



OFFICIAL REPORT

OF THE

STATES OF DELIBERATION

OF THE

ISLAND OF GUERNSEY

HANSARD

Royal Court House, Guernsey, Thursday, 26th March 2015

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St. Peter Port South

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R. Domaille, A. H. Langlois, R. A. Jones

St. Peter Port North

Deputies M. K. Le Clerc, J. A. B. Gollop, P. A. Sherbourne,
R. Conder, E. G. Bebb, L. C. Queripel

St. Sampson

Deputies G. A. St Pier, K. A. Stewart, P. L. Gillson,
P. R. Le Pelley, S. J. Ogier, L. S. Trott

The Vale

Deputies M. J. Fallaize, D. B. Jones, L. B. Queripel, M. M. Lowe,
A. R. Le Lièvre, A. Spruce, G. M. Collins

The Castel

Deputies D. J. Duquemin, C. J. Green, M. H. Dorey,
B. J. E. Paint, J. P. Le Tocq, S. A. James, M. B. E., A. H. Adam

The West

Deputies R. A. Perrot, A. H. Brouard, A. M. Wilkie,
D. de G. De Lisle, Y. Burford, D. A. Inglis

The South-East

Deputies H. J. R. Soulsby, R. W. Sillars, P. A. Luxon,
F. W. Quin, M. P. J. Hadley

Representatives of the Island of Alderney

Alderney Representatives L. E. Jean and S. D. G. McKinley, O. B. E.

The Clerk to the States of Deliberation

S. M. D. Ross, Esq. (H.M. Senior Deputy Greffier)

Absent at the Evocation

Miss M. M. E. Pullum, Q.C. (H.M. Comptroller)
Deputy M. J. Storey (*indisposé*); Deputy M. G. O'Hara (*relevé à 9h 38*)

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States of Deliberation

*The States met at 9.30 a.m. in the presence of
His Excellency Air Marshal Peter Walker C.B., C.B.E.
Lieutenant-Governor and Commander-in-Chief of the Bailiwick of Guernsey*

[THE BAILIFF *in the Chair*]

PRAYERS

The Greffier

EVOCATION

Billet d'État IV

TREASURY & RESOURCES DEPARTMENT AND SOCIAL SECURITY DEPARTMENT

Planning a Sustainable Future – The Personal Tax, Pensions and Benefits Review – Debate continued

The Deputy Greffier: Billet d'État IV. The continuation of the debate.

The Deputy Bailiff: Deputy De Lisle, to be followed by Deputy Sherbourne.

5 **Deputy De Lisle:** Thank you, sir.

The fairest tax system, surely, is based on Income Tax and the introduction of GST would take more from Islanders' pockets. The answer in the future must be to do more with less and the States need to cut spending and implement proper financial controls. GST will only enhance Government spending and fail to incentivise Government to control spending.

10 Guernsey has, currently, a comparative advantage to neighbouring jurisdictions by not having GST and it seems doubly unfair, when considering the fact that through the introduction of Zero-10 corporate tax policy, more has been taken from the individual taxpayer, through personal taxation, to make up the loss of tax revenues from the Zero-10 policy.

15 So what is to be gained by ever increasing indirect taxation in the name of consumption? The Policy Council and the two Departments that authored this Report – the Treasury and the Social Security Department – perhaps had not been listening to the concerns of the public. Their voices were loud and clear. They have had enough – enough of taxation, enough of higher costs to the individual. Guernsey is a small Island with a small population base and the grandeur ideas for ever-grander capital schemes have to put on hold until we get the costs under control. That is the plea of the public.

20

Now, sir, Jersey has GST and it also has high rates of unemployment and, in reality, GST does not fit.

I give way to the Minister.

25 **Deputy Langlois:** Thank you, sir.

I just rise to remind Deputy De Lisle that the so-called high rates of unemployment are the lowest in Europe, if not in the world! (*Interjections*)

I apologise. I missed the word 'Jersey'.

30 **Deputy De Lisle:** Yes, I am dealing with – Jersey has GST. I do not think we have it yet, do we? (*Laughter*) And I am saying that Jersey not only has GST, but it has high rates of unemployment and the fact is that the last thing you want to do when the economy is suffering is to put in a consumption tax because, in fact, all you are doing is cutting back consumer spending, through adding to the cost of living and what we want at the current time is people to spend money and, unfortunately, bringing in such a tax is never advisable when the economy is suffering.

