KPMG

ECONOMIC IMPACT ANALYSIS SERVICE

Fiscal Incentives to Encourage Capital Investment in the Visitor Economy

Final report

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ADVISORY

AUDIT ▪ TAX ▪ ADVISORY

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Introduction

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Introduction to the report

- Context – This report summarises the finding of the analysis of fiscal incentives to encourage capital investment in the tourism industry. The terms of that review are laid out in the engagement letter dated 1st May 2008 and amended in the addendum of 6th June 2008
- Importance – The underlying goal is to leverage more private sector investment in order to develop and improve Jersey tourism in terms of its contribution to the wider economy
- Tourism, whilst representing just over 3% of total GVA (Gross Value Added), is an essential element in the Jersey economy in terms of maintaining infrastructure (travel, accommodation, restaurants, entertainment), employment (especially lower wage and seasonal) and a diverse economy with small and medium enterprises
- Terms of reference – the original terms of reference for this report are to
  - define a range of options to utilise Jersey's fiscal system to leverage private sector capital investment in the Island's visitor economy
  - define, in terms of "deliverability" and "desirability", those options that should be progressed for detailed evaluation
  - for the highest priority options provide a [more] detailed evaluation of the structure, eligibility, implementation, likely impact, advantages, risks and potential KPIs
- Subsequent discussions and analysis suggested that it was difficult to separate the fiscal incentives from the wider support services and the report focuses on both the fiscal incentives and wider support initiatives aimed at encouraging investment. Hence the options analysis later in the paper includes both fiscal and non-fiscal options

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Executive Summary

Jersey's tourism industry may have been shrinking in relative terms, yet still plays a very significant role in maintaining the Island's distinctive nature

There are a number of tax options that could be used to encourage further investment in the industry

Background

- Jersey's tourism industry was once one of the mainstays of the economy but now represents just 3% of GVA (Gross Value Added) yet still employs approximately 5,000 people (11% of the workforce). As such it plays a significant part in the fortunes of the Island for investors, owners, employees, residents and visitors.
- As a consequence, for many years, the States have sought ways in which the sector can be supported. This support can take many forms including marketing, business support, planning strategies or infrastructure development.
- This report has been commissioned to explore ways in which the fiscal system can be utilised to encourage investment at minimal cost to the Treasury. However it soon became apparent that a slightly wider brief was necessary. As an alternative to forgoing a pound of tax it could, in principle, be spent in a number of ways to achieve the overall goals. As a result it was considered important to explore the priorities of the industry. Whilst there is good survey and census data on the level of underlying demand within the industry, there is a paucity of data on the supply side in terms of investment, priorities and issues.
- Against this background the report begins with an update and synopsis of the status and direction of the tourism industry. This builds upon earlier reports and analysis and highlights the need to exploit the emerging high value markets. These are based around the preferences of the more prosperous visitor wanting short breaks, self catering accommodation and specialist interest activities as well as business tourism.
- So, whilst tourism represents a shrinking proportion of the Island economy, it continues to be very important as an employer and as an investor in the Island's historic, cultural, culinary, accommodation and transport assets and the report investigates the means by which the industry can be supported.

Tax options

- A key factor in reducing costs or encouraging investment within the industry is to use the tax system. There are a number of options for reducing the overall tax burden for the sector and many of the interviews and feedback from the sector indicated a strong desire for such support
- Jersey operates two main taxing regimes: income tax, which applies to both companies and individuals; and goods and service tax ("GST") which is a broad-based sales tax on most consumption at a 3% rate. In broad terms it is possible to envisage three main incentives.

1. Corporate income tax: accelerated tax write-off for certain capital investments. In this scenario all or a certain percentage of approved capital investment (which may include related activities such as feasibility studies) could be set against taxable profits. Due to the implementation of 0% rate of taxation for corporate profits, this would be of benefit only for those companies that are owned by Jersey residents, as taxable profits are imputed to Jersey resident individual shareholders. As such, to incentivise those companies owned by non-Jersey residents as well, a scheme similar to the UK R&D tax credit system would apply whereby an option would be given to the company to elect for a (partial or full) repayable tax credit as opposed to a full tax deduction.
2. ITIS: Jersey imposes an obligation on an employer to deduct and account Jersey income tax, at an appropriate rate, from remuneration paid to its employees. This tax is a payment on account in relation to the employees' ultimate tax liability. One fiscal incentive would be to permit the employer in the tourism sector to retain all or a proportion of the ITIS deductions. The employee would nonetheless receive a credit for the tax deducted but the employer, instead of paying all of the ITIS to the Comptroller of Income Tax, would retain all or a proportion of the deductions.
3. GST: consideration may be given to zero rating any capital expenditure by the tourist industry.

- Although we have evaluated the use of the tax system in seeking to encourage investment within the industry, it should stressed that the 0/10 regime which took effect for new resident companies on 3 June 2008 and will take effect for all existing companies on 1 January 2009 may supply sufficient encouragement for inward investment as the profits of companies operating in Jersey within the industry which are not owned by Jersey resident individuals will suffer no Jersey tax.
- We would also highlight the consultation paper issued on 24 July 2008 in relation to deemed rental charge on all non-Jersey owned companies. We understand that the proposal is not to limit the tax solely to non-Jersey owned companies but also to Jersey owned ones. As such, it is understood that the majority of companies trading through their own premises within the tourism industry will be caught. As the charge to tax will have no bearing on the profitability of the company, the proposal, if adopted, could provide an increase in the tax burden of a number of companies even after accounting for the advantage of the 0/10 regime detailed above.

Executive Summary (continued)

Our analysis suggests that the most important fiscal incentive is tax credit / tax deduction for building developments

There is also a clear desire for investments in relevant infrastructure and, for some parts of the sector, business support services

There is a choice between generic cost reductions via tax credits / deductions and more radical public / private partnerships to exploit unique assets

Analysis

- The analysis of the evidence consisted of three main elements
  - a desk review of existing data and reports
  - detailed face to face or telephone interviews with a number of the leading stakeholders; and
  - an on-line survey
- The desk review showed up some excellent data on the main trends in the industry, such as the decline in beds, the changing socio-economic characteristics of the visitors and the growth in business tourism. These findings, (mainly from the Jersey Tourism – A Year in Review 2007) confirmed the strategic directions outlined in the 2006 Locum report
- The interviews, carried out both before and after the on-line survey, helped to both identify some key industry constraints (such as accommodating staff) as well as shedding light on the findings in the survey
- The on-line survey of the industry was carried out via the Jersey Hospitality Association. A simple web based survey was set up with the aim of clarifying the key issues from a wider audience and providing an improved level of quantification. The survey affirmed the importance of tax credit / tax deduction for major capital investments, but also threw up some interesting observations on the priorities for different parts of the sector. For example business support services were very important for some parts of the sector, especially for newer businesses
- Alongside the interest in tax credit / tax deduction for capital investments was a strong desire for investment in necessary infrastructure. The balance of public / private costs was felt acutely by many operators, with, not surprisingly, a wish to move more of the infrastructure costs to the public purse on the grounds that it would benefit many people and help to stimulate the industry
- The interviews with state officials were important in confirming an impression that there is no specific market failure that absolutely requires state intervention on the grounds that the market is not able to operate without it. Indeed it is clear that the tourism market is in a state of transition and almost all operators seemed to recognise this. As a result there are some innovative and exciting products being planned, developed or improved

Other options and recommendations

- Collating the review of the tax options with the results of the analysis of the industry, enabled the main options to be simplified to four major strategic directions
  1. Tax credits / tax deductions for capital investments. The tax revenue from tourism is low (approximately £5 million) and foregoing some tax would not harm the Treasury, whilst providing some useful incentives to the industry that could affect investment decisions at the margin
  2. Infrastructure. There is a strong case for investing in the infrastructure as this helps to facilitate some major projects. However the impact is often uneven, and this can lead to some contentious decision making, apart from generic investments (such as airline subsidies which already happen)
  3. Business support. Any industry in transition benefits from making it easier for new entrants to get started. This support can take the form of helping with feasibility studies, planning issues or general business advice on tax and other legal issues. Much of this support has already been set up and has been well received
  4. Public/private partnerships. These have already been discussed in the context of the Jersey Development Fund and have the potential to make a very significant contribution to the desirability of Jersey as a destination of choice. There are some intriguing possibilities to take advantage of unique assets such as the Durrell centre which could exploit the growing global awareness of conservation and thus deliver significant secondary benefits to the wider tourism industry by bringing many first time visitors to Jersey
- In terms of the original objectives, option 4 seems to have the most economic potential as the investments could be delivered to produce the widest secondary impact to the whole sector

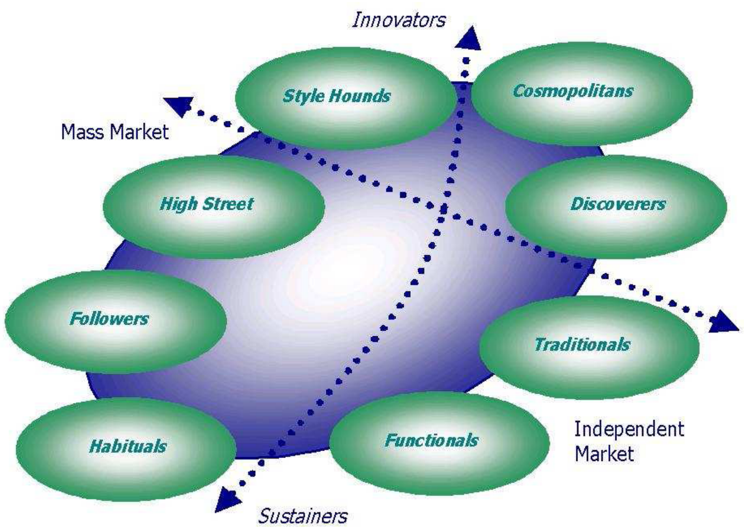
	Tax credits	Infrastructure	Business support	Public/private partnerships
Cost	Low	High	Low	Medium
Impact	Low	Medium	Medium	High

Background

The tourism market has been reviewed and studied regularly and there is good data on the market trends, allowing the shrewd operator to exploit the emerging opportunities

Background

- In November 2006 the Jersey Destination Audit – Towards a Jersey Tourism Development Strategy was produced by Locum Consulting. Some of the most valuable analysis in the report explored the changing profile of visitors, in particular by focusing on the growth sectors of the tourism market and both developing and positioning Jersey's offering to match. They concluded:
  - 'If tourism is to flourish in future there seems to be little realistic option other than to focus on the top right end of the Ark Leisure model (see diagram). The current bottom right positioning is in very evident decline. The market has already taken this view and it is driving investment.'
  - consequently, this report focuses on the fiscal incentives and wider support services that could encourage the appropriate investments



Source: LocumConsulting Jersey Destination Audit 2006

Summary of patterns of demand

- There is a very good set of data on overall trends and visitor numbers, presented in the Jersey Tourism - A Year in Review 2007. This includes the data from the visitor registration cards (purpose, mode of travel) and the data from the 2007 Jersey Travel Survey
- The 2007 report confirms the trends discussed in the Locum report, but perhaps most interesting is the data in Appendix 5, showing the Acorn profile of staying visitors from 2003 to 2007. This shows a notable increase in the proportion of 'Wealthy Achievers' at the expense of the 'Comfortably Off' and more traditional working class. Hence re-inforcing the need to continue to develop the product upmarket
- This is also consistent with the reality that Jersey is a high cost destination that should look to match the visitor attraction to those demanded by the resident population which has a very high level of income (almost twice the per capita GDP of the UK)
- Other data that is particular interesting is the on-going shift away from 2/3 star accommodation. This accommodation is either 'swallowed up' by the demand for quality residential accommodation or upgraded to 4 star. We can see this move driven by the growth of the business travel market. In addition the data, and other anecdotal evidence, suggests that demand for self catering accommodation continues to outstrip supply
- The Locum report and latest visitor data suggest that the main growth areas in terms of type of visit are short breaks and business tourism. These types of visitors have higher levels of daily spend and demand a higher quality product
- Examination of the latest (5 year) trends in visitor origin (Appendix 1 in Year in Review) suggests that demand from France is strong and growing. This visitor group, although staying for shorter periods, is consistent with the requirement for a more distinctive and upmarket product. In addition demand from other Channel Islands remains strong and these two groups have the potential to be an increasingly important market for year round offerings
- In terms of visitor attractions and marketing the Island as a whole, the main focus should be on products that exploit the Jersey USPs (Unique Selling Points). The two most obvious areas are the historical legacy and the Durrell centre

Background

A range of economic arguments should be considered in order to assess the wider implications of any support for the tourism sector

