

STATES OF JERSEY

Economic Affairs Scrutiny Panel Price and Charge Indicators (GST) Sub Panel

WEDNESDAY, 25th JULY 2007

Panel:

Deputy G.P. Southern of St. Helier (Chairman)

Deputy J.M. Martin of St. Helier

Connétable M.K. Jackson of St. Brelade

Witness:

Mr. M. Pirozzolo, Vice-President, Jersey Hospitality Association

Deputy G.P. Southern of St. Helier (Chairman):

I would like to welcome Mario Pirozzolo, Vice-Chairman of the Jersey Hospitality Association, and introduce for the record members of the Economic Affairs Scrutiny Panel. Here today are Deputy Judy Martin, Constable Jackson, me, Deputy Southern, the Chairman of the Panel, and offer apologies from Deputy Lewis. He has been called away to help with the flooding in Tewkesbury, I understand. He sends his apologies, and Deputy Alan Breckon is conflicted on this investigation because he is going to be a witness and give his evidence as a Consumer Council Chairman later. We are obviously investigating the impact and choice between inclusive or exclusive pricing under the Pricing and Charge Indicators Law as proposed, now for the moment suspended, and we would like to hear from you as to how you consider the impact of that and GST (Goods and Services Tax) in a more general sense upon the hotel trade and hospitality trade.

Mr. M. Pirozzolo (Vice-President, Jersey Hospitality Association):

I think it is fair to say that among our members there is quite a large number of retail as well. For example, Channel Island Co-Op are members, so I will be talking about retail as well if you would like me to do that.

Deputy G.P. Southern:

By all means, yes. If you would like to start we will follow it up with ... so impact on your particular trade as you see it at your Association.

Mr. M. Pirozzolo:

You have very kindly sent me a set of questions. Would you like me to follow that template?

Deputy G.P. Southern:

Start where you like.

Mr. M. Pirozzolo:

Basically, with the best method of prices and how they are displayed, the general feeling is really gross at the shelf and, therefore, the customer certainly will know what he or she has to pay but also be aware that that would be liable to the GST once they get to the till. As far as the hotelier is concerned, that works in the same way as the tariffs will be set out as a rack rate, if you like, but always indicating that GST will be applied to the final bill. We think that is the way forward because the rate of GST, if it changes or when it changes, can be addressed pretty easily whereas hoteliers, in particular, are devising their rate sometimes a year-plus in advance and it is a very difficult thing to do. To give you an example, we are now working out our rates for 2008 and we have essentially advised our members to produce their normal tariff but put a paragraph in the brochure or on the internet that GST may be introduced at some time in Jersey and explain what GST is, a sort of value added tax, if you like; I am not sure of the exact wording. That way the potential customer is in full knowledge of what is going to be charged. We have a culture in Jersey, and all around the world really, where the punter, so to speak, has to know what he or she is in for before they walk through the door and we want to follow that procedure. If you take the licence trade, for example, by law the licensee must have his prices before he walks into the premises and I think that is the way we want to go forward. We want to go forward on the basis so that there is no confusion for the customer. We do not agree with GST; it is a *fait accompli*. However, we are trying to do the best we can with it. So, in that respect, we would like to keep our prices gross but obviously advising our customers or potential customers that there will be an amount added on the final account. Going on to the pros and cons of inclusive on the shelf or at the till, obviously there is a rounding issue and that would feature heavily, I think, if it was inclusive. Exclusive, i.e. at the till, makes more sense because there is only one rounding to be done and I think you will find that the majority, certainly in retail, they will round down. Most IT (information technology) now that you can purchase on the EPOS (electronic point of sale) system will round down, i.e. if it is less than 0.5 of a penny round down that half a penny, and actually the retailer is only losing half a penny but he is saving face to the customer and I think the larger retailers will do that.

Deputy G.P. Southern:

Are you saying, then, that the programming or whatever, the machinery, will round down or up accurately, so there is a net, on balance, you are likely to get something that is fairly accurate that is around the 3 per cent mark overall?

Mr. M. Pirozzolo:

Yes.

Deputy G.P. Southern:

At the end of the day, when you total, going through, you will see something that was very close to 3 per cent on your total sales?

Mr. M. Pirozzolo:

That is right, but if it is -- let us say the tax element of that bill is 51.4p, it will round down to 51p. I think for the sake of 0.4p per transaction I think retailers per se will round down. The IT is already there to do that, because obviously a lot of the systems that you buy are for overseas use as well. They are not specific variants for Jersey. Again with retail, let us take, for example, the inclusive. In Jersey there are very few what I call independents left. These are the little corner shop. There are only about 5. All the rest are groups where they belong to larger groups. The biggest players retail in both islands and also they source products from the UK and the rest of Europe which is already priced, so that has a massive impact on them. Also they purchase goods that are priced for offer. You have heard of BOGOFs, buy one get one free, and all those sort of things, they would have to split that or not accept it. There are problems with inclusive pricing on weighing, in other words cheeses that are sold by weight then have to be addressed separately. There are problems where fruit and vegetables change price virtually on a weekly basis. There are problems for the manufacturer. The manufacturer, for example, produces widgets for the, let us say, Checkers supermarkets. Now, the widgets in Jersey will be one price, in Guernsey they will be another price, so there is a knock-on effect there and there are additional resources, IT, et cetera. If I can draw similarly to my own business, if I, for example, produce a sandwich for the Co-op in Jersey it will be one price, the Co-op in Guernsey it will be another price, Beaulieu School it will be another price, Victoria College it will be another price, obviously depending if it has charitable status. These are all the anomalies that come into the effect. Bearing in mind I sell 232 items and they are produced on white and brown bread, you will see the problems I have as a manufacturer in a small business. Therefore, it makes sense to produce your good, sell it on and then the tax is collected at one point. Without doubt the majority view, certainly among our members, is that the tax should be collected at the till, so to speak. We had a forum a couple of weeks back and out of approximately 102 members who were at the forum 5 voted for inclusive pricing and the rest voted for pricing at the till.

