PUBLIC INFORMATION BOOKLET

States of Jersey

JERSEY'S GOODS AND SERVICES TAX (GST) PARTIAL EXEMPTION

GST

This booklet is one of a series produced by the States of Jersey Income Tax Office to explain various aspects of Jersey's new Goods and Services Tax (GST). It is issued in accordance with Direction 2008/15, made by the Comptroller of Income Tax on 29 April 2008, using powers available to him under Article 36(3) of the GST Law 2007. It therefore has the authority of a lawful Direction.

You should read this booklet if your business makes both taxable (including zero rate) and exempt supplies.

Whilst care has been taken in its preparation, readers are advised to consult the Goods and Services (Jersey) Law 2007 and the GST Regulations for authoritative text. In cases of conflicting interpretation, the legislation takes precedence.

In designing a GST for Jersey, a key objective has been to achieve a tax that is as simple as possible for all concerned. In particular, it is the intention to minimise the administrative burden of GST on those businesses that are required to collect and account for the tax.

1. How are supplies treated for GST?

Under the Goods and Services Tax (Jersey) Law 2007, supplies of goods and services are treated in one of three ways:

- Exempt (Schedule 5)
- Zero-rated (Schedule 6)
- Standard rated (any supply that is not exempt or zero rate).

'Exempt supplies' are those that, for social, economic, or difficult-to-tax reasons, are not taxed. Examples of exempt supplies are insurance and financial services, postal services, medical and paramedical services, supplies by charities, education fees, burial and cremation, registered child care.

'Zero-rated' supplies are those goods and services that are taxable but, for social or economic reasons, are taxed at zero per cent (0%). Examples of zero-rated supplies are the supply or construction of a dwelling, exports and international services.

Though no GST is chargeable on both Zero-rated and Exempt supplies there is an important difference in the way GST incurred on the costs of making these supplies is treated. Zero-rated supplies are 'taxable' and GST incurred in making them is deductible in full as input tax on your GST Return, but exempt supplies are 'non-taxable' and GST incurred in making these cannot be deducted as input tax on your GST Return.

'Taxable supplies' therefore are those goods and services that attract GST at the standard or zero rate and 'taxable turnover' is the total value of all taxable supplies (standard and zero-rated supplies) made by a business.

In Jersey you must register for GST is your taxable turnover in any period of 12 months is more than £300,000, or is likely to be in the 12 months ahead. Exempt supplies must not be counted in calculating your taxable turnover for the purposes of determining whether you should be registered for GST. In addition, GST must not be charged on exempt or zero-rated supplies. It is important, therefore, that you know which of the supplies you make, or intend to make, are exempt. Further information is given below.

2. What is Partial Exemption?

The GST Law 2007, Article 36, legislation allows GST-registered persons to recover GST they incur in making taxable supplies (standard rated and zero-rated supplies) in the course of furtherance of business - i.e. the GST they pay on business assets, raw materials, stock and business expenses. This is known as 'input tax,' since it is the tax involved on supplies coming IN to a business, as opposed to the tax on sales, going OUT of a business, known as 'output tax.'

In simple terms, any GST that you pay on your business expenses in the course of making taxable supplies can be recovered in full. But input tax incurred in making exempt supplies is 'exempt input tax' and cannot be recovered.

If you are registered for GST and incur input tax used in whole or part to make exempt supplies you are 'partially exempt' and, subject to the information below, will not be able to claim all of your input tax. You will need to use the 'partial exemption method' (see below) to calculate the proportion of input tax which you can claim back.

If the total turnover of your business – both taxable and exempt supplies – does not exceed £10 million a year, you may carry out the calculation at Section 4 once a year using the figures for the previous GST year. If the turnover of your business exceeds £10m a year you must carry out the calculations in Section 4 for each GST Return period.