Economic arguments

- Market failure - This is a term used by economists to describe the condition where the allocation of goods and services by a free market is not efficient. With competition and no externalities, markets will allocate resources so as to maximize the economic surplus or rent available. However, if these conditions are not met, markets may fail to achieve the optimal outcome. If there are potential externalities (and these include both positive and negative ones) there is a case for government to intervene in the market, assuming it can be done cost effectively
- Support for SMEs - The on-going stimulation and support for small and medium enterprises (SME) has long been a core plank of much economic development to ensure a healthy economy with new entrants. So the issue to address is to explore the most efficient way of creating an environment that supports SME operators in the tourism sector who are able to provide innovation, diversity, productivity and effective competition
- Opportunity Cost - Most economic arguments boil down to the issue of opportunity cost. In an environment of constrained resource, we need to ask what opportunities might be forgone by investing more in one sector
- Displacement effect - The opportunity cost of an investment strategy will be affected by the level of displacement occurring. The highest economic impact will be felt where the displacement effect of any activity is lowest
- Multipliers – A multiplier impact is higher when it can be demonstrated that an economic activity will have indirect impact (resulting from secondary impacts on suppliers, such as demand for suppliers to restaurants) and an induced impact (resulting from increased wages and profits)
- Social and Cultural Capital - It can be argued that it is important to continue to develop the social and cultural capital in an economy. Social capital refers to the social networks that are developed and re-inforced by an activity. Cultural capital refers to something that is an important part of the historical culture of a place or organisation

Implications for Jersey

The economic arguments are some of the possible justifications for a subsidy to the tourism industry (and that is what is implied by the use of fiscal incentives). There are other arguments which will be considered in the next section. Taking these economic issues in turn

- Market failure – the on-going investment in major facilities (such as the Royal Yacht Club and Radisson) and new bars and restaurants do not suggest that there is a market failure. Our research suggests a high level of ongoing investment across all parts of the tourism sector
- Support for SMEs – as a strategy for the diversification of the Island economy and the continued development of new and innovative businesses there is a strong economic argument for supporting SMEs. However this is not necessarily exclusive to the tourism sector and support for SMEs generally could impact across the economy
- Opportunity cost – any support for the tourism sector has to be set against how that resource might be used in alternative activities. In other words the goals of the tourism sector have to considered in the light of the demands of other economic sectors
- Displacement effect - We would expect that the displacement effect would be high in an economy such as Jersey operating at full employment and with fixed constraints on the availability of land
- Multipliers - We would expect that the impact will be relatively low in Jersey due to the leakage impact (e.g. the high level of imports to service the industry and particularly seasonal staff who may re-patriate most of their earnings) and the displacement effect
- Social and cultural capital – as a very well established and culturally important sector, it could be argued that it is important to subsidise the tourism sector so as to maintain and enhance this ‘capital’ for the benefit of the Island economy at large

Background

Economic data suggests that tourism remains an important employer (11% of jobs) but makes a relatively small contribution to overall GVA compared to financial services and several other sectors of the economy

Employment in the tourism industry

- There is no direct economic measure of the tourism industry, but data from the Statistics Unit does provide a breakdown by sector. The closest sector of interest is Hotels, Restaurants and Bars, most of whom will be engaged in the tourism industry for all or part of the time. In terms of employment, there is a strong seasonal impact, but average employment over the year in 2007 was 5,415 jobs, or 4,415 full time jobs
- The number of jobs represents 11.4% of employment in the Island and demonstrates that the sector is very important in terms of employment, particularly for the lower paid
- The employment levels have gone down over the last 9 years by about 20%, reflecting the overall decline in the sector

GVA of the tourism industry

- In terms of GVA, Hotels and Restaurants generates £109 million GVA in 2006 (the latest year for which data is available)
- The GVA represents 3.2% of the total Island GVA and is relatively small in terms of its contribution to the Island's economy
- The GVA level has reduced over the last 9 years, although 2006 did represent an increase over 2005
- It should be pointed out that tourism also makes significant contributions via other sectors, such as wholesale and retail, construction and quarrying and transport and communications

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Employment in Hotels, Restaurants & Bars										
No. of jobs	6,550	6,250	5,950	5,590	5,475	5,390	5,185	5,235	5,315	5,415
% of total employment	*14.1%*	*13.6%*	*13.0%*	*12.2%*	*12.0%*	*12.0%*	*11.7%*	*11.6%*	*11.5%*	*11.4%*
No. of full time jobs	5,485	5,185	4,955	4,640	4,570	4,505	4,315	4,270	4,355	4,415
GVA Hotels & Restaurants										
£ million -constant (2003) prices	130	131	121	116	112	113	109	106	109	
% of total GVA	*4.1%*	*4.0%*	*3.5%*	*3.4%*	*3.4%*	*3.6%*	*3.5%*	*3.3%*	*3.2%*	

Source: States of Jersey Statistics Unit - http://www.gov.je/ChiefMinister/Statistics/Business+and+Economy/GVA+and+GNI/

Background

Data from the Treasury mirrors the wider economic data and suggests that Hotels and Restaurants make a relatively small contribution to income tax by industry

Treasury impact

- The table to the right is based on the data from the States of Jersey Treasury and Resources Department FINANCIAL REPORT AND ACCOUNTS 2007. It shows that hotels and restaurants provide £5.5 million by industry profits
- This is just 2.3% of the tax revenue by industry. However we can expect that the tourism industry also contributes significantly via tax revenue from wholesale and retail, construction and quarrying and transport and communications
- In terms of tax from individuals, the tourism industry, as a larger employer, is expected to be making a significant contribution, although this is offset by the lower wages in the industry

Income tax charged

For the Year of Assessment 2006 as at 31 December 2007

By Industry	**2007 £' million**	**2006 £' million**	***Increase/ (Decrease) %***
Agriculture	3.8	4.0	*(5)*
Fishing	0.3	0.4	*(25)*
Manufacturing	1.2	1.8	*(33.3)*
Construction and Quarrying	12.9	10.9	*18.3*
Wholesale and Retail	14.8	12.7	*16.5*
Hotels and Restaurants	*5.5*	*5.3*	*3.8*
Transport and Communications	5.7	4.6	*23.9*
Financial Intermediation	155.7	138.9	*12.1*
Real Estate (fee income)	0.5	0.6	*(16.7)*
Health and Social work	3.9	3.8	*2.6*
Other business services	21.3	21.8	*(2.3)*
Other community, social and personal services	12.4	11.7	*6.0*
Subtotal	238.0	216.5	*9.9*
By Individuals			
Employees	184.7	162.7	*13.5*
Rentiers and retired	15.9	15.4	*3.2*
Subtotal	200.6	178.1	*12.6*
By others			
Investment Holding Companies	23.7	25.0	*(5.2)*
Total gross charge for 2006 year of assessment	**462.3**	**419.6**	***10.2***

Source: States of Jersey Treasury and Resources Department - Financial Report And Accounts 2007

Background

Tourism is an important part of the Island, helping to maintain and develop the unique cultural capital, but would special treatment provide the most effective support?

Role of tourism

- Consideration of the economic and financial issues might suggest that the tourism sector was not very significant to the Island representing approximately 3% of tax revenue and GVA. However that would be to overlook the contribution to employment and the wider political and socio-economic issues. Other issues to be considered include the following
  - all sectors are interlinked and should be considered in terms of their contribution to the whole
  - in particular, tourism helps to maintain a range of services in terms of accommodation and food outlets that are vitally important to maintaining Jersey as a prime location for the financial and other industries
  - tourism is very important in helping to sustain regular air and ferry services to the UK and the rest of Europe
  - tourism is critical in helping to maintain the important historical and cultural legacy (or cultural capital in economic terms)
  - many tourism businesses operate as small businesses and are essential in helping to maintain a thriving entrepreneurial culture
  - the industry is vital in maintaining a diverse economic base and helping to sustain business activity that is not solely dependent upon the financial sector which could be considered less stable over the medium to long term

Special treatment?

- Regardless of the relative importance of the industry, this report has been commissioned to explore how the fiscal system might be used to encourage the development of the tourism industry. This begs the question of whether any incentives should be targeted specifically at the industry or the small business community more widely
- One of the key political issues is the potential conflict between some developments and other aspirations (such as maintaining a rural environment on the Island). Several of the constraints to the development of the industry seem to have more to do with the consideration of planning issues than any specific economic and financial issues
- There are a range of wider services, such as business support services and the development of an improved infrastructure (communication, utilities etc.) that might have a very beneficial effect on the industry, and potentially, the Island as a whole
- The later part of this report will explore the relative importance of these measures as well as the specific fiscal incentives which are described in the next section

Fiscal incentives schemes

Goal of the scheme –

to provide tax incentives when making capital investments in the tourist industry by granting tax relief or tax credits for all or a percentage of the cost of the investment

Background

- For existing non-financial companies, the Jersey income tax rate will fall from 20% to 0% from 1 January 2009. However, Jersey resident individuals who have a beneficial interest in a Jersey resident company will be subject to the deemed distribution provisions
- For trading companies, the mechanisms of these provisions is broadly that the individual will be subject to Jersey income tax on a deemed distribution equal to 60% of the taxable profits of the company. The other 40% will be subject to Jersey income tax on a trigger event which would include the sale of the shares, the death of the beneficial owner or his emigration
- It can therefore be seen that the taxable profits of the Jersey company continue to be subject to Jersey income tax at a maximum rate of 20% where the company is beneficially owned, directly or indirectly, by Jersey resident individuals
- However, under the legislation applying from 1 January 2009, where a Jersey resident (non financial) company is owned by non-Jersey resident individuals, no Jersey income tax would apply to its trading profits. As such, any tax incentive under the income tax legislation must account for the different treatment of profits arising to resident / non-resident companies
- At present, capital allowances at a rate of 25% are available on a reducing balance basis for certain capital expenditure. Expenditure will only qualify for capital allowances if it falls within the definition of "plant and machinery". There are complicated rules to determine what constitutes plant and machinery, however as a rule of thumb, where a hotel or guesthouse is built only 10% of the cost will generally qualify as plant and machinery. Unlike the UK, no capital allowances are due on expenditure of the fabric of the property
- Jersey has provided a commitment to the European Union that all its fiscal laws will abide by the principles of the Code of Conduct on Business Taxation ("the Code of Conduct"). Broadly, the Code of Conduct is concerned with fiscal measures that effect, or may effect, in a significant way the location of business activity in the EU and seeks to dissuade jurisdictions from introducing legislation which provides incentives solely to non residents in order to encourage investment into the Island

The scheme

- The proposal would be to allow a dual system so that the taxpayer may choose either
  - claiming allowances (the actual rate to be determined) on all expenditure made to a qualifying building used in the company's trade. The qualifying building will include, but will not be limited to, hotels, guest houses and other buildings within the tourism industry. The allowances will reduce the taxable profits of the company, thus reducing the amount of tax payable by a Jersey resident owner of the company under the deemed distribution provisions
  - obtaining a tax credit which will be paid by the Comptroller of Income Tax to the company after the income tax return containing the tax credit has been claimed. This will effectively be a percentage, no greater than 20%, of the qualifying expenditure incurred
- The above system is similar to the methodology by which the UK government encourages research and development for small or medium sized companies and large companies. As such, it is viewed that the system should be Code of Conduct compliant, although further research will need to be done
- By providing the company with a choice between claiming capital allowances (and thus reducing chargeable profits which is the basis upon which the deemed distribution provisions are calculated) and tax credits, the incentive will appeal to both Jersey resident owners and non-Jersey resident owners. Ideally, it would be best if the company would opt for a deduction of taxable profits as it would not require any actual payment of funds. As such, the monetary value of the tax relief available by deduction could be greater then the monetary value of the tax credit payable so that where a company has a true choice between the two options, it would be to the Jersey resident shareholders' advantage to apply for the tax deduction as opposed to the tax credits

Fiscal Incentives Schemes

Goal of the scheme –

to reduce the cost of labour within the tourist industry

Background

- The income tax instalment scheme ('ITIS') is a method by which employers seek to collect the income tax due on its employees' wages on behalf of the States
- By law, employers are obliged to deduct, at each pay day, in accordance with the effective rate of tax applicable to each employee, tax from the wages payable to their employees. The effective rate of tax will differ for each employee and will range between 20% to 0% depending on the level a remuneration and personal circumstances of each employee
- The tax deducted is then remitted on a monthly basis to the Comptroller of Income Tax
- The tax deducted under the ITIS scheme is generally sufficient to discharge the employees final tax liability so that no further tax is payable by the employee. The employee is still obliged to complete a tax return which will in turn generate the 'effective rate of tax notice' which will inform the employer the rate at which tax is deducted from the wages

The scheme

- The proposal is for the employer to retain a certain percentage of the ITIS payments it deducts from its employees
- Therefore, the employer will deduct the tax as normal from the employee's wages, but instead of remitting the tax deducted to the Comptroller, the employer will retain all or a percentage of the tax. The actual percentage to be retained is a matter for further discussion
- The employees will continue to receive full credit for any tax deducted from their remuneration
- The intention is to reduce the cost of labour within the tourist industry