Deputy G.P. Southern:

That was a cross-section of hoteliers?

Mr. M. Pirozzolo:

Hoteliers, restaurateurs, hire cars, tour operators, Premier, which is one of the biggest ones as well, and retailers, and we had 2 people from the Channel Islands Co-op so it was a good cross-reference.

Deputy J.A. Martin of St. Helier:

Without giving away obviously, if it is a secret, who the 5 were, could you give us any of their reasons? What did they perceive to be the benefits of inclusive?

Mr. M. Pirozzolo:

Well, it is my understanding and it is a very good point, and I was thinking earlier that would come up, that perhaps they have decided for the moment to absorb the tax because they just did not know how they were going to sell their wares with the structure they have. When you sell a holiday in Jersey, sometimes you are selling transport from home to ship or home to airport, the air passage, which I understand is exempt; transfers Jersey Airport to hotel, which is not exempt; hotels, which is not exempt; hire cars, which is not exempt. You have a problem because you do not know what portion to apply the GST to and that is an issue. If you are then asking for a deposit before the law comes in - this is only an anomaly for the initial stage I hasten to add - you do not have to charge GST provided the customer comes before the event, i.e. before you bring in the date. If the customer comes in afterwards you have to make them aware that there will be GST on that good. If the customer prepays between now and, let us say, April the customer gets it GST-free because they have paid for a good which they have not had yet. So, there are all sorts of anomalies and I think these 4 people were involved in a hotel group and they simply just could not get a handle on how to manage the tax. I hope that answers your question. That is my understanding.

Deputy J.A. Martin:

Yes.

Deputy G.P. Southern:

Can I just take you back? You were talking about a different price for sandwiches for the Jersey customers and Guernsey customers and other establishments. Surely you selling your sandwich at a certain price attracts a fixed -- if your turnover is over £300,000 attracts a certain amount of GST on that sandwich. What happens thereafter does not affect the price at which you sell, I would have thought.

Mr. M. Pirozzolo:

If it is inclusive I would have to add it into the price, because I have to provide the retail price on the sandwiches, you see, that is what they expect me to do. Also the bar code which triggers off the EPOS, and to have 5 or 6 different bar codes for one product is phenomenally difficult.

Deputy G.P. Southern:

So, one is an export effectively and, therefore, does not attract -- yes, okay.

Mr. M. Pirozzolo:

But a lot of the -- for example, CIT and the Co-op deal in both islands and they effectively have one operation split 2 ways with a central administration. I mean, the administrative costs are going to be horrendous and completely outweigh the tax they are collecting at the moment, i.e. 3 per cent.

Connétable M.K. Jackson of St. Brelade:

Can I just take you back to the early stages of the discussion? In terms of consultation - obviously we have been talking about GST since 2005 - has the Trading Standards or Economic Development consulted with the Association with regard to how the tax might be displayed, shelf edge or till?

Mr. M. Pirozzolo:

No, it has been a bit of a -- one does not mean to suggest that there has been a lack in communication or due diligence in any way. I think the whole thing has just been a bit of a muddle and, to be honest with you, I am talking about 8 months ago we were hoping that the tax would go another way. I mean, we were recommending that it would be put on to the social security element. Not because we wanted to steal people's benefits or anything like that, but the mechanism, the vehicle for collecting a tax was already in place and you had the situation where the States were paying money into social security to top up the fund, whereas if they collected the GST they could offset that so that there would not be any payment into the fund and they would just do a contra. But if you charge 6 per cent for social security, i.e. on the employer, 6.5 per cent on the employee, the cost to put the tax on to the social security mechanism was negligible. We just could not understand why it went this way. Anyway, that is water under the bridge. But to answer your question, certainly there has not been enough consultation at all but I suspect that is because it was a bit of an enigma to the legislature as well as us. Additional costs that GST will place on business, clearly there will be more personnel, so there is a human resource element, IT, and also more money handling risk, particularly for the small business. You know, when the small businesses are having trouble, they have collected, I do not know, 2 months' of social security and they have to pay somebody, otherwise they will be in the Petty Debts Court next Thursday, they pay. This is more money in the coffers, which is at risk in my view, and I think it is going to be a bit of a problem with the smaller traders here, where they are collecting taxes and doing all the administration. My understanding is that the tax is going to be collected quarterly.

The Connétable of St. Brelade:

Relatively flexible according to the trade --

Mr. M. Pirozzolo:

That is quite a bit of money for people to have on hand, so to speak. So, there is an issue there. I am also concerned that if we go the route we are at the moment, i.e. that it is collected at the till, because that is not written in stone, and then suddenly I think in 8 or 9 months' time or whatever there is a

disparate decision made - and we have no reason to be certain that a disparate decision will not be made - the people who are investing in IT at the moment are not going to invest in the type of IT we need for inclusive taxation if there is a chance it is not going to come into place. They are going to hedge their bet and wait until something happens. So, you are going to get the double whammy. We are going to face GST possibly inclusively in 8 months' time and then we will not have the resources, the IT, to manage it, and that is a real worry for us.

Deputy G.P. Southern:

Certainly it seems to me that we are looking at 2, perhaps 3 classes of items. Certainly in terms of goods, your sandwich, if inclusive pricing applied to that then I can understand that on the shelf. It is literally on the shelf, you pick it up, you know what price you are paying. If it is a service then like in the rest of the world, as far as I know, you are presented with your labour and your charges at the end of which is including VAT (Value Added Tax) or government tax and that is your total bill, and you are clearly presented with that. That is the way -- you are talking now about a hotel bill. Where does that tax, whether it is a hotel tax or an environment tax or in this case a GST, a Goods and Services Tax, where does that appear? Now, I think the answer you are saying is that most hoteliers will advertise it as GST will be charged at 3 per cent on all bills, or whatever it is.

Mr. M. Pirozzolo:

That is right.

