

**STATES OF JERSEY**

**BUDGET**

**STATEMENT 2010**

**AS AMENDED 10.12.09**

**MINISTER FOR  
TREASURY AND RESOURCES**

## DRAFT BUDGET STATEMENT 2010

### PROPOSITION

**The States are asked to decide whether they are of opinion:**

- a) to approve the estimate of total taxation revenue in 2010 of £518,680,000 **(£514,430,000 as amended)** as set out in summary table A on page 40 of the Budget Statement, with the sum to be raised through existing taxation measures, the proposed changes to income tax and impôts duty **(the changes to impôts duty were rejected by the States)** and the introduction of a vehicle emissions duty and a land transactions tax for 2010 as set out in the Budget Statement;
- b) to agree that the sum of £37,000,000 should be transferred to the Consolidated Fund from the Stabilisation Fund in 2010.

**MINISTER FOR TREASURY AND RESOURCES**

# **ADDENDUM**

## **Introduction**

As a result of the debate on the Draft Budget Statement 2010 which concluded on 10th December 2009, the following amendment was approved:-

## **Impôts Duty**

That the proposed estimate of total taxation revenue in 2010 shall be decreased by £4.25 million by removing all proposed increases in impôts duty on alcohol, tobacco and fuel for 2010.

## **Summary**

As a result of the agreed Amendments to the Budget 2010, the total taxation revenue of the States in 2010 is estimated at £514,430,000, total States income in 2010 is estimated at £554,040,000, the estimated deficit in 2010 will increase to £64,414,000 and the balance on the Consolidated Fund at the end of 2010 is estimated to be £15,663,000.

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# 1. FOREWORD

## MINISTER FOR TREASURY AND RESOURCES



This Budget is set against the backdrop of the most serious global economic crisis for a generation. Jersey is not insulated from world events and whilst we have seen a lag between global developments and their impact on the island, we have been and will continue to be affected. There is a risk of complacency and I have no intention of letting this happen. This Budget aims to lay the foundations for a sound and long-term financial framework, to deliver necessary public services and position Jersey for sustainable economic growth when the global economy recovers.

We start from a position of strength and this is thanks in no small measure to the foresight of my predecessor Senator Le Sueur. In the last few years our tax base has been broadened, we have protected our reserves and created a Stabilisation Fund. This fund has enabled a stimulus to the economy in the downturn whilst maintaining the level of essential services without incurring a debt for future generations, unlike most other nations.

We do face a challenging schedule over the next twelve months. Whilst managing the £44 million fiscal stimulus project, I will continue to assess appropriate projects to provide stimulus to the economy, with the valuable input of the Corporate Services Scrutiny Panel.

I now need to produce a contingency plan to deal with a potential structural deficit of £40 million to £50 million which could occur in 2012 and beyond. In addition, there are potential threats to our tax structure and significant spending pressures of an ageing population, improvements in healthcare and replacement of infrastructure.

In this Budget I am proposing to recover the additional expenditure agreed in the recent Business Plan debate. I am responding to the concerns shared by the Home Affairs and Health Ministers relating to the effects of alcohol consumption. Therefore I will be supporting the Health Minister to develop new alcohol and tobacco strategies and at the same time to consider a policy which would seek to bring duty and tax in line with UK levels over the next three to four years. Having considered the options I am proposing increases to alcohol and tobacco duty, above the annual RPI increases, sufficient to fund the £1.6 million additional revenue expenditure agreed for Health.

As I stated in the Town Park debate it is my intention to undertake a review of the future indicative capital programme and to reduce funding from the 2011 to 2014

equivalent to the additional capital expenditure approved. I will return to the States with these proposals as part of the 2011 Business Plan.

I have discussed with the Economic Development Minister the contribution that the marine sector is making to the economy. The outcome is that I have required a financial return from the Harbours Trading Account of £200,000 in 2010 - this is equivalent to about a third of the marine fuel duty concession and I regard this as a first step. This financial contribution was agreed as part of the Business Plan.

In last year's Business Plan it was agreed to go out to further consultation on the options for funding the environmental initiatives for energy efficiency, recycling and transport. Consultation has been carried out with the Minister for Planning and Environment. I am including proposals for a low level Vehicle Emissions Duty as part of this Budget. The proposals are for the introduction of this duty to be deferred until September 2010 at a time where we would expect to be seeing the first signs of economic recovery. In the meantime I am proposing an additional increase in fuel duty which, together with the introduction of VED, will provide funding in 2010 equivalent to the £2 million (**£0.5 million as amended**) of environmental initiatives agreed in the Business Plan.

Earlier this year I committed to review the effect of the "20 means 20" proposals based on the first three years of the five year scheme. These proposals continue to deliver the required progressive element to the fiscal strategy alongside GST and ITIS and after giving careful consideration I am clear that it is important that these are maintained. The fourth year of withdrawal of allowances will affect those on higher incomes and the significant increases in the tax exemption thresholds over the last three years have protected those on low to middle incomes from the full effect of the proposals. The 5% increase in exemption thresholds agreed in last year's Budget will benefit those middle and lower income earners in 2010, which is appropriate in the current downturn.

I am proposing that the long awaited Land Transactions Tax will commence from 1 January 2010. This will bring equity to stamp duty on residential property transactions by capturing those share transfer transactions that previously had been free from duty.

I have also given careful consideration to the reports of the Corporate Services Scrutiny Panel in relation to "Deemed Rent" and I am proposing an important step to remove the anomaly whereby tax breaks have been available to UK Superannuation Funds. Whilst it is difficult to estimate precisely the exact revenue from this measure it has the potential to raise a reasonable level of income to the States. I restate my commitment to finding an effective revenue raising measure for non-locally owned companies as part of my Fiscal Strategy Review.

The financial forecasts have been revised since the Business Plan to take account of the increases in expenditure that were approved and also to reflect improved forecasts of States income. The estimated deficits shown in the financial forecasts at Figure 3.2 of £60 million and £68 million (**£64 million and £72 million as amended**) for 2010 and 2011 respectively can be funded from the Stabilisation Fund, after which it would be almost exhausted. Action will need to be taken to avoid deficits in subsequent years and I will not allow such deficits to happen.

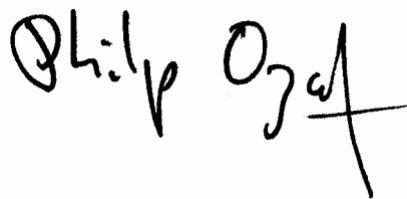
There is still a high level of uncertainty within these forecasts, as illustrated by the range of outcomes in Figure 3.1, and we will continue to review the economic assumptions and revise the forecasts as new data becomes available. The Fiscal Policy Panel will provide a further update in November to inform the Budget debate. The Island is fortunate to have access to this level of independent and expert economic advice during a period of such financial and economic uncertainty, not least advice that led to the current discretionary fiscal stimulus and funds to sustain deficits over the next two years.

Over the next twelve months we will commence two significant new projects; a Comprehensive Spending Review (CSR) and a wide ranging Fiscal Strategy Review (FSR). I want to ensure that there is a realistic and honest debate on tax and spending. I will do everything I can to ensure that the Island has the appropriate options to enable an informed debate about what the level of public spending and taxation should be. I am determined to do everything I can to deliver savings and realistic efficiencies. To do this will require a strong and restructured Treasury and finance function, and I will achieve that. The aim is for the appropriate manpower, resources and skills to be put in place to deliver these essential projects to maintain strong financial management across the States.

I am committed in the next twelve months to review the return from all States owned companies, including the States of Jersey Development Company (SoJDC), to ensure that the public are getting an appropriate return from these investments.

This Budget seeks to address the short-term issues and provide some consolidation following a period of significant fiscal change arising from the previous fiscal strategy. The CSR and FSR must identify the information, analysis and options with which to address the medium to long term challenges on tax and spending. The result must be a strategy which will enable Jersey to remain competitive as a leading finance jurisdiction.

I should also like to record my appreciation for the support of the Council of Ministers and my Assistant Ministers in bringing together this Budget and following on from the challenges of the recent Annual Business Plan. I should also like to thank the Treasurer of the States, the Comptroller of Income Tax, the Customs and Immigration Director responsible for revenue, the Economic Adviser, the Law Draftsman and the small dedicated team of officers working in the Treasury, without whom this Budget Statement and the associated proposals could not have been produced in such a timely and efficient manner.

A handwritten signature in black ink that reads "Philip Ozouf". The signature is written in a cursive, slightly slanted style.

**Senator Philip Ozouf**  
**Minister for Treasury and Resources**

**October 2009**

## 2. EXECUTIVE SUMMARY

### Introduction

The 2010 Budget consolidates the position from the last fiscal strategy and proposes to recover the additional expenditure agreed in the Business Plan. The Budget also introduces the Comprehensive Spending Review and Fiscal Strategy Review which will identify the tax and spending options to address the likely structural deficit and lay the foundations for sustainable finances, sustainable public services and sustainable growth when the economy recovers.

The key features of the 2010 Budget are as follows:

### Income Tax Proposals

The Minister's income tax proposals in the 2010 Budget are to:

- Maintain income tax exemption limits at 2009 levels;
- Abolish Article 115(g) and 115 (ga) removing tax breaks for UK Superannuation Funds as a first step in the Blampied proposals;
- Close loopholes and improve interpretation of the 0/10% provisions within the Income Tax (Jersey) Law 200-; and
- Align the Income Tax (Jersey) Law 200- with the Goods and Services Tax Law.

### Goods and Services Tax Proposals

The Minister is proposing various changes to the GST Law and Regulations following the experience of the first year of operation. The proposals can be summarised as follows:

- Extending GST exemption to higher education
- Business facilitation and administrative measures
- Anti-avoidance measures
- Align the GST Law and Income Tax (Jersey) Law 200- and Regulations

### Impôts Duty Proposals (as amended)

The Minister's impôts duty proposals were to:

- Increase alcohol and tobacco duty to recover £0.7 million and £0.9 million respectively which is equivalent to the £1.6 million additional funding allocated to Health and Social Services in the 2010 Business Plan;
  - Align tax and duty rates on tobacco with those in the UK over a three to four year period;
  - Increase fuel duty by 4 pence per litre, including 3 pence to provide funding for environmental initiatives ahead of the proposed introduction of a Vehicle Emissions Duty (VED) from September 2010; - **this was rejected by the States.**
  - The increase in duty to give effect to these proposals represent:
    - 58 pence on a litre of spirits;
    - 7 pence on a bottle of wine;
    - 2 pence on a pint of ordinary beer;
    - 30 pence on a packet of 20 cigarettes;
    - 4 pence on a litre of petrol
- **but these were rejected by the States.**



- Support the Health Minister to respond to health concerns relating to alcohol and tobacco by developing new strategies including a policy which in time would bring duty and tax on alcohol and tobacco in line with UK levels.

The Health and Social Services department supports the proposals which are in line with the current States alcohol and tobacco strategies.

The Treasury and Resources and Economic Development Ministers have discussed the contribution that the marine sector is making to the economy. The outcome is that a financial return has been required from the Harbours Trading Account of £200,000 in 2010; this is an initial contribution and equivalent to about a third of the marine fuel duty concession. This financial contribution was agreed as part of the Business Plan.

### **Proposals relating to Stamp Duty**

The Minister's main proposal relating to stamp duty is the introduction of a Land Transactions Tax from January 2010. This tax will ensure that residential share transfer property transactions are liable to the same level of tax/duty as equivalent freehold property transactions.

There are no proposals to change stamp duty bands or rates at this time recognising the fragile state of the housing market.

