



Scrutiny Office

# Corporate Services Scrutiny Panel

## Draft Budget Review Hearing 2018

### TUESDAY, 7th NOVEMBER 2017

**Panel:**

Deputy J.A.N. Le Fondré of St. Lawrence (Chairman)

Deputy S.M. Brée of St. Clement (Vice-Chairman)

Senator S.C. Ferguson

**Witnesses:**

The Minister for Treasury and Resources

The Treasurer of the States

Comptroller of Taxes

Deputy Comptroller of Taxes

Director of Financial Planning and Performance

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[14:01]

**Deputy J.A.N. Le Fondré of St. Lawrence (Chairman):**

This is the Corporate Services Scrutiny Panel hearing on the Budget. Minister, you are aware hopefully that this is a longer session. Yes, media are allowed to film for the first 5 minutes. For the benefit of the tape I will go round and I will draw your attention to the notice and things like that. So Deputy John Le Fondré, chairman of the Corporate Services Scrutiny Panel.

**Deputy S.M. Brée of St. Clement (Vice-Chairman):**

Deputy Simon Brée, vice-chairman of the panel.

**Senator S.C. Ferguson:**

Senator Sarah Ferguson, member of the Scrutiny Panel.

**The Treasurer of the States:**

Richard Bell, Treasurer.

**The Minister for Treasury and Resources:**

Alan Maclean, Minister for Treasury and Resources.

**Deputy Comptroller of Taxes:**

Paul Eastwood, Deputy Comptroller of Taxes.

**Director of Financial Planning and Performance:**

Alison Rogers, Director of Financial Planning and Performance.

**Comptroller of Taxes:**

Richard Summersgill, Comptroller of Taxes.

**Deputy J.A.N. Le Fondré:**

So, Minister, as you are aware, I draw your attention to the notices in front of you, which I am sure you are fully aware of, and also we do expect members of the public and the media in the public seating to remain quiet at all times while the hearing carries on. Members of the public may not be aware, this is a scheduled 2-hour hearing potentially. If we can obviously finish earlier that would be great but that is the time we have allocated to ask the questions. As we proceed through the questions, Minister, we may stop you. I am sure you are aware of the routine. If we feel you have answered the question sufficiently, because we need you to try to be as concise as possible, if possible, and I will do this by raising my hand. On that basis we will leap into questions. The first one is Simon.

**Deputy S.M. Brée:**

Minister, with regards to your Draft Budget Statement 2018 and the section regarding company tax on page 6, I would like to ask: what is the rationale for the broadening of the definition of “financial services company”?

**The Minister for Treasury and Resources:**

It was the intention at the very outset, I understand, to broaden the definition of financial services businesses under Zero/Ten. It had not been progressed and we, when looking at the overall tax system, decided that this matter should again be looked at and by so doing we bring into scope about 25 businesses that were outside of the definition.

**Deputy S.M. Brée:**

Can you list those new financial services sectors that will now be covered?

**The Minister for Treasury and Resources:**

Broadly speaking it would be general insurance mediation businesses, money lending businesses as a definition, registrars regulated by the J.F.S.C. (Jersey Financial Services Company). That would be broadly the areas that will be covered.

**Deputy S.M. Brée:**

Will an insurance company, as opposed to a broker, such as Jersey Mutual, be included in the new classification?

**The Minister for Treasury and Resources:**

Yes.

**Deputy S.M. Brée:**

So Jersey Mutual will be covered under the new proposals?

**Comptroller of Taxes:**

Strictly speaking, we cannot talk about individual tax affairs. Mutual societies, member societies and so on, occupy a slightly different space in Jersey legislation. I do not ... as I cannot really talk about individual tax affairs but it would very much depend on how a mutual insurance society was structured. If it was only trading with its own members then under case law it would not be liable to tax.

**Deputy S.M. Brée:**

Okay. Do you not agree, Minister, that there is a danger that any increased costs derived from this reclassification will be passed on to the customer, the consumer?

**The Minister for Treasury and Resources:**

You could draw that conclusion but it was the assessment that we made that that was unlikely to be the case.

**Deputy S.M. Brée:**

So you are saying that you consulted with those insurance brokers, for example, and they told you it was unlikely they would pass on any additional costs to their clients?

**The Minister for Treasury and Resources:**

It is a competitive marketplace and it did not appear that there was going to be a material difference in terms of cost resulting from this particular move.

**Deputy S.M. Brée:**

We also note, and you did make reference to it earlier on, Minister, the new definition includes, and I will quote here: "Companies trading in the provision of credit/finance to customers" This however still remains an unregulated marketplace so when will you or indeed the Council of Ministers be bringing forward regulations for these type of companies?

**The Minister for Treasury and Resources:**

There are no current plans to progress in the short term regulation of these companies.

**Deputy S.M. Brée:**

So you are quite happy that the credit companies continue to operate unregulated whatsoever?

**Deputy Comptroller of Taxes:**

My understanding is I think the Financial Services Unit in the Chief Minister's Department is looking at issues of regulation of credit providers outside of the banking sector. I think that has been progressed by the Chief Minister's Department.

**Deputy S.M. Brée:**

So that would be the Chief Minister's Department?

**Deputy J.A.N. Le Fondré:**

Just to be illustrative, that is the likes of *Wonga* whoever, with that type of business would then be captured by the new regulations that the Chief Minister's might be looked at?

**Deputy Comptroller of Taxes:**

I do not know specific entities, but they are looking at the area of credit provision to individuals within the Island, and looking at the issues of regulation. But that is the Chief Minister's Department.

**Senator S.C. Ferguson:**

Which specific industries are primarily going to be affected by the proposed new tax on large retailers?

**The Minister for Treasury and Resources:**

Which industries? Retail businesses that are captured by this are those with turnover starting from £500,000.<sup>1</sup>

**Senator S.C. Ferguson:**

No, I said "which industries". Which sectors?

**The Minister for Treasury and Resources:**

There will be a raft of sectors, clearly food provision and any business that is defined as retailing products as the majority activity of that particular business.

**Senator S.C. Ferguson:**

One consequence of bringing in the rate is that U.K. (United Kingdom) retailers would be paying a higher tax rate in Jersey against 19 or, in the future, 17 per cent in the U.K. Would that make us uncompetitive?

**The Minister for Treasury and Resources:**

You are talking about transfer pricing opportunities. We do not believe, with the current arrangements, where there is a 1 per cent differential, so 19 per cent corporate tax in the United Kingdom, that is likely to be the case. There is some talk that the United Kingdom may reduce its tax rate to 17 per cent. Again with the uncertainties around Brexit it is by no means certain to happen. That would give a 3 per cent differential. But overall our economic analysis that was undertaken and distribution analysis does rather suggest that any changes to pricing are likely to not be affected.

**Senator S.C. Ferguson:**

So how are the margins for the sliding scale of the new tax agreed?

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<sup>1</sup> It was later clarified that this figure refers to "profits of £500,000" not "turnover"

**The Minister for Treasury and Resources:**

We looked at the system introduced in other jurisdictions, namely Guernsey, where they introduced the rate of £500,000 of profit and it is somewhat of a cliff edge, so once the business reaches £500,000 it immediately pays the tax. So £1 has a very large marginal rate. We felt that was unreasonable and so, in effect, our proposal brings in the full rate of 20 per cent at £750,000 of profit and it is a sliding scale from £500,000 up to that before the full 20 per cent kicks in, which we feel is a more appropriate way of introducing the measure.

**Deputy J.A.N. Le Fondré:**

Can I just ask a very quick question? Why did you choose £500,000, for the sake of argument, as opposed to a different figure, £250,000 or whatever?

**The Minister for Treasury and Resources:**

We looked at what was happening elsewhere, in particular Guernsey. We were mindful of the fact there are pan-Channel Island companies and we thought as best as we could to align what was happening with businesses operating between Jersey and Guernsey. It seemed sensible to be broadly aligned with that.

**Senator S.C. Ferguson:**

But you defined a large corporate retailer as a company meeting 60 per cent of its trading turnover of retail sales to customers in Jersey, where retail services to customers in Jersey are equal or greater than £2 million per annum. But why have you used these definitions?

**The Minister for Treasury and Resources:**

They seem to be ... you have to find a definition that is going to work. We tried to align ourselves to make it as consistent as possible with elsewhere and that seems to be a reasonable approach to have taken.

**Senator S.C. Ferguson:**

But why have you used 60 per cent of its trading turnover because that does not apply in Guernsey or the Isle of Man?

**Deputy Comptroller of Taxes:**

Can I just clarify there as well? The way corporate tax works in Jersey is slightly different to Guernsey and the Isle of Man. The way our Zero/Ten systems work is that we look at, for example, in the context of financial services companies. Once you meet that test all of the profits of the companies are subject to tax. So you create a definition and if you fall within that definition all of the profits are taxed. That is different to Guernsey, for example, where the tax is applied to sources of

profit. So you have to work out the profits which relate to a particular activity and then subject the profit from that particular activity to tax at the prevailing tax rate. In the discussions that we have had with the other tax authorities they have expressed there are real challenges around the way that Guernsey and the Isle of Man have introduced Zero/Ten from an administrative point of view, both from the perspective of the taxpayer and also from the perspective of the Taxes Office. So the strong recommendation that we received back from those other tax authorities was that we should stick with our existing system of trying to identify a company which falls within the definition and then applying tax to all of the profits of that company. So in developing the test in this way what we were seeking to do was identify companies which are predominantly retailing, undertaking retailing activity and putting those within the scope of the article called "Retailers' Tax". You can flex that slightly but what we were really looking for was this idea of is this entity, this particular company, is it predominantly a retailer?

**Senator S.C. Ferguson:**

Yes, but why 60 per cent? I am sorry, I am probably being a little dumb here. But I do not understand when Guernsey and the Isle of Man have no mention of 60 per cent why are we using it because who is going to not be caught in the net then?

**Deputy Comptroller of Taxes:**

That is because in Guernsey you are looking at the retailing activity. If you have got multiple activities going on in one company, so retailing and wholesaling, the wholesaling under Guernsey's law is just completely ignored. You only look at the retail activity and subject that to tax. That is the way that Guernsey do their Zero/Ten and it creates real problems. Where the problems are is in the context of those central costs, those costs which relate to both retailing and wholesaling, using the example I am talking about. How do you allocate those across the different activities?

[14:15]

What we have tried to do in this approach is to help identify a company which is predominantly retailing and that is where the 60 per cent comes from. It is predominantly retailing and they are applying tax to all of the profits of that company irrespective if there were some other activities in there which are not retail.

**Deputy J.A.N. Le Fondré:**

So if they have got a wholesale function but are 60 per cent retail in Jersey?

**Deputy Comptroller of Taxes:**

Yes.

**Deputy J.A.N. Le Fondré:**

You have got a retail company that has retail in Jersey, retail in Guernsey or elsewhere, and a wholesale but provided it is 60 per cent of the Jersey element you will capture the whole lot?

**Deputy Comptroller of Taxes:**

Yes. As long as 60 per cent of your Jersey activities are retail that will put you within the scope of the large corporate retailers' definition.

**Deputy J.A.N. Le Fondré:**

Sorry, 60 per cent of the activities in Jersey or 60 per cent of the total activities?

**Deputy Comptroller of Taxes:**

That is a very good point. It is 60 per cent of the activities in Jersey.

**Senator S.C. Ferguson:**

So why 60, why not 51?

**The Treasurer of the States:**

60 is far more clearly predominantly than 51.

**Senator S.C. Ferguson:**

What companies would come less than 60 per cent?

**Deputy Comptroller of Taxes:**

So, for example, if you had a company which was undertaking a genuine 50/50 mix of retail and wholesale then under this definition that would fall outside of the definition of a large corporate retailer. So, as you said, predominantly retailing activities.

**Senator S.C. Ferguson:**

So you obviously have some idea of some companies which are falling outside the definition or falling under the 60 per cent definition?

**Deputy Comptroller of Taxes:**

Yes.

**Senator S.C. Ferguson:**

So we will have to wait until we get a private briefing for those.

**Deputy J.A.N. Le Fondré:**

Sounds like it.