Deputy G.P. Southern:

On your bill, and that will appear at the end of your stay, boom, boom, you will add up the sums, boom, there you go, and it will appear separately. So, as far as you are concerned exclusive billing is far more appropriate in the hotel trade, for instance?

Mr. M. Pirozzolo:

Yes, hotel trade, restaurant trade.

Deputy G.P. Southern:

Now you are saying that it looks like the concession that has been given, that we are not going to do anything for a year, leave it to the market to decide, hoteliers will say: "Right, fine, I can understand that we are doing things and I will go ahead with that", but it is not certain in a year's time whether a review will once again say the opposite.

Mr. M. Pirozzolo:

Well, you know as well as I do what happens in the States. Sometimes it is completely opposed to what is generally expected to happen and I think it is for that reason we are all thinking: "My goodness, what

will happen?" All you need to do is put one or 2 ministers up there with good arguments which will carry the House, and frankly we have had it because I do not know how we would manage it. I mean, with the greatest respect to yourself, there are times when the Constables simply vote en masse for some reason and that is one of the problems we have, because we just do not know how it will lie in 8 to 9 months' time or whenever it is we are going to --

Deputy G.P. Southern:

Presumably, I am speculating now, the sooner the States makes a decision, and you have a vested interest in one particular side of that decision, would be better as far as you are concerned? The sooner you can have certainty the better. So, one of the things we might be able to do is put up our report recommending X early and make sure that the Minister makes an early decision rather than a late decision, does not hang around. I do not know if that is -- that is certainly a way forward.

Mr. M. Pirozzolo:

I think our strapline for the Association is reality, first of all. Are you doing the right thing? We do not think you are. Sorry, we do not think Government is. We have been faced with what we feel is a *fait accompli* so reality and clarity. Because there are so many anomalies it is very difficult for the industry to get their head round it. It is pointless suggesting: "Well, you have had all this time to think about it; you should have put your ducks in order by now." But do you know something? I spoke to one or 2 hoteliers today who are renting their hotels. They had no idea that GST would be applied to rent, did you?

Deputy J.A. Martin:

Well, it is not. I thought rent was exempt. Rent for hotels.

Deputy G.P. Southern:

Commercial rent.

Deputy J.A. Martin:

Oh, sorry.

Deputy G.P. Southern:

Not your living cost rent but your commercial rent I think probably is.

Mr. M. Pirozzolo:

Well, the hotelier I spoke to had pains across his chest and went very red because he had absolutely no idea. How can they do that on his basic cost? Because the other problem hospitality has is to be competitive in the marketplace. We are not talking about Jersey now, we are talking about the whole

industry is facing 4.2 per cent cost of living increase, is facing 3 per cent GST. We have already imposed the collection of ITIS (Income Tax Instalment Scheme). We have already strapped him with the employment law, which has been horrendous, and hospitality have been strapped more than anyone. We are talking about discrimination law and you will be aware there is the most massive paper trail involved in everything I say. The discrimination law, and now we are looking at paternity, maternity and adoption leave. What on earth does Government think our employers are doing? They have been saddled with so much bureaucracy that they are reeling from it and this is the problem we have. There is just too much too soon. If I can put it in perspective, my business 5 years ago - I was looking at the figures - turned over £1,200,000, 5 years ago. I work on very small margins so do not think I am a rich man; 2006 we turned over £1,250,000 because you lose some contracts, you pick some up, so overall I consider we have done very well because one of the main contracts was one of the big contracts which was not our problem, it was due to a takeover. So, the only difference I have from then to now on my administration is one full-time administrator which costs me £40,000 a year. The majority of her work is involved with ITIS, due diligence on employment, social security and other bits and pieces, but certainly the ITIS and the employment is what she is involved with at the moment, and she said to me that she has no more time to worry about GST or all the other bits and pieces that are coming in. So it looks as if I am going to have to employ a part-time individual. So, effectively speaking, I am going to be spending £60,000 a year more than I was 5 years ago for factoring the same amount of business entirely due to Government bureaucracy and what we are being expected to do to undertake the administration function that Government has imposed on us. Now, that is a massive increase in human resources for a small company like ours. So, personnel then, IT, what are the differing effects on different size and type of retailers? I suppose the effects are relative. The small business has as much work to do because he or she or they will not have the resources that the bigger business has, but the bigger business obviously will pay more money to be able to tool up to that. So, I think the effects are the same and will have the same sort of stress on different sizes of business.

Deputy G.P. Southern:

I think there is an opportunity to discuss the threshold of £300,000 turnover.

Mr. M. Pirozzolo:

This is a bit whacky really, because we have sat down and I have spoken to the ITIS people at the department and we cannot seem to get our head round it. I do not think there is any advantage of the less than £300,000 turnover business not registering. I do not think there is any advantage at all and we do not really know why it has been brought into play. Is this because it is maybe a template from another jurisdiction?

Deputy G.P. Southern:

It is certainly a template, I believe, from Singapore. Singapore set that at the highest, I think probably in

the world, £300,000 as the threshold. The argument is that in terms of the cost of administering and collecting the tax it is far simpler not to chase all the small businesses but the tax, so they do not have to register. They have to pay GST on what they source to the wholesaler, what they buy in, but they cannot pass it on. So there is a cost to them but they do not trouble the administrator.

Mr. M. Pirozzolo:

The small retailer or certainly one or 2 members that are in that bracket have effectively taken that they will be expected to absorb the GST, and I think that would be a reasonable assumption. However, some of them are under the impression that while they absorb the GST they can actually charge at the top end. You see again it is an anomaly. You take the small tobacconist and something emotive like 20 Benson & Hedges, let us say. The small tobacconist is going to charge the same price as the Co-op across the road. Now, if we are saying that they cannot well --

Deputy J.A. Martin:

Well, they can but they cannot call it GST.

Mr. M. Pirozzolo:

Well, that is right, but that is a bit of a fudge, is it not? Do you not agree?