The proposed stamp duty review has been deferred pending the new fiscal strategy review.

### **Funding Environmental Initiatives**

Following further consultation during the year the Minister is proposing a low level Vehicle Emissions Duty (VED) with similar exemptions and discounts to the previous Vehicle Registration Duty which would be introduced from September 2010, raising £0.5 million in 2010 and generate £2 million in a full year.

### **Financial Forecasts (as amended)**

- The figures have been updated since those published in the draft 2010 Business Plan to reflect the increases in expenditure agreed as a result of the Business Plan debate; a review of income tax forecasts; and a review of all other States income.
- The revised forecasts show that the intended surplus in 2009 ahead of the move to 0/10% corporate tax structure has improved since the draft Business Plan, but that the financial position from 2010-2012 is little changed.
- Looking forward to a period where the Island is recovering from the downturn, the overall loss in tax from 0/10% could be slightly less than previously expected resulting in a potential ongoing structural deficit in the central range of between £40 million and £50 million.  
**The deficit has increased by £4.25 million per annum as a result of the successful amendment of Deputy Power to freeze impôt duties and reduce proposed revenues by £4.25 million per annum from 2010.**
- The extent of the potential structural deficit will be influenced by a number of factors, not least the depth and duration of the economic downturn, but it also relies on current spending targets agreed in the 2010 Business Plan being

adhered to. The proposed Comprehensive Spending Review will focus on delivering more sustainable levels of public expenditure.

- The Fiscal Strategy Review is intended to identify options for increasing income to address the potential structural deficit and return to balanced budgets.
- There remains a high level of uncertainty within the financial forecasts and this is indicated by the range of possible outcomes in the forecast graph at figure 3.1 on page 13.

### **Stabilisation Fund**

The Stabilisation Fund was established to enable funds to be provided in a downturn to maintain the level of public services. The Minister took a proposition to the States in May 2009 to agree the use of the fund for a Fiscal Stimulus package.

The Fiscal Stimulus package includes £44 million transferred to the Consolidated Fund (the States "current account") and to be used for discretionary stimulus projects subject to agreed criteria and targeted at stimulating certain sectors of the economy. A further £112 million was also earmarked to replace the predicted fall in States revenues as a result of the current economic downturn.

In this Budget a transfer from the Stabilisation Fund of £37 million is proposed to replace the fall in States revenues in 2010 and to enable a working balance of £20 million to be maintained in the Consolidated Fund in 2010.

### **Consolidated Fund**

The balance on the Consolidated Fund is estimated to be at a minimum working balance of £20 million (**£16 million as amended**) at the end of 2010. The financial forecasts indicate further significant deficits in 2011 and beyond. The Fiscal Strategy Review and Comprehensive Spending Review will identify measures and options from which decisions will need to be taken to ensure the forecast deficits do not cause the Consolidated Fund to be overdrawn.

### **Proposals for the coming year:**

#### **Comprehensive Spending Review (CSR)**

The proposals are for longer-term financial planning with three year spending limits which, once set, are adhered to. This process could replace the Strategic Plan and Annual Business planning structure. The review would draw on experience from the UK, France, Canada and other jurisdictions. It would focus initially on in-depth reviews of the main spending departments and also a review of pay and remuneration. The objective would be to determine an appropriate and sustainable level of spending after identifying a target level of savings for all departments.

#### **Fiscal Strategy Review (FSR)**

The Minister announced in October the plans for an Island Fiscal Strategy Review to ensure an appropriate level of public services can continue to be sustained from public finances in the face of significant pressures, not least the likelihood of a structural deficit in future years. Following extensive analysis, review and consultation the Minister's intention is for initial proposals for appropriate fiscal measures to be considered later in 2010 in preparation for the 2011 Budget.

# 3. FINANCIAL FORECAST

## **Background**

The financial forecasts have been produced twice this year: in March to inform the Business Plan and the Fiscal Stimulus; and then in October to inform the Budget.

The forecasts in March showed a significant deterioration in the financial position from those produced in October 2008 for the 2009 Budget, the forecast deficit in 2010 increasing from £1 million to £51 million.

The latest forecasts reflect States expenditure approvals agreed in the recent Business Plan and a revised forecast of all States income. The economic assumptions on which the future forecasts are based have also been revised.

## **Analysis of the Forecast (October 2009)**

### Expenditure approvals

Since the draft Annual Business Plan 2010 was lodged in July the States has considered and approved the expenditure proposals, including some significant amendments. The approved spending levels for 2010 have increased by £1.6 million in revenue expenditure and £11.5 million for capital expenditure, so in total over £13 million. The Minister's intention is to reprioritise the indicative 2011-2014 capital programme to recover the additional expenditure and these proposals would form part of the 2011 Business Plan proposals.

In the case of the £1.6 million revenue expenditure the increases recur, so increasing the deficit in all future years, unless additional taxes are raised equivalent to this spending. The Minister is therefore proposing additional increases in impôts duty to fund these agreed increases in Health spending.

Not only have expenditure approvals for 2010 been exceeded but a number of additional expenditure approvals have been agreed in 2009 which draw down further funds from the Consolidated Fund, e.g. Reciprocal Health Agreement (£2.9 million), Historic Child Abuse Enquiry (£4.3 million), Pandemic Flu (£1.3 million), Williamson Review implementation (£1.3 million).

The new information available since the forecasts of States revenues were last prepared in March 2009 have identified a number of variations which are summarised as follows:

### Income Tax

The income tax assessments for the current year are substantially complete and show that the expected receipts for 2009 are £14 million higher than forecast in March. The main driver of the improvement is better than expected performance from investment income. In terms of future years the forecasts are influenced by the latest economic assumptions and these are largely unchanged from those in March.

The main change since the March forecasts has been a review of the effect of the move to a 0/10% corporate tax structure. The review has been able to use the latest tax data on company profits and apply similar assumptions in respect of the relative effect on different companies of the new structure. The result of the review is that the effect of 0/10% in terms of the loss of corporate tax is likely to be less than previously forecast. This is primarily because company profits and therefore company tax have fallen with the downturn, so the loss of corporate tax to 0/10% has reduced proportionately.

Overall, taking into account a slightly improved starting position in 2009 and a reduction of the expected loss from 0/10%, the income tax forecasts have improved over the forecast period. However, it must be reiterated that there remains a high level of uncertainty within the forecasts based on the economic assumptions and the uncertainty about the scale and duration of the downturn.

#### Goods and Services Tax (GST)

There is now a full year's data from the GST system and whilst it will be some time before any reasonable trends or seasonal variations are identified, the data on which to base the forecasts is now more complete. The first seven months of 2009 suggest that the forecast of £50 million for the first full year should be achieved. This suggests that the previous forecasts were robust and as predicted there will be only a limited effect of the downturn on what is essentially a consumption tax. This is also the trend seen in the UK in respect of VAT receipts in previous downturns.

#### Impôts Duties

As with GST the importation and consumption of commodities subject to Impôts duties do not seem to have been materially affected by the downturn. The forecasts for 2009 are slightly better than in March, and, as a result of the proposals in this year's Budget, the forecasts for future years have increased.

The major change during 2010 will be the introduction of a Vehicle Emissions Duty, if agreed, this will provide a further £2 million of duty in a full year. It is assumed within the forecasts that the rates of alcohol duty growth are maintained above inflation and that the proposal to harmonise tobacco duty with the UK is followed through, as a result of this there is a further increase in the future forecasts **(this will need to be reviewed following the successful amendment of Deputy Power to remove all impôts duty increases in 2010)**.

#### Stamp Duty

The housing market has seen a significant reduction in the turnover of properties in the last twelve months, essentially from the second half of 2008. It had been expected that the reduced demand and turnover, coupled with a loss of confidence due to the downturn, would see house prices fall quite significantly as they have done in the UK. In fact the house price index has held up better than expected. Consequently the forecasts have been revised to reflect a much smaller fall in house prices. This factor combined with slightly better trends in 2009 to date have resulted in the stamp duty forecasts being revised upwards by as much as £5 million in each year.

2010 will see the introduction of a Land Transactions Tax (LTT), for which a cautious yield of £1 million has been estimated, as there is currently no data on the value or

volume of share transfer residential property transactions available. Once LTT comes into force then statistics will be collected which will help future forecasting

### Other Income

There are two main variations in the forecasts of other income. Firstly, there have been announcements relating to the automatic exchange of information. This will mean that the current revenue from EUSD Retention Tax of about £9 million will disappear from 2012, or maybe sooner. Although previously the forecasts had assumed a diminishing return as the level of retention tax increased, this is now a more significant loss of revenue in the next couple of years.

The other main variation in the forecasts is in respect of investment income from cash balances. This is the return from the investment of the States "current account", the Consolidated Fund, and also funds from the Currency and Coinage account. With interest rates at an all time low the investment income forecast has reduced. The size of the Consolidated Fund to invest has also reduced, mainly due to unplanned additional expenditure approvals in 2009. The reductions in Other Income forecasts partly offset the improvements in Stamp and Impôts duty revenues.

### Overall Financial Position

The revised financial forecast at Figure 3.2 shows that notwithstanding the amendments to increase States expenditure in the business plan the financial position from 2010-2012 is little changed. In each of these three years there are significant deficits.

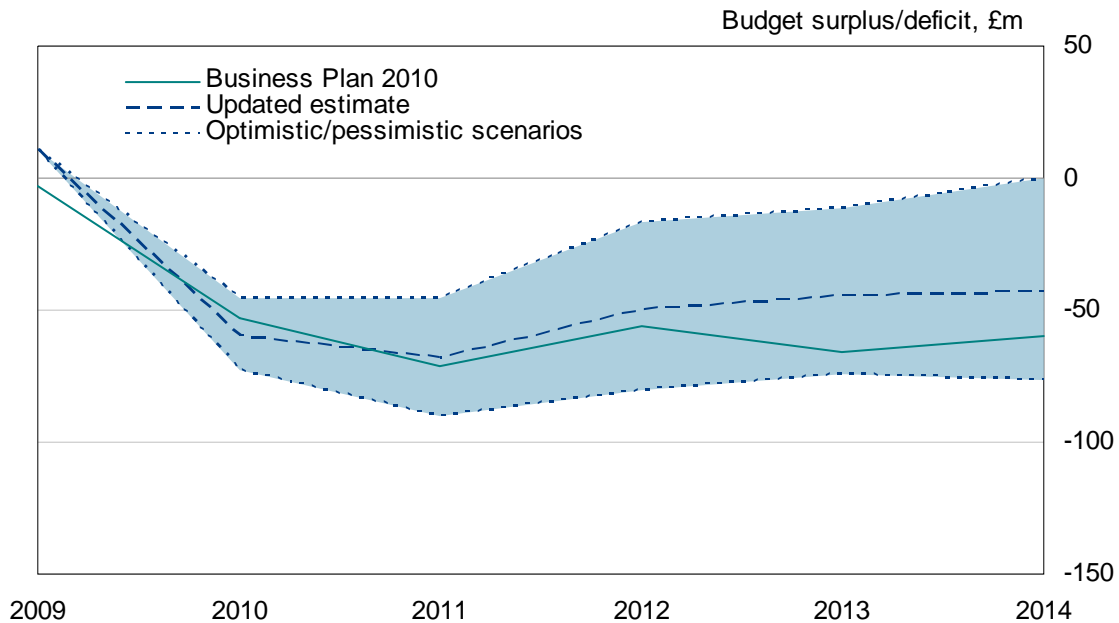
The financial position has improved in 2009 to a surplus of £55 million; this is before the Fiscal Stimulus. But, this is still £11 million down on the surplus expected in 2009, ahead of the move to 0/10% and predicted in the 2009 Budget.