Your first GST year runs from 6 May 2008, or the date you registered for GST if later, to the end of the first GST Return more than 12 months later. So if you registered for GST from 6 May 2008 and your GST Return periods are calendar quarters, your first GST year ends on 30 June 2009. Each subsequent GST year runs for 12 months. More information is given in Section 4.

You can apply to the Comptroller of Income Tax to use an alternative method. If you do so you must have written approval to use an alternative method before you start to use it. The Comptroller may also direct that a different method be used. Approval may be withdrawn at any time if the alternative method does not result in a fair and reasonable attribution of input tax to taxable and exempt supplies.

The rest of this booklet explains how to apportion the input tax incurred on the costs of making both taxable and exempt supplies, and how to deduct that part which is used to make taxable supplies.

3. Is there any exempt input tax I can claim?

There are two tests to determine whether you can claim all your input tax, **Test A** is set out below and **Test B** follows the calculation shown in Section 4. If your business meets Test A you will not need to carry out the calculation at Section 4.

If your business does not pass Test A you must carry out the calculation at Section 4 but then may be able to deduct all of your input tax if the business passes Test B. But you can only apply Test B when you have carried out the calculation at Section 4. The majority of businesses that make both exempt and taxable supplies are expected to 'pass' Test A and be able to recover their input tax in full.

TEST A

If at the end of any GST Return period the value of the exempt supplies (sales) you have made in the previous 12 months, or in the first 12 months in which you are registered for GST, does not exceed 5% of your total sales, you may deduct all the input tax you incur on your GST Return, except where:

- **In the first GST year in which you are registered for GST you have reasonable grounds to expect that the value of the exempt sales you make in any of the two years following the first GST year will exceed 5% of the total of all the supplies you will make; or**

- **You have purchased goods or services during the year that you sell or intend to sell to a connected person as defined under Article 3* of the GST Law 2007 that is itself not entitled to deduct in full all of the input tax it incurs.**

If, for each GST period or GST year, you 'pass' this test you can deduct all you input tax in full and do not need to carry out the calculations in Section 4.

If you 'fail' this test because of either of the bullet points above, refer to Section 5, below.

*** Article 3, GST Law 2007 – "Connected person"**

(1) For the purposes of this Law, the question whether a person is connected with another shall be determined in accordance with this Article.

(2) A person is connected with an individual if that person is the individual's wife or husband, or is a relative, or the wife or husband of a relative, of the individual or of the individual's wife or husband.

(3) A person is connected with a person with whom the person is in partnership, and with the wife or husband or relative of any individual with whom the person is in partnership.

(4) A company is connected with another company –

    (a) if the same person has control of both companies, or a person has control of one company and persons connected with the person, or the person and persons connected with the person, have control of the other company; or

(b) if a group of 2 or more persons has control of each company, and the groups either consist of the same persons or could be regarded as consisting of the same persons by treating (in one or more cases) a member of either group as replaced by a person with whom the member is connected.

(5) A company is connected with another person if that person has control of it or if that person and persons connected with that person together have control of it.

(6) In this Article, “relative” means brother, sister, ancestor or descendant.

4. How do I calculate the amount of input tax I can deduct?

The following calculation explains the standard **'partial exemption method'** of calculating the amount of GST you can deduct.

Your first GST year runs from 6 May 2008, or the date you registered for GST if later, to the end of the first GST Return more than 12 months later. So, if you are registered from 6 May 2008, and your first GST Return is for the period to 30 June 2008, your first GST year runs from 6 May 2008 to 30 June 2009. Your following GST year runs from 1 July 2009 to 30 June 2010. If you wish to use different years, for example to fit in with a financial year end, you must apply to the Comptroller of Income Tax for approval.

If your business has a total turnover – that is taxable and exempt supplies - of less than £10 million a year you can carry out the calculation below on an annual basis, for each GST year after your first.

If you elect to do this you then carry out the calculation at Step 3 using the figures for the whole of the GST year to calculate the taxable proportion of your 'residual input tax'. This proportion is then used, provisionally, for each GST Return period of the following GST year, and an adjustment made at the end of the year, as at Step 5, using the actual figures for the year.