**Comptroller of Taxes:**

I do not think we could ever tell you that because of the Tax Law. We would not tell the Minister either.

**Senator S.C. Ferguson:**

You could probably tell us but you would have to kill us afterwards.

**Comptroller of Taxes:**

Or myself.

**Deputy J.A.N. Le Fondré:**

I want to ask one question and I am appreciating the point about individual issues, but it was made public, as far as I am aware, which is why I picked up on it. Is under the new proposed tax is the Co-op included because it was in the press?

**Comptroller of Taxes:**

To some extent it is the same reply I gave last time. Obviously we cannot talk about an individual taxpayer. However co-operative societies are prevalent across the world and were founded in Rochdale, I think, I seem to recall. There is a lot of case law around them to the extent that they are not companies, therefore on that count in part they are not liable to corporate retail tax. They are however taxable on their surplus. That is to say, the profits from trading with non-members. So tourists going to a local Co-op and are not members, that element of the profit is taxable. Equally profits from other types of activity like property rental will be taxable.

**Deputy J.A.N. Le Fondré:**

Looking at the Minister from a policy point of view, is there not an issue there? Because standing back from it, level playing field, you have got X number of supermarkets over here, some will be taxed and some might have different things according to their structures. Is that not something you might look at at some point or your successor might need to look at at some point because in a modern world is that a level playing field?

**The Minister for Treasury and Resources:**

I think it is fair to say first of all that before the advent of Zero/Ten of course the situation was exactly the same. So nothing has changed in that respect apart from the intervening period. I suppose at

another level, when considering this, you could say on the point of whether there would be any impact on the retail sector and food prices by having that level of competition in the marketplace that is more likely to mitigate any increase that there might otherwise have been. Our economic analysis does rather suggest it is likely to be very little anyway but that is still a point worth making with regard to the Co-op.

**Deputy J.A.N. Le Fondré:**

I am not sure about that point, Minister.

**Deputy S.M. Brée:**

Just going back to the definition of what is a large retailer. Would a supplier of domestic heating oil be classified as a retailer?

**The Minister for Treasury and Resources:**

I will let Paul deal with the definitions.

**Deputy Comptroller of Taxes:**

As long as it is selling goods - in your example heating oil - as long as it is selling those to customers, end users, my initial reaction is I cannot see a reason why that would be outside of the scope of retail activities.

**Deputy S.M. Brée:**

Bearing that in mind, Minister, do you not accept that any tax on such retailers will be passed on to the consumer ultimately?

**The Minister for Treasury and Resources:**

Not necessarily. I mean first and foremost let us look at the breakdown of the numbers of retailers likely to be affected by this particular measure with the profitability levels that we have talked about, £500,000 and £750,000, it is 20 retailers, large businesses that are that profitable. Incidentally three-quarters of those are non-locally owned. But your point about passing on, we have generally had advice from the economic advisers about the likelihood of passing on of prices and the view is that it is going to be minimal, if at all.

**Deputy S.M. Brée:**

So with my example of domestic heating oil supplies to residents in Jersey are - without naming names obviously - any of them included in the calculations that you have done on the retailers? No?

**Deputy Comptroller of Taxes:**

No, we are unable to ...

**Comptroller of Taxes:**

I think to confirm or deny is unwise.

**Deputy S.M. Brée:**

I was merely asking whether it had been included in the calculations you have done, not whether any of them were going to be charged. So you have excluded from your calculations suppliers like domestic heating oil?

**Deputy Comptroller of Taxes:**

No, when we have done the research behind this we have looked at all of the entities which are making significant amounts of supplies within the Island irrespective of the activities that were undertaken. So in the research that we have undertaken behind this, we have looked at all retail companies in the Island who are undertaking retailing activities.

**Deputy S.M. Brée:**

But you just said that you had not looked at domestic heating oil suppliers.

**Deputy Comptroller of Taxes:**

More I was trying to say to the Minister what Richard said, which was we can neither confirm nor deny.

**Deputy J.A.N. Le Fondré:**

He could not comment.

**Deputy S.M. Brée:**

Okay.

**The Minister for Treasury and Resources:**

Just to be clear, I do not know the names of any of the retailers in any sector because I am not able to be given that information, as you will appreciate. I suspect I know one retailer, simply because that particular retailer turned up to a presentation and was looking rather grumpy, and I suspect that would give an indication. But apart from that I have no idea whatsoever as to who the businesses are, and that is completely appropriate.

**Deputy J.A.N. Le Fondré:**

Following on from that, these might include slightly contradictory questions but we are going to ask them because it is just gleaning out the information, if that makes sense. Number one, on these proposals are they ...

**The Minister for Treasury and Resources:**

I did not hear what you said.

**Deputy J.A.N. Le Fondré:**

On these proposals are they going to be, broadly speaking, neutral to locally owned businesses? In other words, in theory the personal tax profile of the owner should drop because the company, and they are going to be carrying a tax, but broadly speaking the overall picture should be net neutral, should it not?

**The Minister for Treasury and Resources:**

That is correct. There would be tax credits ... the company would pay tax. The local shareholders will get a tax credit to offset, so they will not be paying tax twice.

**Deputy J.A.N. Le Fondré:**

Looking around there is a slight puzzled frown on the Treasurer but that may just be a natural expression.

**Comptroller of Taxes:**

It is essentially anticipation of the tax.

**Deputy J.A.N. Le Fondré:**

That is the principle, is it not? Okay, that is fine.

**The Treasurer of the States:**

To the extent that the profits are distributed.

**Deputy J.A.N. Le Fondré:**

Yes, so the company will pay the tax, the credit ...

**Comptroller of Taxes:**

The company where everything is distributed, it may be a timing issue.

**Deputy J.A.N. Le Fondré:**

But if it does not it may be a timing issue. Okay. It has been suggested that these measures are contradictory to the concept of “buy local”. Do you agree?

**The Minister for Treasury and Resources:**

Why? No.

**Deputy J.A.N. Le Fondré:**

We will stop there. I think mainly from the point of view of whether it was going to force costs up in the local company but I think we have hopefully covered that.

**The Minister for Treasury and Resources:**

I think we have covered that with both the co-op element and also the independent economic and distribution analysis that has been undertaken which you will find under appendix 11, I think it is, which suggests that there will be minimal, if any, increase.

**Deputy J.A.N. Le Fondré:**

We are still on the, I suppose, corporate area, if you like. What recent calculations have been done for the loss of income from the G.S.T. (Goods and Services Tax) threshold for goods under £240 for non-online retailers? I think that should be for online retailers actually. So in other words, at the moment we ... if you bring in goods that are worth less than £240 and it is an online retailer we do not pay the G.S.T., we do not collect the G.S.T. on it, as an individual we do not pay the G.S.T. on it. Are there any figures at the moment what is likely to be the loss?

**Deputy Comptroller of Taxes:**

Where would you be thinking of reducing that threshold down?

**Deputy J.A.N. Le Fondré:**

No, I am just wondering in the total area, in the form, what is the cost of £240 ... I think it is £240 *de minimis*.

**The Minister for Treasury and Resources:**

There are some estimates of the total sum which would be - and this is based on 2016 of £1.6 million.

**The Treasurer of the States:**

To clarify that, that is in respect of manifested goods only.

**Deputy J.A.N. Le Fondré:**

So that is the ones that are being ...

**The Treasurer of the States:**

Not all is manifested but by 2020 all will be manifested.

**Deputy J.A.N. Le Fondré:**

So when you say "all goods", so if somebody buys a DVD or something for £9 ...

**The Treasurer of the States:**

If it comes in through letter post it is unlikely that it will be manifested.

**Deputy J.A.N. Le Fondré:**

Okay. But if it comes through as a ... okay, but if something comes through as a parcel ...

**The Treasurer of the States:**

Comes through a freight company and highly likely it will have been definitely manifested.

**Deputy J.A.N. Le Fondré:**

So manifested in your definition at the moment is what?

**The Treasurer of the States:**

I think largely the sellers of goods.

**Deputy Comptroller of Taxes:**

Yes, so when parcels are coming through say the freight companies, part of the process with that is that the freight company will ascertain the value of the goods which it is importing. That would be on the package and it would also be on the list, which is then provided to Customs and is entered into the CAESAR system. When certain packages come through the post now ... before we go any further this is all totally above board and global postal union rules there is no obligation to put the value of the good on it and hence that information is not yet available to us.

**Deputy J.A.N. Le Fondré:**

Because at the moment do you know roughly how many parcels come in by Jersey Post each year?

**Deputy Comptroller of Taxes:**

I think we are still trying to ascertain ...

**The Treasurer of the States:**

We have got that somewhere so we can follow up with that with you.

**Deputy J.A.N. Le Fondré:**

Am I allowed to use the number we have been given? We have been informed it is 3 million a year. Is that included ... would that be in the manifested figures you just gave me or would that not be or does it depend?

**The Treasurer of the States:**

It can be manifested if the goods come through Jersey Post.

**Deputy Comptroller of Taxes:**

There can be some coming through ...

**The Minister for Treasury and Resources:**

It could be both.

**Deputy J.A.N. Le Fondré:**

I think is what they call their parcel count.

**The Treasurer of the States:**

So the Customs officers also will run ... so when it is coming in through Jersey Post will pull items off the conveyor belt, for want of a better description, and ascertain whether G.S.T. should be payable.

**Deputy J.A.N. Le Fondré:**

Okay, so G.S.T. is basically payable on organisations or entities that have turnover I think above £300,000, is it not?

**The Minister for Treasury and Resources:**

Correct.

**Deputy J.A.N. Le Fondré:**

So in terms of the online retailers, the major players, Amazon, whoever, are any of them paying any form of tax including G.S.T. on-Island at the moment for the amount of trade they do on Island?

**Comptroller of Taxes:**

I think the answer is no. G.S.T. law does not extend to retailers overseas.

**Deputy J.A.N. Le Fondré:**

Even though they are trading here technically?

**Comptroller of Taxes:**

It can do depending on how they are structured. If they have a certain ... effectively an establishment in Jersey then they will be accounting for G.S.T. and some of them are but not all.

**Deputy J.A.N. Le Fondré:**

I think I am aware of one but, yes. But at the moment do we have any indications then of what the loss of G.S.T. might be in that area?

**The Minister for Treasury and Resources:**

Through online?

**Deputy J.A.N. Le Fondré:**

Yes.

**The Minister for Treasury and Resources:**

I do not think there is a figure, no.

**The Treasurer of the States:**

It may well be Jersey Post who put together some estimates of what that would be. We can get that figure.

**Deputy J.A.N. Le Fondré:**

But that would be over and above the 1.6 million that you quoted, would it not?

**The Treasurer of the States:**

Yes.

**The Minister for Treasury and Resources:**

I think it is probably worth just saying, chairman, with regard to that particular subject, which has come up and been relevant to business for some years, that there are changes being considered in the E.U. (European Union) and we have simply stated 2 things: one that when those changes are enacted, if they are, that that would be an appropriate time for Jersey to consider doing a similar thing.

[14:30]

The issue about manifesting is also relevant from 2020 because of course that will make it very much easier in order for us to be able to manage any changes that might happen from that point onwards. I think this is a situation that is going to change because, as I think you are alluding to, it is not particularly fair at the moment. But the point has always been from the beginning that it was the cost of collection that was one of the issues. We have been giving that some detailed consideration and analysis.

**Deputy J.A.N. Le Fondré:**

I think I can remember the discussions that were held at the point. At that point in 2005, 2006, 2007, the volume of stuff coming in I imagine at that point was probably significantly less - that is an opinion, it is not fact - than where we are now, I am guessing.

**The Minister for Treasury and Resources:**

It is significantly greater.

**Deputy J.A.N. Le Fondré:**

Therefore that would mean that disparity has changed quite significantly.

**The Minister for Treasury and Resources:**

Yes, and of course technology is going to play a part as well in the ability to sort of manage those issues. Of course, as I have said, when the E.U. ... assuming that they do, and I hope there is definitely a desire to see change, when they reduce down their level of low value consignment relief then of course that will force the large retailers into a position where they will have to be part of the solution of which we can then be benefiting from.