The principal variation in the financial position is looking ahead to 2013 when the Island should be recovering from the downturn. In March the forecasts were for a possible structural deficit of between £50 million and £60 million, which has now reduced to between £40 million and £50 million.

However, there are still high levels of uncertainty in the forecasts and the achievement of the forecast financial position relies on States spending not increasing above the levels agreed by the States, which have not previously been adhered to. The forecasts also rely upon the Jersey economy continuing to show low levels of growth in what will be an uncertain global economy. In this context the views of the Fiscal Policy Panel are important in that they stress that most of the risks in relation to economic growth, tax revenues and from expenditure pressures are more likely to result in a deterioration of the forecast financial position rather an improvement.

The graph at Figure 3.1 illustrates the change from the March forecasts used in the Business Plan and the potential range of outcomes over the forecast period.

**Figure 3.1**  
**Forecast Range of Outcomes for the Financial Position**



Stabilisation Fund

Following the agreed transfer of £63 million in 2009, the Stabilisation Fund has a balance estimated at £156 million. The States agreed a proposition in May to apply £44 million for a discretionary fiscal stimulus package and the balance of the Fund to be applied to enable public services to be maintained as States revenues are reduced during the downturn and additional expenditure on benefits is required. According to the latest forecast £37 million will be required in 2010 with a further transfer of £68 million required in 2011, after which the Stabilisation Fund will be almost exhausted.

Consolidated Fund

The Consolidated Fund, the States “current account”, has in recent years been in surplus and has provided sums to establish and top-up the Stabilisation Fund. This was part of an agreed counter-cyclical policy. The Fiscal Policy Panel has commented that a minimum working balance of £20 million be retained in the Consolidated Fund to provide for unforeseen items and manage variations in States revenue forecasts. In 2009 for example, there have been significant approvals under Article 11(8) amounting to £18 million.

At the end of 2010 there will be an estimated balance of £20 million (**£16 million as amended**). After the Stabilisation Fund is exhausted in 2011 only a small balance, estimated at £20 million (**£12 million as amended**) will remain in the Consolidated Fund against a predicted deficit in 2012 of £50 million (**£54 million as amended**). If no action is taken then the Consolidated Fund would be overdrawn. The Public Finances (Jersey) Law 2005 does not allow a budget to be set projecting the Consolidated Fund as overdrawn. The Fiscal Strategy Review will need to identify options to implement as early as 2012 to address the potential structural deficit.

**Figure 3.2 Revised Financial Forecast (October 2009) (as amended)**

| Probable<br>2009<br>£m    |  | Forecasts   |             |             |
|---------------------------|--|-------------|-------------|-------------|
|                           |  | 2010<br>£m  | 2011<br>£m  | 2012<br>£m  |
| <b>States Income</b>      |  |             |             |             |
| 499                       | Income Tax                                     | 472         | 469         | 495         |
| (11)                      | 0/10% Corporate Tax Structure                  | (81)        | (78)        | (82)        |
| 50                        | Goods and Services Tax                         | 51          | 52          | 54          |
| 51                        | Impôts Duty                                    | 52          | 55          | 55          |
|                           | Proposed Environment Tax                       | 2           | 2           | 2           |
|                           | <b>Amendment - Deputy Power</b>                | <b>(4)</b>  | <b>(4)</b>  | <b>(4)</b>  |
| 19                        | Stamp Duty                                     | 21          | 22          | 24          |
|                           | Land Transaction Tax (Share Transfer)          | 1           | 1           | 1           |
| 34                        | Other Income                                   | 29          | 30          | 29          |
| 11                        | Island Rate                                    | 11          | 11          | 12          |
| <b>653</b>                | <b>States Income</b>                           | <b>554</b>  | <b>560</b>  | <b>586</b>  |
| <b>States Expenditure</b> |  |             |             |             |
| 542                       | Net Revenue Expenditure                        | 586         | 611         | 620         |
| 18                        | Additional expenditure                         |             |             |             |
| 38                        | Net Capital Expenditure Allocation             | 32          | 21          | 19          |
| <b>598</b>                | <b>Total States Net Expenditure</b>            | <b>618</b>  | <b>632</b>  | <b>639</b>  |
| <b>55</b>                 | <b>Forecast Surplus/(Deficit) for the year</b> | <b>(64)</b> | <b>(72)</b> | <b>(53)</b> |

The revised Financial Forecast reflects the successful amendment of Deputy Power to remove all proposed impôt duty increases which reduces the forecast of impôt duty revenues by £4.25 million per annum and therefore increases the forecast deficit by similar amounts,

**Assumptions:**

*There are a number of assumptions behind the financial forecasts in Figure 3.2.*

Income Tax

- The base income tax forecasts are drawn from the 2009 tax assessments for earnings and profits in 2008 and the current economic assumptions for GVA and other factors.
- The impact of the change to a corporate structure 0/10% has been reviewed and is based on the most recent and reduced corporate tax revenues. The latest range is £73 million to £97 million, the mid-point of this range is £85 million in 2013, and a revised profile over the years 2009 to 2013 is included in these forecasts.
- The income tax forecast model is used to apply the range of economic assumptions to the current data from the different income tax schedules to estimate a range of impact of the economic downturn and future tax revenues.
- The range of income tax forecast from optimistic to pessimistic is £17 million in 2010 and £49 million in 2013.

Goods and Services Tax

- The forecast is based on only one year's data and therefore assumes that the profile of current revenues is repeated in future years.
- The future forecasts assume there will be little or no impact of the downturn and this is supported by the UK experience of stable VAT receipts during past economic downturns.

#### Impôts Duty

- The impacts of the 2010 Budget proposals are included in the forecast including the proposed introduction of Vehicle Emissions Duty (VED) from September 2010.
- The forward forecasts reflect the proposed policy to harmonise tobacco duty with UK tax and duty rates over the next three to four year.
- The forecasts assume that the predicted trends in consumption are maintained, which include a drop off for some goods, but also include an assumption that there would be annual increases in duty at a level equivalent to the Island RPI.
- There is an economic assumption that impôt duties are based on consumption and that there will be no material effect of the economic downturn on future revenues.
- \* **The forecasts of impôt duties are amended to reflect the successful amendment of Deputy Power to remove ALL impôt duty increases for 2010 – reducing revenues by £4.25 million per annum from 2010.**

#### Stamp Duty

- The forecasts reflect the reduced activity seen in 2009 and assume this will continue into 2010.
- The assumption regarding house prices has been amended to reflect the house price trend in 2009 and only a small fall-off in price in 2010. Any recovery in the housing market both in price and activity is expected to be slow.
- The estimated impact of the new Land Transactions Tax in 2010 is assumed to collect £1 million.

#### Other Income

- At the time of the Stimulus in March 2009 the assumption was that the effect of a fall in interest rates would not impact quite as significantly as they have. This is compounded by slightly larger deficits in 2010 and a slight fall in the projections for investment income.
- The base assumption is to achieve a small margin on the Bank of England forecast interest rate.

#### Island Rate

- The Island Rate will increase annually according to the Island RPI (March) as prescribed in the Rates Law and the proposed rate is reported annually to the States by the Comité de Connétables.
- There should be no effect of the economic downturn on Island Rates.

#### Total States Net Expenditure

- The forecasts for total States net expenditure have been updated for the proposals in this Business Plan and reflect the amendments agreed during the debate for additional funding.
- The forecasts include the £1.6m additional net revenue expenditure allocation for Health and Social Services and the Capital Expenditure includes the amendments amounting to £11.5 million in respect of Town Park, Bellozanne Odour Control and the Eastern Cycle track.
- The forecasts assume that the total spending envelope, agreed in the Business Plan, is adhered to.

#### Revised Forecast Surplus/(Deficit)

- The figures should be thought of as indicative forecasts and are only as accurate as the assumptions they are based on. The deficits resulting from the range of economic assumptions reflect the uncertainty that currently exists.

*Fiscal Stimulus Package - The approval of P55/2009 for £44 million spending approval for the Minister and Treasury and Resources to allocate for Fiscal Stimulus will be matched by an equivalent transfer from the Stabilisation Fund. While the spending approval by the States for £44 million is made in 2009 the actual profile of the project spending will take place over 2009 to 2011.*



## 4. INCOME TAX PROPOSALS (approved as lodged)

### Background

The new corporate tax structure 0/10%, which came into effect from 1 January 2009, will significantly reduce income tax revenues received from 2010 onwards. Ahead of the move to 0/10% the States has agreed a number of measures to broaden the tax base and to mitigate this loss including the introduction of a new indirect tax in the form of a Goods and Services Tax from May 2008. The States has also introduced new measures for personal income tax in the form of an Income Tax Instalment System (ITIS), the apportionment of allowances for new and ceasing residents as well as seasonal workers, and the gradual withdrawal of certain tax allowances as part of the "20 means 20" proposals. Together these measures have increased both the number of personal taxpayers and the level of personal tax paid by those on higher incomes. As promised the Minister has reviewed the impact of the "20 means 20" proposals and can confirm that they deliver the required progressive element of the Fiscal Strategy. However, at the same time significant increases in the tax exemption thresholds have reduced the impact of these tax changes on low to middle incomes.

Against the background of these vast changes in recent years no further proposals are made in this Budget to vary exemptions or allowances. The income tax structure and the success of the new 0/10% corporate tax structure will be reviewed as part of the new Fiscal Strategy Review announced by the Minister.

This year's proposals therefore consolidate this position with the fourth year of the five year phasing out of tax allowances for those on higher incomes, and a number of minor proposals improving the income tax structure, aligning the Income Tax (Jersey) Law 200- with the new Goods and Services Law and closing any loopholes that have been identified. The Minister had intended to implement the Deemed Rental Charges recommended as part of the Blampied proposals, but following further consultation and the views of the Corporate Services Scrutiny Panel, as a first step proposals are brought to remove tax breaks for UK Superannuation Funds.

### Detailed Proposals for 2010

#### Income Tax Exemption Limits

Over the last three years income tax exemption limits have increased significantly by 14%. A large proportion of these increases were planned as part of the measures to lessen the impact of the "20 means 20" proposals and also to lessen the impact in 2009 and 2010 of the Goods and Services Tax, higher food and fuel prices and the current economic downturn.

Any change to exemption limits in this Budget would be in respect of 2010 and therefore not affect individuals and tax revenues until 2011. It is therefore intended to freeze income tax exemption thresholds in this Budget until the outcomes of the Fiscal Strategy Review identify the options for fiscal measures in future years.

### Deemed Rental Charge (Blampted proposals)

In the 2009 Budget it was proposed that a new Deemed Rental Charge be introduced to ensure that non-finance non-Jersey owned companies, who will have a 0% rate of tax under the new 0/10% corporate tax provisions, make a suitable contribution to corporate tax revenues.

After further consultation, and a Report by the Corporate Services Scrutiny Panel, it is now proposed that Articles 115(g) and (ga) are abolished. This removes tax breaks to UK Superannuation funds and would have been done if a Deemed Rental Charge was to be introduced. The effects and consequences of these changes will be considered before the Deemed Rental Charge is progressed any further. The Minister is hopeful that whilst it is difficult to estimate the revenue from this measure that it has the potential to raise a reasonable level of income to the States. There remains a commitment to finding an effective revenue raising measure for non-locally owned companies as part of the Fiscal Strategy Review.

### Tax relief to landlords making energy efficiency improvements

It is proposed to allow tax relief to landlords making certain energy efficiency capital improvements, such as draught proofing, loft and cavity wall insulation and hot water tank and pipe installation. No relief would be allowed to an individual who simply has lodgers and improves his own home. There would be a cap of £1,500 per year per building for a maximum of 3 years.