Fiscal Incentives Schemes

Goal of the scheme –

to reduce the cost of investment in a qualifying building and thus encourage investment

Background

- From 1 January 2009, the tourism industry will be brought within the ambient of the full provisions of the goods and service tax ('GST') law
- GST will be chargeable at every stage leading up to the final customer and is collected by GST registered businesses when they supply their customers with goods and/or services that have been designated in law as taxable. The GST registered business must account for GST in their sales records and pay to the taxation authorities the tax they collect from their customers (known as output tax).. However, at the same time they are able to reclaim or offset the GST they have paid on their business cost (known as input tax). The balance is paid to the Comptroller of Income tax on a quarterly basis
- The standard rate of GST is 3%
- The law however provides for certain goods and services to be GST-free by means of "zero rating" or "exemption". Zero rated supplies are those goods and services that fall within the scope of GST but are taxed at a zero rate. Exempt supplies are not taxed
- The difference between the two types of supplies is that registered businesses that supply zero rated items are able to reclaim any GST they incur in the course of their business while businesses making exempt supplies cannot

The scheme

- The proposal would be to provide for 'end user relief' on all expenditure made to a qualifying building used in the company's trade (see page 10 above) so that no GST is charged on this expenditure. As such, when goods are purchased for, or services are supplied to, a qualifying building, an 'end user relief' certificate will be presented to the supplier of the goods or services so that no GST would be charged. The supply does not however lose its character as a standard supply for the supplier, irrespective of the fact that no GST is charged
- However when the tourism business completes its GST quarterly return, the expenditure made to the qualifying building (which has not suffered any GST) is grossed up as if the business had incurred GST so that the deemed GST may be deducted from the business' output tax
- The fiscal consequence of the above is that expenditure made in a qualifying building does not suffer any GST and is thus 3% 'cheaper'
- Example
  - a hotel bills customers £100,000 in one quarter. It will be required to account for GST, so that the actual amount billed is £103,000 (£100,000 for the accommodation and £3,000 GST)
  - in the same quarter, it incurs normal expenditure of £10,300 of which £300 is the GST. It also incurs £20,000 expenditure to the qualifying building for which end user relief is claimed so no GST is incurred
  - therefore the calculation for the amount of GST to pay to the Comptroller at the end of the quarter is as follows

Output GST	£3,000
Less input GST	
Normal expenditure	(300)
Qualifying expenditure	
(£20,000 @ 3%) deemed GST	(600)
Amount to be paid to Comptroller	£2,100

  - in effect the amount of GST paid to the Comptroller is £600 less than that which it ought to have paid if it was not for the end user relief. The business is therefore £600 better off

Analysis

48 responses to the on-line survey provides useful indicators to the key issues, and represents approximately half the industry by size.

Methodology

- The first stage of this engagement identified a gap in the background information on the industry. Whilst there is good demand side data, based on the Visitor Registration and the Visitor Survey, information on the supply side is relatively weak. For example there is excellent data on the number of beds by category and number and types of attractions, but there is no ongoing survey of the businesses themselves in terms of investment, staff and priorities
- As a result a simple 2 page survey was put together and run via the Jersey Hospitality network. The aim was to create a survey tool that was very simple and quick to complete, given how busy most operators are especially in the main tourism season
- The survey produced 48 responses. The full list has approximately 400 members. As the survey respondents were responsible for employing approximately 2500 people and given that we know that the hotel and restaurant sector employed 5,415 in 2007, we can assume that our respondents represent just under half of the tourism industry by size. In other words we can expect that some of the smaller players (e.g. guest houses) are under-represented in the survey, made more likely by having less Internet availability
- The survey asked for some categorical responses (hotel, restaurant, type of activity etc.) and then some indication of the number of employees and the level of capital investment. We asked these questions to ascertain whether the responses would be different by the type of business, the number of year in business, the size of the workforce and the level of capital investment
- The results are presented in 3 broad categories, namely responses from hotels, restaurants and attractions. In many cases a respondent will have more then one category, for example restaurants and hotels. However we believe that it is useful to explore the priorities by these categories and others, such as the length of operation so as to clarify whether there are any major issues that just affect one part of the industry
- The issues for one particular group, namely tour operators, were not addressed by the online survey and some of the issues were scoped out by telephone conversation

Category Responses

- To provide some idea of the spread of responses, the following tables provide details of the size of the business by staff numbers and the length of time the business has been operating. It would seem that the majority of businesses have been in operation for over 20 years

How many staff do you employ?

	Frequency	%
1-9	20	*41.7*
10-49	16	*33.3*
50-249	10	*20.8*
250+	1	*2.1*
Total	48	*100*

Source: KPMG Analysis

How long have you been operating?

	Frequency	%
0 - 5 years	6	*12.8*
6 - 10 years	5	*10.6*
11 - 20 years	7	*14.9*
Over 20 years	29	*61.7*
Total	47	*100*

Source: KPMG Analysis
Note: One respondent did not answer this question

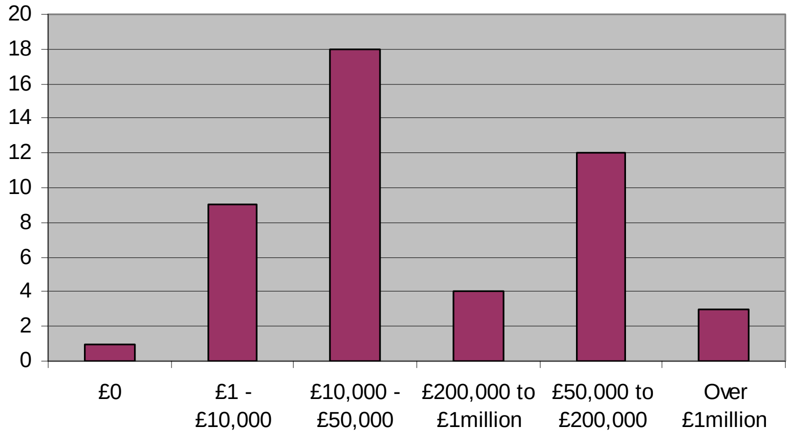
Analysis

The tourism industry invested over £20 million last year

Levels of investment

- Critical to the study is an understanding of the level of investment and exploring ways to encourage this. The tables to the right illustrate the survey responses
- By taking a mid-point in the range we can estimate that last year the survey respondents invested £10.5 million and over the last 5 years it is £41 million. Based on the employee numbers (which can be compared to data from the Statistics Unit) we suggest that these investment responses represent about half of investment in the sector. Therefore it is reasonable to assume that the sector invested over £20 million last year and over £80 million over the last 5 years

Investment last year



Investment in the last year and last five years

In terms of capital investment, approximately how much have you invested in the last year?

	Frequency	%
£0	1	*2.1*
£1 - £10,000	9	*18.8*
£10,000 - £50,000	18	*37.5*
£50,000 to £200,000	12	*25.0*
£200,000 to £1million	4	*8.3*
Over £1million	3	*6.3*
Total	48	*100*

Source: KPMG Analysis

In terms of capital investment, approximately how much have you invested in the last 5 years?

	Frequency	%
£0	1	*2.1*
£1 - £10,000	4	*8.3*
£10,000 - £50,000	10	*20.8*
£50,000 to £200,000	5	*10.4*
£200,000 to £1million	16	*33.3*
Over £1million	9	*18.8*
Over £5million	2	*4.2*
Total	48	*100*

Source: KPMG Analysis

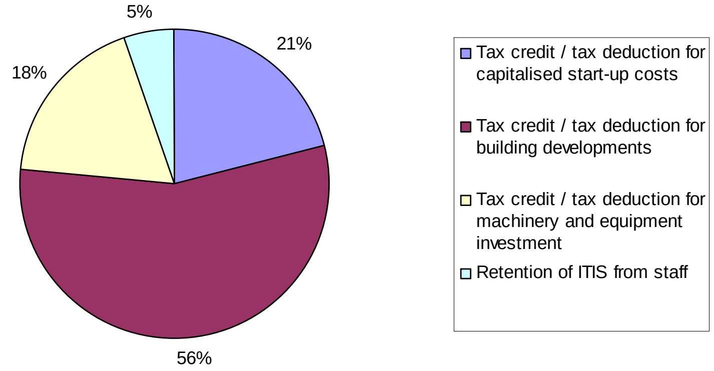
Analysis

Exploring the overall results, we see the importance of the tax credit/tax deduction for building developments

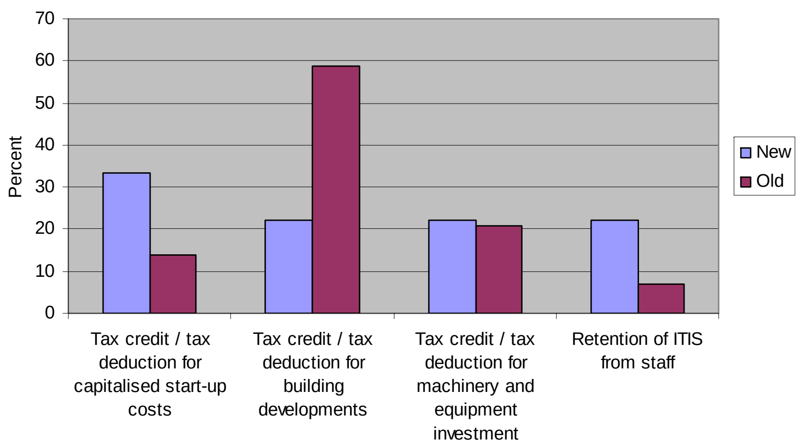
Incentives

- As one might expect the most important incentive is the one related to building developments. This is re-inforced by the tables in the Annex in which it can be seen that tax credits/ tax deductions on building developments scores consistently highly than other incentives.
- However if we break the analysis down further by the length of operation, (old being in operation more than 20 years), we can see that it is the more established businesses that are looking for the tax breaks on building developments. The newer businesses are more focused on startup costs
- Breaking it down by the level of capital investment (those who invested more that £50,000 last year) does not show any real difference

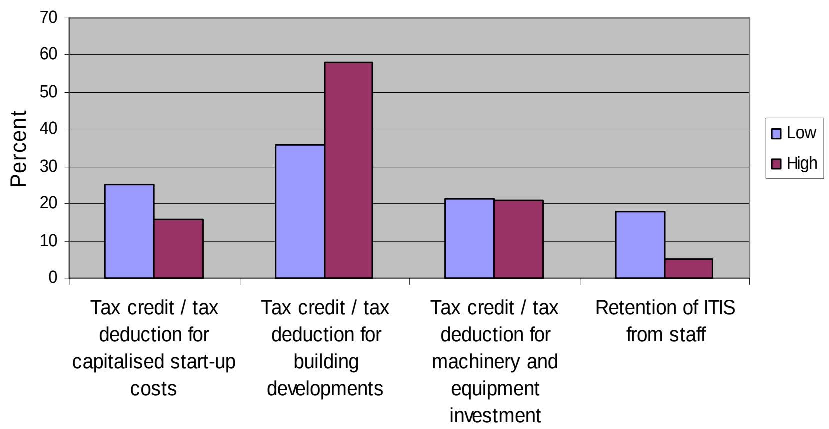
Which is the most important incentive to you?



Which is the most important incentive to you?



Which is the most important incentive to you?



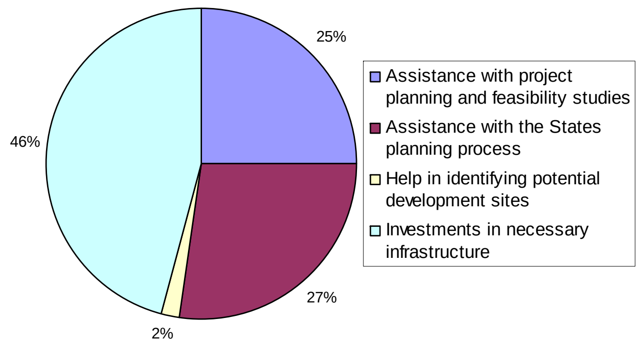
Analysis

The most important service amongst the respondents is public investment in necessary infrastructure.