Deputy J.A. Martin:

I totally agree. That penny has just dropped to me in the last few days. We had it explained by the expert this morning, Mr. Lowthorpe.

Mr. M. Pirozzolo:

Mr. Lowthorpe, yes. You are entirely right but this is the impression, this is the perception. Well, how can I sell my 20 fags cheaper than the Co-op where you get all the business? Well, I do not think we would, really. It is crazy but even if they did -- I mean, how would you do it on milk, for example? The corner shop would be able to sell his milk cheaper, if he does not charge GST, than the Co-op. If he does charge the GST we know he has charged it because obviously the price of milk is the same everywhere you go. So, there are an awful lot of problems there. I think that is just muddying the water. I do not know why we brought that in. The other thing is you will find a lot of them will -- well, several will sign up to that through naïveté or whatever, but then have to wait 3 years to get out of it.

Deputy G.P. Southern:

Steve Lowthorpe this morning was saying that basically setting a high threshold means that a lot of small businesses do not have to register; therefore, there is less of an administrative cost. He said this morning, ballpark figure: "I would have to double the number of people like inspectors I employ, or even treble. If every small business signs up I will be inundated with work." He will have to employ

more administrators. To go back to your original point around GST, why not do it through a tax mechanism you already have established? You do not have to employ anybody to do that. You just up the rate, but he was saying that that is the main cause of the high threshold.

Mr. M. Pirozzolo:

Yes, I think, Deputy, you are entirely right and he has a valid point, but I feel in the long term we will be spending more money and resources on policing the small retailer, because everyone is going to whinge, are they not? That is what business is about, everyone will whinge. He is saying: "How can it be charged? It has to be charged." So there will be more money spent trying to police the system than what the perception is of saving it. We were promised a simple system; we were promised a simple tax and a simple law. We are not getting that. We were also promised enough time to be able to build up and work it within our system. We have been curtailed on that. We were promised there would be a 12-month period for us to get ready and get ourselves together. What we have is we have 8 months, have we not, from what I can gather?

Deputy J.A. Martin:

Well, no, because it would have been if we had had the debate last week and it had gone through.

Deputy G.P. Southern:

Well, we know GST is coming.

Deputy J.A. Martin:

Yes.

Deputy G.P. Southern:

The only bit you have been curtailed on is the --

Deputy J.A. Martin:

Inclusive or exclusive.

Deputy G.P. Southern:

So that has been curtailed and in a sense we are partly to blame for that because we said: "Hang on, you are saying 'inclusive'. There is an issue still around that." So, we are doing that, but yes, I thought for a minute you were talking about the period you have to get used to it once it is in place, and I understand again this morning we were told that there will be a year's grace, that no inspector will be kicking your door down saying you have not paid an extra £10 on your GST and you say: "Oh, well, I did not quite get it." They will not be prosecuting you for that for at least a year. Thereafter they will be coming round making sure that you are doing what you say you are doing and what you are supposed to be

doing.

Deputy J.A. Martin:

I think what Mario is trying to find out is where -- and I am not even sure on this because I thought I heard Phillip wrong last night. He said once we have made the transition, and I hope I heard him wrong, it will be a week or a month that we will give businesses to come in line.

The Connétable of St. Brelade:

He did say that.

Deputy J.A. Martin:

He did say, and I will have to read the transcript, but businesses need certainty and whether you say bring forward the debate, if you have given them a year, my question to Phillip was you have given people a year on their own to decide now before anything is decided, a decision by the States. What will happen to his belief after that year and 80 per cent or 90 per cent of retailers and hoteliers have gone exclusive pricing? Where will he sit? We are not sure now. I am not sure how long. It is coming in in May.

Mr. M. Pirozzolo:

It is difficult and if it does not go to Privy Council then it will be longer and it could be delayed.

Deputy J.A. Martin:

If we had had this debate last week and they had won the day, or the day had been won that it was going to be inclusive, when it went live in May you would have to have been ready for inclusive but now we are again -- I am not sure and I do not think from what I -- suggest they do bring the debate forward. We need an exact amount of time, and then once there are decisions made an extra amount of time. Because if you, as you say, exclusive you will not need to buy too much equipment and you are certainly not going to buy inclusive if a year to 14 months down the road they say: "Well, actually we are going to go exclusive." So, nobody is going to invest in that but you need time.

Mr. M. Pirozzolo:

There is a lack of clarity, hence my clarity and reality, which is what we have adopted as our strapline. There are an awful lot of problems. The perception is not that the Senator has given us 12 months' grace to decide which way. We feel it is a half-hearted turnaround on his original decision. That is the way we are taking it.

Deputy J.A. Martin:

That 12 months starts when and finishes when? We need to find that out for you and have a clear

statement for the House as well.

Mr. M. Pirozzolo:

