STATES OF JERSEY

DRAFT BUDGET 2012 (P.159/2011): AMENDMENT

Lodged au Greffe on 14th October 2011
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PAGE 2 –

After the words "as set out in the Budget Statement" insert the words –

> "except that estimate from 'New Company Fees via Financial Services Commission' shall be increased by £3,700,000 by increasing the additional charge payable to the States from the annual company registration fee from £115 to £230 and the estimate of income tax from Employees shall be decreased by £3,700,000 by increasing income tax exemption thresholds by 6.85% and not by 4.5% as proposed in the Budget Statement".

DEPUTY G.P. SOUTHERN OF ST. HELIER

Note: Although Summary Table A on page 48 of the Budget Statement refers to the £3,700,000 income coming from 'New Company fees via Financial Services Commission' the income from the additional charge payable to the States is also received as part of the annual registration fee for existing companies.

REPORT

Unbalanced taxes

There can be no doubt that there has been a major transfer of the burden of taxation away from businesses and on to employees since the arrival of the "zero/ten" tax policy and the competitive "race to the bottom" on company tax with the Isle of Man and Guernsey. This transfer is illustrated by figures I produced last year shown here.

Company Tax versus Personal Tax 2000 – 2011

Year	**Total general revenue income £m***	**Company Tax £m**	**%**	**Personal tax (IT + impots + GST)**	**%**
2000	398	208	**52**	166	**42**
2001	415	227	**55**	181	**44**
2002	436	215	**49**	198	**45**
2003	444	216	**49**	218	**49**
2004	445	212	**48**	212	**48**
2005	467	202	**43**	242	**52**
2006	524	217	**41**	257	**49**
2007	559	238	**42**	290	**52**
2008	660	233	**35**	352	**53**
2009	674	214	**32**	391	**58**
2010	496 (E)	79(E)	**15**	362 (E)	**73**
2011	521 (E)	65 (E)	**12**	436 (E)	**84**

* 2000-2006 Treasurer's Report p.xi. Financial Report and Accounts, 2006
2007-2008 Treasurer's Report Table 2, p.7. Financial Report and Accounts, 2008
2009 Treasurer's Report Table 4, p.8. Financial Report and Accounts, 2009
(E) Estimates Draft Budget Statement 2011 Summary Table B p.74

The latest figures shown in Summary Table A of the Draft Budget Statement 2012 reveal this imbalance again:

2010 Actual £ m	2011 Revised Est. £ m	Income Tax	2012 Estimate £ m
271.6	274	Employees	296
83.3	74	Companies	76
44.2	65.6	GST	80
49.4	53.4	Impots	54.5
508	530	Total tax	575
72%	74 %	% personal tax	75%

The transfer of the tax burden to personal tax (income tax + GST + Impots) continues. Despite the apparent generosity of the Minister for Treasury and Resources with his much-vaunted “good news budget”, the overall personal tax revenue has increased by £37 million from 2011 to 2012. Of course, some of that increase is due to the full year revenue produced from GST. Examination of the simple income tax figures show that even with full indexation of exemptions, and the increase in childcare tax allowance, personal income tax has increased by £22 million (8%) while company tax rises by a mere £2 million (3%).

Business tax: Charges and Fees

As personal tax rises, company tax is further reduced from 16% of total tax to 13% over the period of the 3 Ozouf budgets. Not only do we see the impact of reducing tax on finance companies to 10%, but we now see a complete loss of revenue from non-locally owned, non-finance companies. These companies effectively can come to Jersey to trade for free.

Despite repeated assurances from the Minister for Treasury and Resources that the issue of obtaining revenues from these foreign companies will be addressed in this budget, he has singularly failed to address the issue:

18th January 2011 Senator P.F.C. Ozouf:

> “Let me just be clear that Deputy Southern is not going to write my script in terms of saying that I will not find a solution. (to the non-local non-finance companies paying zero tax)……. As a result of the Deputy of Grouville’s amendment to the budget, which was accepted, I will be working on trying to find ways of raising revenue from those entities in Jersey….”

