OFFICE OF THE COMPTROLLER OF TAXES

ANNUAL REPORT

2009

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INTRODUCTION
BY THE COMPTROLLER OF TAXES

Over the past few years the Taxes Office has faced some significant challenges and has had to absorb several major new tax initiatives. These have included:

- The Goods and Services Tax (GST)
- The Income Tax Instalment System (ITIS)
- The 0/10% corporate tax regime and related provisions
- The abolition of tax allowances for those on higher incomes (20% means 20%)
- The European Union Savings Directive (EUSD) Bilateral Agreements with 27 EU countries
- Tax Information Exchange Agreements (TIEA) – 15 to date
- The Non Resident Landlord Scheme
- The Land Transaction Tax

2009 saw the implementation of the 0/10% corporate tax regime approved by the States in January 2007 together with the related shareholder taxation provisions approved in November 2007. A review is currently taking place on any amendments or alterations to this regime.

GST moved into its second year of operation. The recommendations from the post implementation review held in 2008, further development of the compliance strategy, including the identification of risk areas, together with the phasing in and implementation of the penalty system have all been implemented during 2009.

The phasing out of allowances through the 20% means 20% regime reached its third year. Personal tax assessments, once completed, were immediately issued during 2009 for those individuals in employment, rather than having a General Issue Date as in previous years. This has assisted both the Office with workflow and the taxpayer through receiving more timely information.

In the last few years we have had to handle an international dimension to our work with the European Union Savings Directive (EUSD) and an increasing number of Tax Information Exchange Agreements (TIEA's). As Competent Authority for both sets of international agreements, the Comptroller of Taxes is responsible for administering the EUSD Bilateral Agreements with 27 European Union countries as well as complying with our commitments under 15 TIEA's with more expected to be signed in 2010.

We have implemented the non resident landlords' scheme and finalised the land transaction tax scheme which was introduced on 1st January 2010.

We have also continued to service and assess over 105,000 personal, business and corporate taxpayers and collected over £595 million in Income Tax and Goods and Services Tax during 2009.

We have achieved extremely successful results during 2009.

I am extremely proud and appreciative of the commitment, dedication and loyalty I have received from all staff at the Taxes Office and thank each and every one of them for their hard work and contributions to the achievements and results in this Annual Report.

Malcolm Campbell BA., FTII., FCMI
Comptroller of Taxes

KEY PERFORMANCE RESULTS

- Over £595 million in taxes collected during 2009
- 89.4% of 2008 collectible tax had been collected by the end of December, 2009 (target was 95%). NB. When the ITIS December 2008 payments received from employers in January 2009, as allowed by Law, are included, the 89.4% increases to 93%
- Tax arrears of £30 million collected
- Tax repayments made of £26.9 million (no target)
- Company tax assessments 'closed' by end February, 2009 (100% on target)
- Personal tax assessments 'closed' by mid November, 2009 (target was end November)
- Error rate on personal tax assessments was within target of 5% (2.8%)
- 1.3 million transactions with an absolute value of £1.6 billion reconciled
- 1.04 million income tax payments processed during the year, of which 930,000 related to ITIS credits and 110,000 to direct payments
- The total yield for settlements – back tax, interest and penalties was £1,809,730. The undisclosed income uncovered totalled £10,982,947
- 'Add backs' to taxable profits of £41,173,163 million achieved following examination of 11,793 sets of business accounts
- 7,390 telephone calls received by GST team
- 233 Educational and Assurance visits undertaken by the GST team
- 6,246 GST returns received in the calendar year
- Capital growth applications for rulings totalled £42 million, of which £22 million was challenged and taxed under the anti-avoidance Article 134A.
- 203 cases heard by the independent Commissioners of Appeal.
- 576 summonses were issued in 2009, totalling £5.8 million (2008 £5.0 million) split £1.7million as to the Petty Debts Court and £4.1 million for the Royal Court
- All retention tax and information reconciled and exchanged with 27 EU Countries subject to the European Savings Directive Bilateral Agreements by the end of June, 2009
- A robust and active programme under both the USA and Netherlands Tax Information Exchange Agreements with Jersey has been in place throughout

2009

- Bulk issues of forms totalling approximately 425,000 handled during the year in support of the Taxes Office activities.

