence and somebody else's 10 pence you are probably up to about £1.30 overall for collecting £1 worth of GST because the postal staff who are going to be involved in this are not going to get any more revenue than the post office; they are hanging around contributing to this lot. One has to look at the total cost, not just the cost in one particular area. I think what Mr. Nurse is saying is that in one particular area alone we have got 75 pence to collect £1. Somewhere else we are going to have another 50 pence worth of time to collect nothing. If you add all those together, you then say is it necessarily economic? Because if it is not in the economic interests of the Island it is, in effect, costing the taxpayer to achieve what might appear to be a nice cosy social objective.

Deputy P.J.D. Ryan:

If this has the kind of effect that drives and accelerates off-Island shopping, how much economic dis-benefit is there through lack of tax revenue and money circulating within the Island? These are very difficult, and I would say probably almost impossible, to calculate because you probably do not have the data to know that.

Senator T.A. Le Sueur:

I think what I would say is -- I am in danger of becoming one of those economic theorists that you were criticising half an hour ago. If I buy a DVD player on the internet off-Island my money goes directly off-Island to that supplier. If I buy it through a retailer in Jersey who has imported it from a supplier in the UK, he will have paid the supplier in the UK the wholesale price and yes, I will be paying him and so the profit element will stick in Jersey rather than stick in the UK. The economic effect is not the whole value of those goods; it is merely the profit element. If there is a large profit element in Jersey then that is, in theory, to the economic benefit of the Island. In practice, what you are saying is that the Jersey retailer is having a higher margin than the UK retailer. Is that in the consumer's interests? The consumer, I would say, would prefer to pay a lower price, to see the retailer have a lower profit margin, and have some additional money to spend on something else. So I think it comes back to what I was saying earlier. One has to weigh up the objectives of the consumer and the Government as well as the retailer. I think the consumer already is judging that in some cases it is preferable for him or her to buy off-Island. It may be in terms of choice, it may be in terms of service, it may be in terms of price but in a competitive society this will happen. Economic theory, again with regard to competition, is a good thing and reduces prices and gives the consumer better freedom of choice. What we appear to be doing here is trying to have an element of protectionism which may or may not be justified and I suggest that you are trying to persuade me to a level of protectionism without necessarily any particular rationale or what level that should be set at.

Deputy P.J.D. Ryan:

I think to come full circle, what I am asking you is whether you think it is right that a government put something in place that would worsen, has the potential to significantly worsen, the competitive position of local retailers versus their off-Island counterparts?

Senator T.A. Le Sueur:

So long as we include the word "significantly", I would be happy to say that we should but I think this question of significance or degree to which this change would have an effect, at a 3 per cent rate of GST, is only one contributory factor in a whole range of consumer choice.

The Connétable of St. Brelade:

Can I just ask David a question? On the relationship of resource to the level of *de minimis*, clearly this is a factor that will influence the Minister's decision and it is one of the factors, but independently have you worked out where it ought to be? This is aside from what the Minister recommended; I am not trying to lead you but clearly this will influence your decision.

Mr. D. Nurse:

The calculations that we have done, and I say it is purely on a customs and immigration basis - it is not

including costs for post office, costs for freight forwarders, costs for extra warehousing space and so on - for the post office, the time to charge the parcels drops; it halves almost by each £100 value of the *de minimis*. At a £400 value, which is the one that I think as a customs service we could cope with the resources that are coming to us, it drops from 12 and a quarter hours down to 2 and a half hours. So it is manageable. To go to the £500 *de minimis* it drops again considerably to one and a half hours extra work.

The Connétable of St. Brelade:

Could I just then come on to the Minister and say we have these various elements. We have the tax man, we have the consumer, of course, and the retailer; we have 3 principal parties that you have to consider here. What sort of weighting are you giving to these 3 conflicting parties? We have the tax man and the administration costs; we have the consumer, possibly linked with freight forwarders because they are directly connected; and the retailer, consumer choice, and the ongoing economic effects and reasons you discussed earlier. Can you try and give me a weighting for each one that you might be looking at?

Senator T.A. Le Sueur:

It is very difficult to put a precise weighting. My duty as Treasury Minister is to raise £45 million a year from a simple GST system with minimal administration costs. That is the remit I was given by the States and, indeed, by the public. "Keep the administration simple," they said. What I am trying to do is create a system which is administratively simple so that will, I suppose, be my key objective; to keep the administration as simple as I can but recognising that if you push them too far you could cause distortions in the marketplace, either way, towards the consumer or towards the retailer. My primary objective has to be to keep a simple tax system at a low rate in order to generate £45 million a year. Within that general parameter I then say to what extent does the *de minimis* level of £100, £250, £500 or any other rate have a significant impact on any of those? Clearly, we have seen that the impact of a low *de minimis* rate is a considerably increased administration cost. It is almost logarithmic in growth; it is not a straight one-for-one basis. Certainly, from an administration point of view I have got to look towards a higher figure and I think from a simplicity point of view, recognising the logistics of trying to handle this volume of goods, a volume of goods that I have to say judging by the pattern of consumer choice is likely to result in more imports in the future. So we are probably looking at a growing market in this direction. I have also got to look at the other resource implications of space, time and delivery and everything else. Almost everything is pointing me towards a higher level of *de minimis*. The only thing that is pointing me to a lower limit is the concerns of some retailers about competition.