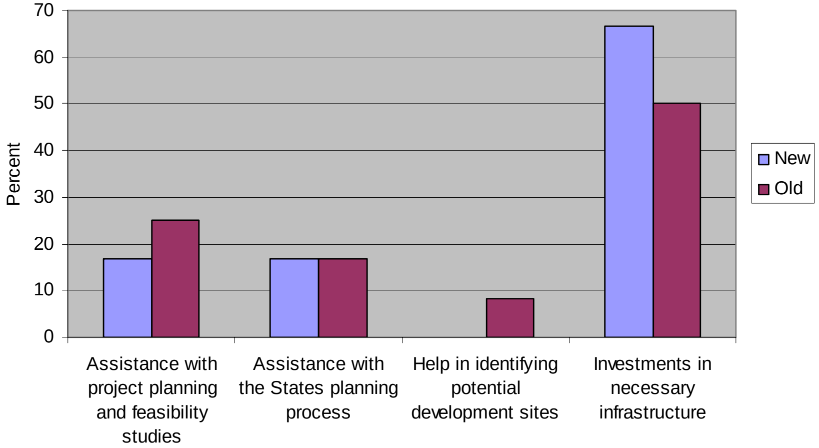
Services

- When we look at the demand for services, the most important service is the investment in necessary infrastructure. This is the area in which most of the industry would like to see a stronger input from the States although the following pages, breaking down the analysis by sub-sector, does show some interesting variations
- We break down the responses by the two categorical variables, the length of time the business has been operating (more or less than 20 years) and the amount of capital investment last year (more or less than £50,000). However there is no statistically significant distinction between the responses for either of these categories

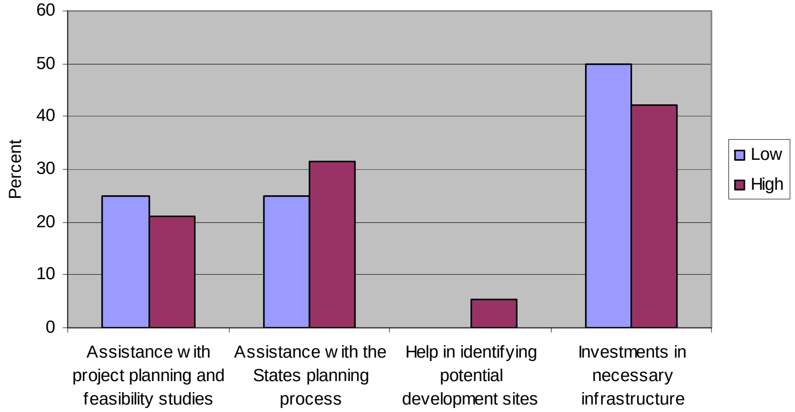
Which is the most important service to you?



Which is the most important service to you?



Which is the most important service to you?



Analysis

Wage costs is the most important issue, closely followed by the availability of seasonal staff

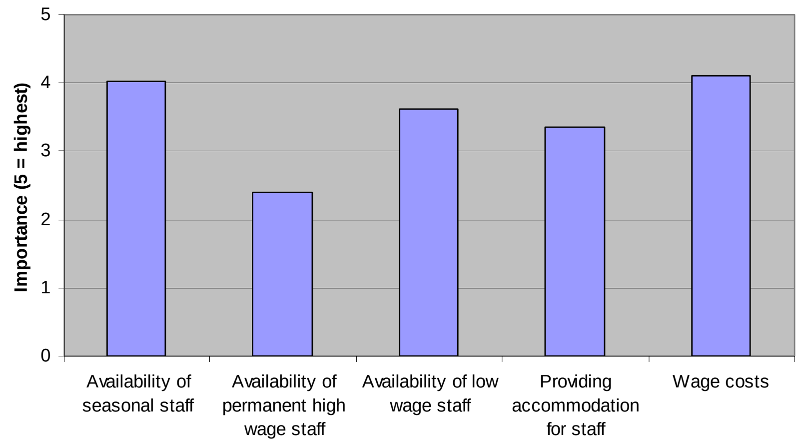
Staff issues

- The most important staff issue is the wage costs. These have been rising and there were several comments about the minimum wage. The low standard deviation suggests that this is a consistently important issue
- Another issue that was of considerable concern for some operators was the problem of finding accommodation for staff. The high standard deviation suggests that it was very important for some, but much less important for others. This is a probably as some hotels have staff blocks and so do not have a problem, but others, particularly in attractions, do have an issue with this
- The staff issues show the importance of seasonal staff as well of the overall issues to do with costs. Finding permanent high wage staff does not seem to be such a concern on average

Staff issues (1 = not important, 5 = very important)	Mean	Standard dev.
Availability of seasonal staff	4.0	1.4
Availability of permanent high wage staff	2.4	1.3
Availability of low wage staff	3.6	1.2
Providing accommodation for staff	3.4	1.7
Wage costs	4.1	1.1

Source: KPMG Analysis

The importance of labour issues



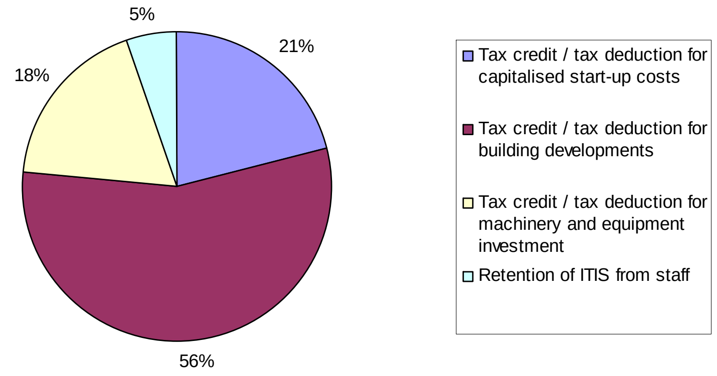
Analysis

Exploring the results from those who ran accommodation services, we see the importance of the tax credit / tax deduction for building developments.

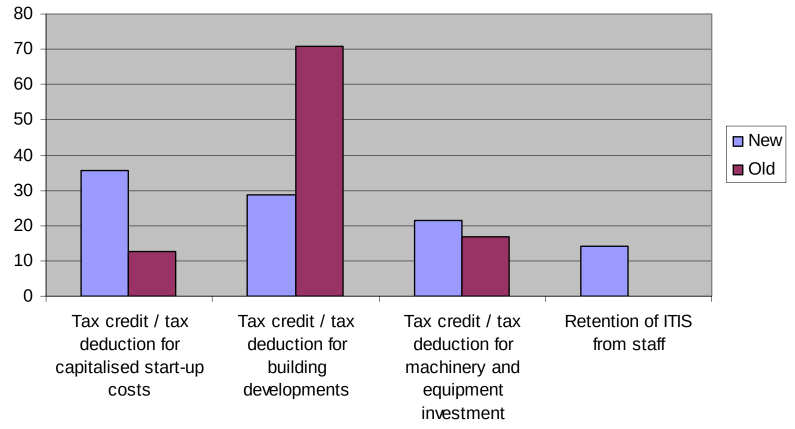
Incentives

- If we examine the results just for those involved in accommodation, we had a total of 38 responses (including some who also had restaurants and attractions).
- As one might expect the most import incentive is the one related to building developments. This is re-inforced by the tables in the Annex in which it can be seen that tax credits/ tax deductions building developments scores consistently highly. However if we break the analysis down further by the length of operation, (old being in operation more than 20 years), we can see that it is the more established businesses that are looking for the tax breaks on building developments. The newer businesses are slightly more focused on startup costs.
- The more detailed analysis on each of these possibilities is detailed in the Annex

Which is the most important incentive to you?



Which is the most important incentive to you?



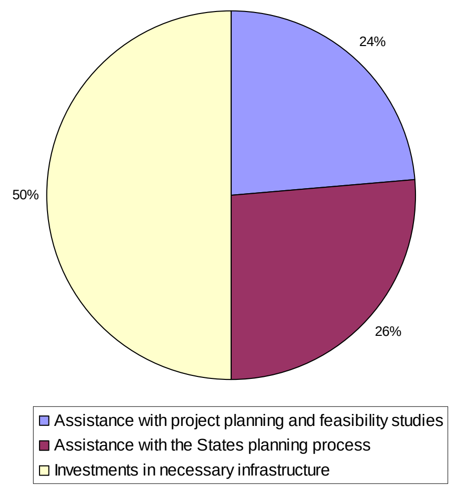
Analysis

Exploring the results from those who ran accommodation services, the most important service is the investment in infrastructure.

Services

- When we look at the demand for services, the stand out service is the investment in necessary infrastructure

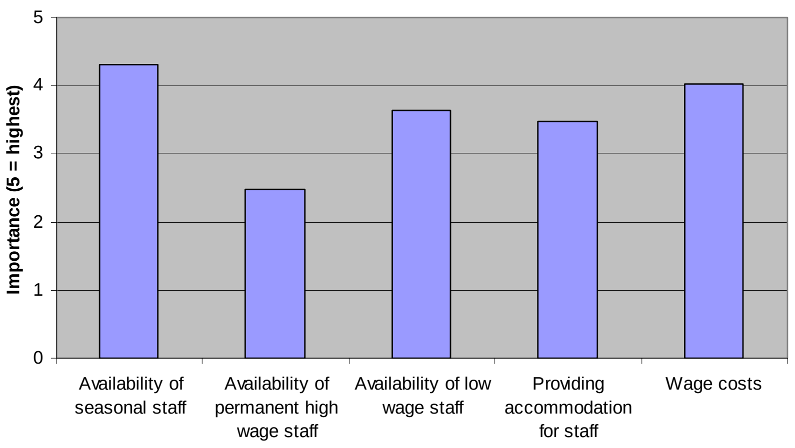
Which is the most important service to you?



Staff Issues

- The staff issues show the importance of seasonal staff as well of the overall issues to do with costs. Finding permanent high wage staff does not seem to be such a concern

The importance of labour issues



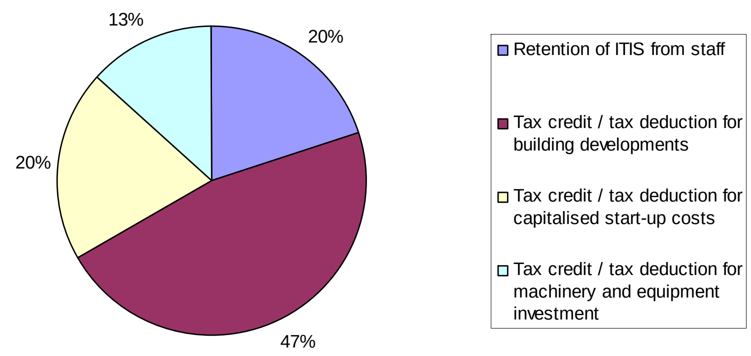
Analysis

Exploring the results from those who ran restaurants, tax credit / tax deduction for building developments is the most important for well established businesses, but not the newer ones.

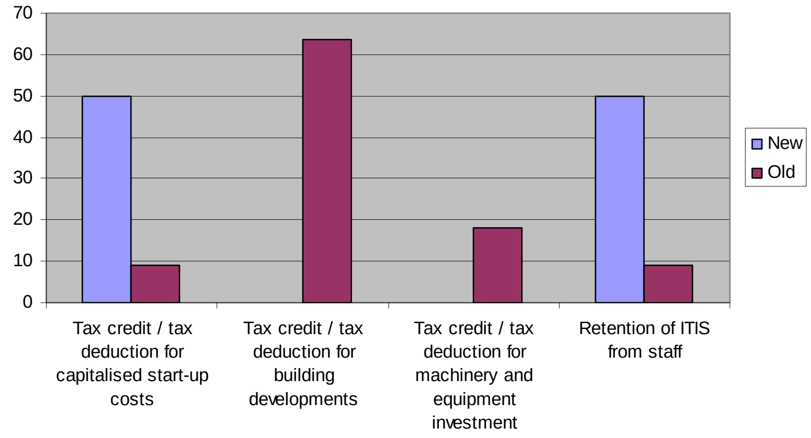
Incentives

- If we examine the results just for those involved in restaurants, we had a total of 15 responses (including some who also had hotels and attractions)
- As one might expect the most important incentive is the one related to building developments. This is re-inforced by the tables in the Annex in which it can be seen that tax credits/ tax deductions building developments scores consistently highly
- However if we break the analysis down further by the length of operation, (old being in operation more than 20 years), we can see that it is the more established businesses that are looking for the tax breaks on building developments. The newer businesses are more focused on startup costs and tax incentives that lower staff costs

Which is the most important incentive to you?



Which is the most important incentive to you?



Analysis

Exploring the results from those who ran restaurants, assistance with the state planning process becomes just as important as the infrastructure.