If you import goods and / or receive services listed in Schedule 3 to the GST Law 2007 that are used in whole or part to make exempt supplies you must also carry out the calculations shown in **Step 4**. There is a list of Schedule 3 services at Annex C.

Step 1 - Identify GST paid or payable on purchases used to make taxable supplies

In each GST Return period, add up all the GST incurred on purchases and expenses that you have used or will use solely in making taxable supplies. This is taxable input tax and **can** be deducted in full through your GST Return. (Remember that zero rated supplies are taxable supplies).

Step 2 - Identify GST paid or payable on purchases used to make exempt supplies

In each GST Return period, add up all the GST incurred on purchases and expenses that you have used or will use solely in making exempt supplies. This exempt input tax **cannot** be deducted through your GST Return, unless you 'pass' Test B after carrying out the calculations below.

Step 3 - Identify GST paid or payable on purchases used to make both taxable and exempt supplies

The remaining - residual - input tax is used in making both taxable and exempt supplies and must be apportioned.

For each tax period the proportion used to make taxable supplies is calculated using the following formula:

$$\frac{\text{Value of taxable supplies}}{\text{Value of all supplies}} \times 100 = \textbf{Deductible \%}$$ (rounded up to the nearest whole number, so 58.77% becomes 58%)

Calculated % x Amount of residual input tax = **Proportion to be added to your taxable input tax.**

The value of taxable supplies includes any supplies you make outside Jersey that would be taxable supplies if they had been made in Jersey. The value of all supplies should include this figure **and** the value of any supplies you make outside Jersey that would be exempt supplies if they had been made in Jersey.

Step 4 - Imported Goods and Schedule 3 services received from outside Jersey

If you import goods or receive services listed in Schedule 3 to the GST Law 2007 that you use to make exempt supplies or both taxable and exempt supplies, you also need to carry out the following calculation as part of the above:

All businesses report the value of import goods and Schedule 3 services received in Box 5 of their GST Return. Unless the business makes exempt supplies there is no calculation required of GST on this value. However where a business does make exempt supplies you must carry out the following GST calculation:

For each import of goods or Schedule 3 service received during the tax period, identify whether you have used that supply to you to make:

- Solely taxable supplies - no further action is needed
- Solely exempt supplies - multiply the value of the imported goods or Schedule 3 services received by the standard rate of GST (3% when this booklet was published) and deduct the resulting figure from your taxable input tax. If the figure you have calculated is greater than your taxable input tax, then add it to your output tax. The effect of this is the same as that for GST on domestic supplies to you that are used to make exempt supplies.
- Both taxable and exempt supplies – multiply the value of the imported goods or Schedule 3 services received by the standard rate of GST (3% when this booklet was published). Then multiply this GST amount by the deductible % you have calculated at Step 3 above. Take the value you have now calculated away from the first GST value calculated here. The result is exempt input tax on imports or Schedule 3 services. Deduct the resulting figure from your taxable input tax. If the figure you have calculated is greater than your taxable input tax, then add it to your output tax. The effect of this is the same as that for GST on domestic supplies to you that you use to make exempt supplies.

TEST B

Having a carried out the above calculations, you should now apply this test to see whether you can deduct all the input tax you have incurred.

If the total amount of input tax that is attributed to exempt supplies, both directly (Step 2) or through the calculation (Step 3), does not exceed both £250 a month on average and 25% of all your input tax, you may deduct all the input tax you have incurred, except where:

- **In the first GST year in which you are registered for GST you have reasonable grounds to expect that the value of the exempt sales you make in any of the two years following the first GST year will exceed 5% of the total of all the supplies you will make; or**
- **You have purchased goods or services during the year that you sell or intend to sell to a connected person as defined under Article 3 of the GST Law 2007 that it itself not entitled to deduct in full all of the input tax it incurs.**

If you 'fail' this test because of either of the bullet points above, refer to Section 5, below.