**Deputy J.A.N. Le Fondré:**

Okay. This was applicable to the retailers in general, but what targeted anti-avoidance rules will you be introducing to ensure that the projected income figures for the additional taxes are actually realistic in light of is there any possibility that some companies who, in your top 20, may take some avoidance measures?

**Deputy Comptroller of Taxes:**

The first thing is within the legislation that has been lodged there are a number of targeted anti-avoidance rules, which seek to, for example, prevent entities from splitting their sales across a number of entities, so we have talked about creating thresholds. If organisations are trying to avoid the scope of the tax by splitting profits between companies the law already has built in targeted anti-avoidance to address. In addition, I think the other important factor to note is that we started

collecting accounts and profit data from these companies in advance of this tax measure being proposed. So we have got sort of baseline data, which is unimpacted, if I can put it that way, by the incentives that this tax may create in the future. So when we then receive accounts and computations in the future in the Tax Office, one of the things that may well be looked at is have things changed structurally for those businesses since the imposition of the tax. Where that happens then the Comptroller has the power available to him under 134A of the Income Tax Law where we can challenge transactions where we think the main purpose of that transaction has been to avoid the scope of Jersey income tax. So we have got 2 measures that target anti avoidance and that general avoidance law as well.

**Deputy J.A.N. Le Fondré:**

Thank you. Still somewhere around taxation measures: rates. The amendment to last year's Budget, which you have now implemented in the 2018 Budget, includes a proposal to remove the tax exemption for landlords in relation to the payment of rates. By removing rates there is a deduction against expenses for landlords. This will inevitably push the cost on to the tenant. Do you agree, Minister?

**The Minister for Treasury and Resources:**

It is likely to have an impact on the tenant. I would not necessarily disagree with that. This was a measure, of course, that was brought by Deputy Sam Mézec and was ultimately agreed through the process last year, and therefore it has been included in this Budget having been a decision of the States.

**Deputy J.A.N. Le Fondré:**

You are confirming therefore that although the measure may have been well intended it is likely to have a detrimental impact on tenants overall in the longer term?

**The Minister for Treasury and Resources:**

It is quite possible that could be the case.

**Senator S.C. Ferguson:**

Personal tax, you are proposing to increase the personal tax free income allowance in Jersey to £14,900. What is the rationale behind having a much higher level than the U.K., Guernsey and the Isle of Man?

**The Minister for Treasury and Resources:**

Is that a negative? I think it is a positive for local people to have the benefit of a higher exemption level. We have always been very generous in this area and we feel it is a positive thing to do. What

we have done is maintained the real term value by increasing it by R.P.I. (retail price index) based on June 2017.

**Senator S.C. Ferguson:**

Except that you have taken away the extra allowance for older people.

**The Minister for Treasury and Resources:**

We have not taken it away at all.

**Senator S.C. Ferguson:**

Well, effectively you have.

**The Minister for Treasury and Resources:**

What we felt was that it was unfair to have differentials between the 2. Pensioners do have a very generous exemption level. The intention has - which has been stated now for the last 2 Budgets - is that over the passage of time the intention is to bring those figures together. Not by reducing the higher one but over time ensuring that the other non-pensioner exemptions catch up.

**Senator S.C. Ferguson:**

But as inflation creeps in, in effect you are reducing it.

**The Minister for Treasury and Resources:**

It is being maintained and then will increase once the 2 come together.

**Senator S.C. Ferguson:**

And being maintained in sort of current levels.

**The Minister for Treasury and Resources:**

Yes, but I think it is fair, as you pointed out, to say that we have generous exemption levels, as you have just identified, and that applies across the piece.

**Senator S.C. Ferguson:**

Was that intentional or was it just that it had grown up like that?

**The Minister for Treasury and Resources:**

The fact that there was a differential initially?

**Senator S.C. Ferguson:**

Yes. I mean what is the logic behind it?

**The Minister for Treasury and Resources:**

Sorry, the logic behind our proposal?

**Senator S.C. Ferguson:**

What is the logic behind having a very generous exemption level when we have not really sorted out the question of disregards and income support.

**The Minister for Treasury and Resources:**

We have had an exemption level set for some years, which has been upgraded generally by R.P.I., which - as you can see by the figures or if you cannot see by the figures here - is somewhat more generous than Guernsey or the United Kingdom. It takes into consideration the higher cost of living in the Island and we believe it is appropriate to support families on lower and middle incomes in this way.

**Senator S.C. Ferguson:**

But you do not appear to have had the conversations with the Social Security Department to sort out the question in this regard to encourage people to get back to work.

**The Treasurer of the States:**

There is a commitment, work has started, we talked previously about the need to review the personal tax system and we will be reviewing the personal tax system, given in part by the consideration of needing to think about independent taxation rather than the system we have at the moment. We are doing that modelling, bringing to that modelling the benefit system, so we are starting to do that work in terms of modelling the current system and modelling alternatives for the future.

**Senator S.C. Ferguson:**

Good, excellent. Why are we making the Island's tax system increasingly complicated?

**The Minister for Treasury and Resources:**

I am not sure that we are. What is your definition of making it more complicated?

**Senator S.C. Ferguson:**

Well it used to be very simple but we keep getting little bits creeping in here and there and it is getting more complicated.

**The Minister for Treasury and Resources:**

I would agree and concede with the fact that it has become more complicated since the introduction of Zero/Ten. Zero/Ten was absolutely essential in terms of maintaining our principal industry, in other words financial services and the 13,500 jobs and the high level of income that it produces for the Island. As a result of the introduction of Zero/Ten there were complexities that flowed from that. That point I concede. But it was a necessity.

**Senator S.C. Ferguson:**

Right. Carrying on, how was the level of the proposed increase for high-value residents, which has been going up from 125,000 to 145,000, how did you decide on that increase?

**The Minister for Treasury and Resources:**

There was a review undertaken, which looked at it.

**Deputy Comptroller of Taxes:**

Yes, so last year in support there was a review into the existing high-value regime, which was introduced effectively in 2011, July 2011. As part of that review I suppose there were 2 aspects, one we asked external consultants to do a piece on competitive analysis work with other jurisdictions across the globe offering, shall we say, similar regimes. Then we also looked at the increase that would have occurred using R.P.I. over the period since 2011, and taking those two pieces of work in tandem, looking at the whole package we should stress here, not just tax contributions, the view was that it could be increased from 125 to 145, the income tax contribution that ultimately arises, while still maintaining a competitive regime on an international basis. So the increase would be based on R.P.I. over the period since summer 2011 and that was supported by a piece of competitive analysis that said that was still internationally there or thereabouts.

**The Minister for Treasury and Resources:**

It is probably also worth pointing out that, in terms of our regime, we are probably one of the more expensive places, but we believe that justifiable by the benefits offered by those choosing to relocate here and also on the basis that we have seen increased levels of interest from wealthy immigrants wishing to move to Jersey in recent years.

**Senator S.C. Ferguson:**

Yes. Why is the minimum tax contribution only going to be assessed every 5 years, not annually or not index-linked to R.P.I.?

**The Minister for Treasury and Resources:**

We took a view; again it comes down to 2 issues, largely around competitiveness, but also certainty. So we took advice from the office charged with attracting wealthy immigrants to the Island and their

view was that if we did it on an annualised basis that does not give the same level of certainty as what is being proposed. So we took a measured view on this. Ultimately it will come to the same thing; it is just a timing issue.

**Senator S.C. Ferguson:**

Yes, and for those high-value residents currently present in the Island, what tax increases will they be subject to?

**The Minister for Treasury and Resources:**

It is not retrospective, the proposals that are put forward in this Budget, so it does not impact on existing H.V.R.s (high-value residents).

**Senator S.C. Ferguson:**

Right, so that your hands are in fact tied due to historic agreements with the 1(1)(k)s.

**The Minister for Treasury and Resources:**

The 2(1)(e)s, Senator, yes. That is right. There was a regime in place before that did not make provisions for upgrading and what we have sought to do here is first of all look back and see what is appropriate in terms of an upgrade from 2011 to today, as I explained, and then make sure in the future that we are not in a similar position, and that is why we feel that the approach of upgrading, revalorising, which is the term, is done periodically as we have proposed to ensure that we maintain the integrity of the system, the certainty, which is what investors moving into the Island value so much. So it is about getting the balance appropriately set.

**Deputy J.A.N. Le Fondré:**

One quick question, just building up for me the point we were talking about, the system having got more complicated over time. Is there recognition that basically the more complicated or perhaps even aggressive a tax system gets, it does have an impact on compliance and/or avoidance issues?

**The Minister for Treasury and Resources:**

Generally that would be a fair assumption.

**Deputy J.A.N. Le Fondré:**

Fair. Comment from within the department?

**The Minister for Treasury and Resources:**

The tax experts?

**Comptroller of Taxes:**

I think it is 6 of one and half a dozen of the other and clearly tax on the whole tends to get complicated to respond to avoidance and evasion. I think even with low relatively simple tax systems you still find people who either misunderstand or choose to evade and even with lower rates you still find that. I do not think there are all the incentives in Jersey that there are, for example, in the U.K. to engage in highly-elaborate forms of evasion and avoidance though. So I think on the whole, I think low, broad and simple, is a very sensible policy to pursue.

**Deputy J.A.N. Le Fondré:**

Okay. Thank you. Simon.

**Deputy S.M. Brée:**

With regards to other tax issues, an area that has been in the public eye recently is the States payment of rates and obviously this has raised a number of questions. Are you, Minister, intending at any time in the near to medium future of introducing any form of centralised property tax to replace Parish rates?

**The Minister for Treasury and Resources:**

No.

**Deputy S.M. Brée:**

Thank you.

**Deputy J.A.N. Le Fondré:**

Okay. Also looking at extensions, what mechanisms, Minister, are you looking to introduce or the Council of Minister is looking to introduce to provide sustainable funding for health care?

[14:45]

**The Minister for Treasury and Resources:**

We have always said that by the end of this period, the Medium Term Financial Plan, there would need to be measures developed for dealing with the increasing cost of drugs and treatments and what have you, which is not just a Jersey issue, as you will be aware, it is a worldwide issue. What we have sought to do as far as this Medium Term Financial Plan period is concerned is to address the shortfall from the States not agreeing to reduce the health charge through budget measures and, as you will be aware, this particular Budget and the measures contained, if approved by the States Assembly on 28th November, raises £10.2 million and goes towards bridging the gap of the health charge not being introduced. I must emphasise though, this is dealing with the short-term issues up

to the end of 2019. The long-term sustainable issues of funding health is something that will have to continue to be worked on until a measure is put in place to deal with it.

**Deputy J.A.N. Le Fondré:**

One suggestion that has been mooted is an increase in the amount of rated tax by 1 per cent to fund health care. What would your view be?

**The Minister for Treasury and Resources:**

That has been mooted by who, Chairman? Not by the Treasury.

**Deputy J.A.N. Le Fondré:**

Not by Treasury. I think it is general conversation within possibly States Members.

**The Minister for Treasury and Resources:**

The marginal rate was reduced a few years ago by my predecessor. It cost, if I can put it that way, £8 million. That is roughly what 1 per cent reduction in the marginal rate cost. So indeed one would assume that by reversing that, if that is what you are talking about, then that would raise £8 million. There are a number of measures that could be considered for dealing with the challenges of rising costs of health care. That would be for the next Assembly to consider.

**Deputy J.A.N. Le Fondré:**

There are 2 thoughts that come to mind when you mention that, Minister, one is, bear in mind the loss, as you put it, of, I thought it was £8 million to £10 million, but anyway of the reduction in that rate, would you concur that, given where we are now and the risks that were happening at the time, that reduction rate was effectively unaffordable because obviously one has had to bring all sorts of measures in to gather that kind of quantum of income?

**The Minister for Treasury and Resources:**

I mean hindsight is a great thing, is it not, and I suppose you could look back, where we are sitting now, and you could come to that conclusion. But of course by reducing the marginal rate it has been to the benefit of the large majority of taxpayers in the Island, 84 per cent in fact have seen the benefit of that reduction, and it has therefore added to a more progressive tax system, some might say.