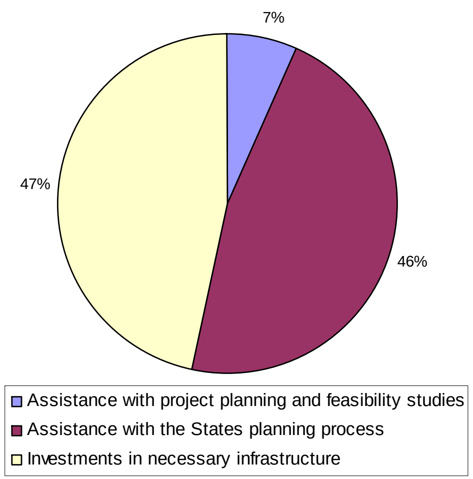
Services

- When we look at the demand for services, this is evenly divided between the requirement for assistance with the States planning process and the investment in necessary infrastructure

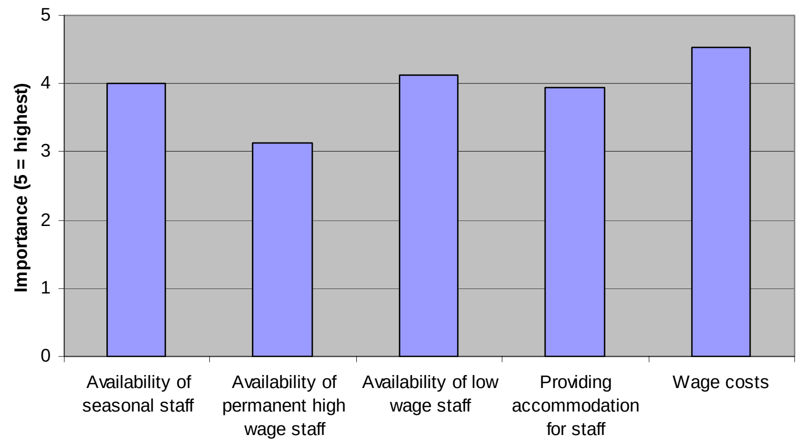
Staff Issues

- The staff issues show the importance of wage costs as a key business issue. Although all staff issues are important. The availability of permanent high wage staff is relatively more important in this sub-group than the others

Which is the most important service to you?



The importance of labour issues



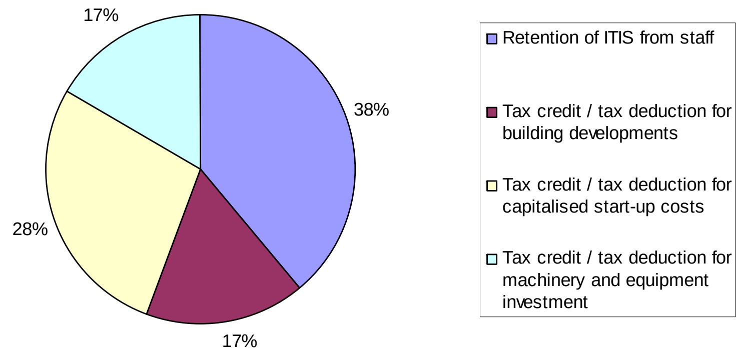
Analysis

Exploring the results from those who ran attractions, it is tax incentives related to staff costs that are the most important. This sector is less sensitive to large scale building costs and staff costs are more of an issue

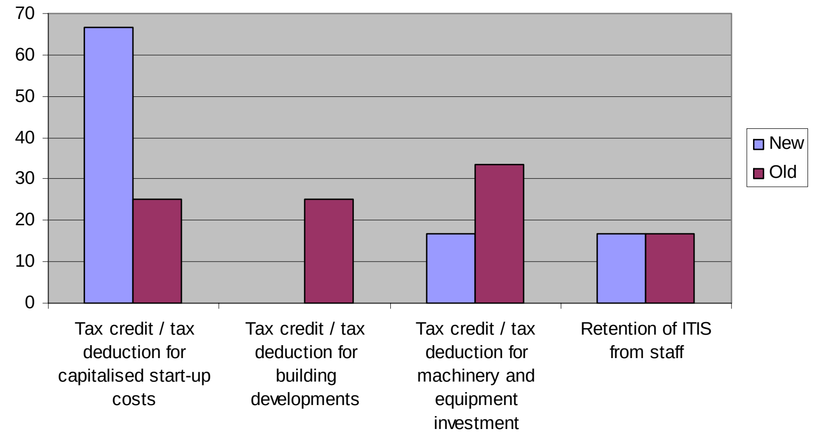
Incentives

- If we examine the results just for those involved in running attractions, we had a total of 18 responses (including some who also had accommodation and restaurants)
- For this part of the tourism sector we see quite different patterns. It is not so much the building development tax incentives that are important but rather those related to staff costs. This sector does not have the massive overheads of building / renewing hotels and restaurants, although on-going investment is still important
- This point is re-inforced by the analysis by the length of time that a business has been operating. The new business are very focused on the start-up costs and seeking support for these. Indeed in one of the sub-categories, namely attractions, there is a very strong emphasis on the importance of support for start-up costs

Which is the most important incentive to you?



Which is the most important incentive to you?



Analysis

Exploring the results from those who ran attractions, we see how important the public investment in necessary infrastructure is

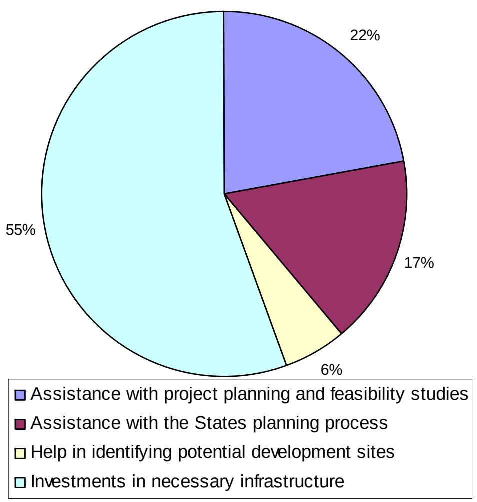
Services

- When we look at the demand for services, the stand out service is the investment in necessary infrastructure

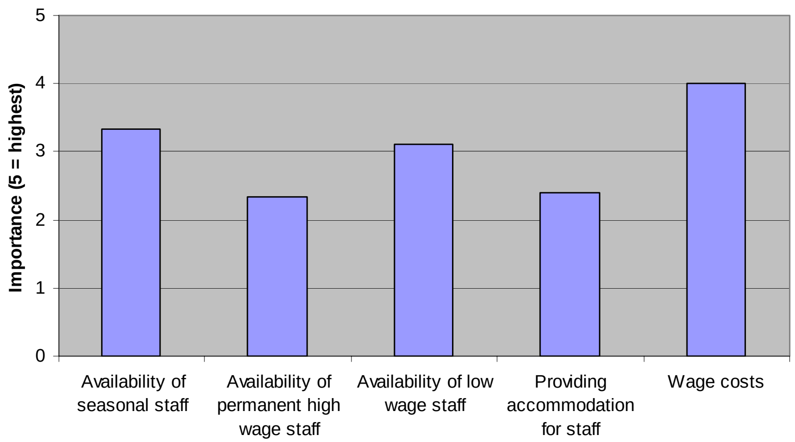
Staff issues

- The staff issues show the importance of seasonal staff as well of the overall issues to do with costs. Finding permanent high wage staff does not seem to be such a concern

Which is the most important incentive to you?



The importance of labour issues



Analysis

Respondents were asked 'Please add any other brief comments about how the States might support capital investment in the tourism sector via tax incentives or related schemes.'

Further comments

- The survey provided space for respondents to provide open ended comments on any other issues. Approximately 1/3 took this opportunity to add further thoughts and these are very helpful. They help to identify the range of issues that are of concern to the respondents as well as highlighting some particular issues and concerns
- One obvious but interesting theme is the importance of having a sound business. It does not generally seem to be the case that the industry want to be subsidised (although anything to lower costs is helpful) but rather to explore any initiatives that will help tourism and the Island generally
- Interestingly, some wider general feedback from other similar jurisdictions via KPMG supports the necessity of getting the fundamentals right as this quote from a partner is a similar off shore economy suggests
  - 'In my experience generally tweaking tax structures etc can help those investors who may be on the "borderline" of investing but the fundamentals of a hospitality project must be right for the core business model of a resort, mixed use development etc to work. If a particular site is not right then it is hard to persuade investors with tax incentives etc. Nonetheless, there are several examples where exemption from import duties for materials etc, and other inward investment concessions such as tax breaks have worked. From what little I know of Jersey I would imagine concentrating on conference facilities (certainly during the winter) with golf and spa components and maybe a real estate element for second homes etc could be an opportunity.'
  - other themes that emerge from the comments are reducing tax, wider development priorities across the Island and business support services

Anonymous responses

1. *I tried to get a loan from Economic development last year as a first business start up loan but was told that I would not need it as my business plan was so good. It appears they only help people with high net worth projects but are not prepared to help people starting out as a first time operation in the Tourist Industry*
2. *There are many ways that the states could encourage confidence and therefore investment in the tourism industry. Remove GST from hotel accommodation, seasonal staff exemption from ITIS, low interest loans for qualifying projects, free public transport, financial and advice support for hoteliers marketing, reductions in duty on alcohol, petrol etc etc*
3. *Support initially because all development potential and ideas seem to be concentrated solely around waterfront at present - supported locally run businesses keeps monies circulating within Island.*
4. *1. All improvement work costs to be allowed against profits of year in which incurred*
2. Remove stamp duty on commercial mortgage transfers or remove stamp duty on mortgage registration totally
3. Remove GST on hotel accommodation when let for more than 28 days (as in UK) - Winter lets
4. Consider sale of hotel accommodation to tourists as an export & thus not subject to GST
5. *Reduction of taxes for workers on less than 40k*
6. *Other EU countries offer up to 10 years tax free in order to attract new companies to set up. We need to ensure the Island has a diverse range of visitor attractions and accommodation for the future. We need a plan to achieve this. Poor quality hotels and visitor attractions will not benefit Jersey and small amounts of investment will not help them or the Island. Investment should be targeted specifically at quality oriented business that add to the visitor economy and that can prove that any investment grant will result in increased spend per head*

Analysis

Numerous ideas for state support were contributed.

Anonymous responses (continued)

7. *Joint funding to help bring further visitors into the Island and support the local economy of small shops, restaurants, bars, etc with holiday tourism which is the only inbound sector to spend money outside of the hotel they stay in*
8. *Training of staff - in their language, is particularly difficult especially in the kitchen department as most front of house have good English knowledge already.*
   Tax benefits for redevelopment and reinvestment would be a massive benefit and of course some assistance with the soaring service costs - electricity and gas, introducing energy saving measures such as found in Europe, sensor activated lighting (bathrooms) low wattage lighting etc. Support of the local fishing and farming industry to provide cheaper produce locally! It should be but it isn't.
9. *States should invest in Marinas (St Catherine's /St Aubin) and in Golf courses even if that means building houses and Hotels around them in green belts. They should also encourage 3* Hotels - the loss of numbers has been bad for all those involved with a 'turnstile' e.g. Museums, Buses, Zoo, Potteries and Attractions*
10. *1. Remove stamp duty on commercial mortgage transfers - possibly on commercial mortgages altogether*
    2. Reduce / reimburse planning fees when applic refused
    3. More flexibility in Building Bye-laws when dealing with conversions.
    4. Recognition of the financial impracticability of building ICONIC staff accommodation
11. *1. Policy needs to be analysed and evolved integrally as art of a coherent multi department plan. Appropriate flexible structure needed that captures business, environmental and development aspects of tourism. Stronger planning law relating exclusively to tourism and affected sub industries*
    2. Governmental infrastructure support, mains water and drains, electricity demand etc
12. *More help from planning without having to keep paying out for different plans*
13. *50/50 schemes contribution to improvements*
14. *Although such incentives or related schemes would undoubtedly be of benefit, it is essential that such benefits go to those who are already being proactive in improving their product, and can support their requests for aid. Businesses who can support themselves already and seek funding to improve their properties whilst still maintaining a level of profit shouldn't have ready access to such facilities at the expense of others*
15. *Small investors. 10-12 bedroomed small establishments*
16. *I believe incentives should be available to help tourist businesses diversify within this sector, and for new start ups. Another idea as an incentive to tourists would be that the hotelier pays the landing fee part of their fare, so fares really would look "really cheap " coming to Jersey. Imagine promotions at certain times how attractive that would look to potential customers. This year has seen a big shift towards customers booking direct and obviously booking their own fares online, the upside is that generally we are getting a full rack rate so there could be some margin to pay or contribute toward the landing fee, that would really be a marketing winner, or just do it from selected airports, there are lots of possibilities*
17. *"Keep the pavements and gutters CLEAN, Fag ends galore stay for DAYS and DAYS."*
18. *Easier access to grant schemes for existing business seeking to expand or develop, rather than just for start ups*

Further feedback

Key issues to emerge from discussions with the States included the need to keep tax as simple as possible and the concept of opportunity cost, in other words what has to be foregone in order to support tourism

Interviews with the States of Jersey

- Discussions were held with the Economic Development staff (Mike King and Kevin Lemasney), the Treasury (Kevin Hemmings) and the Economics Department (Dougie Peedle). In addition multiple use was made of the Statsitics Unit.
- Key themes that emerged from the discussion included the following:
  - there is a view that the tax regime should be kept as simple with as few exemptions as possible
  - some of the tourism issues overlap with other sectors. For example it could be argued that investment in Durrell could be justified as part of an education or skills development agenda, or even a conservation agenda.
  - there are competing pressures between restricting population growth and providing resources to encourage the development of particular sectors
  - if industry support is compared in terms of profitability, then the tourism sector does not score as highly as others, the GVA per head is low
  - there is a stabilisation fund that has been to set up to smooth economic cycles. It could be argued that some parts of the tourism sector could be good candidates for injections of capital. This is managed by the Fiscal Policy Panel
  - the use of the tourism development fund does cause some concerns and interest seems to be strong for a suitable public/private partnership
  - some public investments, for example in exploiting selected historic assets for accommodation, have been very successful
  - diversity of the economy remains a priority, with concern over undue reliance on the finance industry
  - all investments/incentive schemes should be evaluated in simple opportunity costs terms. If a significant amount of tax is foregone, how might that be used for other sectors and could that bring bigger benefits