- More than 700,000 pages of incoming forms were scanned and data captured to assist the assessing processes and to provide business continuity

- 120 new pension schemes registered

- 112 tax rulings to professionals on new lines of business and innovative business transactions made by Comptroller and Deputy Comptroller within three days of receipt

- The Taxes Office operational budget confined within cash limit imposed

OTHER KEY STATISTICS / INFORMATION

- Personal taxpayer base has now levelled out at 72,500 (72,370 in 2008)
- Business and corporate tax base totalled 37,406 (36,758 in 2008)
- Staff as at 31st December 2009 totalled 102 - including GST staff
- The Helpdesk assisted some 56,000 taxpayers in person during 2009 and answered over 100,000 incoming telephone calls
- Over £4,000 raised by staff for charity through various initiatives during 2009. Charities benefiting from our fundraising included Jersey Hospice Care, Women's Refuge, Alzheimer's Society, League of Friends and the Joint Charities Christmas Appeal.
- Supporters of Workwise, JEND, Project Trident, Advance to Work and the Princes Trust.

PERSONAL TAX DIVISION

The Personal Tax Division is staffed with just over 40 officers and it forms the largest division within the Taxes Office. Its function includes the assessment and collection of tax from individuals, partnerships and trusts and has dedicated teams dealing with ITIS employer administration and compliance, front line enquires and debt recovery. It is critical, with this number of staff and functions; the Personal Tax Division operates as a cohesive unit. The results summary given below demonstrates that it does.

SUMMARY OF ACHIEVEMENTS

- All personal tax cases were assessed on time. The overall total Personal Tax base has now levelled off at circa 72,000 cases.

- ITIS taxpayers were, during 2009, sent their annual tax liability (Notice of Assessment) as soon as it was calculated, rather than, as in previous years, in November. This change was made in light of feedback from the public. By sending out assessments as they were calculated, it gives taxpayers more timely information.

- We continued to administer a significant volume of daily post (estimated to exceed 25,000 items in the year) and received telephone enquires of up to 500 per day during peak times.

- During 2009 focus on debt recovery and compliance was also enhanced. This involved, for the first time undertaking external face to face visits for cases where there was common GST / ITIS / Corporate and Business Tax or Personal Tax, non-compliance and debt issues. This initiative proved to be very successful and will be a continuing part of the Office's debt strategy moving forward.

    - Collection: Total Summonses issued during the course of the year 2009 were;

    - 414 Petty Debts Court summonses with a judgement total of £1,717,461

    - 162 Royal Court summonses with a judgement total of £4,172,860.

    - **Note**: 79 of the Petty Debts Court summonses and 45 of the Royal Court summonses were in respect of ITIS non-compliance.

- 2009 also saw the first personal Tax Returns where taxpayers were required (following the introduction of Zero /Ten) to disclose interests both locally and overseas that had not previous been advised to the Taxes Office. Tax Returns were scrutinised on receipt and cases, where warranted, have been subject to enquiry and review.

- The facility of providing electronic payment statements for approved tax agents was also introduced. This means tax agents can now request full statements, showing a history of payments in electronic format, for all their clients. This has well received by the tax profession and has reduced the levels of queries directed at the Taxes Office.

- In November 2009 the Tax Information Exchange Agreement (TIEA) with the United Kingdom came into force. This was the first signed TIEA to included significant changes in the way pensions are taxed in both jurisdictions. Media releases were undertaken and the Web Site explanatory notes released outlining the importance of this agreement.