Step 5 - Annual Adjustment

You must carry out an **annual adjustment** using the total figures used for each quarterly GST Return. You must do this on the first GST Return following the last GST period of your GST year. For example, if your GST year ends on 30 June, and you make quarterly GST Returns, the annual adjustment is made on the Return for the period to 30 September.

The amount you calculate in each GST period is provisional and your deduction of input tax is 'fixed' by the Annual Adjustment.

- If the adjustment shows a lower amount of input tax that could be deducted for the previous year, **add** the difference between **input tax** deducted and input tax now deductible to the output tax on this GST Return; or
- If the adjustment shows that you entitled to an additional amount of deductible input tax, **add** this amount to the **input tax** on the GST Return.

A worked example of each calculation is shown at Annex A.

5. Businesses that fail Test A or B on the 'bullet point' criteria.

If you 'fail' Test A (Section 3) or Test B (Section 4) because:

- **In the first GST year in which you are registered for GST you have reasonable grounds to expect that the value of the exempt sales you make in any of the two years following the first GST year will exceed 5% of the total of all the supplies you will make, then ...**

In addition to your normal Annual Adjustments, you must carry out an adjustment covering the whole of your first 3 GST years, on the GST Return next following the end of your third GST year.

- If the adjustment shows a lower amount of input tax that could be deducted for the previous year, **add** the difference between input tax deducted and input tax now deductible to the **output tax** on this GST Return; or
- If the adjustment shows that you are entitled to an additional amount of deductible input tax, **add** this amount to the **input tax** on the GST Return.

If you 'fail' test A or B because:

- **You have purchased goods or services during the year that you sell or intend to sell to a connected person as defined under Article 3 of the GST Law 2007 that it itself not entitled to deduct in full all of the input tax it incurs, then ...**

You are only entitled to deduct as input tax that proportion of the GST that the connected person is itself entitled to deduct. This applies even if there are one or more intermediaries interposed in between you and the connected person.

6. Capital purchases

Where you purchase goods or services, whether locally or by import, where the GST exclusive value of the supply exceeds £1,000,000, and the supply is not exempt from or zero rated for GST, you must adjust the GST incurred over a period of 5 years, reflecting the long term value of the purchase to the business. Examples include: purchase of a commercial building, the premium paid on entering into a lease on an office, refurbishment of an office, a new swimming pool at a private school.

If the purchase is only ever used to make taxable supplies, no adjustment is necessary. If the purchase is only ever used to make exempt supplies, no input tax is deductible. Where however the purchase is used to make both taxable and exempt supplies, or where the use changes from taxable to exempt, or exempt to taxable, adjustments will be necessary.

In the GST year in which you purchase the goods or services, you should deduct GST in accordance with your Partial Exemption method. In each of the following 4 GST years an adjustment is necessary, except that where the goods or services purchased are disposed of or destroyed, no adjustments are due for years after that in which the disposal or destruction occurs.

You must adjust 20% of the GST at the end of each GST year, using deductible proportion of residual input tax calculated under the Annual Adjustment. The amount that can be deducted is then compared to 20% of the GST deducted in the year of purchase. Where more input GST can now be claimed, this should be added to input tax for the GST Return on which the adjustment is made. If less input tax now falls to be deductible, the adjustment amount should be subtracted from input tax on this GST Return.

An example of how this works is shown at Annex B.

GST Law and Information

Copies of the Goods and Services Tax (Jersey) Law, 2007 and the GST Regulations are available for inspection at Parish Halls, the States Bookshop, the Customer Service Centre at Cyril Le Marquand House in The Parade, St Helier, the Public Library and on the States website www.gov.je.