### Amendments to occupational and private pensions tax legislation

Amendments are proposed to the current pension provisions in the Income Tax (Jersey) Law 200-. They include:

- Increasing greater flexibility on retirement for the Retirement Annuity Trust vehicle introduced in last year's Budget.
- Preventing funds from the Retirement Annuity Trust vehicle being used to obtain purchased life annuities.
- Introducing a monetary cap when an individual dies before retirement to prevent excessive accumulation of tax relieved funds being received tax free.
- Limiting the number of commutations taken on the grounds of triviality to prevent segmentation of a large fund into a number of smaller funds to take advantage of the trivial pensions funds commutation provision introduced in last year's Budget.
- Defining the term 'accrued rights'.
- Limiting the number of tax free commuted lump sums it is possible to obtain.

### Penalty for late filing of tax returns

The Income Tax (Jersey) Law 200- provides that a person shall be liable to a penalty of £200 if he or she fails to submit their personal tax return by 6.00pm on the last Friday in May. This deadline date and time is extended to 6.00pm on the last Friday in July if he or she has a tax agent acting for them. The £200 penalty for a person failing to submit their tax return by the due deadline date and time was first applied against

the 2004 income tax return forms. The level of the penalty has remained unchanged since it was first introduced.

It is proposed that this penalty be increased by £50 to £250. It is estimated that a total £75,000 additional penalties would be charged each year if the penalty was increased by a further £50.

#### Closing a loophole in the 0/10% tax provisions

Where an individual owns shares in a personal services company, he is liable to tax under the attribution rules. If he owns the shares of such a company through a trust, then the attribution rules do not apply, but the more favourable deemed distribution rules. It is proposed that this loophole is closed.

#### Extending the definition of “ownership of shares” under the 0/10% tax provisions

It is proposed to amend the Income Tax (Jersey) Law 200- to extend the definition of ‘ownership of shares’ to include different types of partnerships and foundations.

#### Amending the title of ‘Comptroller of Income Tax’ to ‘Comptroller of Taxes’

In the light of the changing responsibilities of the Comptroller in recent years, to include indirect (GST) and other tax collection (EUSD retention tax) responsibilities, it is proposed that the title of ‘Comptroller of Income Tax’ is amended to ‘Comptroller of Taxes’ with consequent amendments made to all other Laws and agreements.

#### Tax treatment of Foundations

There are currently no specific provisions in the Income Tax (Jersey) Law 200- for the tax treatment of Foundations established under the Foundations (Jersey) Law. It is proposed that the Law is amended to tax these Foundations at the rate of 0% which is similar to non financial service companies taxed at the rate of 0% under the 0/10% income tax provisions.

#### Companies limited by guarantee

A company limited by guarantee has members as opposed to shareholders and these members would not be subject to the 0/10% shareholder taxation provisions. It is proposed that an amendment to the Income Tax Law is made to ensure that the Jersey resident members of a company limited by guarantee and carrying on a trade or commercial activity will be subject to the income tax provisions similarly applied to shareholders in a company under the 0/10% shareholder taxation provisions.

#### Repayment of tax deducted at source on dividends

Non financial services companies are taxed at the rate of 0%. It is proposed that an amendment is made to the Income Tax (Jersey) Law 200- to ensure that non financial services companies cannot claim a full repayment of any tax deducted on a dividend paid to them on the grounds that their income is taxed at the rate of 0%. Any

repayment of tax must be restricted to the management expenses that the company is entitled to claim under the Income Tax (Jersey) Law 200-.

#### Definition of a trading company

The current definition of a trading company provides that a holding company may, under certain circumstances, be treated as a trading company. The effect of this is that the holding company is subject to the 0/10% distribution provisions as opposed to the attribution provisions. It is proposed that an amendment is made to the Income Tax Law to ensure that the definition of a trading company cannot include a company which merely holds a significant interest in the share capital of another company.

#### Deemed dividends and deemed final dividends

One of the tax trigger events which brings into charge to tax a deemed dividend or a deemed final dividend is when an individual disposes of his holding of ordinary shares in a 10% or 0% rate company so that he no longer owns more than 2%. It is proposed that the relevant provisions of the Income Tax Law are amended to capture a deemed dividend and deemed final dividend whenever there is a disposal of ordinary shares by an individual holding more than 2% of the ordinary share capital of the company.

#### Bring into line powers, offences and penalties in the Income Tax and Goods and Services Tax (GST) Laws

The powers, offences and penalties set out in the GST Law are more extensive and punitive than those that exist in the Income Tax Law. It is proposed that both Laws should be brought into line.

#### Future Proposals – Tax exemption for certain funds

Under the current Income Tax Law, most collective investment funds are subject to tax at 0%. Other jurisdictions treat certain fund vehicles as tax exempt. In order to provide certainty of treatment of these vehicles and to ensure Jersey remains competitive in this sector, an amendment to the Income Tax Law is being drafted to exempt certain collective investment vehicles from taxation rather than subjecting them to tax at 0%. Subject to approval by the States of Jersey, the intention is to introduce the amended law effective from 1 January 2010 as there are no tax consequences to this amendment.

Those fund services businesses and certain functionaries of collective investment funds who are currently treated as financial services companies, as defined in the Income Tax Law, will continue to be so treated and liable to tax at 10%.

#### Future Proposals - Share options and share awards

There is currently no specific legislation in the Income Tax Law on the tax treatment of share options and share awards granted by employers to employees or office holders in employment. The subject is complex and confusing to individuals who are subject to receiving assessments on share options and awards. The schemes are constantly changing as employers seek new ways in which they can reward their staff and office

holders in the light of the current economic climate. Pending permission by the Minister for Treasury and Resources, the Income Tax Office will issue a consultation paper on changes to the tax treatment of share options and share awards.

### Electronic Tax Returns

In April this year, the Comptroller of Income Tax was regrettably forced to postpone the introduction of Electronic Tax Returns. This was simply due to the significant operational and administrative pressures associated with the wide range of other initiatives that the Income Tax department have been dealing with. In recent years the Income Tax department has had to deal with the new 0/10% structure, “20 means 20”, ITIS, a new Goods and Services Tax and various Tax Information Exchange Agreements (TIEAs). The Comptroller is hoping to be able to offer Electronic Tax Returns from 2012.

### **Exemptions and Allowances**

#### Exemptions

There are no proposals to change the Income Tax Exemption limits for 2010 which will affect individuals and tax revenues in 2011.

**Figure 4.1**

#### **Exemption Thresholds for Year of Assessment 2009 and 2010**

| <i>Exemptions and Allowances</i> | <i>Year of Assessment<br/>2009</i> | <i>Year of Assessment<br/>2010</i> |
|----------------------------------|------------------------------------|------------------------------------|
| <b><i>Exemptions</i></b>         |                                    |                                    |
| - Single Person                  | £12,650                            | <b>£12,650</b>                     |
| - Single Person (aged 63+)       | £14,110                            | <b>£14,110</b>                     |
| - Married Couple                 | £20,280                            | <b>£20,280</b>                     |
| - Married Couple (aged 63+)      | £23,220                            | <b>£23,220</b>                     |

#### Allowances

The allowances for year of assessment 2009 and 2010, as proposed under the “20 means 20” measures, are shown in Figure 4.2 for illustrative purposes. This illustrates that for taxpayers affected by the ‘20 means 20’ measures the allowances reduce by one fifth each year starting from year of assessment 2007 through to year of assessment 2011. However, for the purposes of assessment of taxpayers under the 27% marginal rate, all tax allowances remain unchanged.

**Figure 4.2**  
**Proposed Allowances for Year of Assessment 2009 and 2010**

| Allowances                          | Year of Assessment 2009<br>(at Marginal 27% rate) | Year of Assessment 2009<br>(at Standard 20% rate) | Year of Assessment 2010<br>(at Marginal 27% rate) | Year of Assessment 2010<br>(at Standard 20% rate) |
|-------------------------------------|---|---|---|---|
| - Single Person                     | N/A   | £1,040  | N/A   | £520  |
| - Married Person                    | N/A   | £2,080  | N/A   | £1,040  |
| - Earned Income (max)               | N/A   | £1,360  | N/A   | £680  |
| - Wife's Earned Income (max)        | £4,500  | £1,800  | £4,500  | £900  |
| - Child Allowance                   | £3,000  | £3,000  | £3,000  | £3,000  |
| -Child Allowance (higher education) | £6,000  | £6,000  | £6,000  | £6,000  |
| - Additional Allowance*             | £4,500  | £4,500  | £4,500  | £4,500  |

*\*for people with single-handed responsibility for children*

## TAX FACTS

The following **Tax Facts** provide an illustration of the existing personal tax structure and also provide relative comparisons against other jurisdictions.

The tax threshold, i.e. the point above which an individual starts to pay income tax, is determined by the individual's personal circumstances. For example, a married couple, who are both working and have two children (one at university) paying mortgage interest of £7,500, do not become liable to income tax in 2009 until their income exceeds £41,280. For 2010 this would remain the same under the current proposals, calculated as follows:

|                            | <b>2009</b>    | <b>2010</b>    |
|----------------------------|----------------|----------------|
| Married Couple Exemption   | £20,280        | £20,280        |
| Wife's Earned Income (max) | £4,500         | £4,500         |
| Child Allowance            | £3,000         | £3,000         |
| Child Allowance (higher)   | £6,000         | £6,000         |
| Mortgage Interest          | £7,500         | £7,500         |
|                            | <b>£41,280</b> | <b>£41,280</b> |

### Comparisons

The historically generous tax thresholds in Jersey mean that many Islanders still pay less tax than in most neighbouring territories.

The **income tax payable by a married couple** in 2009 with a joint income of £40,000, without children or a mortgage, is as follows:

|                |               |
|----------------|---------------|
| Isle of Man    | £2,208        |
| <b>Jersey</b>  | <b>£4,371</b> |
| Guernsey       | £4,520        |
| United Kingdom | £5,893        |

The **income tax payable by a married pensioner** in 2009 (aged 63+) with an income of £25,000, without a mortgage, is as follows:

|                |             |
|----------------|-------------|
| Isle of Man    | £260        |
| <b>Jersey</b>  | <b>£780</b> |
| Guernsey       | £880        |
| United Kingdom | £2,510      |

The figures in respect of the Isle of Man reflect the introduction of an age allowance of £2000 for 2008/2009 per person provided the taxpayer attained the age of 65 prior to the beginning of the tax year. The Isle of Man also has VAT at 17.5%.

## 5. GOODS AND SERVICES TAX PROPOSALS (approved as lodged)

The Goods and Services Tax Law and Regulations have been in place for over a year and based on the experience of operating under the current regime a number of proposals are made in this Budget. These consist of:

- Business facilitation and administrative measures;
- Anti-avoidance measures; and
- Alignment between the GST and Income Tax legislation.