35 So GST is not the answer at the current time and we have to spend wisely in future and I would like to ask Members to please support the amendment to agree that the States shall not introduce a broad base consumption tax, as described in the Report.

Thank you, sir.

40

The Deputy Bailiff: Deputy O'Hara, do you wish to be *relevé*?

Deputy O'Hara: Thank you, sir.

45 **The Deputy Bailiff:** Thank you.

Deputy Sherbourne.

Deputy Sherbourne: Thank you, sir.

50 Fellow Deputies, I believe that yesterday we were treated to a very special introduction to an amendment. I believe that my friend and colleague, Deputy Richard Conder... his well-researched, drafted and delivered speech provided a very powerful argument to us for caution regarding the introduction of GST. (**Two Members:** Hear, hear.)

55 This was then backed up by further supportive speeches of a high quality. Therefore, it was no surprise to me to witness a particular strategy emerging from those who spoke against the amendment: if you cannot counter the argument and message with equally well-researched evidence, resort to attempts to destroy the messenger's credibility by whatever means possible.

There had obviously been such guidance in the crib sheets provided by the supporters of the proposal and the approach was evident to all concerned. I do not intend to embark, this morning, on a list, a reference, of those comments. That would be pointless. But I would like to make an observation on one particular criticism, based on the so-called theatre included in Deputy Conder's delivery. I feel it was a bit rich coming from one of our very own self-declared Greek gods and boy soldiers! (*Interjections and laughter*) (**A Member:** Hear, hear.) I hope (*Interjection*) that this strategy – (*Laughter*) I hope that we hear no more reference to the personal qualities and experience of the person that laid this amendment. (**Several Members:** Hear, hear.)

65 Needless to say, I shall be supporting the amendment.

The Deputy Bailiff: Deputy Adam, to be followed by Alderney Representative Jean.

Deputy Adam: Thank you, sir.

70 I would like to start by going back to what the amendment actually says:

'26. To acknowledge that there are risks and challenges associated with the States' considerable reliance – by international standards...'

– which I am sure Guernsey is not immune to –

‘on... personal taxes and social insurance contributions; and to agree in principle that it would be advantageous to diversify sources of States’ income in ways which take account of the principle of “ability to pay”.’

I am not too sure exactly what that last part of that sentence means: ‘the principles of ability to pay.’ Do we require to diversify sources of income or do we not? Should the diverse sources only target those who are deemed, by others, to have the ability to pay? Or should it be better to
75 recognise that there are those on lower income – are vulnerable – who will require measures to mitigate against any adverse situations? I would appreciate an answer as to how both aspects of this Proposition may be achieved.

The main thrust of his speech was directed towards the second Proposition:

‘To agree that the States shall not introduce a broad-based consumption tax as described in that Report.’

He stated his experience and involvement in the implementation of that in the early part of the
80 introduction of that. How relevant is this to a General Sales Tax in Guernsey in the 21st century? It is like saying, ‘Medicine has stood still since 1977. No progress in technology, methodology etc.’ I would suggest that there has been improvements in these areas to make the process less painful to the companies that have to introduce it.

He quoted some islands that did not have VAT. The Hong Kong situation was covered by
85 Deputy Perrot. The Cayman Islands do not currently have VAT, but – *but* – all imports are subject to 22% import duty, which you might say is more or less equivalent to a type of VAT or GST.

He presented evidence of VAT values in other countries – 20% to 25%, the norm – but he gave
90 no other information concerning these countries and the necessity for this, such as level of debt – which Deputy Jones mentioned – concerning the UK, benefits, unemployment. I believe that one should not isolate one financial issue without looking at the overall state of the finances of that country.

He does not agree with a broad-based consumption tax highlighted for heat or for homes and
suggested that the proposed GST was uniquely broad-based. However, I would suggest that what
95 the T&R / SSD group wish to do is to look further into the situation and decide which is the best method of introducing a form of GST, making sure it is as fair as possible across the whole spectrum.

He asked, ‘Why not use taxation methods already in place? For example, duty on tobacco, fuel,
100 alcohol.’ A duty on fuel – you would have to increase the price of a litre by 30p to 40p per litre to get anything like near the sum, compared with GST. And that would be highly regressive because it would affect everyone and every business and put up the cost for everyone.

Deputy Domaille has also already requested Deputy Conder to ask for four alternative
resources and I am interested to hear his answer.