This commitment became firm by March:

1st March 2011 Hansard

> **Question:** “Will the Minister inform Members what mechanisms he has under consideration to replace the income tax revenue from non-finance companies lost through the replacement of the 20 per cent rate by the zero-tax rate?”
>
> **Answer:** “Statements on taxation matters happen at the budget. I have said that in the Assembly before, and I will say it again now***. It is a matter that will be brought forward in the budget.”***

The Minister has singularly failed to produce the goods; the report of the Draft Budget 2012 contain no measures to solve this problem:

> *“Specific areas of focus over the next 2-3 years will include:*
>
> - *Continuing to review ways in which additional revenues can be obtained from non-financial companies” (p.43)*
>
> ***“Taxation of non-financial service companies***
>
> *“The Minister for Treasury and Resources was requested last year to bring forward a new mechanism to raise additional revenues from certain non-locally owned non-finance companies trading in Jersey, but provided that to do so would not jeopardise the integrity of Jersey’s business tax regime or its international competitiveness. As described during the 2011 Budget debate,*

such changes might include increasing the scope of the 10% or 20% rates of corporate tax or introducing some form of charge.

This matter was incorporated into the Business Tax Review and a significant amount of research has been carried out, including a review of the economic impact of the options available. The Minister will consult on a mechanism to raise additional revenues from these companies." (p.45)

In short then, the balance of taxation has shifted massively from business to personal tax and this trend is continued in the 2012 budget. In addition, there has been nothing brought to this budget by the Minister to raise revenues from non-locally owned, non-finance who currently trade for free in Jersey. The question of what we can do to rebalance the burden of taxation must surely be asked.

If we cannot introduce a tax rate higher than zero, for fear that the exco's and IBCs will leave *en masse*, then we have to rely on charges or fees in order to recoup some of the revenue from those non-finance companies now subject to zero tax.

One of the fees or charges made on businesses which trade in Jersey is the annual return fee. This appears in Summary Table A, States Income 2012, on page 48. Here it is described as "New Company Fees via Financial Services Commission" and is given as £3,700,000 for 2011 and 2012.

In the Jersey Financial Services Commission Annual Report and Accounts 2010 these Registry fees appear as follows –

"b) Registry fees

Registry fees comprise income derived from the operation of the Companies Registry, the Business Names Registry, the Registry of Limited Partnerships and the Registry of Limited Liability Partnerships.

Registry fees include annual return fees.

The amount of the annual return fee payable to the Registry comprises two elements – an amount (£35) payable to the Registry to cover its administration costs and an additional amount (£115) set by, collected on behalf of, and payable to, the States of Jersey. The number of annual returns received during the year was 32,149 (2009 – 32,532).

	2010	2009
	£, 000	£, 000
Total annual return fee income	**4,822**	4,880
Less collected on behalf of, and payable to, the States of Jersey	**3,697**	3,741
Retained by the Registry	**1,125**	1,139"

Companies (Annual Returns – Additional Charge) (Jersey) Regulations 2008

"THE STATES, in pursuance of Articles 201(2) and 220(1) of the Companies (Jersey) Law 1991, have made the following Regulations –

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1 Additional amount payable on making of annual return

The additional amount required to be paid, under Article 201(2) of the Companies (Jersey) Law 1991, upon the delivery to the registrar of an annual return of a company, is £115.

Legislation	**Year and No**	**Commencement**
Companies (Annual Returns – Additional Charge) (Jersey) Regulations 2008	R&O.120/2008	30 September 2008"

The JFSC sets out these fees on its website thus:

" JERSEY FINANCIAL SERVICES COMMISSION

COMPANIES FEES

Notice published in accordance with

Article 15 of the Financial Services Commission (Jersey) Law 1998 as amended

Article 201 of the Companies (Jersey) Law 1991 as amended

Commencement date

The fees set out in this notice are effective from 17 July 2009.