### Business facilitation and administrative measures

- To make it clear that the activities of trade unions, professional bodies and similar organisations in relation to the welfare and education of their members shall not be taken to be a business activity, notwithstanding that a subscription may be payable.
- To remove the transfer of a business as a going concern from the charge to GST (currently within the charge, at zero rate) reducing a burden on some business at no cost to the Treasury.
- To allow for the issue of an invoice in the same month as a supply to determine the time of supply, and **an anti-forestalling measure**, preventing businesses enjoying transitional zero rating relief on long-term contracts from artificially extending the relief by forward invoicing for several years.
- To remove the consequence of having to register for GST solely on sale of land or immoveable property held as an asset.
- To clarify the provisions in relation to the supply of a dwelling.
- To vary the place of supply for specified services. Mirrors changes in EU VAT legislation effective 1 January 2010 to remove scope for double or non-taxation, and give Jersey and overseas businesses operating in Jersey one set of provisions to follow.
- To simplifying procedures for applications and payments of GST refunds to charities.
- To set out a framework for refunding GST to non-established businesses (for example, GST incurred on attending a conference in Jersey). Reciprocates an EU scheme for refund of VAT to businesses with no establishment in the EU. This scheme requires reciprocity, thus the measure protects the right of jersey businesses to refunds of VAT.
- To introduce a Charity and Education facilitation measure to clarify the current law and extend exemption from GST to Higher Education.

### Anti-avoidance measures

- To extend provisions of Article 30 to prevent a GST-registered business importing services for an unregistered connected person at no GST cost to the latter.
- To prevent an International Services Entity (ISE) claiming relief from GST on goods or services received not for a business activity of the ISE (e.g. private purchases).

### Alignment

- To introduce equivalent penalties within the Income Tax and GST legislation.
- To align time limits on power of assessment with Income Tax (Jersey) Law 1961.



## **6. IMPÔTS DUTY PROPOSALS (as amended)**

### **Background**

Each year, in advance of the Budget, the proposals for Alcohol and Tobacco impôts duties are reviewed against the prevailing economic conditions, the States financial position and the agreed States Strategies on Alcohol and Tobacco.

The Minister's proposals for 2010 are consistent with these strategies and also take account of the spending proposals agreed in the 2010 Business Plan.

The spending proposals included £2 million of environmental initiatives, which require an equivalent sum in environmental taxes to be raised in 2010. The States also approved in the Business Plan an additional £1.6 million for pressures in the Health and Social Services department above the original spending limits.

### **Proposals for 2010 – rejected by the States**

It should be noted that the long-term trend of revenue from impôts duty is declining, which reflects the balance between the objectives of the States Alcohol and Tobacco strategies to reduce consumption, and that of raising additional revenue from increasing impôts duties. Consequently, annual increases in duty, at least in line with inflation, are fundamental to maintain the current level of revenues in the future, whilst reducing consumption.

The Minister is continuing the policy of including the proposed duty increases in the Budget Statement ahead of Budget Day, and the proposals for 2010 are indicated in Figure 6.1. The Minister continues with this consistent policy in relation to increases in duty, and importers now expect increases at budget time and make any decision regarding extra stocks accordingly.

As is now customary it is proposed that this year's increases in duty will not take effect until midnight on 31<sup>st</sup> December 2009.

The Minister has consulted with the Health and Social Services and Economic Development departments and the Council of Ministers who are in support of the Budget proposals.

### **Alcohol – proposals were rejected by the States**

The Minister is proposing an increase of 6.2% in impôt duty on alcohol which is above the current RPI and will make a contribution of £0.7 million to funding the additional expenditure of £1.6 million approved in the 2010 Business Plan.

The Health and Social Services Department consider that as Jersey has one of the highest recorded consumption rates of alcohol per litre per head and it is their stated

strategic aim to reduce consumption and therefore reduce related harm, the level of duty on all alcohol should be raised above the rate of inflation. The Treasury Minister will also be supporting the Health Minister in responding to health concerns relating to alcohol by developing new strategies and at the same time to consider a policy which would seek to bring duty and tax on alcohol in line with UK levels over the next three to four years. In this respect the Treasury Minister would support the Health Minister in an initiative to review the existing Alcohol strategy.

The States Economics Unit consider that a modest increase in impôt duty on alcohol is unlikely to work against the Island's economic interests and may in fact work in its favour as a moderate increase will not significantly harm the hospitality industry or local beverage producers and should serve to raise money for the States.

### **Tobacco – proposals were rejected by the States**

In respect of tobacco and, consistent with the existing States tobacco strategy, the Minister is proposing to pursue a policy to harmonise tobacco duty with tax and duty rates in the UK. Further, as a result of the decisions in the 2010 Business Plan to approve an additional £1.6 million for Health and Social Services Department, the Minister intends to propose higher increases in tobacco duty to recover this increase from revenues.

The proposals are to increase tobacco duties by 9.7%, well above the RPI, which will make a contribution of £0.9 million to the additional spending of £1.6 million approved and with similar increases in the next two year's Budgets will achieve a harmonisation in tax and duty with current UK rates. This will need reviewing based on any increases agreed in the UK over the period.

The increase in tobacco duty is intended to discourage consumption and the Health and Social Services Department believe that the policy is having success.

Undoubtedly the high cost of tobacco is playing an important part in reducing consumption but there is also evidence to show that both local people and visitors are increasingly turning to duty free sources for their tobacco supplies. The Customs and Immigration Service are monitoring this activity and personal importations in excess of the allowance continue to be detected. There is however at this time no evidence or intelligence to suggest that there has been a marked increase in passengers evading impôts duty by exceeding their statutory allowances or that commercial quantities of cigarettes are being smuggled into the Island.

### **Fuel – proposals were rejected by the States**

The Minister is proposing an increase of 9.8% for 2010. This level of increase is intended to provide £1.5 million towards the £2 million of environmental initiatives approved in the 2010 Business Plan and also to provide £0.5 million as a contribution to general revenues.

The balance of the £2 million environmental initiatives will be funded from a Vehicle Emissions Duty (VED) from September 2010 which is described at Section 8.

The Minister will continue to consider all issues regarding the duty on fuel and also hydrocarbon oil. The Minister is determined to pursue, together with the Economic Development Minister, the issue of high price margins in monopoly markets. There still appears to be significant scope to encourage competition to reduce the retail price of fuel in Jersey as can be seen by the relative margins within the retail price between Jersey and the UK in Figure 6.3. The Minister will continue to support the work of the Economic Development department to pursue initiatives to encourage and increase competition.

## Marine Fuel

In the 2009 Budget it was stated that the Minister would re-examine the duty concession with the Economic Development Minister in the context of the marine leisure industry.

The Minister has done this and the outcome is that a financial return has been required from the Harbours Trading Account of £200,000 in 2010; this is an initial contribution and equivalent to about a third of the marine fuel duty concession. This financial contribution was agreed as part of the Business Plan.

## Detailed Duty Increases for 2010

Figure 6.1

**Duty Increases Proposed for 2010 – these were rejected by the States following an amendment by Deputy Power**

|                          | Current duty |  | Proposed duty |  | Increase<br>(rejected) |
|--------------------------|--------------|--|---------------|--|------------------------|
| Litre of Whisky @ 40%    | £9.37        |  | £9.95         |  | +6.2%                  |
| Bottle of table wine     | £1.12        |  | £1.19         |  | +6.2%                  |
| Pint of beer <5% alcohol | £0.28        |  | £0.30         |  | +6.2%                  |
| Pint of beer >5% alcohol | £0.42        |  | £0.45         |  | +6.2%                  |
| 20 King Size cigarettes  | £3.15        |  | £3.45         |  | +9.7%                  |
| Litre of diesel          | £0.41        |  | £0.45         |  | +9.8%                  |
| Litre of unleaded petrol | £0.41        |  | £0.45         |  | +9.8%                  |

## Comparisons with neighbouring jurisdictions

**Figure 6.2**  
**A Comparison of Typical 2009 Tax and Duty Levels for a Range of Commodities**

|                           | Jersey<br>Including GST | Guernsey | UK<br>Including VAT | France<br>Including TVA |
|---------------------------|-------------------------|----------|---------------------|-------------------------|
| Litre of whisky @ 40%     | £9.88                   | £8.41    | £11.08              | £7.51                   |
| Bottle of table wine      | £1.24                   | £1.34    | £2.20               | £0.83                   |
| Pint of beer < 5% alcohol | £0.36                   | £0.34    | £0.79               | £0.64                   |
| Pint of beer > 5% alcohol | £0.51                   | £0.34    | £0.87               | £0.72                   |
| 20 king size cigarettes   | £3.31                   | £2.60    | £4.30               | £3.05                   |
| Litre of unleaded petrol  | £0.43                   | £0.31    | £0.67               | £0.72                   |
| Litre of diesel           | £0.44                   | £0.31    | £0.67               | £0.55                   |

Note: The prices shown are based on a narrow range of sources, but are for equivalent products. There will be considerable price variations in each jurisdiction, especially for wine and beer. Fuel prices are also extremely volatile at present and are subject to rapid change.

**Figure 6.3**  
**2009 Retail Price Margins – Comparisons with the UK (June 2009)**

|                             | Jersey<br>Retail<br>Price | Jersey<br>Duty | GST    | Price net<br>of<br>Duty and<br>GST | Duty and<br>GST as %<br>of price | UK Retail<br>price | UK Duty | VAT    | Price net<br>of<br>Duty and<br>VAT | Duty and<br>VAT as %<br>of price |
|-----------------------------|---------------------------|----------------|--------|------------------------------------|----------------------------------|--------------------|---------|--------|------------------------------------|----------------------------------|
| Litre of whisky             | £ 17.39                   | £ 9.37         | £ 0.51 | £ 7.51                             | 57%                              | £ 15.48            | £ 9.06  | £ 2.02 | £ 4.40                             | 72%                              |
| Pint of beer<br><5%         | £ 2.90                    | £ 0.28         | £ 0.08 | £ 2.54                             | 12%                              | £ 2.80             | £ 0.42  | £ 0.37 | £ 2.01                             | 28%                              |
| 20 king size<br>cigarettes  | £ 5.44                    | £ 3.15         | £ 0.16 | £ 2.13                             | 61%                              | £ 5.45             | £ 3.59  | £ 0.71 | £ 1.15                             | 79%                              |
| Litre of<br>unleaded petrol | £ 0.79                    | £ 0.41         | £ 0.02 | £ 0.36                             | 54%                              | £ 0.96             | £ 0.54  | £ 0.13 | £ 0.29                             | 70%                              |

These figures are before the impact of the budget proposals.

Figure 6.3 illustrates that in all the above examples of dutiable products the proportion of price made up by duty and tax is significantly lower in Jersey than the UK. Even allowing for other cost factors in Jersey there would still appear to be a much greater margin in the retail price of products in Jersey than exists in the UK.

## 7. STAMP DUTY PROPOSALS (approved as lodged)

### Background

It had been the Minister's intention to begin an in-depth review of Stamp Duty during 2009 but activity on a number of other initiatives; particularly the discretionary fiscal stimulus and most recently early work on the new Fiscal Strategy Review have delayed this.

The focus of activity has been on finalising the preparations for the implementation of the new Land Transactions Tax, which is now proposed for January 2010.

The various issues relating to stamp duty will now be considered as part of the Fiscal Strategy Review over the course of the next twelve months, including the recommendation of the Corporate Services Scrutiny Panel to consult further on commercial property share transfer transactions.

### Proposals for Stamp Duty in 2010

The Minister is proposing that Stamp Duty rates are frozen for a further year, ahead of the Fiscal Strategy Review, and recognising the fairly fragile state of the local housing market. Stamp duty revenues have not fallen off by quite the extent expected, as a result of house prices holding up, even though the turnover of properties is reduced from recent years.

**Figure 7.1 – Stamp Duty Rates for 2010**

| <b>Property Value (£)</b> | <b>Current Duty Rate (%)</b> |
|---------------------------|------------------------------|
| 0 – 50,000                | 0.50                         |
| 50,001 – 300,000          | 1.50                         |
| 300,001 – 500,000         | 2.00                         |
| 500,001 – 700,000         | 2.50                         |
| > 700,001                 | 3.00                         |

### Discount for First-Time Buyers

A discount is available to a first-time buyer purchasing a property up to £400,000 and for any buyer through the "Jersey Homebuy" scheme. These same discounts and exemptions will apply for share transfer transactions under the proposed Land Transactions Tax.