Further reading

- In addition to interviews and discussions, extensive use was made of earlier reports and information on the web, in particular
  - Oxera – Tourism in the Jersey Economy – An assessment of its contribution, competitiveness and the implications for government (April 2005)
  - Locumconsulting – Jersey Destination Audit – Towards a Jersey Tourism Development Strategy (November 2006)
  - Jersey Economic Development – Jersey Tourism – A Year in Review 2007
  - States of Jersey Treasury and Resources Department - Financial Report And Accounts 2007
  - States of Jersey - Annual Performance Report 2007
  - Web sites of particular importance were:
  - Statistics Unit - http://www.gov.je/ChiefMinister/Statistics/
  - States of Jersey - http://www.gov.je/
  - Jersey tourism - http://www.jersey.com/English/footer/Pages/Govje.aspx
  - Marketing Information - http://www2.jersey.com/marketinginfo/index.asp?bhcp=1
  - Jersey Hospitality Association - http://www.jerseyhospitality.com/
  - Plus web site of many attractions and hotel groups

Further feedback

Key concerns to emerge were the struggle to find employees; keeping costs down; and the difficulties in obtaining planning permission

However a picture also emerged of many astute businessmen and women able to spot opportunities and exploit them with high quality and innovative products

Interviews with the tourism sector

- Nine interviews were held with businesses in the sector, four of these being by telephone. These interviews were carried out before and after the survey with the aim of scoping the issues before the survey and adding contextual understanding to the issues that emerged. In addition some further discussions were held in response to queries arising from the survey
- Key themes that emerged from the discussion included the following
  - concern that the planning cycle can take a long time and lead to additional costs
  - a recognition that the self-catering and serviced apartments offers growth potential
  - high costs of doing business in Jersey, notably higher construction costs and the lack of competition in the utilities
  - frustration with the interface with the States
  - the desire for a level playing field in terms of GST, arguing that the finance industry is exempt for GST in some circumstance and not all attractions pay the same rate (e.g. exemptions for historical attractions)
  - desire to see a network of local businesses develop that would enable more local produce to be used; and
  - a general desire for any support that will reduce the underlying business costs and so improve competitiveness
- An impression emerged of a very active sector with many astute and well financed players. As is well documented, the sector is undergoing considerable changes with all the challenges that that inevitably throws up. The sectors in decline, such as the 2/3 star hotels, are being re-structured and more change in use can be anticipated
- However the change does also present some opportunities, for example self catering and the facilities that serve them such as higher class restaurants. It was apparent that there were many innovative and entrepreneurial ideas and schemes that had recently been developed or were in the planning stage
- The interviews confirmed the survey findings that there was a healthy level of ongoing investment and that the market signals were being heeded
- Despite the healthy activity on some sectors, there would seem to be weak margins for some operators and anything that the States could do to improve the flow of information or facilitate start-ups would seem to be desirable. To this extent services such as business support, whilst not dedicated to tourism, do seem to offer substantial benefits
- The conversation with Durrell was particularly illuminating, Developing the cross-sector theme, there does seem to be substantial potential to exploit current world-wide interest in conservation to develop a specifically focused niche market in conservation related to training, consulting and activity based holidays that would have a considerable knock-on effect to the rest of the sector. This point is explored in more detail in the next section
- There are more specific issues for tour operators needing to invest in technology as an increasing amount of holiday booking is via the Internet
- Several comments were also made about the Island’s marketing strategy, recognising the on-going need for good promotion and publicity

Visits/interviews

- The following business people were interviewed face to face or telephoned
  - Robert Jones – Jersey Pottery
  - Jonathon Segal – Modern Hotels
  - David Seymour – Seymour Hotels
  - Mark Powell - Durrell
  - Robert Parker – Hotel de France
  - Sean Morvan – Morvan Hotels
  - Katrina Le Feuvre – Amaizin Maze
  - Ted Clucas – Radisson
  - Peter Drew – CI Travel Holdings

Options evaluation

The main tax incentives for encouraging capital investment in the industry is assessed, namely tax credits /deductions

Tax incentives

- Foregoing tax
  - the introduction of the 0/10 regime might, of itself, be a huge fiscal incentive for the tourist industry. At present, broadly, all Jersey profits are taxed at 20%. Next year, they will be taxed at 0%. For businesses owned by non-Jersey individuals, there are no further issues. For Jersey owned businesses, subject to there being no dividends, 60% of the profits will be taxed on that individual; the remaining 40% will be taxed on a trigger event - basically when the individual leaves Jersey or when he 'disposes' of his interest in the business
  - therefore, next year, the tax rate reduces to 0% for non Jersey owned businesses; and to 12% to local businesses with the other 8% being payable when the business is disposed of or when they receive the funds by way of dividends
  - it is debateable that this would be a sufficiently worthwhile fiscal incentive
  - due to this change, the tax take from the tourist industry will reduce – the exact level will depend upon the mix of Jersey / non- Jersey ownership
  - the loss in revenue may become more acute as local hoteliers sell their businesses to non-local investors – the value of these businesses should be more attractive to non-residents than to residents
  - beyond this, three fiscal options are summarised in the paper and would lead to reduced costs for the industry. The survey results suggest that the most popular one would be the tax incentives for capital buildings, via an accelerated depreciation scheme that allowed the investment costs to be set against tax liabilities
- Likely impact
  - our estimates of the fiscal impact is that it is low. If we assume that £20million a year is invested, and half of this (£10 million) is spent on capital investment, we might assume that (at 25%) credits of £2.5 million would be due, which, at a 20% tax rate, would reduce tax revenue by £0.5 million in the first year. The longer term impact is shown in the table below. It would benefit the industry to the same amount
- In terms of boosting capital investment, it may have an impact at the margin and would be warmly welcomed by most of the industry, but would not have a dramatic effect on investment levels, especially as it could distort the market
- The Confederation of British Industry has found that small companies find the UK R&D tax credit system to be burdensome and are dissuaded from making claims as a result. It is to be feared that the Jersey scheme could run into the same problems

Year	1	2	3	4	5	6	7	8	9	10
Qualifying expenditure brought forward	0	7.5	13.1	17.3	20.5	22.9	24.7	26	27	27.7
Qualifying capital expenditure	10	10	10	10	10	10	10	10	10	10
Total qualifying expenditure	10	17.5	23.1	27.3	30.5	32.9	34.7	36	37	37.7
Tax credits at 25%	-2.5	-4.4	-5.8	-6.8	-7.6	-8.2	-8.7	-9.0	-9.3	-9.4
Qualifying expenditure carried forward	7.5	13.1	17.3	20.5	22.9	24.7	26.0	27.0	27.7	28.3
Tax credits	2.5	4.4	5.8	6.8	7.6	8.2	8.7	9.0	9.3	9.4
Tax relief at 20%	0.50	0.88	1.16	1.36	1.52	1.64	1.74	1.80	1.86	1.88

Options evaluation

Three further categories of options for encouraging capital investment in the industry are infrastructure investment, business support services and public private partnership projects

Infrastructure

- Developing the infrastructure
  - within the survey analysis it was clear that for most businesses the most important service was the support in the development of infrastructure. Often the investment is less developed parts of the Island are constrained by lack of the underlying utilities or transport links
  - investment in the infrastructure could take the form of improving utilities (drainage, transport, electricity etc.), developing the transport infrastructure (such as better transport from the airport or new and improved bus routes) or subsiding services (such as the flights from Heathrow)
- Likely impact
  - it is at the geographical periphery that the utilities infrastructure is the most noticeable constraint to development. Therefore this option is most likely to result in the further development of some of the more rural or less developed areas. As a result it could lead to conflict to wider planning issues
  - the cost of infrastructure developments is high (most involve construction or purchases) and the impact patchy, in that some will benefit and others will not be affected, unless it took the form of more generic improvements such as subsidising air routes

Business support services

- Supporting business
  - Business Advice is already available, targeted at small businesses. This is accompanied by a range of services and networks to help the emerging business. The feedback that identifies such a need is either proof of its importance or an indication that it could be expanded. Either way, it does indicate the critical importance of such a service, albeit not exclusive to the tourism industry
- Likely impact
  - the impact of these types of services can be extensive in that it helps to smooth the entry into the market of new, possibly very entrepreneurial, operators. As such it helps to address the frictional pressures resulting from the re-structuring of the tourism economy
  - as a result business support services should be encouraged. It could take the form of a specialist tourism service but this is unlikely to be useful to all potential operators and so a generic service is probably the most efficient from an Island perspective
  - one possibility is further focused marketing support, particularly if it helped to exploit internet marketing and booking

Public/private partnerships projects

- Exploiting the USPs
  - as identified in the Locum report, there are a number of unique attractions in Jersey, such as the historic attractions or, more distinctively, the Durrell centre
  - the Durrell centre has the advantage that it has the potential to link the educational and tourism strategies by developing the educational potential of a leading world class brand. This would exploit current conservation/environmental interests
- Likely impact
  - in a time when the economy is at a relatively vulnerable stage, it might address both wider fiscal (via Stabilisation Fund) as well as tourism objectives to develop a unique and forward looking public private partnership to exploit the massive human and social capital tied up in the Durrell centre. This could have the added advantage of bringing many new visitors to the Island from Locum's target Discoverer and Cosmopolitan groups

Options evaluation

Summary table of the impact, advantages, risks, possible KPIs, additionality and cost of the options

Summary of the options and issues

Option	Impact	Advantages	Risks	KPIs	Additionality	Cost to Treasury
Tax incentive	• It could tip the scale at the margin but does not avoid the need for solid business plans	• Focused on the tourism industry, relatively low cost	• Could delay necessary adjustments and generate false market signals • Additional costs to operate	• Measured by impact on tax returns. We would expect to see a short term dip followed by a above trend rise	• As most development is resource constrained (land, employees) it is unlikely to provide much additional impact as resources are displaced	• Estimated at approximately £1 million per annum in short term
Infrastructure development	• Provides a better environment for investment in the industry by lowering some development costs	• Provide generic development support, albeit focused on particular areas	• Could conflict with planning requirements, expensive and patchy in impact	• Measured via specific targets such as occupancy rates or visitor levels in businesses impacted	• Resources would need to be diverted from elsewhere (opportunity cost) and as construction costs already very high, may lead to displacement	• Depends on cost of scheme but could be anywhere from £1 million to tens of millions
Business support services	• Already having a positive impact in helping to develop business. More marketing support may be most effective partnership	• Non-contentious and, as a service open to all, equitable. High quality staff can make a significant difference to business success rates	• Not focused on tourism and may not understand the specific issues. Does not address specific concerns about tax rates	• Uses standard KPIs for business support services (typically no of business started, people employed). Specific tourism related ones could be developed	• As it does not distort the market and only lowers barriers to entry the additionality is higher as the best ideas/ creativity will come to the fore	• Moderate cost and could be delivered by a modest expansion of the business support services
Public/private projects	• The right scheme with the best leadership has the potential to make a massive impact. (See Locum report for some examples)	• Focuses on USPs and so stimulates the economy and further develops Jersey as an unique and high quality destination	• Too many eggs in one basket and relies on the multiplier impact by bringing new, higher spend	• Via the Jersey Tourism survey over the longer term, measured by the ACORN profile of visitors	• As the resources are unique, displacement would be lower and the extra income would be spent across tourism	• Medium to very high cost, but potentially managed across several budget headings, and, possibly, as an investment via the Stabilisation Fund.