John Le Cuirot
Personal Tax Director

GOODS AND SERVICES TAX (GST) DIVISION

INTRODUCTION

The States agreed in July 2005 (P44/2005) to introduce a 3% broad based GST in early 2008 in order to help fill the revenue deficit (arising from the move to 0/10) and for the Island to be less reliant on direct taxation.

The tax started as scheduled on 6th May 2008 and at the end of 2009 we have now had twenty months of live tax experience with 2009 being our first full GST calendar year. The main events in 2009 are described below.

MAIN EVENTS/ACTIVITIES IN 2009

Throughout the year the high base levels of voluntary compliance (submission of returns and payments by the due dates) set in 2008 have remained consistently high – around 80-90% covering the range of different of tax periods. Computer generated estimated assessments for non filers have been issued since period June 09 to replace the manually raised versions. The overall GST debt at the end of the year is below 5% of the net tax due – this with other compliance measures compares very favourably with other regimes and international benchmarks.

The “light approach” adopted for the first year of the tax was reviewed and it was agreed to introduce the penalty regime as stipulated in the law (late filing penalties and late payment surcharges) from tax periods ending July 09 onwards. Despite voluntary compliance being high the introduction of penalties has inevitably increased our casework and the GST team will conduct a review in January 2010 after 6 months experience.

Refund claims account for approximately 20% of the value of payment declarations, broadly in line with the UK. We continue to receive other repayment claims, mainly from ISEs and charities, which are refunded within 1 week of approval.

All work following the legislation review was completed in October to introduce a range of changes to the GST Law and Regulations. These were approved by the States on 10th December as part of the Budget debate.

The compliance staff have continued the rolling programme of visiting taxpayers at business premises - the main focus of visits is now switching to audit [in addition to education, which is mandatory on all visits]. Priority for audit visit selection has been given to those businesses with a high annual level of yield or refund.

A Post Implementation Review (PIR) was conducted by a team from Her Majesty Revenue and Customs and they submitted their draft report on the 6th January. The report included 14 recommendations which have been accepted in full and those within the remit of Income Tax have been implemented / delivered during the year.

Some facts/figures/results from 2009

GST REGISTRATIONS [AS AT THE END OF DECEMBER 2009]

The number of taxpayers registered for GST is reasonably stable but has steadily grown since the start of the tax. There is an average net increase each month of around 14/15 taxpayers (based on new registrations less deregistered cases).

256 charities
9 DIY house builders [live]
2,585 Total business registrations (including 538 International Services Entities)

VOLUNTARY COMPLIANCE

The level of voluntary compliance has been very high from the first returns submitted by registered taxpayers and this has been maintained – the average filer rate up to November 09 is 88%.

ENQUIRIES

The team continues to receive about 700 telephone enquiries a month. Together with e-mail enquiries (average around 100 a month) and hard copy enquiries (average around 70 per month).

RETURN ERRORS

The GST return error rate (documents submitted that require correction before processing) is around 10%.

VISITS

Total number of audit / educational visits performed up to the end of December 2009 is 233 (monthly average 20 visits).

THE FUTURE

2010 will continue to be a period of consolidation but will be balanced with some targeted development work. The GST team will need to implement the changes to the GST legislation introduced as part of the 2009 Budget. This may require some re-education of the business community which will be delivered by seminars and taxpayer visits supported by information leaflets.

We also plan to introduce two new initiatives in 2010 - Cash Accounting and Annual Accounting which are specifically aimed at being “business friendly”. They should improve cash flow and reduce compliance / administration costs. The introduction of both is supported by the Chamber of Commerce.

CONCLUSION

Our main objectives of introducing and preserving a reasonably “simple” broad based consumption tax with a low rate have been achieved. Although the returns for quarter ending December 2009 are not due to be submitted until end of January 2010 based on the latest figures (returns submitted up to and including November 2009) the total GST revenue (including import GST from Customs) for 2009 should be near the published target of £50m.