### Land Transactions Tax (Share Transfer)

In July 2008 the States approved the draft Law to introduce Land Transactions Tax, as announced in the 2008 Budget. This Tax will ensure that all residential share transfer property transactions in Jersey attract tax at a rate exactly equal to the stamp duty which would have been paid on the purchase of a freehold property. Associated

borrowing will also be taxed, in the same way as stamp duty is paid for borrowing on freehold properties and similar provisions to provide exemptions and discounts to first-time buyers also apply.

The draft Law has now been approved by the Privy Council in the UK and can therefore be brought into effect from January 2010. Systems are already in place to collect the tax and information is available on the Income Tax area of the States' website.

Since limited data is available on share transfer transactions, the estimated yield of £1 million per year is a prudent estimate at this stage.

## 8. FUNDING ENVIRONMENTAL INITIATIVES (as amended)

### Background

As part of the Fiscal Strategy debate (P.44/2005) the States agreed to the investigation of potential environmental taxes on waste, motor transport and energy.

In addition the Minister for Planning and Environment was asked to advise on an environmental tax that could replace Vehicle Registration Duty. A proposal for a Vehicle Emissions Duty (VED) was brought to the States in May 2008, alongside the introduction of GST and the promised withdrawal of VRD, but at that juncture the States decided not to introduce the proposals. The States requested that progress be made on a package of environmental tax and spend initiatives.

In the 2009 Business Plan debate (P113/2008) environmental expenditure relating to energy efficiency, waste recycling and sustainable transport was supported by the States. This expenditure is being met from cash limits for 2009, but for 2010 and beyond the States decided that the expenditure would be dependent upon the introduction of an environmental tax, following further public consultation.

At the Council of Ministers meeting on 27th April 2009, the general view was that the 2009 level of expenditure of £2 million on particular energy, waste and transport initiatives should be maintained into 2010 and beyond, and that any additional expenditure should be delayed at least until the economic situation improves. This has been reflected in the draft Annual Business Plan 2010 and is consistent with the consultation results which are summarised below.

### Public consultation

The public consultation on States environmental initiatives took place from 11th May to 6th July 2009. 199 responses were received in total. Approximately 35 responses were received by email and post, and over 160 responded to the online survey.

Overall, responses were:

- Divided as to whether an environmental tax should be put in place to allow the environmental initiatives to continue.
- Somewhat negative as to whether further environmental initiatives should be put in place and funded by environmental taxes.
- Divided as to whether an environmental tax should be in the form of a Vehicle Emissions Duty (VED), an increase in fuel duty or a combination of both.
- In favour of a VED that increases in equal or increasing amounts as a vehicle's CO<sub>2</sub> emissions increase rather than a VED that does not.

The views expressed by those individuals and interest groups who took part are important because they give useful insights into some of the views held by some parts of the Island's population. However, due to the small number of respondents

completing the survey (less than 0.2% of the population) and the fact that they were not randomly selected, their views do not reflect those of Islanders as a whole.

### Vehicle Emissions Duty (VED) proposal

Environmental issues are very important. The States has recognised this by committing to an environmental agenda in the Strategic Plan that involves protecting the unique natural beauty of the Island, reducing waste and energy usage and meeting our global responsibilities (in particular with regard to carbon emissions and sustainable energy).

The level of commitment to achieve this through spending in the next few years forms part of the agreed Annual Business Plan for 2010. £2 million of this spend would need to be funded by an environmental tax if it is to continue in future years.

The Minister is proposing that VED is introduced in September 2010 at a low level that will raise approximately £2 million in a full year. **An increase of an additional 3 pence per litre on fuel duty was proposed but rejected by the States** so that **£0.5 million** is raised in 2010 **which is less than** the approved spending on environmental initiatives.

It is proposed that VED will be payable when a vehicle is first registered in Jersey. In the main, duty rates will be calculated on a vehicle's CO<sub>2</sub> emissions, but these details are only available for vehicles registered on or after 1<sup>st</sup> March 2001. For all other vehicles the duty rates will be calculated on engine size.

For vehicles with low CO<sub>2</sub> emissions (less than 121 g/ CO<sub>2</sub> /km) or small engine size (below 1001cc) a zero rate of duty is proposed.

The proposed rates of Vehicle Emission Duty are as detailed in the figures below.

**Figure 8.1**  
**Proposed Rates for Vehicle Emission Duty based on Emissions Data**

| Manufacturer's CO <sub>2</sub> Emission specifications (g/CO <sub>2</sub> /km) | Vehicle first registered in Jersey, or first registered outside Jersey one year or less ago | Vehicle first registered outside Jersey more than one but less than 2 years ago | Vehicle first registered outside Jersey more than 2 but less than 3 years ago | Vehicle first registered outside Jersey 3 years or more ago |
|--|---|---|---|---|
| 120g or less   | £0  | £0  | £0  | £0  |
| 121-150g   | £40   | £25   | £20   | £15   |
| 151-165g   | £120  | £80   | £60   | £50   |
| 166-185g   | £180  | £115  | £90   | £70   |
| 186-225g   | £300  | £195  | £150  | £120  |
| 226-250g   | £600  | £390  | £300  | £240  |
| 251-300  | £1,000  | £650  | £500  | £400  |
| More than 300g   | £1,250  | £815  | £625  | £500  |

*Note: Hire vehicles (small passenger carrying vehicles, minibuses or motorcycles) will be charged at 15% of the above rates)*



**Figure 8.2**  
**Proposed Rates of Vehicle Emissions Duty where no emissions data is available**

| In the absence of CO <sub>2</sub> Emission data charge by cylinder capacity of engine | Vehicle first registered in Jersey, or first registered outside Jersey one year or less ago | Vehicle first registered outside Jersey more than one but less than 2 years ago | Vehicle first registered outside Jersey more than 2 but less than 3 years ago | Vehicle first registered outside Jersey 3 years or more ago |
|---|---|---|---|---|
| 1000cc or less  | £0  | £0  | £0  | £0  |
| 1001-1400cc   | £150  | £100  | £75   | £60   |
| 1401-1800cc   | £250  | £165  | £125  | £100  |
| 1801-2000cc   | £380  | £245  | £190  | £150  |
| 2001-2500cc   | £500  | £325  | £250  | £200  |
| 2501-3000cc   | £750  | £490  | £375  | £300  |
| 3001-3500cc   | £1,000  | £650  | £500  | £400  |
| More than 3500cc  | £1,250  | £815  | £625  | £500  |

*Note: Hire vehicles (small passenger carrying vehicles, minibuses or motorcycles) will be charged at 15% of the above rates)*

It is proposed that vehicles brought to Jersey by a new resident, hire vehicles, classic vehicles and those modified for disabled people will be eligible for relief or a discount from excise duty. Second-hand imported vehicles will have a reduced duty liability dependent on age and stock-in-trade vehicles can benefit from a suspension of duty for up to twelve months.

### **Land Development Tax**

In 2008 some initial research was carried out into the options for a Land Development Tax. There are a limited number of opportunities to develop in the Island which means that a tax on windfall gains will not raise significant or stable sums of money each year. In addition designing such a tax is not straightforward and more work needs to be done to show how it could operate efficiently and effectively in practice. This, coupled with increased demands on the Treasury from other workstreams including the Fiscal Stimulus programme for example, has meant that Land Development Tax will be considered as part of the wider Fiscal Strategy Review.

However, we are developing within the Draft Island Plan new policies to ensure that part of the profit derived from the development of land for homes – be it zoned or from other windfall opportunities – contributes towards the community’s housing needs for family and affordable homes, through the use of planning obligations.

## 9. COMPREHENSIVE SPENDING REVIEW

The States is faced with a potential permanent shortfall between its income and the cost of providing services - a structural deficit - based on the current forecasts. And the historic pattern of year on year increases above planned spending targets cannot continue if the States is to live within its means. Work has begun to identify an improved process for determining spending levels, drawn from experience in the UK, France, Canada and other countries. This process is intended to run in parallel with a Fiscal Strategy Review to identify fiscal options to address the structural deficit.

A Comprehensive Spending Review (CSR) is a process designed to review government spending in order to set firm cash limits for expenditure which should only be varied in extreme circumstances. Experience shows that if a spending envelope can be signed up to politically then cash limits for a number of years can be set and Ministers and Accounting Officers held to account to them. A further component is to agree savings targets for all departments and require departments to deliver them. The process also identifies the expenditure that can be controlled and recognises that certain expenditure is volatile and influenced by external factors, e.g. social security payments.

Work has begun to outline a possible approach for Jersey that would:

- Replace the current Strategic Plan and Annual Business Plan and adopt a single three-year plan to match the current political cycle. A single process could offer greater opportunity for in-depth review and political engagement.
- Require a total spending limit to be determined politically. This will need to take account of current spending plans, be affordable and require a wide political consensus and commitment.
- Take account of the position in the current political cycle, recognising that the period of spending limits would ideally coincide with a new government. A process leading to the 2011 Business Plan could incorporate many of the new objectives and principles ahead of a full CSR for the new administration and the 2013 Spending Plan.
- Recognise that only a limited number of volatile items can be identified outside the proposed spending limits e.g. social security, high cost court cases.
- Establish realistic contingencies to manage unforeseen expenditure without breaching spending limits.
- Encourage greater flexibility over the three-year spending limits, including a commitment to allow carry forwards from one year to another, and to encourage contingencies within departments to prevent claims on central funds for spending pressures.
- Require a non-negotiable savings target for all departments, possibly at 2% per annum (a level achieved in other jurisdictions), to drive out managed savings.

- Focus initial in-depth reviews on the three major spending departments (Health, Education, Social Security) to identify where the money is being spent, how effectively it is applied and opportunities to make savings and control costs. Other reviews would include pay and conditions and court and case costs.
- Incorporate the projects to explore options for addressing the challenges of an ageing population, healthcare costs and maintenance of essential infrastructure as identified in the Strategic Plan.

At present there are limited resources identified to undertake the process and in particular the resource to deliver the in-depth reviews which would require a mix of financial input, service experience, independent challenge and central co-ordination.

The preliminary work indicates that there could be major advantages from adopting a three-year CSR process, provided that it is matched by the controls and freedoms to ensure that cash limits are fixed and delivered to. It will also require a wide political consensus and commitment to the initial spending envelope and framework.

The Council of Ministers will be considering the initial proposals for the CSR including the required resources in November.

The Minister will provide an update on the process as part of the Budget Speech in December.

# 10. FISCAL STRATEGY REVIEW

## Background

In August, when the Treasury Minister announced his plans to restructure the Treasury and Resources Department, he also committed to a review of the Island's Fiscal Strategy. In October the terms of reference for the review were published.

## Need for the review

There are a number of reasons for the review to take place.

### Possibility of a structural deficit in public finances

The global financial crisis and the subsequent turmoil has adversely affected economies all around the world. Consequently, the world economy is expected to contract in 2009 for the first time in over 60 years.

Jersey is also feeling the effects of the turmoil. The Fiscal Policy Panel forecast that economic activity as measured by Gross Value Added (GVA) will “*shrink by 4 to 6% in 2009 and shrink by a further 1 to 3% in 2010*” and are due to update this assessment in November. The States has prepared a targeted, timely and temporary stimulus to the economy funded from the Stabilisation Fund.