The Connétable of St. Brelade:

We almost have a mathematical situation here where probably the retailer is looking at a *de minimis*, or suggesting a *de minimis*, of £100; we have the Consumer Council - and I am pleased to see Alan

Breckon here - looking at £1,000, and we perhaps have the taxation cost of around £400. Where do you see us ending up?

Senator T.A. Le Sueur:

At the end of the day I think I am lucky to recommend to the States a figure in the region of £400 give or take a little bit either way. As you say, we are trying to balance the conflicting requirements of the different parties concerned. It may well be that other States Members may well have other views and we could have 10 different amendments in the space of different levels of *de minimis*. I suggest it is one of those things that we are never going to please everybody so I will probably just come up with a view that I think is justifiable and I will go for, I am pretty certain, something like £400.

Deputy P.J.D. Ryan:

You mentioned other States' Members, Minister, is this not going to be a ministerial decision?

Senator T.A. Le Sueur:

I suspect that although it may be a ministerial decision some States' Member will find some way of changing it.

Deputy P.J.D. Ryan:

So do you intend to bring it to the States, that is the question?

Senator T.A. Le Sueur:

I think realistically if I tried to slip it in under the carpet some States' Member would object to that and I have no reason to.

Deputy P.J.D. Ryan:

So it will come to the States for a discussion?

Senator T.A. Le Sueur:

I am pretty certain. I am not sure about the law; I do not think the law requires ...? It is customs law? Okay.

Mr. D. Nurse:

Could I explain how it fits in with the law? At the moment we have a *de minimis*, for Customs and Excise goods anyway, of £10 which has been in force for the last 15 years. It is purely an administrative method of doing it but in 2002 there was a Kyoto convention on the certification and harmonisation of customs procedures. Part of that convention said that any administrative *de minimis* levels or whatever had to be enshrined in legislation. So there is draft legislation in place at the moment for a *de minimis*

level for Customs and Excise goods which would include GST. As I say, that is only in a draft form at the moment.

Senator T.A. Le Sueur:

Even if it were through making an order under Customs Law then some Member will still be entitled to challenge that order if they felt inclined. Either way I do not think I can avoid the fact that it is going to be a political football.

Deputy P.J.D. Ryan:

At least you are being realistic, Senator.

Mr. R. Teather:

You said that at £200 *de minimis* it costs 75 pence to collect each pound. Could you just give us the equivalent figure of how many pence per pound are different?

Mr. D. Nurse:

They are very rough calculations. £200, 75 pence to collect £1; £300, 61 pence to collect £1; £400, 44 pence to collect £1; £500, 37 pence to collect £1.

Deputy P.J.D. Ryan:

Could you let us have that in writing through the Minister and then we have it for our report?

Mr. D. Nurse:

Yes, sure. I would like to stress they are very, very rough calculations.

Deputy P.J.D. Ryan:

Any background to the rough calculations or assumptions you have made would be useful to us to see as well. I suspect they will come out of that, but do you know how much revenue you will lose at the different *de minimis* levels, for example? Have you made calculations of that?

Senator T.A. Le Sueur:

Almost impossible to ascertain. I think what one can do is have a sort of stab in the dark, in the gloom of customs, of the sort of value of goods that is coming into the Island at the present time. I would think the majority of them have a value of less than £250.

Mr. D. Nurse:

Again, the figures at the post office, because that is the figure that I have worked on, on that particular day when the analysis was done, at a £200 *de minimis* there was £578 of GST would have been lost.

Deputy P.J.D. Ryan:

Would have been lost?

Mr. D. Nurse:

Yes, on that day.

Deputy P.J.D. Ryan:

At £200?

Mr. D. Nurse:

At £200.

Deputy P.J.D. Ryan:

And at £400?

Mr. D. Nurse:

At £400, £831.

Deputy P.J.D. Ryan:

£831 per day?

Mr. D. Nurse:

Per day.

Deputy P.J.D. Ryan:

And we are talking about 365 days a year?

Mr. D. Nurse:

We are talking about 6 days a week.

Deputy P.J.D. Ryan:

So roughly 320, is it not? What does that equate to on an annual basis very quickly?

Mr. D. Nurse:

£300 by £800, so £250,000.

Deputy P.J.D. Ryan:

So we are talking about £250,000 worth of revenue?

Senator T.A. Le Sueur:

At that limit, and £120,000 roughly at ...

Deputy P.J.D. Ryan:

That is at £400?