The States of Jersey Income Tax Office has also published a series of information leaflets to assist the business community and the general public. Among those that might be of particular interest are:

- A guide to Jersey's GST Law
- A guide to the GST Regulations
- An introduction to Jersey's GST for businesses
- GST: Books and records to be kept
- A guide to completing your GST Return
- The GST Margin Scheme for the Motor Trade
- GST: building and construction
- GST: land and property
- GST: self-billing
- GST: retail chemists and pharmacists
- GST treatment of charities
- GST refunds for DIY housebuilders
- GST visits by tax officers
- GST: burial and cremation

These can be obtained from the Customer Service Centre at Cyril Le Marquand House or viewed on the States website.

How can I find out more about GST?

The Comptroller welcomes direct approaches from the business community and the general public. A dedicated GST Help Desk has therefore been established to deal with GST enquiries. Help Desk officers can provide general advice and guidance, or arrange for your enquiry to be answered by a GST specialist. They can be contacted by telephone on the GST Help Desk on 440555 during office hours, by fax on 737978, by e-mail jerseytax@gov.je , or you can write to The GST Help Desk, GST Department, States of Jersey Income Tax Office, Cyril Le Marquand House, P.O. Box 56, The Parade, St Helier, Jersey.

You do not need to be registered, or liable to be registered, to take advantage of this service.

In addition, specialist officers from the Income Tax Office are available to make visits to business premises to advise on general and business-specific GST matters. These visits can be arranged by the GST Help Desk.

Annex A

Partial Exemption – worked example:

Step 1

For GST Return 01/01/2009 to 31/03/2009:

GST incurred on purchases and expenses used or will use solely in making taxable supplies: £482

This is taxable input tax and can be deducted in full through your GST Return.

Step 2

GST incurred on purchases and expenses used only to make exempt supplies:	£1206
Imports used only to make exempt supplies: £69,000 x 3% =	£2070
	£3276

This exempt input tax and is not deductible.

Step 3

The remaining - residual - input tax used in making both taxable and exempt supplies:

Apportionment calculation:

$$\frac{\text{Value of taxable supplies}}{\text{Value of all supplies}} \times 100 = \%$$ (rounded up to the nearest whole number)

$$\frac{£441{,}200}{£559{,}750} \times 100 = 78.82\%,$$ rounded up to **79%**

Amount of residual input tax, suppliers in Jersey =	£2,080
Imports used to make both taxable and exempt supplies = £2,200, x 3% =	£ 660
Rental of photocopier from UK – used to make taxable and exempt supplies, £4,500 x 3% =	£1,350
Total residual input tax =	£4,090
Deductible proportion = £4,090 x 79% =	**£3,230**

This is taxable input tax and should be added to the figure from Step 1 above.

Step 4: Annual adjustment.

The business above has a total turnover below £10 million and is eligible to apply to carry out a single annual calculation. If it does not then the annual adjustment would be:

	Taxable sales	Total sales	% of taxable sales
Quarter 1:	£ 441,200	£ 559,750	79%
Quarter 2:	£ 467,340	£ 570,060	82%
Quarter 3:	£ 513,380	£ 630,500	82%
Quarter 4:	£ 462,540	£ 592,000	79%
Totals	£1,884,460	£2,352,310	

Apportionment calculation:

$\frac{£1,884,460}{£2,351,860} \times 100 = 80.12\%$, rounded up to **81%**

Residual Input tax

Quarter 1	£ 4,090	x 79% = £ 3,230
Quarter 2	£ 3,930	x 82% = £ 3,220
Quarter 3	£ 5,030	x 82% = £ 4,210
Quarter 4	£ 2,840	x 79% = £ 2,240
Total	£15,890	£12,900

The adjusted amount of residual input tax that may be deducted is £15,890 x 81% = £12,870

As this figure is **less** than the amount, £12,900, deducted during the year, the difference, £30, is additional tax due to the Treasury and must be **deducted** from your input tax on the next GST Return.

If the adjusted amount is greater than the amount of residual input tax you have deducted during the year, the difference is additional input tax due to you and should be added to your input tax on the next GST Return.