**Deputy J.A.N. Le Fondré:**

It does lead quite nicely to the second point, which is that the more different measures one introduces the more complicated things become. Whereas if a marginal rate went back up by 1 per

cent there is no greater administration along those lines as opposed to introducing a new healthcare charge, which will presumably require extra people to administer it.

**The Minister for Treasury and Resources:**

Yes. The States have made a decision about the healthcare charge proposal so I think the likelihood of a similar proposal to that coming forward again is low. There will have to be another measure. You have mentioned one option that perhaps could be considered in the future and there are others I am sure that would also do the same job. Equally, I would say that the agenda for reforming and modernising the States is also important going into this in terms of the constraining and controlling of costs and taking out unnecessary costs, which will also play its part in the affordability in the future of public services.

**Deputy J.A.N. Le Fondré:**

Okay, we have to move on. All right, Sarah, number 14.

**Senator S.C. Ferguson:**

Yes. The F.P.P. (Fiscal Policy Panel) report. This Budget has proposed major structural changes. The F.P.P. said that additional revenue-raising measures are required to address a structural imbalance. Do you agree that, unless you introduce additional revenue-raising measures, there will be a structural imbalance by 2018/19?

**The Minister for Treasury and Resources:**

We are still forecasting to balanced budgets by 2019. This Budget, as I have just said, raises £10.2 million. I would expect subsequent Budgets to also raise additional revenues. But, without that, currently our forecasts are for balanced budgets by 2019.

**Senator S.C. Ferguson:**

So you are saying that you think the F.P.P. are wrong?

**The Treasurer of the States:**

I think the F.P.P. were talking on the basis of the Medium Term Financial Plan, talking to that. They reinforced that either the measures they proposed or alternative measures must be delivered in order that the books be balanced. But they flag up significant challenges that are not unique to Jersey, in particular the costs to do with an ageing population, and there are benefits usually, not least of which are the individuals, but there are costs associated with that and they are flagging up those pressures into future M.T.F.P.s (Medium Term Financial Plan).

**Senator S.C. Ferguson:**

Yes, but their talking about future structural pressures, longer-term challenges, further adjustment during the next M.T.F.P. period ...

**The Treasurer of the States:**

I think that is what I just talked about, if you had listened carefully.

**Senator S.C. Ferguson:**

... and, you know, looking at what is realistic in terms of further efficiency savings, as opposed to expenditure reductions, and whether revenue-raising measures will be required. They are saying, as I read it, that you will need to have a very much more organised revenue-raising setup instead of just pulling odd things out of the air, because we are running short.

**The Minister for Treasury and Resources:**

I think it is important to point out that they were emphasising that the package, which is what the Medium Term Financial Plan was, and it was a package of measures, it was about efficiencies, it was about savings, it was about user pays, it was about new charges. That package allowed the investment to be made and balance budgets by 2019. The point that really concerned them was we started doing the spending, which started making the investment. What we had not done, and when I say "we" I am talking about the States Assembly, has not approved the health charge and so far it has deferred the waste charge. If you take those 2 items together, it is £26 million by 2019. That is where they are concerned. So what we have sought to do ...

**Senator S.C. Ferguson:**

The structural imbalance.

**The Minister for Treasury and Resources:**

What we have sought to do, this Budget raises £10.2 million, as I said earlier that is taking a step towards resolving the short-term/medium-term issues of the health charge. But, as I have also said, sustainable measures in the long term will be required. We still have the issue of the waste charge to deal with. There has to be either alternative measures introduced to offset that loss if it is not introduced or it is introduced at a lower rate, or, which is what we have done, we introduced fiscal discipline in this Medium Term Financial Plan, capping departmental expenditure, so they could not go over what was agreed, and we also, rather than giving growth at the outset of the Medium Term Financial Plan in one, which happened previously, we said, no, growth would only be awarded on an annual basis, which means that, if in this particular Budget we have effectively withheld £2.1 million of growth because we are short due to the waste charge, in 2019 Budget there is £11.75 million of potential growth, the question will be, for whoever holds the reins at that stage, whether that growth is awarded at the Budget for 2019. That is how one controls the position we are in to

ensure that we maintain fiscal discipline and we balance our budgets by 2019. So, in other words, some of the investment may not happen if the package and the integrity of the package is not maintained.

**Senator S.C. Ferguson:**

Yes, we are back to structural imbalance, come on.

**The Minister for Treasury and Resources:**

We would not allow that to happen.

**Deputy J.A.N. Le Fondré:**

Can I just come in there because I do take the point that certainly the issue about growth, certainly in this Budget and potentially in the next Budget, I think we will come on to certain aspects of that, but is being handled differently compared to the spending spree of the last M.T.F.P. But it is still the case that the Council of Ministers committed to spending quite significant sums of money, certainly in the first part of this M.T.F.P., without having got the revenue sorted out.

**The Minister for Treasury and Resources:**

There was always a plan. The plan was the M.T.F.P., which was approved by the States, and it was very clear as to what it was going to seek to do. So far that plan has been delivered on, the savings have been delivered on, there was a total of £74 million worth of savings, we have delivered 34 million by the end of 2016, there will be a further £14 million of savings delivered by the end of this year, 2017, and the plan is on target. The only issues, they are not insignificant, are around the measures of revenue raising, the 2 principal ones, which are the health charge that has been rejected by the States, and the waste charge, which has been deferred. We have sought to deal with one of those so far, the other one is yet to be resolved.

**Deputy J.A.N. Le Fondré:**

Okay, just to pick up, because I have another question, but the reason we talk about 2018/19 is that in the ministerial foreword for the Budget it refers to the F.P.P. and it says: "The panel is urging us to implement these", which are the revenue-raising measures: "or comparable measures to address a structural imbalance by 2018/19." So that is where the period has come from. I think the question I would like to just ask, and then I will hand back to Sarah, is does that mean that there is finally recognition that there has been a structural imbalance? Those are the words in your own Budget. Whereas previously we have kind of been dodging around was there a structural difference.

**The Treasurer of the States:**

I think the part that I think we have all said, that there was a small element of a structural imbalance, but if you take part of the package and do not deliver the other part of the package then you create that structural imbalance. If you agree to the spend and agree to the savings but do not agree to all the other measures, then you create that structural imbalance. The flexibility still exists, so the Council of Ministers are proposing the growth, if we reduce the amount of growth in this Budget, recognising that not all the revenue-raising powers have been delivered, and that is reserved again next year. So the Council of Ministers at the time, the Minister for Treasury and Resources at the time, have the option, if the measures are not delivered in total, not to propose the growth, and that will be a matter for the Assembly to agree or otherwise. So the point being, as you go over this and over it, if you do not deliver all of the package then you will have an imbalance, which is why it was put together as a package.

**Senator S.C. Ferguson:**

So basically at the moment you are kind of scrabbling around a bit to address the structural imbalance, so when are you going to address it?

**The Treasurer of the States:**

Minister, may I answer that question? There are measures in this Budget and they match the growth to date, and clearly they do. This time next year, if waste charges are not agreed or comparable measures are not agreed, so at the moment the Council of Ministers is still going to be proposing those and there will be a new States Assembly by then, a new Council of Ministers, but the plan is still to deliver the waste charges. If those waste charges are then delivered, you will have measures that equal the growth. So the plan is still to deliver the balance.

**Senator S.C. Ferguson:**

But you will not be bringing the waste charges in until 2019 Budget, this time next year, after May.

**The Treasurer of the States:**

Yes this time next year. But we also will not be proposing the growth until we know where we are at that point.

**Deputy J.A.N. Le Fondré:**

Also just around general taxation principles I guess, and Zero/Ten, and I ask this question definitely caveating on what happens to the code group and things like that, have you considered any plans or trying to bring forward plans to incentivise zero per cent companies to distribute retained profits?

**The Minister for Treasury and Resources:**

We have been collecting data around zero per cent companies to ensure that we understand what has or is being distributed and what is not. So the first stage is to understand exactly what is happening before further consideration is given as to whether the incentives that you are referring to might well be a way to go.

**Deputy J.A.N. Le Fondré:**

Because basically the distribution fell further, shall we say, for reasons we do not need to go into, but that obviously will have an added impact. There is an argument it was a temporary cash flow issue, but I would suggest that it is a bit more than a temporary cash flow issue because there are then means of getting profits out of companies, which are not picked up. They become capital. But have you done any calculations at this stage, have any idea of what the magnitude of the problem is, or is that the data gathering is last year, this year, next year, is it?

**The Minister for Treasury and Resources:**

Data gathering is still under way and until that is complete it is very difficult to draw a clear conclusion as to what is happening. But when we have that data then we will be in a better position.

**Deputy J.A.N. Le Fondré:**

So the process has started then in trying to at least see if that problem is capable of being addressed?

**Comptroller of Taxes:**

The last article that we published of course was in March as part of the first phase of the review of personal tax, which Paul largely masterminded.

[15:00]

**Deputy Comptroller of Taxes:**

I think the other thing I would say obviously is there has been agreeance in discussions with industry, et cetera, about this concept of incentivising distributions and it is a difficult one because there are sort of 2 approaches, there is either the offer maybe of reduced tax rate on distributions for a period of time, so the carrot approach. The concerns that surface around that is particularly if you offer it generally then you are incentivising more retention of profits or more corporation profits for these companies. If you offer it for a limited period of time you incentivise people to say, well, let us roll up profits and wait for the next opportunity of a lower tax rate, again incentivising retention of profits in the companies. So then you look at the stick approach at the other end and you start penalising by a higher tax rate if you leave profits in for a long period of time. The discussion has obviously picked up a couple of concerns, one being, once you break that threshold of a 20 per cent tax rate,

where do you potentially go with that? Alternatively, perhaps you do not need to distribute at all, that has no impact on them whatsoever because they just do not need that distribution at all, they can let it roll up indefinitely. So unfortunately there are no easy answers to this, but work is going ahead to see if there is a solution. Just to say that the 2 islands, the Isle of Man and Guernsey, are in exactly the same situation.

**Senator S.C. Ferguson:**

Have you got a feel for the sort of quantum that we are dealing with? I know that you will not get the full figures until 31st December, but roughly what sort of level of profits are we dealing with?

**Deputy Comptroller of Taxes:**

As you said, we need to wait until the end of the year. I think the thing that we say is some of the work that we have done as part of the income forecasting process when we looked at that, whether we see other streams of income reducing as a consequence of them moving into corporate structures, and the evidence that we have seen so far, and again we are still early doors, I know it seems a long time ago, but the data takes that much longer to come through, is we are still not seeing significant evidence of those other streams of income being rolled up or disappearing, so there is no evidence that it is a significant issue.

**Deputy S.M. Brée:**

Thank you very much. Minister, turning to page 23 of the Draft Budget Statement, the impôts duty proposals, in prior years the duty paid on alcohol has risen higher than R.P.I. For example, between 2004 and 2017, the duty on a litre of whisky rose by 82 per cent while on a bottle of table wine rose by 62 per cent. Now, bearing in mind your previous utterances on the health benefits of increasing impôts above R.P.I., can you explain why this year the figure has only increased by R.P.I.?

**The Minister for Treasury and Resources:**

There are a number of factors really. Yes, there have been various increases, not just in my term, but with my predecessor, where there were increases above R.P.I., not always the case, there have been R.P.I. increases as well and I think if I remember correctly there was an occasion when the States also made a decision to limit the increase I believe on beer, aside from anything else. The view is that there has been an increase in costs that have resulted from the Brexit decision last year, so we have seen the fall of sterling increase import costs, we have seen alcohol in particular increasing in value. We felt it was more proportionate this year to ensure that we maintain the revenue and the rates as in the previous year and that is why we have increased by R.P.I.

**Deputy S.M. Brée:**

So these increases, particularly in the duty on alcohol, are purely just to maintain the revenue stream in line with R.P.I.?

**The Minister for Treasury and Resources:**

They do indeed do that. We have also taken into consideration the impact on industry and in previous years we have received representation from industry about the above-R.P.I. increases and we have taken those representations into consideration. We feel that this particular Budget this year that it is appropriate to stick to an R.P.I. increase.