Interpretation

In this notice –

"Additional Charge Regulation" means the Companies (Annual Returns – Additional Charge) (Jersey) Regulations 2008, as amended.

"Commission" means the Jersey Financial Services Commission

"Commission Law" means the Financial Services Commission (Jersey) Law 1998 as amended

"Law" means the Companies (Jersey) Law 1991 as amended.

SCHEDULE 1

PART 1

FEES TO BE PAID TO THE COMMISSION

5	71 and 127YE	Receipt of annual return for a company (other than by a company whose income is exempted from income tax by virtue of Article 115(a) of the Income Tax (Jersey) Law 1961).	£150*
		Plus, where the company is a cell company, in respect of each cell of the company.	£150*
	Commission Law 15(6)	Plus (a) where the annual return is delivered after the end of February in the year in which it is due but before the end of April in that year, in respect of the company and in respect of each cell of the company (if any); or	£100
		(b) where the annual return is delivered after the end of April in that year, in respect of the company and in respect of each cell of the company (if any).	£200

* The Commission requires the payment to it of £35 pursuant to Article 201(1) of the Law. Pursuant to Article 201(2) of the Law, an additional amount in the sum stated in the Additional Charge Regulation must accompany the £35 fee. As at the date of publication, the additional amount payable to the Commission is £115 and the total sum payable to the Commission as the Annual Return Fee is therefore £150. ”

This fee structure has been in place since 2008:

Total fee payable to the JFSC	£150
Of which remitted to States’ Treasury	£115
Fee to JFSC	£ 35

The level of fees has remained fixed since 2008 and updated annually (approximately) in July 2009, August 2010 and May 2011. Over this period we have seen company income tax reduced from 20% to either 10% or 0%. Companies have seen their tax bills reduced massively from around £230 million to some £75 million.

This proposition means that the portion of annual return fees which is remitted to the States will double from £115 to £230. I do not know what proportion of the total is due to the late fees, but these should also be doubled. This is the first fee rise in

4 years. It will contribute a relatively minor sum to rebalancing the tax divide between business and personal tax.

A tax cut

The second part of this amendment returns the sum of £3.7 million to the hard-pressed pockets of low and middle earning taxpayers. The Minister for Treasury and Resources points proudly to his “good news” budget, but ignores the fact that GST will continue to be charged on essentials and that personal tax (both direct and indirect) will rise by £37 million in 2012.

He is of course to be praised for raising the childcare tax relief on families with young children, which will bring £1 million of relief to some. He is also to be praised for fully indexing income tax exemptions, a move that I have pressed for since 2002. Without full indexation, as salaries rise, no matter how slowly, the Treasury benefits from a “fiscal drag” effect as more low earners are dragged into the tax net. Indexing exemptions also benefits most those at the lower end of the pay scales on 27%, with proportionately less effect on those earning slightly more.

Full indexation (4.5%) merely has the effect of maintaining the status quo. The Minister for Treasury and Resources has chosen to ignore any positive moves to kick-start the economy to get us out of the recession. He intends to cut a total of £65 million from public spending at a time when the economy is already depressed. There are no signs of economic recovery; nor does the Economic Growth Plan produced by the Minister for Economic Development offer much hope for growth. This is one of 2 propositions to attempt to support the economy which is flat-lining and may be about to follow Europe into double-dip recession.

The answer is to stimulate the economy using fiscal measures, that is, a tax cut.

This is a small measure, but I believe it is a necessary one. The removal of £3.7 million from the income tax bills of low to middle earning taxpayers could produce a boost to the local economy. Some might be used to pay off debt, but is likely that the majority will be spent in what remains a tough world to survive in.

The addition of an extra £3.7 million to exemptions means that a total of £10.7 million might be available to stimulate the economy. One would be hard-pressed to find an economist of any school, right or left, to disagree that such a mechanism is appropriate. There might be argument that this is too little, too late, but the responsibility for that lies elsewhere.

Financial and manpower statement

This amendment is financially neutral and has no manpower requirements.