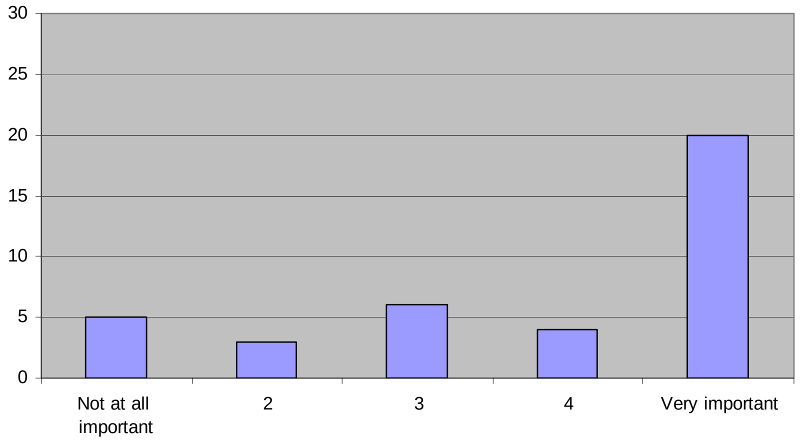
Annex

The Annex includes detailed analysis of the survey results, focusing on tax incentives and services broken down by the type of activity, namely accommodation, restaurants and attractions

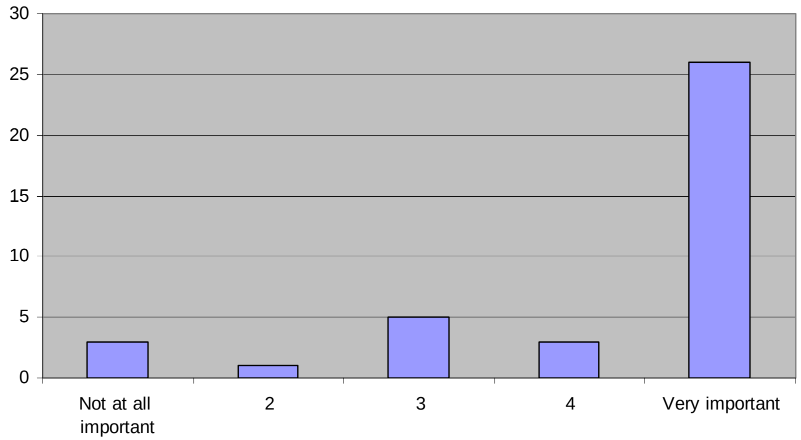
Analysis

Further detail on the responses from the respondents who run hotels and guest houses

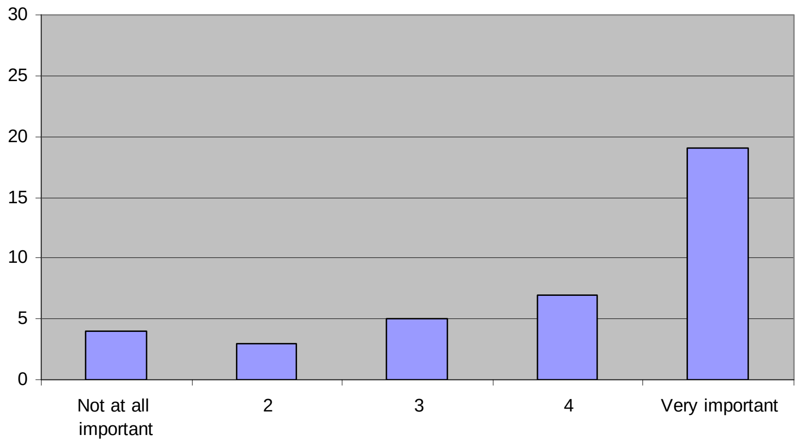
Tax credit/tax deduction for capitalised start-up costs



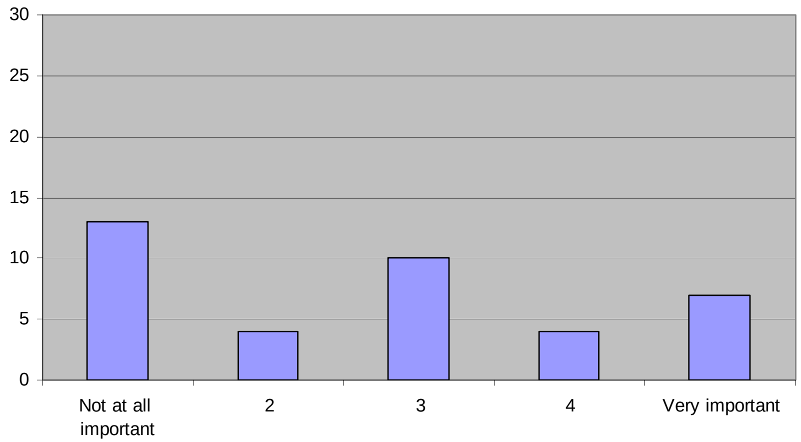
Tax credit/tax deduction for building developments



Tax credit/tax deduction for machinery and equipment investment



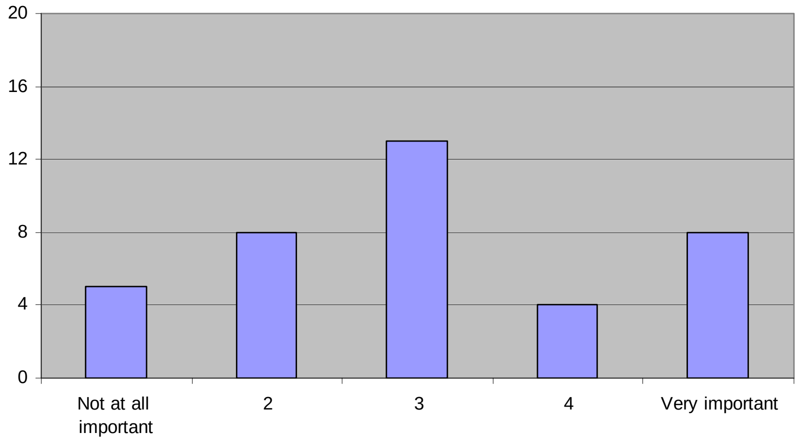
Retention of ITIS from staff



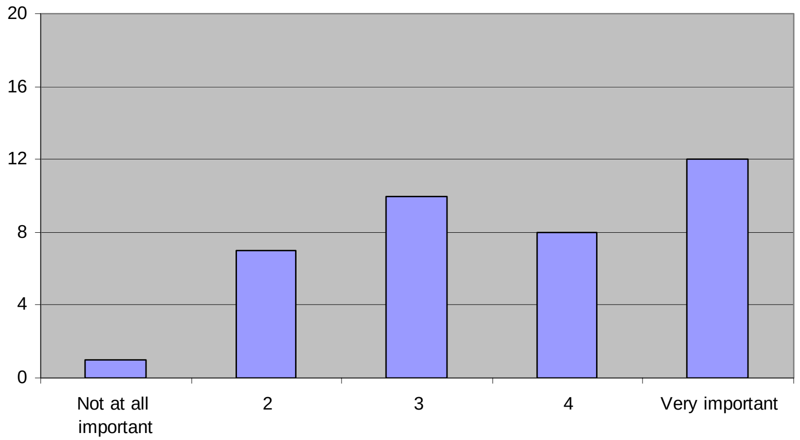
Analysis

Further detail on the responses from the respondents who run hotels and guest houses

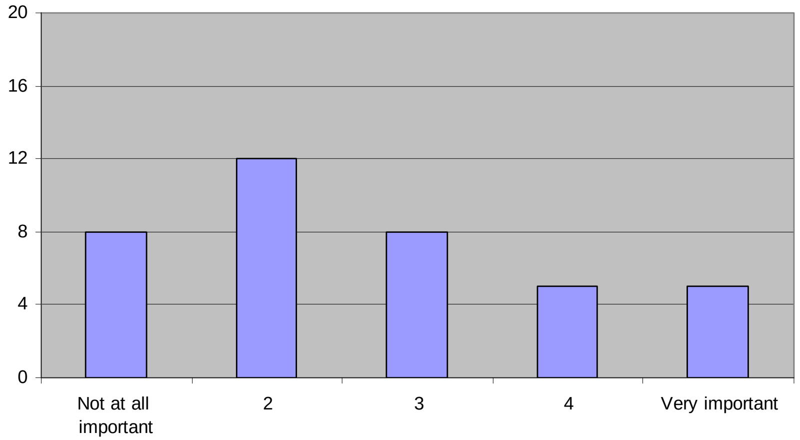
Assistance with project planning and feasibility studies



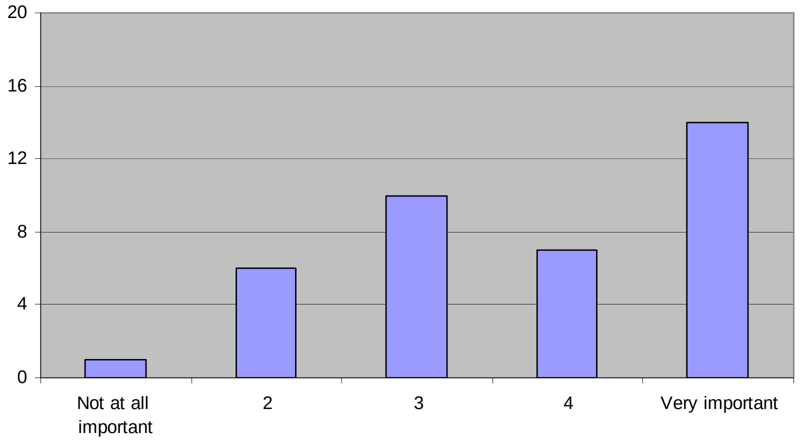
Assistance with the States planning process



Help in identifying potential development sites



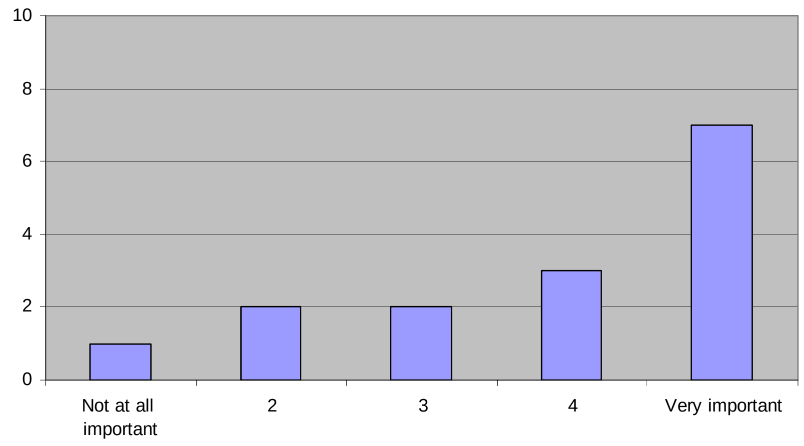
Investments in necessary infrastructure



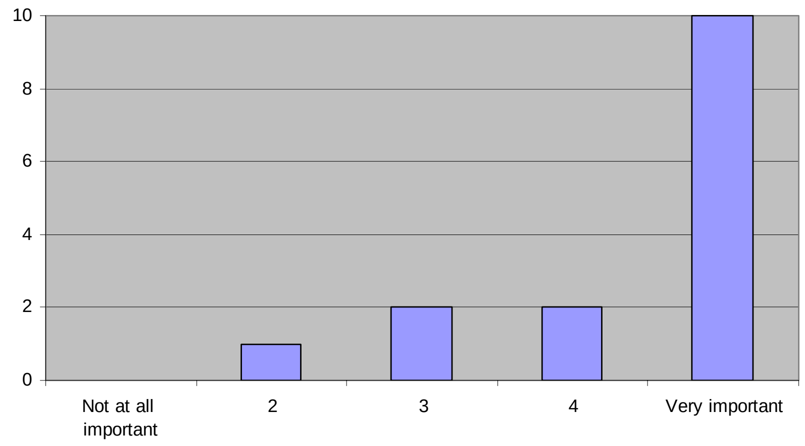
Analysis

Further detail on the responses from the respondents who run restaurants

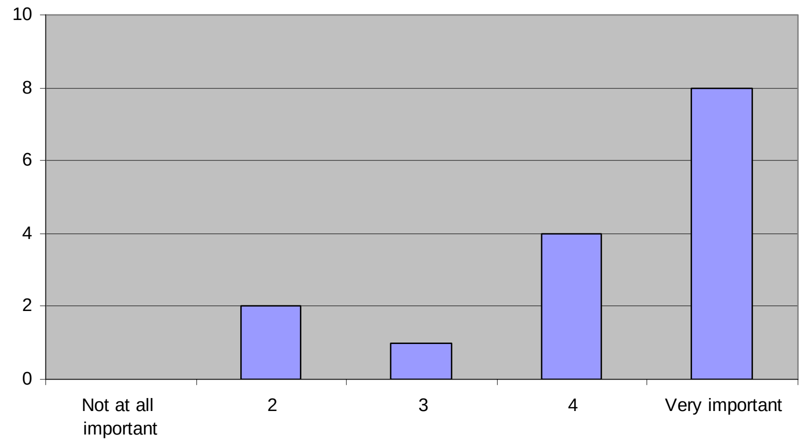
Tax credit/tax deduction for capitalised start-up costs