Steve Lowthorpe
GST Director

BUSINESS TAX DIVISION

There have been two main points of focus for Business Tax in 2009.

Current Year Basis of Assessment

The main thrust of accounts examination in 2009 was in respect of the 2008 year of assessment. Due to the shift from a previous year basis for all sole traders, trading partnerships and trading companies in 2007, to a current year basis for 2009 onwards, the transition year of assessment – 2008 – was based on two years of accounts, those ending in 2007 and 2008.

In general, the transition has gone smoothly though inevitably there have been more enquiries to resolve as agents and individuals have realised the practical implications of the transitional provisions.

ZERO/TEN

The first real effects of zero/ten were felt in 2009. Companies that were incorporated on or after 3 June, 2008 will have been liable for the first time at 0%, 10% or 20% depending on their nature and / or sources of income. 2008 assessments were issued for those liable at 10% or 20% in February, 2009.

This has been a useful lead in period to the 2009 year of assessment – when all companies will be affected by the new provisions.

Much effort has been put into educating taxpayers and their agents in 2009 – with Tax Officers giving presentations to individual firms of accountants and also to the Chartered Institute of Taxation (Jersey Branch) and the Chamber of Commerce during the year.

With the taxation of company profits shifting from the company to the Jersey resident shareholders due to the new attribution and distribution provisions the Division is expanding its role into shareholder compliance. This activity will gear up in 2010 as more individuals are affected.

OTHER

The normal operational activities of the Division have continued throughout the year with 100% of 2008 assessments being issued as required by the end of February. The examination of 11,485 sets of accounts in 2009 has led to the identification of £41,173,163 in technical adjustments - expenses claimed incorrectly in trading accounts - and the settlement of 41 investigations with a value of £767,761.

Finally, on three separate occasions during the year a talk was given to groups of young people attending a seminar organised by the Prince's Trust to enlighten them on the tax implications of becoming self employed.

Chris Le Breton
Business Tax Director

INVESTIGATIONS DIVISION

MAJOR AREAS OF WORK COMPLETED

	Settlements	Omitted Income	Settlements
2009	257	£ 10,982,947	£1,809,730

The split between the Divisions is as follows:

	PTD	BTD	INVESTIGATIONS
CASES	145	41	71
	£	£	£
OMITTED	2,910,451	4,550,930	3,521,566
INCOME	562,835	767,761	479,134

SETTLEMENTS

The main sources of information from which investigations / enquiries were instigated are as follows:

Review of Returns	81
Voluntary Disclosures	53
Property Purchases	29
Accounts Examined	27
Third Party	21
Anonymous Information	9

A tax fraud case and a non completion of tax returns case, submitted to Her Majesty's Attorney General, await prosecution.

December saw the appointment of 2 new Investigations Officers, both the successful applicants being existing staff members. They take up their new duties on 1st April, 2010.

The recorded Settlements from 1990 to 2009 totalled back tax and penalties of £25.5 million, from 8,129 cases.

Steve Harzo
Investigations Director

PROFESSIONAL & CORPORATE SERVICES

Recruitment for various vacancies, particularly in Personal Tax, Investigations and the Data Centre, took place throughout the year and induction programmes, consisting of approximately three weeks were run for new Tax Assistants at the beginning of 2009.

The Taxes Office continued to support those wishing to study towards professional qualifications in Tax through the Chartered Institute of Taxation (CTA), Association of Chartered and Certified Accountants (CAT), Management through the States of Jersey Modern Manager programme, Information Systems through the Cisco Networking Academy and Customer Service through the Institute of Customer Service.

Many staff members attended courses run by States Learning and Development in areas such as Enforcement Training, Coaching & Mentoring and Developing Personal Effectiveness together with various 'Lunch and Learn' sessions including Tips & Tricks for Windows and Office and Practical Tips for Outlook.

Having successfully obtained tutor status for Developing an Eye for Accuracy, three courses were run during 2009, 2 for Taxes Office staff and 1 for staff from the Human Resources Business Support Team.