Annex B

Capital purchases - Example calculation:

New office purchased, 14 July 2008, costing £10m plus GST of £300,000. To be used for both taxable and exempt purposes. Residual input tax recovery rate in period of purchase = 25%.

Initial input tax deducted = £300,000 x 25% = £75,000

Annual adjustment, year to 30 June 2009:

Residual input tax recovery rate for the year = 30% **This is now the 'original deduction'.**

Adjustment: £300,000 x 30% = £90,000

Initial deduction = £75,000

Additional input tax to deduct = £15,000 **add to input tax** on Return to 30/09/2009

First adjustment – to year end 30 June 2010:

Residual input tax recovery rate for the year = 25%

Adjustment: £300,000 x 20% = £60,000 x 25% = £15,000

Original deduction: £300,000 x 20% = £60,000 x 30% = £18,000

Subtract from input tax on Return to 30/09/2010 = **£ 3,000**

Second adjustment – to year end 30 June 2011:

Residual input tax recovery rate for the year = 35%

Adjustment: £300,000 x 20% = £60,000 x 35% = £21,000

Original deduction: £300,000 x 20% = £60,000 x 30% = £18,000

Add to input tax on Return to 30/09/2011 = **£ 3,000**

Third adjustment – to year end 30 June 2012:

Residual input tax recovery rate for the year = 30%

This is the same as in the year of purchase, so no adjustment is necessary.

Final adjustment – to year end 30 June 2012:

Residual input tax recovery rate for the year = 22%

Adjustment:	£300,000 x 20% =	£60,000 x 22% =	£13,200
Original deduction:	£300,000 x 20% =	£60,000 x 30% =	£18,000
Subtract from input tax on Return to 30/09/2011 =			**£ 4,800**

Summary of input tax deducted and adjusted:

Initial year:	**£90,000**
First adjustment: less	**(£ 3,000)**
Second adjustment: add	**£ 3,000**
Third adjustment: NIL	**£0**
Fourth (final) adjustment: less	**(£ 4,800)**
Total input tax deducted:	**£85,200**

Annex C

GST Law 2007, Schedule 3
Reverse charge to GST: services treated as supplied where received

1. The transfer or assignment of a copyright, patent, licence or trademark, or of a similar right that is intellectual property.

2. Advertising services.

3. Services of consultants, engineers, consultancy bureaux, solicitors, advocates, notaries, accountants and other experts or professionals.

4. Data processing and provision of information (but not data processing, or provision of information, relating to land).

5. Acceptance of any obligation or undertaking to refrain from the pursuit, exercise, or enjoyment, in whole or part, of a business activity or of a copyright, patent, licence, trademark or of a similar right that is intellectual property.

6. The provision of access to, and of transmission through, electricity distribution systems, and the provision of other directly-linked services.

7. Banking, financial and insurance services (including re-insurance, but not including the provision of safe-deposit boxes).

8. The supply of staff.

9. Telecommunications services, that is, services relating to the transmission, emission, or reception, of signals, writing, images, or sounds or information, of any nature by wire, radio, optical or other electromagnetic systems, including –

   (a) the related transfer or assignment of the right to use capacity for such transmission, emission or reception; and

   (b) the provision of access to global information networks.

10. Radio and television broadcasting services.

11. Electronically-supplied services, for example –

   (a) website supply, web-hosting or the distance maintenance of programmes and equipment;

   (b) the supply of software or the updating of software;

   (c) the supply of images, text or information, or the making available of databases;

   (d) the supply of music, films or games (including games of chance and gambling games);

(e) the supply of political, cultural, artistic, sporting, scientific or entertainment broadcasts (including broadcasts of events);

(f) the supply of distance teaching,

but not the communication per se by e-mail between the supplier of a service and his or her customer.

12. The letting on hire of goods, other than vehicles and similar goods that are means of transport.

13. The services rendered by one person to another in procuring for the other any of the services referred to in paragraphs 1 to 12.

14. Any service when supplied to a registered person, not being a service referred to in any of paragraphs 1 to 13.

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