I would hope that Scrutiny get clarity and reality out of this because we are not just -- I mean, industry is not just being pedantic over this. There are genuine problems out there and we have been tripped up so many times in the past 12 months for not getting it right. We have been told by all sorts, employment tribunals, income tax: "You have not got it right." So, we want to get it right now and it is always hospitality that gets kicked because obviously we are perceived to be low payers. We are not low payers, we actually pay higher wages than similar industries in Europe, but that is the problem we have. I just hope it is resolved. I am desperately, desperately saddened to have to accept that actually GST is a *fait accompli*. I would like Scrutiny to go back and say: "We have not thought about this. It is not right. Let us just bang it on the head and think again." Because we do not need it. I do not think there is going to be a massive problem for another 18 months or 2 years, so there is an element of time to think about what we are doing collectively. There are other options and I think you brought out one or 2 in your own meetings. I think you just have to really hammer that forward to Government otherwise me being here is just really paying lip service to a system that is not really effective. Because whatever I say, whatever you say, are we going to get a result? I do not know how other people have testified but that is certainly the view of our industry. I will just go on to some of the other questions. My experience in tax in other countries is quite simple. It is given at the till. You go to Canada or whatever, it is all plus tax, whatever it is. In Italy, oddly enough, it is an offence actually to go to a place and get a service without getting an IVA (*Imposta sul Valore Aggiunto*) receipt and what they do, because IVA is controlled by the customs people in Italy, that means they will police it and they will stand outside a restaurant and they will say: "Ah, Mario, you have just been for a meal in there, have you not?" "Yes." "Can I see your receipt?" "Ah, they did not give me one." "Oh, right, you will have to come back in with me now." And they figure out if the IVA has been collected. Because if they do not get an IVA receipt with an IVA registration on it they can actually pocket the IVA, i.e. the business can pocket the tax. So, there is a test there and it works very well. That is just one experience. America there is obviously a state tax on everything and that is applied at the end as well. One issue that I have brought up because it is very close to my heart is school meals. I understand that there is 3 per cent to be added to school meals. That will make Jersey then the only jurisdiction in Europe that charges tax on school meals. When the Government, when the States through the Education Department are saying that we should encourage healthy eating with youngsters, and by the way caterers, you can produce your meal for students and we want it at this price and we want it done like this, but you are going to do it at a cost because you make some money out of all your other bits and pieces, so here we have school meals being sold in school to students at a loss, i.e. the caterer does not make any money, yet the Government charge a tax on it. That does not seem to me conducive to encouraging our youngsters to have healthy school meals.

Deputy G.P. Southern:

You are talking about school canteens?

Mr. M. Pirozzolo:

Well, we call them restaurants now.

Deputy G.P. Southern:

Yes, I am aware of that because my wife teaches. In a restaurant, and quite rightly too, so it should be.

The Connétable of St. Brelade:

It used to be a tuck shop.

Deputy G.P. Southern:

Tuck shop? Oh no, they are long gone.

The Connétable of St. Brelade:

It used to be a tuck shop, then a canteen, now it is a restaurant.

Deputy G.P. Southern:

It has been going upmarket, yes. Nonetheless, without exemptions it is food, it is a service.

Mr. M. Pirozzolo:

It is chargeable. In the UK (United Kingdom) the government subsidise schools. You take a school, for example, like Haute Vallée, the head teacher there will get -- for his establishment, which is about 700, he would get £6,500 to £7,500 a year grant from the government to offset the loss that his caterer would make in the school to provide the standard of food, i.e. the nutritional standard of food, recommended by the Government. What we have done in Jersey, it is very clever, we have cut and pasted every regulation and recommendation and brought it to Jersey: "Right, caterer, that is what you will do. Love it or lump it. Oh, but we will not give you the subsidy and, by the way, we want to charge tax on the kids' meals." It is a non-starter. I put that to the Director of Education, Sport and Culture a week ago. He has not come back to me although he promised he would speak to the Minister and get back to me. I have also put it to Steve Lowthorpe and he said he will get back to me. So, it is a bit of an anomaly at the moment.

Deputy G.P. Southern:

I do not want to spoil -- but the same sort of thing applies to putting GST on books.

Mr. M. Pirozzolo:

Well, that is crazy.

Deputy G.P. Southern:

Who is your biggest consumer of books? It is schools. Who is funding the cost of the books in schools? The Government. That is money going round in circles.

Mr. M. Pirozzolo:

It is a complete nonsense. I hope the panel is aware that it is not the 3 per cent, although the 3 per cent could be 20 per cent in 10 years' time, we do not know, it is the moral aspect of it. What are we doing taxing kids? I mean it is crazy. I will get off my soapbox in that respect. How should consumer interests be best protected in the pricing law? It is basically telling them what they are in for. Going back to the points I made at the beginning of this discussion, if they walk into an establishment, a hotel or whatever, it should be there: "You will be charged Goods and Services Tax on anything you procure from this establishment." Whatever the wording is it needs to be there. They have to put their tariff there; they have to put the fact that they charge the tax. That is how the customer is protected. If we start going into labelling on the shelf, A plus B is equal to C, the labels will have to change every week. Who is going to do that? Where is the IT to do that? Where is the staff to do that? Spiralling inflation. Talk about 4.2 per cent cost of living increase, you are going to put another 1.5 or 2 per cent on that easy in the first year and that is going to go on. I do not accept it is going to be for one year as the Chief Minister has indicated. So, you are just going to get spiralling inflation.

The Connétable of St. Brelade:

Where do you see the 10 per cent gratuity coming in?

Mr. M. Pirozzolo:

Well, the 10 per cent is going to be charged. This is another anomaly because the customer does not have to pay it. If I come to your restaurant and I do not like the look of your missus or whatever I can say: "I am sorry, I was not really happy, I do not want to pay the 10 per cent." So, that is a bit of an anomaly, some people may, some people may not. It cannot go on the 10 per cent element, I would suggest.

The Connétable of St. Brelade:

So, you see the 10 per cent coming after the 3 per cent in other words?

Mr. M. Pirozzolo:

No, you cannot charge 10 per cent on 3 per cent. The 10 per cent has to be charged on the gross and the 3 per cent has to be charged on the gross. So, that is an addition the cash register is going to have to make. I do not think you can charge 3 per cent on the service charge if it is a gratuity. Otherwise you

will be taxing --

The Connétable of St. Brelade:

As long as the gratuity goes to the staff?

Mr. M. Pirozzolo:

That is another difficult one. Generally it does but you will have some hoteliers or some restaurateurs will argue that is actually the cost element of the labour. Then you are quite right, it should be charged at 3 per cent.

The Connétable of St. Brelade:

Would you agree there has to be some clarity for the consumer in this case?

Mr. M. Pirozzolo:

Yes, I would agree there has to be some clarity. You have just brought something out I had not actually thought about. If the hotelier is charging 10 per cent for his staff element then that has to be eligible for 3 per cent because that is human resource charged to the customer. If it is built into the price, as I think the majority are, then you cannot really charge 3 per cent on the 10 per cent. I think that would be wrong. We have to get round that somehow and there has to be a statement there on the bill, I think. Now, that is not insurmountable. You can introduce 5 lines of narrative on to a bill to make that clear and that is possibly something that needs clarification.