Tax credit/tax deduction for building developments



Tax credit/tax deduction for machinery and equipment investment

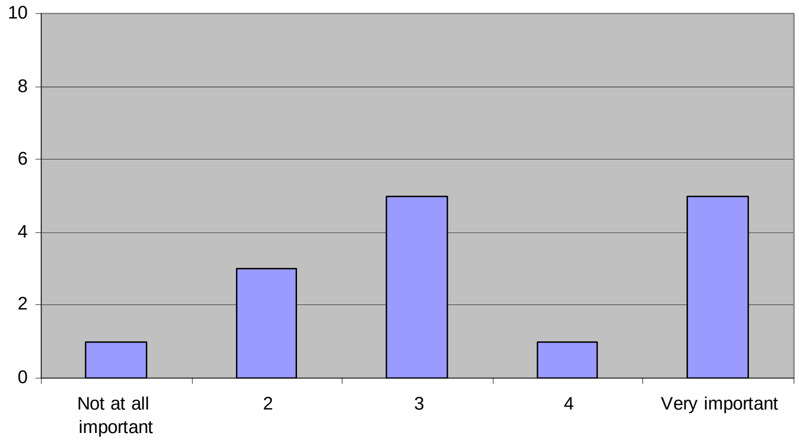


Retention of IT IS from staff

Analysis

Further detail on the responses from the respondents who run restaurants

Assistance with project planning and feasibility studies



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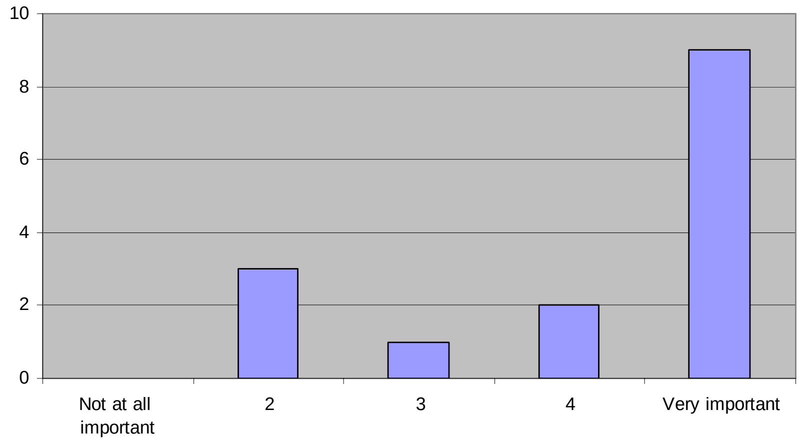

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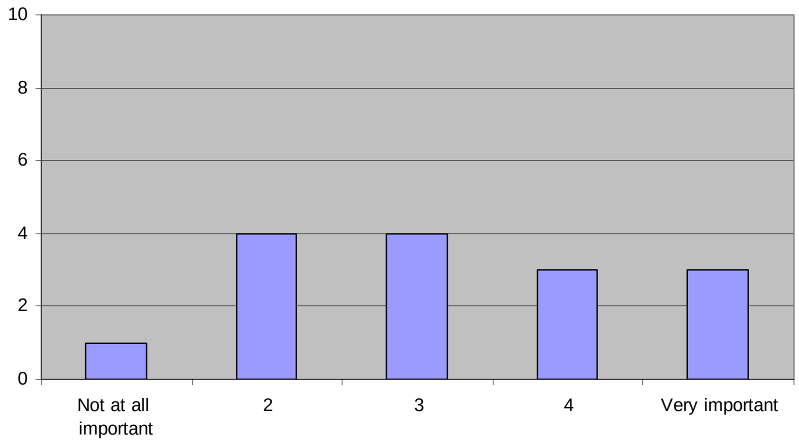
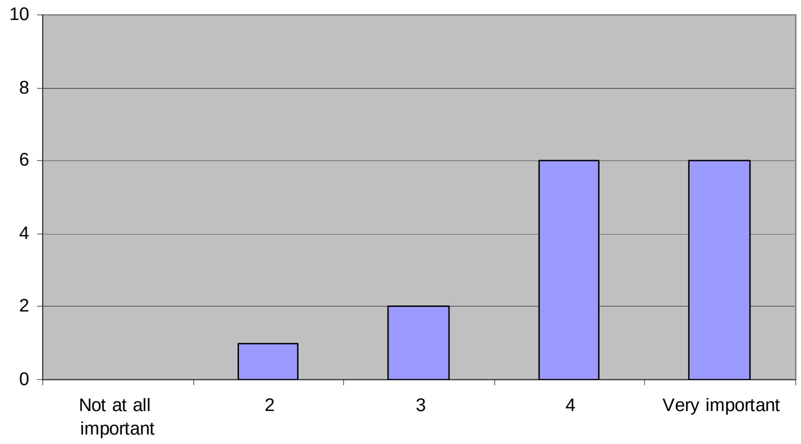


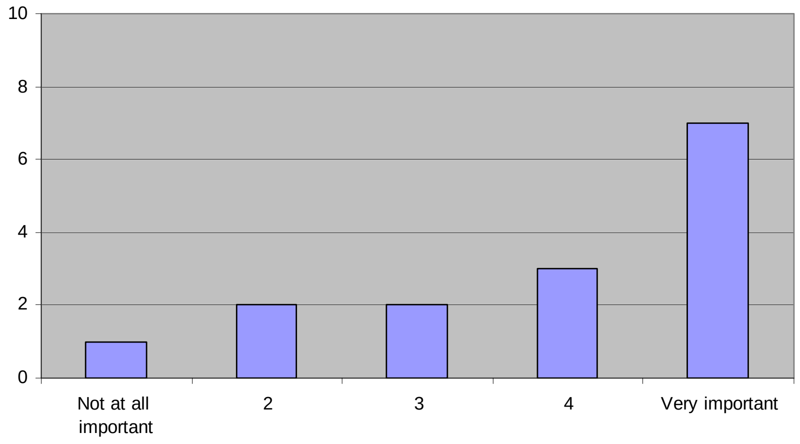
Investments in necessary infrastructure



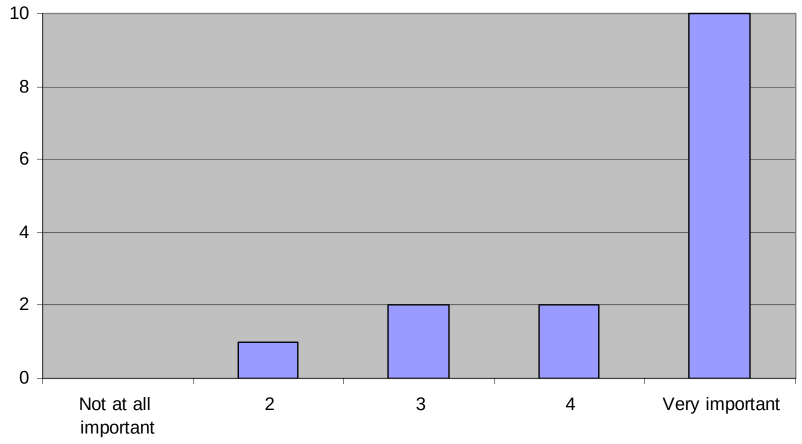
Analysis

Further detail on the responses from the respondents who run attractions

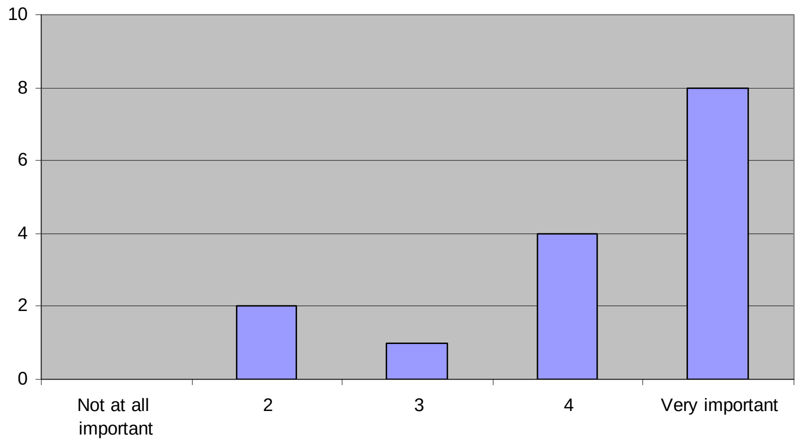
Tax credit/tax deduction for capitalised start-up costs



Tax credit/tax deduction for building developments



Tax credit/tax deduction for machinery and equipment investment



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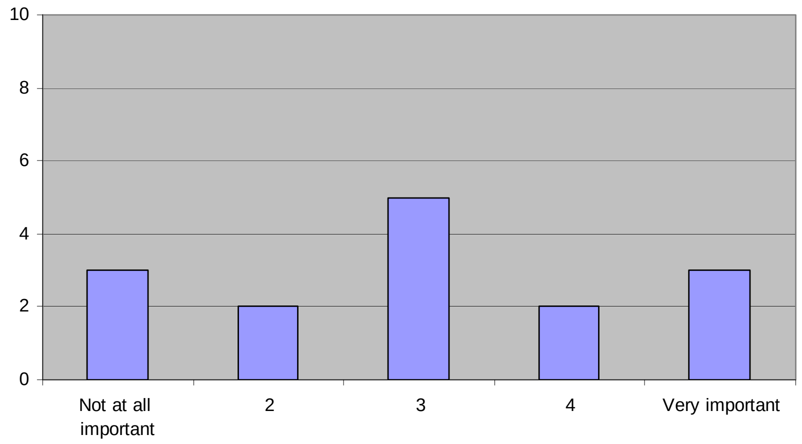
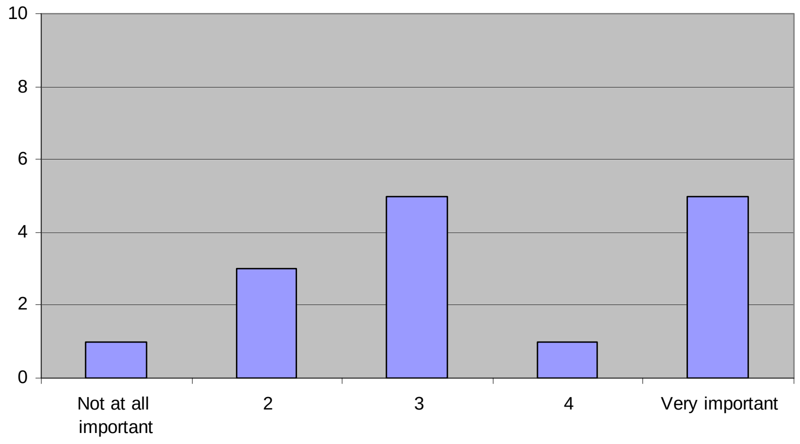


Analysis

Further detail on the responses from the respondents who run attractions

Assistance with project planning and feasibility studies



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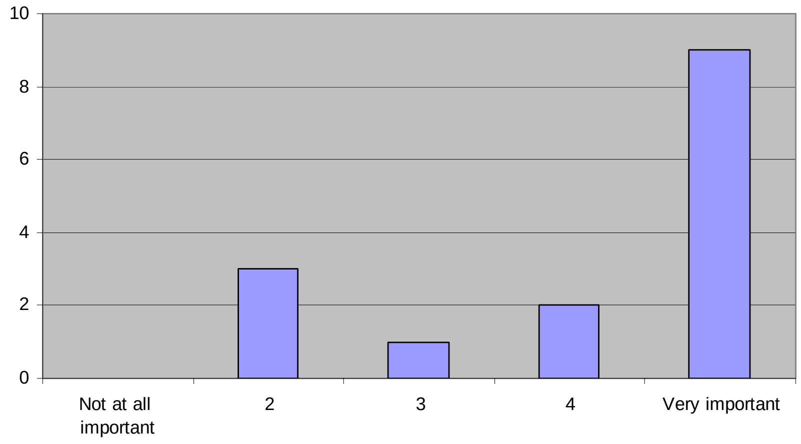

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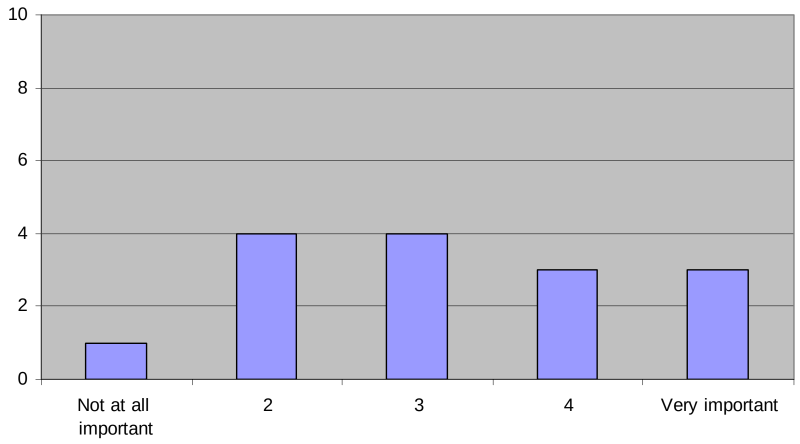

Investments in necessary infrastructure