**Deputy S.M. Brée:**

So has your decision not to effectively increase the impôts on alcohol above R.P.I. been influenced in any way by the fact that a new licensing law has been lodged?

**The Minister for Treasury and Resources:**

That is another factor, you are absolutely right, that was certainly in the periphery. That is a matter that needs to be addressed in our view before considering any further increases. Again it was another factor thought about with regard to this.

**Deputy S.M. Brée:**

So, bearing in mind, as we have said over the past few years at least, the increases have been far higher than the equivalent items in the U.K., do you believe that these measures have potentially harmed and will continue to harm the tourism industry in the Island?

**The Minister for Treasury and Resources:**

Well I do not think these measures are going to because the proposal, as you know, is just for an R.P.I. increase. I think we also need to be mindful of the consumption. Per-capita consumption levels in Jersey are one of the highest in Europe. That has always been a focus of ours in increasing these rates in the past, we are still focused on that and the health argument that you yourself were referring to a moment ago. It is important that we do not lose sight of that.

**Deputy S.M. Brée:**

So why not increase above R.P.I. then? If you are so concerned about health and you are so concerned about reducing consumption, it is within your power to increase above R.P.I. and yet you are not doing so.

**The Minister for Treasury and Resources:**

We have done a number of increases in recent years, as you have just pointed out, we felt for a number of factors, which I have just mentioned to you, this particular Budget we would just raise the duty by R.P.I. and maintain the value.

**Deputy S.M. Brée:**

Thank you. Now, obviously with impôts on a load of areas, why do you, Minister, believe that the ring-fencing or hypothecation of taxes related to a specific area to help that specific area is not a good idea? For example, using the impôts raised on alcohol and tobacco for investing in educating children on the dangers of consumption.

**The Minister for Treasury and Resources:**

It is not what I would describe as my personal view as Minister, it is recognised practice, tax practice, that hypothecating is making the tax system more complicated, which I think was a point raised earlier. Taxation generally is targeted at areas of most need. You have identified one. I know the Health Department do a lot of good work and invest some of their considerable budget in that particular area, and rightly so.

**Deputy S.M. Brée:**

So you as Minister for Treasury and Resources do not agree with the ring-fencing or hypothecation of taxes?

**The Minister for Treasury and Resources:**

I agree with the general view that hypothecating ...

**Deputy S.M. Brée:**

I asked for your personal view, Minister.

**The Minister for Treasury and Resources:**

I am giving you ...

**Deputy S.M. Brée:**

You do not agree with it?

**The Minister for Treasury and Resources:**

... my personal view. I agree with the general principle of not hypothecating.

**Deputy S.M. Brée:**

Okay.

**Senator S.C. Ferguson:**

Yes, just a quick question then. So, Minister, you believe that you should use taxation to alter social policy, to effect social policy?

**The Minister for Treasury and Resources:**

I think the use of taxation in terms of impôts does have that effect. It is not the primary role but of course Treasury will listen ...

**Senator S.C. Ferguson:**

So you are using taxation to impose policies?

**The Minister for Treasury and Resources:**

The point I would make is that it is not the primary role from a Treasury perspective, but Treasury will listen to other departments who have particular policy agendas, Health being a good example, Home Affairs in terms of disorder, those 2 departments that get impacted by abuse of alcohol and such like, we will take that into consideration. But the principal aim from a Treasury point of view is maintaining the revenue value.

**Senator S.C. Ferguson:**

So do you ever question the evidence they bring?

**The Minister for Treasury and Resources:**

The evidence has been questioned in the past, yes. There is a whole plethora of evidence about the abuse and the damage caused by alcohol ...

**Senator S.C. Ferguson:**

No, you, well you said earlier, Minister, that Jersey is one of the worst places in Europe for drink. I have also seen records of that and we are about halfway down on the list, I think it was above Germany and Hungary or something like that. I will find a copy of that and give it to you because I am fed up with people denigrating this Island and saying we are the worst at this and the worst at that without checking the evidence. I would request, Minister, that you check the evidence in future.

**The Minister for Treasury and Resources:**

I am certainly not, Senator, denigrating the Island at all; I am simply reflecting some of the facts that were presented from the Health Department about the impact on their services from excess

consumption of alcohol. It is a problem and, wherever we are on the league table, the per-capita consumption levels in Jersey are high and, as a result, it does have an impact on the health service and other departments that have to be funded by taxpayers' money.

**Senator S.C. Ferguson:**

Yes, I appreciate that, but, you know, it makes us sound as if we are a nation of teetotallers.

**Deputy J.A.N. Le Fondré:**

So we are going to move forward. I am going to very quickly ask, literally 10 seconds please, what discussions do you have on impôts setting between the requirements of Health and the issues we have just covered and, for the sake of argument, some balancing of the needs of the tourism industry?

**The Minister for Treasury and Resources:**

We do speak to representative groups to get an understanding as to the level of interest ...

**Deputy J.A.N. Le Fondré:**

Then like Economic Development, do they have a say in the setting? Do they have the same say as Health or does Health tend to drive the process on that?

**The Minister for Treasury and Resources:**

I think that Economic Development, around the Council of Ministers table, when these draft proposals go to Ministers, have very strong views, departments will obviously present their views.

**Deputy J.A.N. Le Fondré:**

Before it goes to Council of Ministers, in Treasury do you get the Minister for Economic Development in and talk it through with him and do you get the Minister for Health and Social Services in and talk it through with him, or is it just on a Council of Ministers level once you set the levels?

**The Minister for Treasury and Resources:**

No, we go through a process before we get to the Council of Ministers, but clearly the Council of Ministers is where the decision making is made or the advice from Ministers to the Minister for Treasury and Resources about the proposals that are drafted.

**Deputy J.A.N. Le Fondré:**

Okay. We will move forward. Simon.

**Deputy S.M. Brée:**

Minister, the Budget proposes to amend the V.E.D. (Vehicle Emissions Duty) bands so that only cars emitting 50 grams CO<sub>2</sub> per kilometre or less are exempt. Now this obviously is to encourage people to choose the least-polluting vehicles. However, recent research has pointed to the fact that CO<sub>2</sub> is not the worst pollutant. So are you looking at other areas by which to tax polluting vehicles?

**The Minister for Treasury and Resources:**

The details contained within the Budget are the details for this particular Budget. There is a Government policy to drive towards more sustainable forms of transport and as such there is a keen interest from the Department for Infrastructure to promote commuting and travel that is less-impacting on the environment. But there are no particular measures in place at the moment or under consideration above and beyond what is proposed here.

**Deputy S.M. Brée:**

Okay. Looking at fuel tax or road fuel, as it is called in the Budget Statement, effectively the proposals put forward will result in approximately a 1p increase added to fuel duty, if we may call it that. How much does that raise? Every penny added to fuel duty, how much does each penny equate to an increase in revenue?

**The Minister for Treasury and Resources:**

£500,000, £600,000.

**Director of Financial Planning and Performance:**

With the proposal as it is, that will increase income by about £600,000.

**Deputy S.M. Brée:**

So it is approximately £600,000 revenue for the 1p extra, okay. Now, obviously, with the move towards the Government encouraging least-polluting vehicles to be used, preferably probably moving towards electric vehicles, this is going to see a fall in overall revenue. So how are you anticipating matching that reduction in the revenue on fuel duty, how are you going to match that, what additional measures are you going to bring in to match that reduction in revenue?

[15:15]

**The Minister for Treasury and Resources:**

That is a very good question and one that ...

**Deputy S.M. Brée:**

That is why I asked it.

**The Minister for Treasury and Resources:**

I am not showing surprise that it is a very good question. It is a very good question and one that we have given a small amount of consideration to because you are correct, there is without doubt an acceleration in the development of electric vehicles, for example, and we are seeing some manufacturers now talking about phasing out combustion engines altogether. I think it is Volvo by 2023, something of that order. We raise, I think it is something in the order of £25 million from fuel duty in total. So, never mind the 1p, the £600,000, we get about £25 million or so from fuel duty in total. That is a considerable amount of money in terms of revenues and we are mindful that over the passage of time that will start to reduce. That is not the case currently so I think it is from a policy development perspective something that will need some fairly urgent attention as to how that might be replaced over time.

**Deputy S.M. Brée:**

You say that you raise approximately £25 million, did you say, in fuel duty?

**Deputy Comptroller of Taxes:**

£22 million, to be ...

**Deputy S.M. Brée:**

£22 million. Would now not be a very, very good time to hypothecate that revenue and put it into a programme to improve public transport, increase cycle lanes and paths?

**The Minister for Treasury and Resources:**

Yes, it goes back to my earlier point, general taxation is collected and prioritised by Government into the areas of most need. Some of those points you have just raised are already being funded. There is a debate of course as to whether you can put more funding into those, but that is competing with priority areas like health, education, and so on. I do not believe that hypothecation is the right way to go, but I do think it is important that Government prioritises appropriately the areas of most need.

**Senator S.C. Ferguson:**

Right. We have already heard that you are not going to propose the waste charge; you are leaving that for your successor. Can you confirm that the thinking at the Council of Ministers is that the waste charge will not be targeting domestic households?

**The Minister for Treasury and Resources:**

It was a decision along those lines that domestic was not to be included. I am looking at the chairman because I think he had something to do with that. So the intention to date has not been to include domestic in any of the planning, in fact that was the details of the proposition, I seem to remember, that no work would be undertaken in that area. So I can confirm that particular point. What may happen in the future; that is another matter, but whatever it is it would have to go to the States for a States decision.

**Deputy J.A.N. Le Fondré:**

I would remind the Minister of the first part of that amendment as well, which did address local versus non-local companies. Moving on to the capital programme, the capital programme has been increased by £10 million in 2018. That is an increase over budget of 24 per cent. Why? What has been going on?

**Director of Financial Planning and Performance:**

As part of the Budget process, we take the indicative capital programme as per the M.T.F.P., we back out to departments to ask them to revisit the numbers that they had in for 2018 and for 2019 and, as part of that process, we have identified a number of schemes where we have had to reprioritise the funding, a number of schemes like Grainville, for example, and Les Quennevais have identified further costs, largely around inflation, and the hyperinflation that we are experiencing in construction at the moment with that.

**Deputy J.A.N. Le Fondré:**

Sorry, could you just say that last bit?

**Director of Financial Planning and Performance:**

We have got ordinary inflation and also the building and construction industry is showing signs of hyperinflation.

**Deputy J.A.N. Le Fondré:**

I am going to pick you up on that because I have understood that in a somewhat larger capital project that is all exercising our minds, the B.C.I.S. (Building Cost Information Service) figures have been reduced.

**Director of Financial Planning and Performance:**

So the difference between the programme you are talking about, where things like inflation numbers are driven by best practice on current numbers, as opposed to as a percentage of the cost, based on what was in previously. So if I am looking at schemes that were in the M.T.F.P. at the beginning, those were numbers that were indicative at the beginning of the M.T.F.P. If you are talking about

the hospital, those are numbers that are up-to-date and therefore are based on a more current number with inflation built in.

**Deputy J.A.N. Le Fondré:**

Okay. So that does cover my next question, which is what are the big increases in Les Quennevais and Grainville School. It is interesting that they are the biggest projects, they are all Education projects, but, using Grainville as an example, in the Budget it states that the Jersey Music Service facility is no longer being provided as part of the Grainville scheme. So why have you chosen to terminate that facility?

**Director of Financial Planning and Performance:**

It is not a choice to terminate. What we are saying is ...

**Deputy J.A.N. Le Fondré:**

Well it says it is no longer being provided.

**Director of Financial Planning and Performance:**

... it is no longer going to be provided in that school. So there is a need to identify where that service will be provided and as a short-term solution, in terms of providing some money where they are currently providing the service, and looking for a longer-term solution.

**Deputy J.A.N. Le Fondré:**

Well let us talk about money; so it is not going to be provided in the present budget for Grainville, so we have taken something out of the budget for Grainville, but the budget has gone up for Grainville. So why are we getting less for more?