I listened yesterday to many Deputies speaking against GST, hearing the familiar arguments –
105 ‘It is regressive.’ ‘It is too easy for Government to raise the level.’ – and it is interesting that Deputy Fallaize pointed out to Deputy Jones that actually he was part of the Government and equally responsible for raising the level – if that happened. It is Guernsey’s unique selling point not to have VAT or GST.

As a Member of the Joint Boards, I have heard all these arguments and more. They have been
discussed at length over the period of time that the group has been meeting.

110 Deputy Green accepts the diversification argument in relation to the source of income of the States being broadened from direct tax and SSD contributions. However, I have discussed this with him on several occasions and, I am afraid to say, I am still waiting for his suggestions on what is the best thing to replace GST by. (*Interjection*)

115 **Deputy Adam:** Deputy Trott told me he has got the solution. Remember, we do have a budget Resolution in place to bring in GST. I think that was in his time as Minister of T&R Department, but

this time his solution is in his amendment number 9 and that will provide what he states is 'a partial alternative'. Again, it will be interesting to have that expanded.

120 Deputy Fallaize made a very interesting, albeit a slightly long, speech, but at the end he said...
In fact, what he said was, if we wanted GST, it would have been best if we had brought it in at the same time as Zero-10, as Jersey did, on the back of a major change in the taxation of the Island. But he also said, if he had the choice of real cuts in public services or the option of GST, he would accept the latter.

125 Sir, I would like to suggest that some of our services may need real increase in money – up to £20 million, possibly. At the moment it is suggested £10 million and, of course, we are talking about our health services. So, Members of this Assembly, if you wish your health services to be maintained at the present standard, which changes continuously through the years, I suggest that we should be going ahead with the T&R / SSD idea of looking further into GST.

130 I give way.

Deputy Fallaize: I am grateful to Deputy Adam. He makes a very good point, which appeals to my political views and perhaps those of other Members, but would he accept that Proposition 38 – to agree to direct T&R to bring back detailed proposals for the introduction of a 5% consumption tax – is part of a package which has been promoted by the Joint Committees as revenue neutral – in other words, not to generate any additional revenue to invest in essential public services?

Deputy Adam: Thank you – through you, sir – Deputy Fallaize, for that comment.

140 I agree it is, in theory, a package and meant to be, (*Laughter*) relatively speaking, neutral, but I am afraid to say that we have to adapt with changing times. We cannot say, 'This is a package and we are sticking to it,' and then say, 'Well, wait a minute, we need £20 million for HSSD.' Do we take it from all other Departments or do we say, 'Some of this money has to be used for that other purpose and therefore the other side of the coin will have to be changed slightly'?

145 Sorry, you must be flexible and, as you said yourself, Deputy Fallaize, that £50 million is more than £30 million, which would take this up to the 28% GDP cap. So you have to look at it, but we will know more about HSSD costs within the next three or four months and things may have to be adjusted accordingly.

150 We cannot just ignore things if you wish to keep your services or make sure your services are safe and secure – which I believe they are, since my wife was recently in Hospital for three or four days. Sir –

Deputy Sillars: Sir, a point of clarification, if I may. I though we just voted for a cap.

155 **Several Members:** Yes.

Deputy Adam: It is a guideline cap, (*Laughter and interjections*) Deputy Sillars, and again I have to ask this Assembly: where are you going to get the money from for HSSD and for Education pre-school and for maternity benefits and for SLAWS and for SWBIC? Sorry, we have got a lot of issues that are going to have to be addressed within the next two or three years.
160 (**Several Members:** Hear, hear.)

But at the end of two years' work with the PTBR, I have been convinced, like Deputy Perrot – maybe he was convinced before he joined it – and I believe the other Members... reluctantly, we have all been convinced that this form of taxation is a necessary part of the tax diversification process.

165 Deputy Duquemin gave, in my opinion, an excellent speech. Three quotes: 'Know there is a problem but not going to investigate' – that is not acceptable in my book. '*Status quo*' - again, I do not believe that is acceptable in our situation if one is cognisant of the issues that are going to come forward in the next three to 12 months. May I say it again? SLAWS, SWBIC, pre-school

nursery, maternity benefits etc. HSSD – shall we say that is an unknown elephant in the room; and I do know something about HSSD and the costs.

His last one was, 'Guernsey's future; not political future.' This last one actually hits me to the heart. I accept I am an 'incomer' of 30-plus years' duration. That means I chose to come and live here because I respected the ethos of the local people.