The results from the Customer Questionnaire undertaken in 2008 were published in April 2009. We achieved some excellent results and feedback.

The results from the *Have Our Say* staff survey were published in early 2009. The Taxes Office formed a project team to look into specific areas and results.

The organisation of a charity teambuilding day is underway for early 2010 where members of the Taxes Office will be assisting the Environment Division of Planning & Environment with scrub clearance at Pont Marquet whilst raising money for Jersey Trees for Life.

The Taxes Office have continued to support Workwise, Jersey Employment Network on Disability (JEND) and Project Trident. Most recently we have supported the Princes Trust by running tax sessions for them in their locally based business programmes and we are looking at offering Advance to Work placements in the New Year.

Julie Hinault
Professional & Corporate Services Manager

ZERO TEN

Summary of key achievements.

- Several amendments were made to the zero ten and shareholder taxation provisions in the Income Tax Law. These were presented to the States Assembly in the 2010 Budget and duly adopted.

- Presentations were made to tax professionals, agents, Chartered Institute of Taxation (Jersey Branch) and the Jersey Chamber of Commerce.

- The company income tax return form and accompanying guidance notes were revised following feedback from tax professionals and agents.

- Guidance was given and answers provided to numerous questions raised by tax professionals, lawyers and accountants on all aspects of zero ten and shareholder taxation provisions.

- Amendments were made to the personal and business tax assessment programs to accommodate the zero ten company assessments and the shareholder personal income tax assessments.

- New procedures and processes were developed in the Business Tax Division regarding submission and examination of company financial statements and compliance checks of shareholders personal income tax return forms.

- A Business Tax review group has been set up with tax professionals and other interested parties to look at alternative options to the current zero ten and shareholder taxation provisions.

David Le Cuirot
Deputy Comptroller

TAX INFORMATION EXCHANGE AGREEMENTS (TIEA)

The Comptroller is now Competent Authority for a total of 15 Tax Information Exchange Agreements:

- The United States of America
- The Kingdom of the Netherlands
- The Nordic Alliance (Denmark, The Faroes, Finland, Greenland, Iceland, Norway & Sweden)
- Germany
- France
- The United Kingdom
- Ireland.
- Australia
- New Zealand

TIEA's are ready for signing with Italy and Mexico, and negotiations are well advanced with Argentina, Canada, the People's Republic of China, India, Japan, South Africa and Spain.

Initial action has been taken with Czech Republic, Republic of Korea, Luxembourg, Poland, Portugal, Switzerland and Turkey.

Within the next couple of years it is expected that Jersey will have as many as 30 TIEA's with countries worldwide, bringing a significant international dimension to the work of the Taxes Office.

When the Comptroller receives a request under a TIEA he conducts a rigorous review to ensure that all relevant TIEA criteria are met, and, if he is satisfied with the request, it is actioned immediately. Information is normally exchanged within 40 working days.

Karen O'Brien
Assistant Comptroller

EUROPEAN UNION SAVINGS DIRECTIVE (EUSD)

When the EU Member States implemented a Directive on the Taxation of Savings Income, to give their support for the EU initiative, the States of Jersey enacted the Taxation (Agreements with European Union Member States) (Jersey) Regulations 2005. Under these Regulations the Comptroller of Taxes is appointed as the Competent Authority for the collection and remittance of tax and information to the relevant Member States.

2009 saw another successful year of compliance with the European Union Savings Directive with local Paying Agents retaining and passing to the Comptroller of Taxes £35,621,431 of retention tax. Under the terms of the Agreement 75% of the tax; £26,716.073 was sent to the 27 individual Member States and the remaining 25%; £8,905,358 was retained by the Treasury.

Individuals whose interest income is subject to retention tax, can, as an alternative to paying the tax, choose to voluntarily disclose the amount of interest to their fiscal authorities.

Karen O'Brien
Assistant Comptroller