**Director of Financial Planning and Performance:**

So some of the issues are around where you are in the programme, so they have had some feasibility work done on Grainville and they have identified some issues with the site that they had not anticipated, so there are some further costs of changing. Because with Grainville we have done it in a phased way, you have added costs by the very fact that you keep piecing bits together and trying to make that flow through properly. With the current site, there were some issues in terms of the next phase, fitting in the next piece in the land available. They have had to revisit that and that is basically where some of the funding has gone towards, having a temporary building to allow them to empty and therefore change the flow through.

**Deputy J.A.N. Le Fondré:**

I am thinking it just generally implies that the original estimates were significantly out.

**Deputy S.M. Brée:**

Also the original design.

**Deputy J.A.N. Le Fondré:**

Yes.

**Director of Financial Planning and Performance:**

The numbers would have been put in as part of the M.T.F.P., which would have been back in 2015, so you will only have a cost indication from that period of time. Particularly with Grainville, there have been some issues with the site particularly.

**Deputy J.A.N. Le Fondré:**

But hang on, this is a team I presume that has been building schools for quite a number of years and inflation is not new, so did they not provide enough for it?

**Director of Financial Planning and Performance:**

I think not for the number of years between when the first number is entered into the M.T.F.P. and where they are now ready to be building. As part of the capital programme, we look at prioritising what gets done when and you may well find delays between when these schemes are started and therefore the costs.

**Deputy J.A.N. Le Fondré:**

That is the costs of those delays, so the fact that the project has been delayed is the costs coming through. Now, Les Quennevais, having said all that, I would have said in budgetary terms it is a fairly new project.

**Director of Financial Planning and Performance:**

Yes. There are some extra costs because of what the planning inquiry requested, the changes to be made, so there are some costs associated with that. Also it is now a year behind.

**Deputy J.A.N. Le Fondré:**

The planning inquiry process can generate risks on capital projects, okay.

**Deputy S.M. Brée:**

Can I just ask a question on that? Reading from page 44 of the Draft Budget Statement, we are talking about: "The Grainville School project has increased by £5.3 million to £15.5 million." That is over 30 per cent of the original project costs. Just to understand what you are saying, the original

project costs were wrong by over 30 per cent. Take out inflation, which is running at an average of between 2 per cent and 3 per cent per annum. Are you honestly saying that they got it that wrong?

**Director of Financial Planning and Performance:**

I think the number that is submitted as part of the capital programme, the indicative capital programme, did not reflect the future indication, so it was at today's prices when ...

**Deputy S.M. Brée:**

Yes, take inflation out. We are talking about a 30 per cent increase. The original budget I am presuming was £10.2 million. You have now asked for a capital increase on that budget of £5.3 million, so the whole total cost has gone up by 50 per cent of the original budget figure. How on earth can they have got it that wrong? I am merely reading the figures out. Correct me if I am misinterpreting what is there.

**The Treasurer of the States:**

It is a good challenge. I seem to remember coming to talk to the panel privately about the way that we had put it in this case. It is never preferable to build new schools as phased. Perhaps it is the period of which you ...

**Deputy S.M. Brée:**

I am merely referring to what is in the Draft Budget Statement and what the Minister is asking us to approve.

**The Treasurer of the States:**

Once the funds are available and then we therefore move forward with the programme, further detailed feasibility works will look at the project. Those feasibility works have come up with an estimate that is higher. It is exacerbated by greater inflation, but it is also something we need to look at so that we can understand it, because as you have said, it is against not just this particular build, it is against the other build as well. We are going to be looking to change the way that we budget the capital so that more of this feasibility is done earlier and therefore better estimates are provided.

**Deputy S.M. Brée:**

One can only hope that the proposed future hospital costs do not increase by the same amount, Minister.

**The Treasurer of the States:**

I think it is fair to say that the future hospital costs are at the point of estimate now, much further developed than they were when the estimate for Grainville was at that point.

**Deputy S.M. Brée:**

Okay, thank you.

**Deputy J.A.N. Le Fondré:**

Sorry, I am just running through. We do not have a great deal of time here. The issues around the accuracy of budgetary estimates on capital projects does still, I think, hit the Consolidated Fund eventually, does it not? The capital ...

**The Treasurer of the States:**

Firstly, as is laid out in the Budget, the capital that we can draw from the Consolidated Fund is capped, so funds are coming from other unspent balances, be they capital or ...

**Deputy J.A.N. Le Fondré:**

Yes. I accept here the funding is, but in general terms, when you are setting the Budget together ... because one of the aspects is the impact on the Consolidated Fund and making sure that effectively the Consolidated Fund does not get overdrawn. Now, if you are under on the budgetary process and then you are finding more money later and then you are finding the costs have gone up by quite a significant amount later on, hopefully not, but potentially you could have a risk that the position has been wrongly stated.

**The Treasurer of the States:**

The current forecasts of the Consolidated Fund obviously have the numbers in them.

**Deputy J.A.N. Le Fondré:**

Yes. I am talking about at the start of the M.T.F.P. process.

**The Treasurer of the States:**

That would fall if you were running a much more marginal balance on the Consolidated Fund. Yes, they would.

**Deputy J.A.N. Le Fondré:**

It becomes a risk.

**The Treasurer of the States:**

But we are not running a marginal balance on the Consolidated Fund. We have got larger balances on the Consolidated Fund than we had previously forecast and we are retaining the flexibility in terms of the plan by keeping those balances there. When we get to the same stage next year and those balances are not required, largely that is a balance that is there to take care of any fluctuations in income. If those are not there, then the proposal will come forward to do one of 2 things, stabilisation of the fund and/or we can ...

**Deputy J.A.N. Le Fondré:**

Yes. No, that is okay, that is the future and I am accepting now the position is better. I am just saying, for anybody who is not aware, that if you are on a marginal balance and if you take the Consolidated Fund overdrawn, it is illegal, basically.

**Director of Financial Planning and Performance:**

Absolutely, but the amount that you can spend is fixed in the M.T.F.P. As they have come back to us and said: "We need more money" it is a requirement to find a way of funding that without breaking the expenditure limit.

**Deputy J.A.N. Le Fondré:**

Yes, fair point. Right, Sarah.

**Senator S.C. Ferguson:**

When are you going to be lodging proposals relating to the funding of higher education?

**The Minister for Treasury and Resources:**

I think I have made it clear that we would be making an announcement alongside the budget about how we were going to be dealing with higher education. That is still the case.

**Senator S.C. Ferguson:**

What proposals are you going to make?

**The Minister for Treasury and Resources:**

They will be announced alongside the budget.

**Senator S.C. Ferguson:**

Where are you going to get the money from?

**The Minister for Treasury and Resources:**

That is all part of the proposal. It depends what indeed the final proposal looks like.

**Deputy J.A.N. Le Fondré:**

At this stage: "The statement will be announced alongside the Budget" means on the Budget Day at the end of this month? It is not going to be in advance ...

[15:30]

**The Minister for Treasury and Resources:**

On the Budget Day, on or before. I have always stated that it would be alongside the Budget, so ...

**Deputy J.A.N. Le Fondré:**

The actual debate, when are you going to be lodging something, approximately, if you can read the Treasurer's handwriting?

**The Minister for Treasury and Resources:**

I do not know what he is writing. There has got to be a process of consultation that will be undertaken as well. I cannot give you a clear date as when we will likely be lodging.

**Deputy J.A.N. Le Fondré:**

But presumably it would be before the May elections?

**The Minister for Treasury and Resources:**

There will certainly be a lodging intended before the May election.

**Deputy S.M. Brée:**

On page 8 of your Budget Statement, Minister, you make reference to spending on environment and you are talking about proposed spending of £17 million on infrastructure projects, essentially to protect the Island against climate change. What environmental issues is this £17 million being spent on?

**Director of Financial Planning and Performance:**

The £17 million in infrastructure projects is not just around environmental infrastructure. Some of that will be within the Department for Infrastructure, they have a rolling vote, which will be around things like sea walls, but also we class infrastructure as a much wider classification, not just about climate change.

**Deputy S.M. Brée:**

So by saying: "This Budget is investing £17 million in infrastructure projects" under the section: "Environment" it is not suggesting that the £17 million is going to be spent all on environmental issues?

**Director of Financial Planning and Performance:**

No.

**Deputy S.M. Brée:**

Then I would just say that it is slightly misleading to people who are reading it. With regard to the whole issue of tackling climate change and dealing with environmental issues, Minister, have the Council of Ministers issued a policy on tackling climate change?

**The Minister for Treasury and Resources:**

There are a number of initiatives that have been considered, but there is not a published ...

**Deputy S.M. Brée:**

No, I asked the question, not initiatives: is there a published policy statement from the Council of Ministers on tackling climate change?

**The Minister for Treasury and Resources:**

No.

**Deputy S.M. Brée:**

Then do you not agree, Minister, that it is slightly wrong or misleading to be suggesting that as part of the £17 million budget we are going to be spending things on environmental issues or to combat climate change without anybody being able to scrutinise what the policy is?

**The Minister for Treasury and Resources:**

No, because it is largely - as I think Alison has pointed out - business as usual, so you would clearly be wanting to maintain the element of the spend within the D.f.I. (Department for Infrastructure) budget relating to, for example, sea defences.

**Deputy S.M. Brée:**

Above and beyond the normal work that is required to maintain sea defences, what additional money are you budgeting for above and beyond the normal spend for maintenance to combat environmental issues caused by climate change?

**The Minister for Treasury and Resources:**

There are some elements of budgets of departments that have some involvement in those areas, for example, the work that D.f.I. do in terms of trying to encourage - which is part of this Budget proposal - the use of more environmentally-friendly vehicles.

**Deputy S.M. Brée:**

Yes, but what I am saying is above and beyond the standard maintenance that Infrastructure carry out, what additional works are you saying that you are going to carry out to prepare for the impact of climate change? I am using your own words, Minister.

**Director of Financial Planning and Performance:**

We have allocated a sum of money largely to the Department for Environment to get on with a piece of work that looks at climate change. That piece of work is not concluded yet.

**Deputy S.M. Brée:**

But earlier you said that the £17 million was part of the rolling D.f.I. budget, so I do not quite understand.

**Director of Financial Planning and Performance:**

Yes. For example, you have got areas of the sea wall that are being heightened, so it is not just maintenance. That is recognising that there are areas that were flooded previously.

**Deputy S.M. Brée:**

Is that part of the Environment budget or the D.f.I.?

**Director of Financial Planning and Performance:**

Whoever does the work needs the budget.

**Deputy S.M. Brée:**

You are spending £17 million on climate change initiatives?

**Director of Financial Planning and Performance:**

No.

**Deputy S.M. Brée:**

This is what we are trying to get to the bottom of: what additional money above and beyond the standard rolling maintenance programme of D.f.I. has been allocated under this Budget for work to be carried out for environmental issues caused by climate change? It is a very simple question.

**The Minister for Treasury and Resources:**

You asked the question earlier on about the policy. Part of the development of a policy in this area, which is important, is the funding element - I do not have the figure in front of me - that is included for that work to be undertaken by D.f.I.

**Director of Financial Planning and Performance:**

The Department for Environment are working with D.f.I. on that to assess managing climate change and what that means.

**The Minister for Treasury and Resources:**

Department of Environment with D.f.I., yes.

**Deputy J.A.N. Le Fondré:**

Moving on to some more general areas: stamp duty. Page 31 of the Budget declares that you are working on the issue of the sale of Jersey real estate owned within a corporate structure by way of transfer of shares. When will you be closing this loophole?

**The Minister for Treasury and Resources:**

Stamp duty. Enveloped properties were you talking about?

**Deputy J.A.N. Le Fondré:**

You state that you are working on the issue of the sale of Jersey real estate owned within a corporate structure by way of transfer of shares. The question is when will you be closing this loophole?

**The Minister for Treasury and Resources:**

That is in relation to, first of all, commercial property, just for clarity's sake. There is some feasibility work being undertaken and the idea is to bring forward the amendment for the next budget, so that will be 2019.

**Deputy J.A.N. Le Fondré:**

Why has it taken so long?

**The Minister for Treasury and Resources:**

Paul?

**Deputy J.A.N. Le Fondré:**

That is a cop-out, Minister.