Despite this, States’ financial forecasts show that there will be a risk of a structural deficit in the region of £50m per year from 2012 onwards, assuming the economy returns to a trend rate of growth after 2010. This forecast is subject to a degree of uncertainty in both directions, but there is enough evidence to suggest that a structural deficit of some level will remain once the Island’s economy recovers.

### Spending pressures

The States Strategic Plan 2009 – 2014 has identified a number of spending pressures that will require funding streams in the future. These include:

- the implications of an ageing population;
- the rising cost of health care;
- investment in sewage and solid waste infrastructure; and
- increasing the maintenance spend on States buildings (including schools and hospitals).

Any fiscal strategy needs to ensure that it takes account of these additional funding streams in order to ensure that the strain on the economy is sustainable.

## Stabilisation Fund

Beyond 2011 the Stabilisation Fund is likely to have been fully deployed on economic stimulus during the downturn. During the next upturn, another challenge will be to run surpluses to allow for the Stabilisation Fund to be replenished.

## International changes

As a result of the global financial crisis, international standards and norms for taxation are changing rapidly and there is likely to be pressure on Jersey's business tax regime in the coming years.

Jersey will need to continue to ensure compliance with international standards to differentiate itself from the competition and ensure the continued success of the Island's economy.

## **Objectives of the review**

The review will develop, consult on and then bring to the States a fiscal strategy in time for the 2011 Budget that will:

- ensure sustainable public finances and support economic objectives;
- plan for potential future changes in global fiscal norms and the possible impact on Jersey;
- address the potential structural deficit once the economy has recovered;
- fund essential public services; and
- take account of funding sources for the future spending pressures.

## **Work planned**

### Assess options to reduce expenditure: Comprehensive Spending Review

The review will take account of the options for constraining or reducing expenditure, for example through prioritising and reducing public services and achieving additional efficiency improvements.

The detailed work in this respect will flow from the introduction of a Comprehensive Spending Review process (CSR) see Section 9.

### Assess options to increase income

The review will also consider all options to increase income in order to meet the future costs of public services, including fiscal changes (through more revenue from tax or charges) and increasing income in other ways, such as through economic and productivity growth sustained above trend levels.

These options will be analysed on the basis of how much they could contribute, the distributional consequences (who pays), efficiency considerations, administrative simplicity and impact on competitiveness.

## 0/10% review

The unprecedented changes in the world economy are leading many countries to re-appraise their tax systems.

New international and European norms for taxation are evolving rapidly and whilst the EU Code of Conduct Group on Business Taxation agreed the 0/10% taxation rates of the Isle of Man back in 2006, the world has moved on rapidly since then.

It is important we are ready and able to respond to these changes.

We have worked well, with the UK's support, in implementing the 0/10% corporation tax system. It is clear that we will need to continue to work in partnership with the UK on engagement with EU Member States so we can maintain a viable and competitive tax system supported by our European neighbours.

The Treasury Ministers of Jersey and Guernsey will work closely together on the review, both to share resources and costs, and to ensure strategies are developed that are right for our circumstances and which are complimentary.

### **Structure and timing**

In the coming months the options and ongoing progress with research and assessment will be discussed with a Steering Group made up of a group of States members, lead by the Treasury Minister. The Corporate Services Scrutiny Panel will be engaged throughout.

There will be a States Members and Public consultation process which will take place from June 2010 to August 2010 and after consultation, proposals will be taken to the Council of Ministers then the States for approval for the 2011 Budget.

# 11. FINANCIAL AND MANPOWER IMPLICATIONS (as amended)

## Financial Implications

The financial implications of the Budget proposals are summarised in the financial forecast at Figure 3.2 and in detail are as follows:

- Income Tax
  - Increased penalty for late filing of tax returns £75,000;
  - The removal of Article 115(g) and 115(ga), whilst it is difficult to estimate precisely the exact revenue from this measure it has the potential to raise a reasonable amount of income to the States.
  
- Impôts Duty
  - The proposal to increase impôts duties is estimated to generate additional States income of £4.25 million in 2010. this is made up of:
    - £1.5 million from fuel duty raised as a contribution to the environmental initiatives approved;
    - £1.6 million from alcohol and tobacco duty as a consequence of the additional spending approvals from the 2010 Business Plan;
    - £1.15 million in line with the level of increase on all impôts duties anticipated in the financial forecasts based on States policies.
  - **The increases in impôt duties were rejected by the States**
  - The proposed Vehicle Emissions Duty (VED) from September 2010 would raise an estimated £0.5 million in 2010 and in the order of £2 million in a full year.
  
- Stamp Duty
  - The introduction of the proposed Land Transactions Tax is estimated to generate additional tax revenues of at least £1 million in a full year.

## Manpower Implications

The proposals within the Budget Statement 2010 will be implemented without any increase to current approved manpower levels.

# **SUMMARY TABLES**

## **BUDGET STATEMENT 2010 AS AMENDED 10.12.09**



# **SUMMARY TABLE A: (as amended)**

## **STATES INCOME 2010**

| States Income Analysis - Sources of Income |                               |  |                       |
|--|-------------------------------|--|-----------------------|
| 2008<br>Actual<br>£                        | 2009<br>Revised Estimate<br>£ |  | 2010<br>Estimate<br>£ |
|  |                               | <b>Income Tax</b>                                  |                       |
| 225,300,000                                | 243,000,000                   | Employees  | 241,000,000           |
| 40,500,000                                 | 37,000,000                    | Self Employed and Investment Holders               | 31,000,000            |
| 232,400,000                                | 208,000,000                   | Companies  | 119,000,000           |
| <b>498,200,000</b>                         | <b>488,000,000</b>            | <b>Total Income Tax</b>                            | <b>391,000,000</b>    |
| <b>32,214,000</b>                          | <b>50,000,000</b>             | <b>Goods and Services Tax</b>                      | <b>51,250,000</b>     |
|  |                               | <b>Impôts Duty</b>                                 |                       |
| 4,008,000                                  | 4,120,000                     | Impôts on Spirits                                  | 3,950,000             |
| 5,863,000                                  | 6,330,000                     | Impôts on Wines                                    | 6,330,000             |
| 743,000                                    | 800,000                       | Impôts on Cider                                    | 820,000               |
| 5,094,000                                  | 5,340,000                     | Impôts on Beer                                     | 5,190,000             |
| 12,715,000                                 | 13,780,000                    | Impôts on Tobacco                                  | 12,540,000            |
| 20,470,000                                 | 20,700,000                    | Impôts on Motor Fuel                               | 20,700,000            |
| 235,000                                    | 150,000                       | Impôts on Goods Imported                           | 150,000               |
| 674,000                                    | -                             | Vehicle Registration Duty                          | 500,000               |
| <b>49,802,000</b>                          | <b>51,220,000</b>             | <b>Total Impôts Duty</b>                           | <b>50,180,000</b>     |
| <b>23,998,000</b>                          | <b>19,500,000</b>             | <b>Stamp Duty</b>                                  | <b>22,000,000</b>     |
| <b>604,214,000</b>                         | <b>608,720,000</b>            | <b>Total Taxation Revenue</b>                      | <b>514,430,000</b>    |
| <b>10,183,000</b>                          | <b>10,560,000</b>             | <b>Island Rate</b>                                 | <b>10,850,000</b>     |
|  |                               | <b>Other Income</b>                                |                       |
| 10,529,000                                 | 4,000,000                     | Interest on Cash Balances                          | 1,800,000             |
| 13,073,000                                 | 13,960,000                    | Dividends  | 11,940,000            |
| 4,400,000                                  | -                             | Financial Services Commission                      | -                     |
| -  | 3,710,000                     | New Company Fees via Financial Services Commission | 3,700,000             |
| 842,000                                    | 850,000                       | Income Tax Penalties                               | 1,000,000             |
| 4,298,000                                  | 1,840,000                     | Currency and Coinage Surplus                       | 980,000               |
| 4,968,000                                  | 280,000                       | Interest and Repayments on Loans                   | 170,000               |
| 452,000                                    | 250,000                       | Financial Returns from States Trading Operations   | 2,900,000             |
| 9,397,000                                  | 8,900,000                     | Commission from European Union Retention Tax       | 5,800,000             |
| 472,000                                    | 460,000                       | Miscellaneous Income                               | 470,000               |
| <b>48,431,000</b>                          | <b>34,250,000</b>             | <b>Total Other Income</b>                          | <b>28,760,000</b>     |
| <b>£ 662,828,000</b>                       | <b>£ 653,530,000</b>          | <b>Total States Income</b>                         | <b>£ 554,040,000</b>  |

# SUMMARY TABLE B: STATES NET EXPENDITURE 2010-2014

| States Funded Bodies                           | 2010                     | 2011                   | 2012                   | 2013                   | 2014                   |
|--|--------------------------|------------------------|------------------------|------------------------|------------------------|
|  | Expenditure Allocation   | Expenditure Allocation | Expenditure Allocation | Expenditure Allocation | Expenditure Allocation |
|  | <----- Indicative -----> |                        |                        |                        |                        |
|  | £'000                    | £'000                  | £'000                  | £'000                  | £'000                  |
| Ministerial Departments                        |                          |                        |                        |                        |                        |
| Chief Minister                                 | 20,397                   | 20,409                 | 20,296                 |                        |                        |
| - Grant to the Overseas Aid Commission         | 8,055                    | 8,458                  | 8,881                  |                        |                        |
| Economic Development                           | 15,880                   | 16,009                 | 14,486                 |                        |                        |
| Education, Sport and Culture                   | 99,517                   | 101,676                | 103,481                |                        |                        |
| Health and Social Services                     | 168,878                  | 176,032                | 183,806                |                        |                        |
| Home Affairs                                   | 46,067                   | 47,305                 | 48,273                 |                        |                        |
| Housing  | (23,287)                 | (23,953)               | (22,881)               |                        |                        |
| Planning and Environment                       | 6,824                    | 6,870                  | 6,795                  |                        |                        |
| Social Security                                | 171,599                  | 182,385                | 176,740                |                        |                        |
| Transport and Technical Services               | 27,610                   | 29,038                 | 30,466                 |                        |                        |
| Treasury and Resources                         | 57,414                   | 58,583                 | 60,741                 |                        |                        |
| Non Ministerial States funded bodies           |                          |                        |                        |                        |                        |
| - Baliff's Chambers                            | 1,260                    | 1,291                  | 1,321                  |                        |                        |
| - Law Officers' Department                     | 6,190                    | 6,340                  | 6,490                  |                        |                        |
| - Judicial Greffe                              | 3,982                    | 4,080                  | 4,176                  |                        |                        |
| - Viscount's Department                        | 1,422                    | 1,457                  | 1,492                  |                        |                        |
| - Official Analyst                             | 600                      | 615                    | 629                    |                        |                        |
| - Office of the Lieutenant Governor            | 743                      | 761                    | 779                    |                        |                        |
| - Office of the Dean of Jersey                 | 25                       | 25                     | 26                     |                        |                        |
| - Data Protection Commission                   | 223                      | 229                    | 234                    |                        |                        |
| - Probation Department                         | 1,604                    | 1,644                  | 1,683                  |                        |                        |
| - Comptroller and Auditor General              | 739                      | 757                    | 774                    |                        |                        |
| States Assembly and its services               | 5,126                    | 5,258                  | 5,382                  |                        |                        |
| <b>Net Revenue Expenditure Allocation</b>      | <b>£ 620,867</b>         | <b>£ 645,267</b>       | <b>£ 654,071</b>       | <b>£ 670,200</b>       | <b>£ 690,200</b>       |
| <b>Capital Expenditure Allocation</b>          | <b>£ 46,087</b>          | <b>£ 39,118</b>        | <b>£ 42,518</b>        | <b>£ 47,038</b>        | <b>£ 48,306</b>        |
| <b>Total States Net Expenditure Allocation</b> | <b>£ 666,954</b>         | <b>£ 684,385</b>       | <b>£ 696,589</b>       | <b>£ 717,238</b>       | <b>£ 738,506</b>       |