Deputy G.P. Southern:

Yes, more clarity.

Mr. M. Pirozzolo:

Yes, certainly.

The Connétable of St. Brelade:

Do you think that inclusive pricing will result in rounding up on each item while 3 per cent at the till will result in rounding up only once per transaction?

Mr. M. Pirozzolo:

I think, going back to my previous point, I cannot see why they would round up. I think the majority of people would round down at the till part. If you are asking us to inclusively price, of course everyone is going to round up. I would. I mean, I have to get my margin.

The Connétable of St. Brelade:

I think this question is directed towards low value items like newspapers.

Deputy G.P. Southern:

I have used it twice today, I will use it again. My *Guardian* costs 70p at the moment; plus 3 per cent it is 72.1p. What am I expecting to pay come this time next year? I am expecting to pay 73p.

Mr. M. Pirozzolo:

I would rather you paid 72p.

Deputy G.P. Southern:

Without legislation to say you have to round down rather than round up there is a temptation there to say as soon as it goes into a fraction of a penny I am going to round up not down.

Mr. M. Pirozzolo:

I cannot see why we need legislation to round down because even on a £100 bill it is going to be £103 something, so you are only ever going to lose half a penny.

Deputy G.P. Southern:

But as you say, if it is inclusive --

Mr. M. Pirozzolo:

You can round up on anything. If it is less than a penny then round up. In fact, they will round up to tuppence and thruppence. There is nothing you can do to stop doing that because how is Government going to ensure, find out which portion of the cost price for that is actual rounding?

The Connétable of St. Brelade:

In the catering business are there price points, or in the hospitality business are there price points, as there are in retail?

Mr. M. Pirozzolo:

Price points in what respect?

Deputy G.P. Southern:

Well, £9.99, just under £10.

Mr. M. Pirozzolo:

In terms of offers, yes, there are, and you can still do that. But people will know, they have it in their head they have to put 3 per cent on that and it will not be £9.99, it will be £10 something.

The Connétable of St. Brelade:

The point is it goes up to £10 and something, £10 and tuppence. Is the retailer or provider going to drop the price or are they going to go up to the next price point, which might be £10.50 or something like that?

Mr. M. Pirozzolo:

No, I think the basic concept, if you are going to do an offer, if you are going to do £9.99 or whatever, I think the basic concept is yes, I know that but I am going to have to pay 3 per cent on that. I think if you make that clear, you know, we have Tennerfest coming up. What do you do with Tennerfest, you know, £10.03? Well, it is Tennerfest, they are not going to change the brand. That is the offer. But you know in the back of your mind because the Island you live in you are going to put your 3 per cent on the top and it is going to be £10.03. So, that is it. Otherwise you will get all sorts of problems with £10.03 fest or whatever. I mean, it is just crazy.

Deputy G.P. Southern:

As long as you clearly display?

Mr. M. Pirozzolo:

I think that is it, clear display, yes.

Deputy G.P. Southern:

Exclusive of GST.

Mr. M. Pirozzolo:

We have really covered the rounding up. Is there scope for confusion under some methods of display? No, I do not think so providing you put “exclusive of tax” or whatever and then people know what they are paying. I do not think there is any potential for retailers to absorb GST. I think they may do on occasions but if we are saying to retailers or business: “Absorb GST” they just cannot do it. The margins are tiny. Hoteliers are selling bedrooms for £23 at the moment because the Island is half empty; £23, it is crazy.

The Connétable of St. Brelade:

Going to the licensing trade on that, would you say that that is perhaps a different story?

Mr. M. Pirozzolo:

The licensing trade mostly have the same system as retail, i.e. there is a cash register, there is a display somewhere, so that the customer can see exactly what they are doing. So, they will ring in the price,

whack at the end plus GST comes to that. So, they will say: "That is £3.32, sir, including tax."

The Connétable of St. Brelade:

Given that the margins are not quite as tight, I mean, it may be on beers and certain sort of regular things, but generally the margins are not quite as tight in the licensing trade as they would be perhaps in hospitality, would you see that 3 per cent being absorbed?

Mr. M. Pirozzolo:

No, because the obverse, you then have to calculate 3 per cent of that backwards and show it.

Deputy G.P. Southern:

There is an issue I think - we crossed it with Trevor Le Roux last night - I think he was talking about in law, by law, the landlord has to display a pricelist which is the price he is going to charge, so that inclusive pricelist should be there, it is already in the law. He was saying we have a problem if you are going to be exclusive. I think, certainly talking to other witnesses this morning, they were talking about it may well be that in a pub you would still be able to say the prices on display are exclusive of GST. GST will be charged at the till.

Mr. M. Pirozzolo:

Yes, I think what your previous guy who gave evidence was referring to was the Jersey licensing law that says you have to display. I think that is one we can sweep up in the revision of the licensing law, which is I think your next job.

Deputy G.P. Southern:

Somebody's next job.

Mr. M. Pirozzolo:

Somebody's next job, but I mean we can sweep that one up. But I think if we keep the pricelist there and just say: "Prices exclusive of GST."

Deputy G.P. Southern:

I mean, at the time Trevor Le Roux was saying that this is typical of consumer protection law or trading standards law in the UK. Now, we adopted that and it is inclusive. Therefore, GST should be displayed inclusively because there is the market, the trend that says that. So why people are arguing about exclusive or inclusive we do not understand because it has always been inclusive. The assumption has been that it will be inclusive marking, which is why in a sense, as you said earlier, you have not been consulted on that because people were coming to it with an assumption. It was not made clear to everybody: "Hang on, this will mean this." In terms of the simplicity of the tax: "Hang on, we are going

to have to increase the pricing.”