**Deputy Comptroller of Taxes:**

I think because it is a very difficult issue ... obviously when you transfer real property, that goes through the court and you have all the documentation go through and stamp duty is applied and the stamps are applied to the document. In the context of a share transaction, obviously there is nothing registered in the courts, so we cannot do something that is identical to stamp duty. Then you end up with situations where potentially, for example, you sell a company which has got both the trade and the property in which that trade is being carried out being sold is one transaction through the sale of shares. How do you allocate the sales proceeds between what was the property and what was the element that you attached to say the goodwill of the trade? There are some big issues. It has been looked at in the past and there are significant issues. What we have done<sup>2</sup> is we have sent out an R.F.Q. (request for quotation) to a number of the large accountancy firms, asking them to tell us about how other jurisdictions across the globe have approached this issue - we are not alone in facing it, it is an issue that is faced in a number of jurisdictions - and to give us advice on the best way forward in a way that is practical and can work in the context of Jersey and the particular challenges that we face.

**Deputy J.A.N. Le Fondré:**

To give an illustration, just to explore it a bit further, obviously when we were looking at a certain office construction project - and the figures are public, because it was in the Ernst & Young report that was done - on one building alone, one office block, the stamp duty involved around £1.7 million, but obviously if they make use ... and I do not know if they will or not, but I am presuming if that building was owned in a company and that company was sold, then we would not get any stamp duty at all at present. Is that correct?

**Deputy Comptroller of Taxes:**

The sale of shares is not subject to stamp duty.

**Deputy J.A.N. Le Fondré:**

Why is that fair then, that for an ordinary purchaser ... and I believe this can apply still as well if a company ... I know it is potentially rare, but I believe it still happens on residential if a company owns a house. I am not talking about land transaction tax, I am talking a company who owns a house, you sell the company and you would still potentially avoid the stamp duty.

**The Minister for Treasury and Resources:**

Yes, that is very rare, but typically the only occasions under which residential property can go into companies would be, for example, a development company. At the end of the development, for

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<sup>2</sup> It was subsequently clarified that this had not yet occurred and was due to happen in the week of 13th November.

example, a site with 5 units owned in a company, once the site is complete, the properties are sold, they have to be sold out of the company.

**Deputy J.A.N. Le Fondré:**

I accept that, but I think there are instances when it can still happen. The query is basically why is it fair - in other words, why has it taken so long - an ordinary purchaser of a house pays the stamp duty, pays their way and obviously somebody, either a residential example, accepting that is rare, but more particularly an owner of an office block held in the company, manages to not contribute the stamp duty amounts of the orders we have been talking about?

**The Minister for Treasury and Resources:**

Arguably it is not fair. That is one of the reasons it is contained as a point of note in this budget, to say that work is underway to try to deal with it, but as Paul has pointed out, it is complex.

**Deputy J.A.N. Le Fondré:**

I was going to say, how much consultation ... for the incidences where it is literally just, for example, an office block held, that should be fairly straightforward. If it is a development issue, there is not going to be a trade going on in the middle of that. I accept if it was ABC Limited happened to have an office block and you are selling them via a company it is slightly different, but if the main activity of the company is to hold a property, you could capture it that way, because that is effectively what we are doing under L.T.T. (land transaction tax), is it not?

**Deputy Comptroller of Taxes:**

Yes, but I suppose then you have got a number of other issues. For example, what happens if you sell a minority stake in a company rather than the whole thing? How would you value that? Interestingly, the way the U.K. seems to have started to approach this issue is rather than trying to apply a stamp duty in these sort of circumstances, they have started to apply a sort of annual tax on enveloped dwellings. That is catchy, is it not?

**The Minister for Treasury and Resources:**

A.T.E.D.

**Deputy Comptroller of Taxes:**

A.T.E.D., which is sort of the acceptance that in some ways charging stamp duty on the sale transaction is quite difficult and challenging and perhaps that the alternative approach is to apply an annual tax on property which is enveloped.

**Deputy J.A.N. Le Fondré:**

Is this similar to Spanish catastral values and things like that?

**Deputy Comptroller of Taxes:**

I am going to say I do not ...

**Deputy J.A.N. Le Fondré:**

Is that annual charges?

**Deputy Comptroller of Taxes:**

Yes, but that is sort of the way the U.K. has gone. They have looked at the issue and they have come to the conclusion perhaps charging stamp duty on this, because of all the challenges that exist that we have talked about, the alternative approach that they have gone for is an annual tax. We are taking some advice and from there no doubt there will be consultation leading into, as it says in the budget, hopefully amendments.

**Deputy J.A.N. Le Fondré:**

Okay, fine. Let us move on. Minister, are you comfortable with the income forecasts on tax which show, broadly speaking, at least a 4 per cent annual increase in the rest of the period of the budget?

**The Minister for Treasury and Resources:**

Forecasts, as I have said many times, are exactly that. What I am pleased with is the fact that we have been very prudent with regard to forecasts over the last few years and we have seen our forecasts succeeding generally and the performance has been very satisfying in that respect. We have also moved with quite a lot of changes to the Income Forecasting Group, which look at such matters, by having 2 independent people on it, as you know, and we will continue to work on the Income Forecasting Group improvements. We have had Oxera looking at that particular area to see if we can increase the performance of the Income Forecasting Group, but generally speaking, I think it has done a sterling job.

**Deputy J.A.N. Le Fondré:**

One of the assumptions within the income forecasts that give rise to this 4 per cent is that it assumes that everyone receives a minimum of a cost of living increase over the next few years. Given the period of uncertainty ahead, and Brexit possibly being one of them, but not the only one, why do you consider that reasonable?

**The Minister for Treasury and Resources:**

I think this is probably around the methodology that is utilised. Again, there is one ...

**Deputy J.A.N. Le Fondré:**

No, it is an assumption.

**The Minister for Treasury and Resources:**

Yes, but looking at the top down as opposed to a bottom-up approach for income forecasting, I think that is something that we need to give more consideration to the model itself as we move forward.

**Deputy J.A.N. Le Fondré:**

Okay. Any questions at this stage? No.

**Deputy S.M. Brée:**

Minister, on page 9 of the Draft Budget Statement, and indeed, you expand further on page 29 with regards to a review of the personal tax system, firstly, what in your mind is triggering the need to change to an independent taxation system?

**The Minister for Treasury and Resources:**

First and foremost, there have been calls for a number of years under, I think from many people's perspective one of fairness to look at the way in which independent taxation has developed elsewhere. We have seen the U.K. introduce independent taxation and it was therefore important. We have had a tax system, a personal tax system, that has worked quite effectively, but there were those that wished to see it modernised. That is what triggered, I suppose, the review that has been undertaken. We have said, as the Comptroller has pointed out, there has been the first phase of that and that work is ongoing and will be ongoing over the next 18 months or so.

[15:45]

**Deputy S.M. Brée:**

On page 9 - and this is where I am seeking clarification - you talk of: "Moving from the current system of married couple taxation to a system of either independent or household taxation." Can you define what you mean by "household"?

**The Minister for Treasury and Resources:**

Comptroller, do you want to ...

**Comptroller of Taxes:**

Yes. It is possible, at the end of the day, that although I think the majority of the States Assembly have said in the past they would like a model of independent taxation that it will produce some quite tricky issues for the Assembly. The other viable alternative is to go to some form of modern

partnership taxation, where a couple are taxed jointly, regardless of whether they are man and wife, man and woman, man and man or woman and woman, which is essentially a French model. The French have a modern form of partnership taxation. I think there are 2 viable options. You do either go to a place where individuals are taxed separately or where you recognise every different kind of couple as an equal partnership in the tax system.

**Deputy S.M. Brée:**

However, will households - the definition of the term "household" - capture anybody earning an income in that household? You might have an unmarried couple who have a 16 year-old son living with them who is earning, so will all 3 of them be encaptured by the term?

**Comptroller of Taxes:**

I think the use of "household" might be slightly misleading. I think we are talking of the taxation of couples, essentially. If there are 3 adults in a household and they are, for example, a husband and a wife and grown son working, then the grown son working would be taxed individual.

**The Treasurer of the States:**

That mirrors the system with the income support, whereby if you have the independent adult child, if you like, working, they are a separate householder to the couple.

**Deputy J.A.N. Le Fondré:**

The household is 2 adults?

**Deputy S.M. Brée:**

It is a partnership.

**The Treasurer of the States:**

Yes.

**Deputy J.A.N. Le Fondré:**

But presumably a 14 year-old with some deposit interest coming in would be captured under that household, but a 16 year-old would not be, because at that point they are treated as an adult?

**Comptroller of Taxes:**

It is really the taxation of couples as opposed to the taxation of individuals independently. I think if a 14 year-old child had enormous income, they would be taxed in their own right.

**Deputy S.M. Brée:**

Looking at the proposed differences between independent taxation and household taxation, what are the main differences, in your mind, of a modern system?

**The Minister for Treasury and Resources:**

The one point that I think is probably worth making is what one can see happened in the U.K. when they moved to independent taxation. I think this is one of the challenges the Comptroller was talking about. That was around cost, when he was referring to the fact that the States Assembly may not find it so appealing once it is known how much it is going to cost, because there are wins and losses through that process. The U.K. found this and the net result was that the U.K. dealt with it by having to put their V.A.T. (Value Added Tax) rate up by 2.5 per cent. Now, that is one way to bridge a gap, but the point I am making is that there is a cost associated, more than likely, with independent taxation. That is why we have been broadening the debate to look at other options that are going to be more neutral in terms of that issue.

**Senator S.C. Ferguson:**

Yes, but they would not be as simple.

**The Minister for Treasury and Resources:**

That indeed may be the case, but that is why the work is ongoing. We need to just consider all the facts and that is why this review of personal taxation was so important to undertake and why the first phase has completed and it will go for a period yet.

**Senator S.C. Ferguson:**

It is a good job I suggested it.

**Deputy J.A.N. Le Fondré:**

A very quick question. One observation, I think the Comptroller made reference to the States having previously suggested or leaned towards independent taxation. My memory might be wrong. I do not recall any specific debate or motion. It may have been included in a Budget paper, which would therefore come out of Treasury at that point, probably before the Minister's time.

**Comptroller of Taxes:**

It was obviously before my time. I recall in my reading into the job ...

**Deputy J.A.N. Le Fondré:**

I just flag that up, but I think it depends whether it is a collective and conscious decision or whether it is included in this lot, whether people identified it.

**Comptroller of Taxes:**

I think those are the 2 modern options. Certainly there are quite a few married people coming to the Island who remain quite perplexed.

**Deputy J.A.N. Le Fondré:**

I was going to suggest we do have the ability now to elect for independent taxation individually, do we not?

**Comptroller of Taxes:**

Not really.

**Deputy Comptroller of Taxes:**

Married couples have the ability to elect for what is called a separate assessment, but we should not confuse them with assuming that they are then being taxed individually. Effectively what separate assessment entails is that the couple provide their information and they are then taxed as if they are a married couple and then the liability of the married couple is then separated between the spouses and issued to them separately. But it is the same liability as if they had not elected the separate assessment.

**Deputy S.M. Brée:**

It is not true independent taxation by a long way.

**Deputy J.A.N. Le Fondré:**

I presume independent taxation would be: "That is my income, that is my allowance, but that is it. Anybody else I happen to be in a relationship with, that is their problem. This is my problem."

**The Minister for Treasury and Resources:**

You can't pass the liability effectively to your husband or wife or partner or whatever it happens to be.

**Senator S.C. Ferguson:**

You cannot reallocate your tax. We have had £900,000 voted to the Parishes as an *ex-gratia* payment. Can you guarantee that you are not going to seek to increase the Island-wide rate as a payment solution?

**The Minister for Treasury and Resources:**

That has not been stated. That was one of the options that was being considered when we were consulting with the Comité des Connétables, but no, that is not a proposal that is currently on the table.