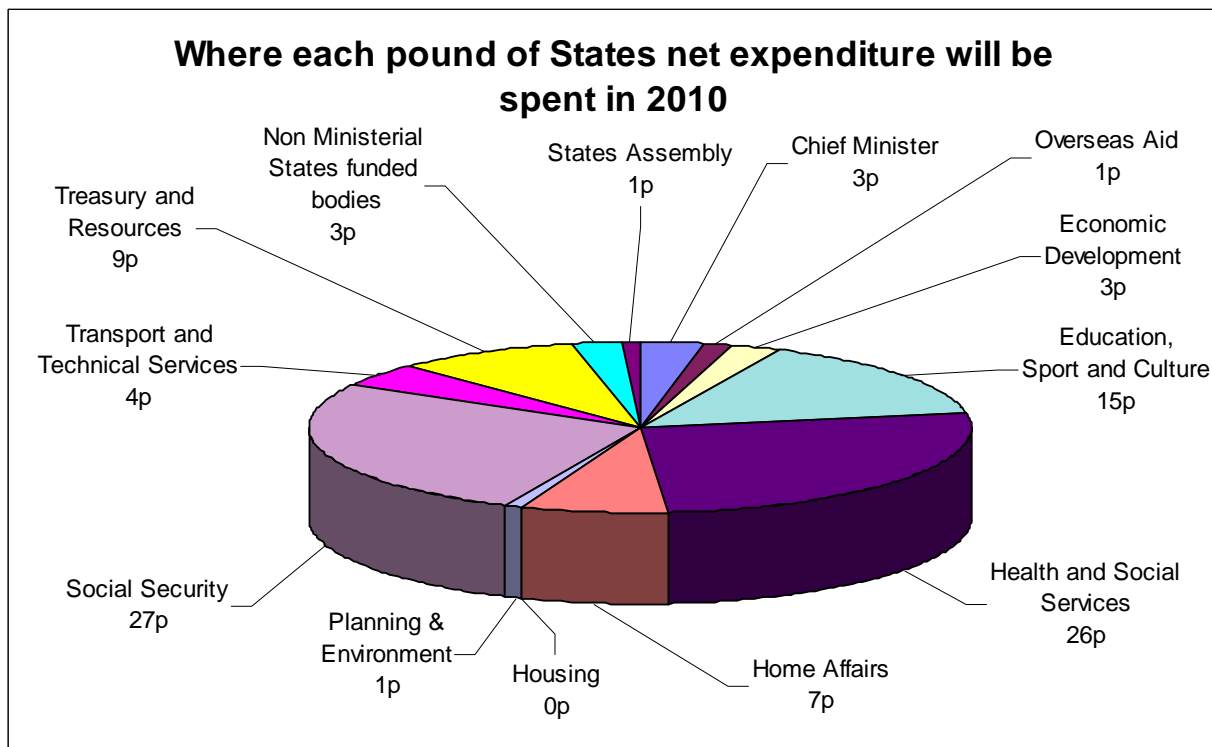
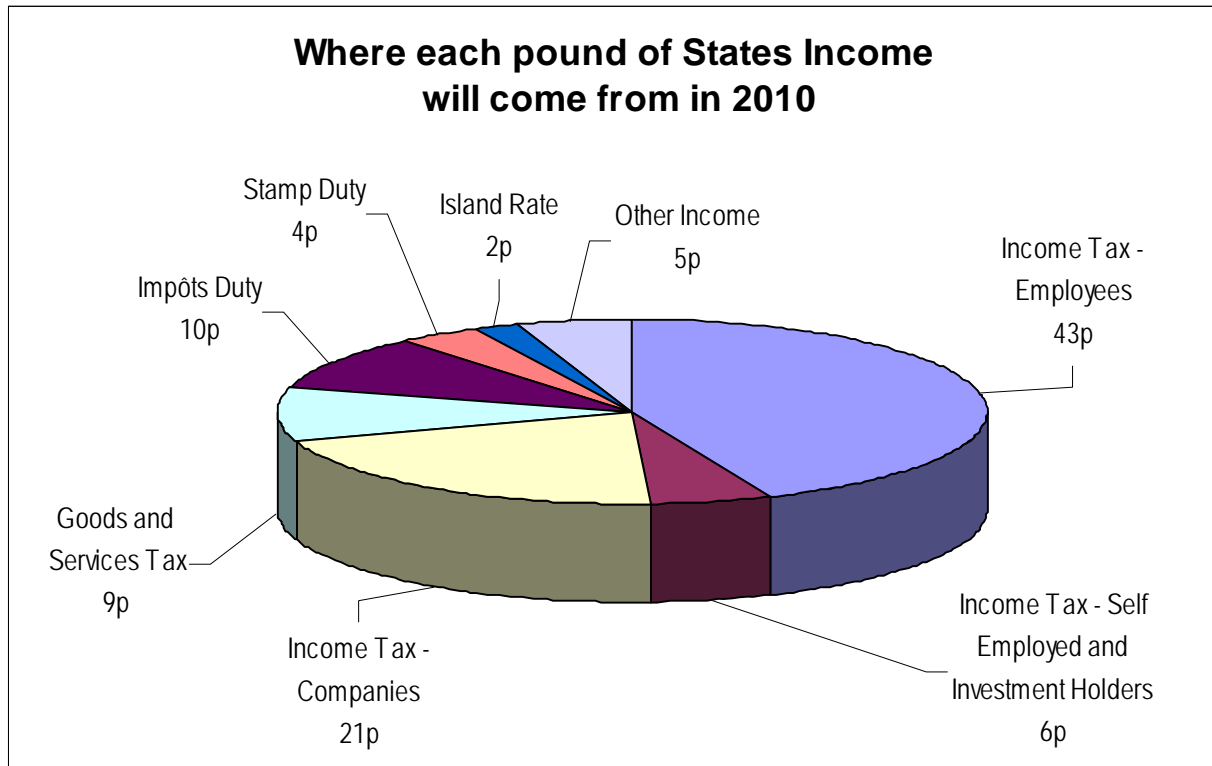
*Adjustments to reconcile to Financial Forecasts:*

|  |                  |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|
| <i>Net Revenue Expenditure Allocation</i>  | £ 620,867        | £ 645,267        | £ 654,071        | £ 670,200        | £ 690,200        |
| <i>Repayment of Capital Debt</i>   | (£ 34,500)       | (£ 34,500)       | (£ 34,500)       | (£ 34,500)       | (£ 34,500)       |
| <i>Net Revenue Expenditure Allocation (as shown in financial forecasts)</i>      | <b>£ 586,367</b> | <b>£ 610,767</b> | <b>£ 619,571</b> | <b>£ 635,700</b> | <b>£ 655,700</b> |
| <i>Capital Expenditure Allocation</i>  | £ 46,087         | £ 39,118         | £ 42,518         | £ 47,038         | £ 48,306         |
| <i>Property Capital Receipts</i>   | (£ 4,000)        | (£ 4,000)        | (£ 4,000)        | (£ 4,000)        | (£ 4,000)        |
| <i>Housing Capital Receipts</i>  | (£ 10,000)       | (£ 14,000)       | (£ 20,000)       | (£ 25,000)       | (£ 25,000)       |
| <i>Net Capital Expenditure Allocation (as shown in financial forecasts)</i>      | <b>£ 32,087</b>  | <b>£ 21,118</b>  | <b>£ 18,518</b>  | <b>£ 18,038</b>  | <b>£ 19,306</b>  |
| <i>Total States Net Expenditure Allocation (as shown in financial forecasts)</i> | <b>£ 618,454</b> | <b>£ 631,885</b> | <b>£ 638,089</b> | <b>£ 653,738</b> | <b>£ 675,006</b> |

*Note:*

The Overseas Aid Commission expenditure allocation appears as a grant from the Chief Minister's department, solely for the purpose of the expenditure allocations, as it has not yet been established as a States funded body under the Finance Law.

# SUMMARY TABLE C: SUMMARY GRAPHS



Housing Net Expenditure is a net income of £23 million, represented by £14 million of Gross Expenditure and Income from housing rents of £37 million.

# **SUMMARY TABLE D: (as amended)**

## **CONSOLIDATED FUND 2010**

|   | 2009<br>Estimate<br>£ | 2010<br>Forecast<br>£ |
|---|-----------------------|-----------------------|
| Estimate of Unallocated Consolidated Fund Balance brought forward - 1st January | £ 51,000,000          | £ 43,077,000          |
| <b>Movements in Year</b>  |                       |                       |
| <b>Income</b>   |                       |                       |
| Income Tax  | 488,000,000           | 391,000,000           |
| Goods and Services Tax  | 50,000,000            | 51,250,000            |
| Impôts Duties   | 51,220,000            | 50,180,000            |
| Stamp Duty  | 19,500,000            | 22,000,000            |
| Island Rate   | 10,560,000            | 10,850,000            |
| Other Income  | 34,250,000            | 28,760,000            |
| <b>Income to the States</b>   | <b>653,530,000</b>    | <b>554,040,000</b>    |
| Repayment of Capital Debt   | 43,720,000            | 34,500,000            |
| Capital Receipts and Vote Transfers   | 16,770,000            | 14,000,000            |
| <b>Unallocated Funds Available</b>  | <b>765,020,000</b>    | <b>645,617,000</b>    |
| <b>Expenditure</b>  |                       |                       |
| Revenue Expenditure Allocation from business Plan                               | 542,222,000           | 586,367,000           |
| Additional Expenditure Approved   | 18,150,000            | -                     |
| Economic Stimulus Package   | 44,000,000            | -                     |
| Repayment of Capital Debt   | 43,720,000            | 34,500,000            |
| Capital Expenditure Allocation  | 54,851,000            | 46,087,000            |
| <b>Total Net Expenditure Allocation to States Funded Bodies</b>                 | <b>702,943,000</b>    | <b>666,954,000</b>    |
| Transfer to Strategic Reserve   | -                     | -                     |
| Proposed Transfer from Stabilisation Fund                                       | 44,000,000            | 37,000,000            |
| Proposed Transfer to Stabilisation Fund   | (63,000,000)          | -                     |
| <b>Estimated Unallocated Balance in Hand at 31 December</b>                     | <b>43,077,000</b>     | <b>15,663,000</b>     |
| <b>SUMMARY</b>  |                       |                       |
|   | 2009<br>Estimate<br>£ | 2010<br>Forecast<br>£ |
| Unallocated Consolidated Fund Balance brought forward - 1st January             | 51,000,000            | 43,077,000            |
| Forecast surplus/(deficit for the year)   | 11,077,000            | (64,414,000)          |
| Transfer to Strategic Reserve   | -                     | -                     |
| Proposed Transfer from Stabilisation Fund                                       | 44,000,000            | 37,000,000            |
| Proposed Transfer to Stabilisation Fund   | (63,000,000)          | -                     |
| <b>Estimated Unallocated Balance in Hand at 31 December</b>                     | <b>43,077,000</b>     | <b>15,663,000</b>     |

The Public Finances (Jersey) Law 2005 requires the balance on the Consolidated Fund at the end of 2010 to be estimated, reflecting the effect of the tax and funding proposals in this Budget, and those expenditure allocations agreed in the Annual Business Plan in September. The States is asked to note the estimated balance of **£15,663,000 as amended**.