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

Half of that, roughly, or a bit less than that, at £200 or something like that. Do these estimates include the effect of behavioural change, in other words the risk that more individuals would buy ...? It cannot, can it, so there is this big imponderable?

Senator T.A. Le Sueur:

It is fairly imponderable.

Mr. D. Nurse:

As I say, this estimate is based on one day's data at the post office so it is making no allowances for anything else.

Deputy P.J.D. Ryan:

I think it is interesting. I do not know if you are aware of this calculation but from ours, and based on the same Crown Agents report, a *de minimis* of £500, which it would appear they were suggesting -- would you confirm that, Minister? I am not speaking out of turn here.

Senator T.A. Le Sueur:

I cannot recall whether Crown Agents came up the figure.

Deputy P.J.D. Ryan:

At that level, that would mean that 96 per cent of all parcels coming into Jersey would escape GST? You would only be collecting GST on 4 per cent of the traffic. Do you think that sounds right?

Senator T.A. Le Sueur:

Of that particular form of traffic? As I said at the start, the vast majority of goods come in through shippers to registered retailers. We are talking here of a fringe so we are talking about 4 per cent of a

relatively small proportion of those imports.

Deputy P.J.D. Ryan:

Yes, but even looking at the value rather than the volumes, this seems to leave between half and two-thirds of the value of postal imports escaping GST.

Senator T.A. Le Sueur:

Possibly.

Deputy P.J.D. Ryan:

Does this seem sensible?

Senator T.A. Le Sueur:

If that is a relatively small proportion of the total value of imports on the Island it may well be sensible.

Mr. D. Nurse:

The majority of parcels that arrive at the post office are of a lower value; they are not at the higher value.

Deputy P.J.D. Ryan:

That would depend on where your *de minimis* is.

Mr. D. Nurse:

No, I am just talking about the general value of the parcels themselves. The majority of the parcels that would arrive that are of a higher value would normally go to a registered business which would capture the GST.

Deputy P.J.D. Ryan:

Any more questions on *de minimis*?

The Connétable of Trinity:

Once it has run a year or so, I am sure then you will know what you are collecting. Would you be reviewing it in case it is found out that whatever *de minimis* you had the cost of collecting it was far higher than you thought because at the end of the day that is what you want, is it not?

Senator T.A. Le Sueur:

Yes, there is a danger there. If you set it at a very low limit and you have employed an extra 10 customs officers, you decide it is not economical so you set it at a high limit, do you then dispose of 10 customs officers or do you still have them employed doing nothing? It is probably easier to start at a higher

figure and bring it down if it were found that there was -- at the risk of employing more staff rather employ staff to start with, with all respect to the Customs Department, and then find in the end you have got unemployed people on your hands who have security of tenure.

Deputy P.J.D. Ryan:

I think we have exhausted just about every angle backwards and forwards and inside out but just a final one on this *de minimis*. Imports do seem to be capable of causing significant problems for you, in our view, particularly the practicalities of collecting in a small Island economy with much bigger neighbours alongside us. Have you given any thought, and we are aware this might be distasteful to the Jersey way generally, to following a line similar to the Isle of Man and getting closer to the European or the UK VAT system, applying to get closer to it, become integrated with it?

Senator T.A. Le Sueur:

At a 17 and a half rate?

Deputy P.J.D. Ryan:

At any rate.

Senator T.A. Le Sueur:

You are talking about integrating with the UK or the EU systems and the EU standard is a minimum rate of up to 15 per cent, so if you go to harmonisation there is a minimum of 15 per cent GST. Was I thinking in that direction? To be honest no, I was not but if your Scrutiny Panel recommended I do then I shall take your comments and deal with them appropriately.

Deputy P.J.D. Ryan:

It is just that you look, as I am sure you do, at the problems that you have got and you think: "My goodness me, would it not be that much easier?"

Senator T.A. Le Sueur:

I do not know that we have got that many problems. I think we have identified certain areas which are capable of discussion. I think we have got a system here which is simple, straightforward and potentially the envy of the rest of the world. It is not unique in that it has got many similarities to places like Singapore and some of the Antipodean GST systems. Hopefully we can improve still further on those which are a tremendous improvement on some of the models in the EU and particularly the UK. I think if you want advice from your panel advisor as to whether we should follow the UK system, he will be able to advise you as I can.

Deputy P.J.D. Ryan:

I always like to finish with a nice throw-away one just to create a little bit of interesting discussion at the end, Senator, as you know. Anything else on GST? I think we are pretty much at the end of our questions, Constables, unless you have anything else. So may I thank you very much, Senator, for your time and answering the questions so well and lucidly, and to also thank your team that has come along with you today?

Senator T.A. Le Sueur:

I do not know if we have got all the answers but have listened to your advice in the past and gone some way towards ...

Deputy P.J.D. Ryan:

I think it will be a very interesting discussion on this *de minimis* in the States and might I say that I think it is quite a wise move to bring it to the States for that kind of discussion.

Senator T.A. Le Sueur:

We shall see.