**Deputy J.A.N. Le Fondré:**

It will be nice to know, Minister, we are in the home stretch in terms of questions. Why in one document, namely the Budget - and I can give you the page references if you really want - do we have calculations being deducted using 2 different population models? For example, on page 129, the Social Security Fund forecast, which is the level of benefits, has been forecast for the period and it seems to be based upon the central population model of 350, whereas on page 132, same thing, it raises the benefits forecast: "The volume of claimants expected under the central population model of plus 350." On the long-term care forecast on page 135, it refers to pretty well the same phrasing: "The level of benefits and volumes of claimants expected under the central population model of plus 700." Which one should we be using? Basically the question is why; second, is there any impact, because obviously if the Social Security Fund benefits and population numbers are different, that raises some questions; thirdly, even if it was 700, are we not closer to 1,000? Discuss.

**The Treasurer of the States:**

I think it comes back to that one. I think it is a question of different timescales over the forecast, a longer-term forecast, rather than shorter, but I will come back to you on that.

**Deputy J.A.N. Le Fondré:**

Because the point is that surely the longer-term forecast is 700 and the short-term forecast is 1,000? It cannot be 350.

**Director of Financial Planning and Performance:**

No, 700 is the number that we have been given as part of the hospital project, the population figure that we should be using.

**Deputy J.A.N. Le Fondré:**

That is a central scenario?

**Director of Financial Planning and Performance:**

Absolutely.

**Deputy J.A.N. Le Fondré:**

It does beg the question, because it does beg issues around forecast funding, deficit funding, what rate should be when, when you should be introducing contribution rates, supplementation, you name

it. Would you like to give us a response? But can I note it will probably need to be public, because it is a continuation of this. Okay, on page 95 of the Budget there is a summary table A: "Other States income, dividends." In 2019, we have an increase of let us call it £6 million, in other words the year before, 2018, is just over £9 million, and the year after, 2020, is just over £9 million and in 2019 we have £15 million coming in. What would that relate to?

**The Treasurer of the States:**

I apologise, because of my hearing, I am missing the start of the ...

**Deputy J.A.N. Le Fondré:**

Page 95, summary table A.

**The Treasurer of the States:**

Carry on, I am on the right page now.

**Deputy J.A.N. Le Fondré:**

Dividends, under: "States income." 2019 you have £15 million coming in.

**The Treasurer of the States:**

Yes. That is the timing of the anticipated S.o.J.D.C. (States of Jersey Development Company) dividend in respect of ...

**The Minister for Treasury and Resources:**

The College Gardens.

**The Treasurer of the States:**

... the College Gardens.

**Deputy J.A.N. Le Fondré:**

The College Gardens, okay. Are there any other unusual dividends anticipated in that line?

**The Treasurer of the States:**

I do not think so.

**Deputy J.A.N. Le Fondré:**

I am being curious, because obviously a previous review was on a...

**Director of Financial Planning and Performance:**

2017 I think we have got positive signs from JT., so those are reflected in the forecast for 2017. Other than that, there is...

**Deputy J.A.N. Le Fondré:**

I was expecting to see a dividend from the sale of Building 4 somewhere in there. I was hoping you are going to tell me it is in there. There is a deathly silence coming from your end.

**Director of Financial Planning and Performance:**

Yes.

**Deputy J.A.N. Le Fondré:**

Okay, so at the moment the increase is £15 million. The £6 million is basically the receipt from College Gardens. Anything else that might come down the line that was not included?

**Director of Financial Planning and Performance:**

Not yet, no.

**The Minister for Treasury and Resources:**

Not yet.

**Senator S.C. Ferguson:**

Yes. Why have you not made any decision in the Budget about measures to counteract the Long-Term Care Plan moving into a net cash consuming position in 2019? Page 136.

**The Treasurer of the States:**

I think the Minister for Social Security has discussed that. The long-term care legislation is for the Minister for Social Security. It is not a Treasury matter in terms of a budget. Social Security contributions and health insurance contributions, the Minister for Social Security has highlighted the period, in 2019 and then 2020, we should ...

**Deputy J.A.N. Le Fondré:**

I think the comment that comes out of this, it is obviously included in the Draft Budget Statement. I appreciate it has an appendix.

**The Treasurer of the States:**

The forecasted global position.

**Deputy J.A.N. Le Fondré:**

Yes. Therefore the query, we were wondering if we know it is going into a negative position, why not start putting the rates up incrementally ahead?

**Senator S.C. Ferguson:**

Particularly as it is now a tax.

**The Treasurer of the States:**

Is that a statement rather than a question?

**Deputy S.M. Brée:**

This is not the Public Finances (Jersey) Law, this is the general rules that it ...

**The Treasurer of the States:**

The Minister for Social Security has said when the rates will need to go up by. It would be a political choice to bring that in earlier than then.

**Deputy J.A.N. Le Fondré:**

I think it was more the fact that the statement does say it is just using it, because it is using underspends just to fund it, but obviously ...

**The Treasurer of the States:**

We have.

**Deputy J.A.N. Le Fondré:**

... the earlier the rates go up, the more long-term benefit, is there not, essentially? Right, okay. The Fiscal Policy Panel stated in October that making savings based on efficiencies in the public sector was highly desirable, irrespective of the economic conditions the Island faced. Given the continued uncertainty regarding the long-term outlook for the economy, this is now critical. Does this mean that public sector reform has not yet been as successful as we might have liked?

**The Minister for Treasury and Resources:**

No, I would not say that. What I would say though is it was never intended to be a start and finish programme. It is an ongoing programme and it is basically an adoption of a change of culture, that savings and efficiency, particularly the adoption of technology in that area, is an ongoing matter. I think we will see a step change with the introduction of the new chief executive of the States fulltime in January, where there will probably be a move to the next stage, which will be more of a structural nature in terms of changes, which will drive efficiencies.

**Deputy J.A.N. Le Fondré:**

When you say a step change, could you elaborate on that?

**The Minister for Treasury and Resources:**

I think in terms of the pace at which change is likely to occur.

**Deputy J.A.N. Le Fondré:**

Is it reasonable to say therefore that the pace up to now has not been as quick as it will be going forward?

**The Minister for Treasury and Resources:**

I think it is a progression, so it has evolved over a period of time. There have been a number. This current programme of public sector reform is the third reform programme, if I can put it that way, or efficiency programme the States has run, the first one being the Fundamental Spending Review, which started in 2004, I think it was.

[16:00]

Then of course there was the Comprehensive Spending Review that started in 2011. You can see a history of the States looking at trying to take out costs or taking out costs and then reinvesting it in priority areas. But structurally there is an opportunity still to do more in terms of the future cost, shape, size of the public sector.

**Deputy J.A.N. Le Fondré:**

Structurally, that has been around for the last 6 years ...

**The Minister for Treasury and Resources:**

Indeed.

**Deputy J.A.N. Le Fondré:**

... and has not really been addressed up to now.

**The Minister for Treasury and Resources:**

I think you will find that this will be a matter of priority from next year.

**The Minister for Treasury and Resources:**

I welcome that, Minister. All right, before I hand over to Simon for the next round of questions, Sarah, have you got anything?

**Senator S.C. Ferguson:**

No.

**Deputy J.A.N. Le Fondré:**

I am done. Simon.

**Deputy S.M. Brée:**

Minister, on page 78 of the Draft Budget Statement, you state that: "Allocations between heads of expenditure can be agreed by Ministerial Decision to allow the necessary transfer of functions between departments or between revenue and capital." You also state that you will present an update to the M.T.F.P. department annex for 2018 to incorporate these changes. What are these changes going to be and when will you present the update?

**The Minister for Treasury and Resources:**

The details will come ... do you have that?

**Director of Financial Planning and Performance:**

The annex is being pulled together at the moment. This has happened for the last 2 years as well, to present the changes.

**The Minister for Treasury and Resources:**

Part of the process of the Budget.

**Director of Financial Planning and Performance:**

Absolutely. Before the end of this year we will have that annex. We also do a 6-monthly report to the States, which shows any budget movements, which will include the same sorts of transfers. Also in the quarterly report that I think Scrutiny have access to that go to C.O.M. (Council of Ministers), those also have budget movement reports within them as well.

**Deputy J.A.N. Le Fondré:**

Is there any risk, particularly on revenue capital transfers, if departments are being squeezed? I am just curious what the process is if a department decides: "Oh, we have got an underspend or some capital that we can tap into and we shift across a revenue expense and thereby meet our budgetary targets."

**Director of Financial Planning and Performance:**

It depends on the request. Obviously we now have accounting standards that we have to comply with, so if you have got a project that is sitting in the capital programme, an element of that are not capital, we need to move them into revenue so that they can be accounted for properly. Those are the elements that have the least amount of scrutiny, because we can see very clearly it is to comply with accounting standards. Where departments ask for money to be moved, particularly from revenue to capital, there is a heightened process of scrutiny to understand that what you are describing is absolutely what is happening. It may be again because they are now building cells rather than shipping waste out to the U.K. or that they have a slightly different way of getting to the same answer, but for them it is quicker to use some underspend where they may have had staff savings, for example, if they have outsourced and therefore they have got some staff savings. We allow them to get on with some work, but without going through the capital programme. But that would only happen if we are satisfied that it is the best use of that money and go through a process through not only the Treasurer of the States but also to the Minister.

**The Treasurer of the States:**

Just to reiterate there that mostly the direction is for underspent revenue into capital, not the other way around. The risk you were talking about there was moving capital into revenue as opposed to revenue budgets.

**Deputy J.A.N. Le Fondré:**

No, I was thinking the other way around.

**The Treasurer of the States:**

Was it? I missed that then. It is mostly the other way, where we have underspends on revenue budgets that we are using for capital.

**Deputy J.A.N. Le Fondré:**

Okay. I am more worried about recurring costs being ... yes, that is fine. As you were talking, it did just prompt one question, which I was not going to ask, but I am going to ask it now. On the education side, I noticed that there were some additional revenue costs of £90,000 to £100,000 - I cannot remember if that was in each year - as a result of new schools or new extensions to schools. I think they were primary schools and there was a comment in there somewhere about new buildings cost more to run or something, but ...

**Director of Financial Planning and Performance:**

It is coming through the growth. You are referring to the growth allocation?

**Deputy J.A.N. Le Fondré:**

Yes, and it was revenue. Now, given that the capital project would have been known about, would the revenue not have already been fed into the budget?

**Director of Financial Planning and Performance:**

The revenue implications have to come through growth because they are revenue by nature.

**Deputy J.A.N. Le Fondré:**

That is the point, but what I mean is in the M.T.F.P., we knew that they were going to account for projects, therefore the department should have known there was some additional costs coming through it, and therefore surely that should not be growth, that should have been budgeted into their normal ...

**Director of Financial Planning and Performance:**

They are quite a good example. Where we have allocated some money to get on with developing some of the primary schools, adding some classrooms as part of underspends or potentially with this, I think Property Holdings have a programme of works they might to get on with and where Education have come to them and said: "Trinity Primary School is in need of another classroom. Is there any way that you can fit it into the programme?" They can do that, but then there is revenue implications coming through that they had not foreseen and therefore they had to come through the growth later.

**Deputy J.A.N. Le Fondré:**

It is in the period of the M.T.F.P.?

**Director of Financial Planning and Performance:**

Yes.

**The Treasurer of the States:**

But that is where we are using growth as well. If you got a capital scheme that is coming through later in the period of the M.T.F.P., the growth allocation is exactly the way to put it into the revenue you have got, rather than giving it in 2016 or 2017, when it is not needed until 2018 or 2019. We set out at the start of the M.T.F.P., saying: "This money will start to be drawn down once the school is operating." The growth bids are largely the growth bids that were, if you like, identified. They come down in the years in which they need to come down and they were largely identified in the M.T.F.P. addition.

**Deputy J.A.N. Le Fondré:**

The flaw in that comment though, Treasurer, is if the States did not approve that growth bid, then the Education Department, for example, would have a school or a classroom which it did not have the money to fund.

**The Treasurer of the States:**

It would have to be prioritised.

**Deputy J.A.N. Le Fondré:**

All right, I think that concludes the matter. Apart from the slight run-over of the last 2 or 3 minutes, we have pretty well kept to time, so I will say thank you very much. It has been a long session, but I think it has been quite a good session, from our point of view anyway. You are vaguely still smiling down the other end, so I hope we have not been too rough on you today. Thank you very much for your time, thank you to everybody in the public gallery and that concludes the hearing.

[16:07]