This has changed over the last 30 years, but I do believe the majority of the people of Guernsey still maintain the same standards and we have a common aim to maintain the viability and sustainability of our community, its lifestyle, economy and heritage. GST is unpopular, but I believe it is a necessary tool to have in the box.

I urge you *not* to support the amendment, but to allow the work to continue to assess in detail the implementation of GST *and* the mitigating measures that will be necessary to protect the vulnerable; then make a decision when all the more detailed information is available.

This is the best way forward. We must move away from 74% of our income coming from taxation and SSD contributions. That is not sustainable long-term. We have to think outside the box. We must be constructive. We must move forward. Just sitting back and saying, 'We will put money on fuel – tax everyone.' TRP – that is a very good source because, basically, your house cannot move and, therefore, it is easy to collect and easy to charge. Tobacco – it is going up all the time. Tax-take from it has levelled off; and alcohol – likewise, the amount of spirits coming in has gone down, wine has gone up. So the amount of that is still going up slightly, but slowly. Therefore, we have to look at other ways, I believe, of finding a source of revenue, which then can be given back in some ways and if necessary some may have to be used for the costs that we all are aware are just round the corner.

Members of this Assembly, I hope that you will see the sensible reasoning of rejecting this amendment and going forward with the proposals.

Thank you, sir.

The Deputy Bailiff: Alderney Representative Jean, to be followed by Deputy Dorey.

Alderney Representative Jean: Thank you, sir.

Sir, Members of the States, a few years ago, like Guernsey, Alderney's population reacted badly to the news of the possibility of GST. The enabling legislation came before the Alderney States. I was not a Member of our States at that time, but I did go to the people's meeting in Alderney and was successful in persuading our States to vote against the first attempt to bring in the enabling legislation.

Some months later, the same item was passed. I was told that Members of the Alderney States were told they had to vote it through; some pressure applied and the Alderney Government gave way.

I would like to build on the words of Deputy Jones when he spoke yesterday. He talked of rising costs for the Guernsey resident and the substantial rise in the cost of living. What has all this done in Alderney? Let me add to that the words, and then some. The residents of Alderney were deeply concerned then and are deeply concerned now and opposed to this tax almost to a man. There was a real rumble throughout the Island when the Alderney States passed the enabling legislation. They knew then, as they know now, the very real threat that this could be: the tax, GST, could be introduced.

Most costs are higher in Alderney, with TRP pervading through electricity and water bills. Many businesses surviving on 400 and more customers less in-built... is hard enough because they have left our shores; plus the restrictive and constrictive effect of customer resistance through our airline – the main route into Alderney and the increasing difficulty to gain access to Alderney as our skeletal flight pattern and rising costs, coupled with continual changing restrictive measures to the flight timetables. A meagre living to be earned in Alderney.

This amendment gives those residents in Alderney, who I represent along with my colleague, the chance to show, through our votes there, our united resistance against this pernicious tax, that

if passed, to continue the process of erosion against the viability of business here in Guernsey and in Alderney.

I thank Deputy Conder for bringing this amendment and I will be supporting it and I would like to add that I have talked to many businesses in Guernsey who were upset at the introduction of TRP; and many, many residents just come and speak to me, knowing my role here in this House. They also say to me they do not want GST.

Alderney is in a situation where, at the moment, there are negotiations over the terms of the 1948 agreement and the way the financial arrangements are handled. To some degree or another, Alderney must take control as well of its own destiny, and that is exactly what Alderney is trying to do.

We have situations in Alderney where, here you can buy fuel for £1 a litre; in Alderney, that price is £1.50 or £1.60 a litre. It is hard. The lowering of the price of buying oil and fuel is slow to reach Alderney. It happens all too slowly, whereas here you can see that it has gone down. In Alderney it does not. We try to speak about these things. It is very difficult and Alderney is... the economy is stepped and behaving differently.

Therefore, I am very happy to support Deputy Conder's amendment and I urge the rest of the States to do the same. I think it is very important.

Thank you, sir.

A Member: Hear, hear.

The Deputy Bailiff: Deputy Dorey.

Deputy Dorey: Thank you, Mr Deputy Bailiff.

I am not supporting this amendment for electoral reasons, as some people have suggested yesterday; I am just honouring the commitment that I made in my 2012 manifesto. I made that commitment with the view I have held for many years.