Mr. M. Pirozzolo:

There is very little doubt in my mind, listening to what a lot of people say in the industry, that it has to be exclusive pricing. If there are anomalies within it we have to sweep those up somehow. Whether it is a revision of the licensing law or initially just put it as: “These prices are exclusive.” I would counsel not to cut and paste too much from UK legislation. A lot of things we are cutting and pasting, as you probably know, there are government reviews going on in the UK to redress them because they have not worked. Employment law is typical. Cut and pasted everything and actually they have a working party of High Court judges and goodness knows what else to redress it because it is overbearing and not appropriate to industry. Yet we are just cutting and pasting like crazy saying: “Oh, well, let us take this jurisdiction, that jurisdiction, the other jurisdiction” without actually looking to see how the law has worked and how people are dealing with it. You find a lot of issues that you cut and paste from the UK are being reviewed and redressed for clarity and simplicity. It is just a sideline, really.

The Connétable of St. Brelade:

Going back to points from other areas, are you aware of any legal suggestions which point to the fact that we should be complying with EU (European Union) legislation with regard to inclusivity once again?

Mr. M. Pirozzolo:

No, I did not think in Jersey we had to do that, so it has never crossed my mind. I think we can do our own thing. I am not aware of any laws at all. I mean, the only thing you may want to be aware of is that in most other European countries hospitality is treated differently - I will bring it up although I am always told to wind my neck in - insofar as in order to compete in the marketplace the value added tax is reduced. Now, we have not raised this because it is 3 per cent, it is not worth bothering you with, to be honest, but it is something you need to think about. In all the European jurisdictions there is a lower rate of VAT on hotel bills and so on and so forth because they want to encourage the industry and actually, if you can get your head round this, somebody coming to stay in a hotel is really an export. They come over here to stay and they are going back again. All right, they are having a good or service in Jersey but they are going back to the UK or wherever. Anyway, that is just something to bear in mind.

Deputy G.P. Southern:

That is a battle for the future perhaps, Mario. When and if the rate starts to go up towards 10 per cent, who will be in there saying: “No, stick at 3 per cent”? The hotels.

Mr. M. Pirozzolo:

You asked a very pertinent question here. What would be the most appropriate way to stop a retailer

advertising that it absorbs GST and then increasing its prices? If I had a retail I would be doing that, I would have a customer charter to say to my customer exactly what I am doing. Some people will say: "If you can find the price cheaper elsewhere for the same product", things like that, I think a customer charter. You may put it as a best practice to start with and say to people: "You can display a customer charter on how you are addressing GST." Now, if people start to muck around then of course there is an opportunity to maybe embrace it within the law, but let us try and keep it simple first. I think the great majority of industry will follow that. Certainly a lot of things we do in JHA (Jersey Hospitality Association) we stipulate to our members as a condition of employment, particularly pay, wages, that sort of thing. But the way they display their tariffs, the standard of service, the way they factor their staff, it is all part of the deal of joining JHA and we expect people to adhere to it. So, that may be something where we can be of assistance. Should the States legislate against the inclusion of VAT in Jersey prices? How can it? How can you say to Fred Bloggs' high street shop: "What portion of the price of those trousers is VAT?" "None of it." "Yes, but it is the same price as your shop in Maidstone." "Yes, but I pay about 20 per cent transport costs." Or whatever. You are never going to prove it so if you cannot prove it why put it in the law? I cannot see how you can. I think the market forces will find their own level and I think people will shop around, if you like. Would there be benefits to moving to the Australian system? I would say: "No." We have covered this really, the constantly changing price, the resources to do that and the time and effort is just going to basically cause more -- you see, a lot of this we are going to have to put more money if we can on to the retail price of things. There is no way round it. After all, we are not registered charities. I think there is a perception that business is booming. I turn over £1.2 million a year but I still have children at university and I still have a mortgage round my neck and I still only pay myself £150 a week. Now, that may sound like a sad story but I know hoteliers who have mortgages left from the 1980s and are struggling, they simply cannot sleep at night because you get the bank manager on the phone: "Are you paying in today?" This is the reality of industry. People are suffering. I know one or 2 people are doing well but it is difficult.

Deputy G.P. Southern:

Interesting last night they were saying that businesses do not pay tax. What they do is pass it on to the customer. Consumers pay tax and at the same time, he seemed to say, that of course businesses will absorb this tax and I am thinking: "Hang on, no, they will not." Because if you have a 20 per cent margin and we are taking 3 per cent, adding 3 per cent to your costs, there is no way you are going to swallow that and say: "Ah, I am going to live off 17 per cent now." That is not reality, is it?

Mr. M. Pirozzolo:

I know, it is not, and I think we had the comment by the Chief Minister who said a lot of businesses will absorb the tax. That infuriated me. I was so upset. How can this man make a comment like that? Clearly he has absolutely no conception of what is going on in business.

Deputy G.P. Southern:

The only people who might be the national multiples who are doing the trip of not taking their VAT up, and if they are already making 17.5 per cent, thank you very much, well, we will bump along with 14 per cent and absorb the 3 per cent because we do not want to be seen in a direct comparison, Next with Next or whoever: “I have been to your shop in Reading and the price was exactly the same except over here it has 3 per cent added on to it. What is happening?”

Mr. M. Pirozzolo:

There is a point there but I think really it is the high street issue there and it has to be cleared up somehow. It is getting to the point now where it is detrimental to business. Here we are fighting tooth and nail to try and get cruises into the Island, I mean, can you believe it? When I started ranting on about this 2 years ago people thought I was barking mad, including the harbourmaster. Now suddenly we have this marvellous lady who is the Commercial Director in Harbours and she said: “Why do you not have cruise liners here?” Can you imagine those people coming to Jersey and having to pay actually 20 per cent more than the recommended retail price, i.e. the amalgam of the retail price, VAT and GST? What the hell are we doing? So, we need to curb that and that probably needs further thought. Would a different system be preferred if the rate of GST were to change in future? Well, no, because whatever systems you apply you just put in your percentage rate and you can do that centrally and just switch and you are away with the fairies. Unfortunately, we are following a long Government which probably may say in what, 4 years or is it 3 years or 5 years?

The Connétable of St. Brelade:

We are looking at 5 if we believe all the assurances received.

Mr. M. Pirozzolo:

We can say: “All right, tomorrow it is going to be 5 per cent.” So all we do is go “click” and we are away with the fairies on this system. On the old system: mayhem. What reaction has there been received from non-retail business? Confusion, I think. They do not know how they are going to factor it. We have shown them the sheet; we have shown them the return that income tax have provided us. You take one from the other and send the business, but they simply cannot work it out. We had the issue with the guy fishing for lobsters. Who does he pay his GST? Well, he does not, yet he can charge GST on it. I suppose it is the impôt who would charge him GST on his lobsters, is it? I do not know. I do not have a clue. Nor has he. So, the impôt would have to police the amount of lobsters he caught, charge the GST on it, and he would take one from the other and pay the Treasury. That sounds like a bit of a muddle to me.

The Connétable of St. Brelade:

Interesting to see the landing slips.

Mr. M. Pirozzolo:

Well, that is it, that is my whole point. What specific costs will GST place on the hospitality industry? Obviously the hotel systems are humungous, you know, the thing where they get into the computer and do it, a lot of money. I have mentioned school meals; I have mentioned warning customers of tariffs obviously with campaigns happening a year plus in advance; administration costs; the fact that already we are burdened with discrimination, ITIS, maternity, paternity and all the rest of it and really uncertainty of the future. How are we going to factor this?

Deputy J.A. Martin:

Do you still work in some sort of conjunction producing the brochures with what used to be Jersey Tourism but now comes under Economic Development?

Mr. M. Pirozzolo:

Yes, we do.

Deputy J.A. Martin:

You quite rightly said you are warning individual customers. Are they putting something in the brochure at a cost to their department?

Mr. M. Pirozzolo:

Well, they are going to have to if they are charging, if tourism per se are charging, but what we are doing is putting our tariffs out on the internet and in brochure form, because that is still popular. As is but with the element of GST. Notified as a possibility that it may come in at some time because that is all we can do. But if you take the tour operator, the other problem here which he has is that they are facing huge costs with cost of living and so on and so forth and how are they going to be competitive in the marketplace? This is one of the big problems with not becoming competitive in the marketplace with all the administrative costs we are faced with. That is a real problem. All tourism can do is do the same as we have done and say: "Look, all the tariffs you are receiving may have GST applied, which is anticipated at 3 per cent." That is all we can do.

Deputy G.P. Southern:

They are presumably going out now for next year?

Mr. M. Pirozzolo:

Yes, last week. Unfortunately I get phone calls every day: "What do we do about this? What do we do about that? What do we do about our staff meals?" "What about your staff meals?" "Well, at the moment we are allowed to charge so much and so much. Is that liable to GST?" I said: "Well, it will be

because you are charging your staff and that is a service or a good.” “But the employment law does not allow me to do that.” I said: “What do you mean?” Actually the individual is quite right. The employment law, the social security law, specifies a particular amount that you can charge. You cannot charge any more or less and there is no provision within the law to charge GST.

Deputy G.P. Southern:

Yes, the Employment Minimum Wage Law.

Mr. M. Pirozzolo:

The minimum wage, so if you are charging your staff member, I forget what it is but whatever it is you can split it to food and accommodation, they have one or the other. Interestingly they cannot just have the food but that is just a quirk of the planning law. But you cannot under the law charge them any tax on that.

Deputy G.P. Southern:

Also the tourism brochure needs checking. What are they doing? Are they up to speed?

Mr. M. Pirozzolo:

I do not want to be undermining in any way. You will find there are many States departments that do not have a clue, the same as we do not have a clue. They are very helpful, they will say: “Need to find out. We will get back to you. No problem at all.” But they simply have not been briefed so I think, frankly, you have an internal problem as well. At St. Helier at the rates meeting they said to me that they were exempt from GST because of some deal within Government and this was Peter Noble, you know, this was the accountant.

Deputy G.P. Southern:

If we are charging for a service then that is going to be GST'd.

Mr. M. Pirozzolo:

They had not figured, because obviously we mentioned the situation with their accounting systems before, they had not figured that they would have to tool up for GST because they had not worried about it because they are exempt and I said: “Well, hold on. You charge me a commercial rate to take my rubbish away, that is a service, you should be charging GST on that surely?” They all looked at each other and: “We will find out and get back to you.” Eventually somebody said: “I think we will have to do that.” But I do not know about your own parish.

The Connétable of St. Brelade:

It depends on turnover once again, but principally the only parishes with turnovers really of the sort of

amounts that are going to be GST'able are probably St. Helier, St. Brelade and possibly St. Saviour. But effectively normal parish jobs will not be GST'able. But if the parishes are providing a service - I would think in several cases St. Helier would be - they would be GST'able. But it is only rates and dustcart collection.

Mr. M. Pirozzolo:

There is no GST on rates, is that correct? So, if the parish is below the threshold they do not charge GST on chargeables.

The Connétable of St. Brelade:

You will not be charging them a tax on a tax, if you like.

Mr. M. Pirozzolo:

I am just thinking about the bod in St. Peter, let us say, who does not pay GST for additional refuse collections but the bod in St. Helier would by virtue of the fact that he is disadvantaged by the fact that his parish is --

The Connétable of St. Brelade:

They will not. It has been agreed there is a section in the law which exempts parishes. Likewise old people's homes are exempt as well, residential homes for old people.

Mr. M. Pirozzolo:

Well, there is a lot to think about. I hope I have not been too disparaging. I do not mean to be. It is just that we are suffering a bit at the moment and I am looking toward the first part of next year with gloom, frankly.

Deputy G.P. Southern:

A challenging year.

Mr. M. Pirozzolo:

Are there any more questions?

Deputy J.A. Martin:

No, I think that is all covered, thank you.

Deputy G.P. Southern:

Thank you very much for your time.