I will not try and repeat previous points made, but carry on with the theme from Deputy Brouard's speech, which was, 'What is the point?'

From the executive summary and paragraph 7.1.6, we are informed that the intention is not to raise further income by the introduction of GST and it is broadly revenue neutral; although I am beginning to doubt that, when I heard Deputy Adam's speech because he is saying that it is there to raise additional money, but that is not what the proposals are.

So it will result in no extra money, just a replacement for some of our existing income.

Deputy Adam: Point of correction, sir.

The Deputy Bailiff: Point of correction, Deputy Adam.

Deputy Adam: Sir, what I said was that, if the situation changed and money was needed for HSSD or SWBIC or SLAWS, then some of that money could be used for that purpose. The idea, at the present time, is that it is neutral, but we cannot just assume things are going to stand still, financially speaking.

The Deputy Bailiff: Deputy Dorey.

Deputy Dorey: Sir, that will completely alter the proposals because the whole of the proposals are based on the mitigating proposals financially and, anyway, SLAWS and maternity benefits will be financed from Social Security contributions.

So, as I said, it will not result in extra money, just a replacement for some of our existing income, but with additional costs for the States. The Report tells us £500,000 and significant cost

to business. The Professor Swords Report states the main stone of administration falls on the business sector.

As a Government, we are trying to be as efficient as possible and reduce red tape for business. This is going in the complete opposite direction. (**Several Members:** Hear, hear.) The money that will be collected, we are told, will be used to mitigate the effect of GST, but we know, from the Guernsey Community Foundation report and from section seven, there are winners and losers, and the proposals will not help everybody who is affected by GST and there will be some who will be negatively impacted. What is the point of doing that?

One of the other reasons for GST is to broaden our tax base. Deputy Fallaize covered that yesterday, by saying there will be no significant changes; there will only be an 8% reduction in the dependency on direct personal taxes and SSD contributions.

So the next reason to broaden the tax base is so that some groups will pay extra, presumably, and some will pay less. In appendix 8i, paragraph A8i.25 informs us that, in Jersey, financial institutions pay an exemption waiver and £8 million is collected from this. And it says a similar system here would raise £4 million to £5 million. But we seem to be getting mixed messages because in December 2013 Commerce & Employment Department, in their Strategic Development Fund New Market Development Report, they quoted:

'It is... not appropriate to ask local finance companies to contribute towards the initiative as there are significant costs pressures across the industry and most have been forced to cut their own marketing budgets. To seek to increase the funding raised by the Guernsey Finance Funding Law would damage Guernsey's competitiveness and potentially encourage business to locate in competitor jurisdictions which are heavily promoting themselves in these new markets.'

So it does not seem, from the information that we have been given, that there is the ability to collect that from the industry and if there is, well, why don't they fund Guernsey Finance in total and stop the contribution from General Revenue?

Appendix 8i, paragraph A8i.5 informs us that approximately 10% of the revenue collected will come from visitors and business travellers. If we really believe that we can increase charges to tourists without effecting the market, we should be looking at a fare tax or tourist tax, which is common in most places, which could finance our tourist marketing budget of £2.7 million, or can the market that that?

Now, I want to look at which age groups in society would pay more and which age groups would pay less with GST and I ask you, if you can find it, to turn to appendix 8a and A8.5 – but I do have a larger version here, if you cannot find it.

A Member: Give us a clue. (*Interjection and laughter*)

Deputy Dorey: About three-quarters!

This shows the average tax liability across each age group. The blue line is the average Income Tax and Social Security liability by age and, obviously, you see that for the younger age group they pay a low percentage and the working population pay a high percentage, and then it tails off for retired people.

The red line is the estimated liability for GST and, as you see, it is significantly higher in the younger age group, lower in the working age group and just a little bit higher in the over-65. But I do not think this graph is a good comparison. We should be looking at Income Tax, as the over-65s pay far less Social Security, because obviously they no longer pay towards a pension and they are beneficiaries.

So I asked for a green line to be added which goes below the blue line for younger people and above the blue line for older people, so that we can see the tax liability by age in relation to Income Tax.

What is interesting is that most people will have expected that a consumption tax, like GST, would raise a lot of extra from the retired population, compared to Income Tax, but when you look at the amended graph, the group that has the biggest increase is the 18 to 25 age group. As

320 you see, this is the percentage of Income Tax they pay, but this will be the percentage of GST they are paying.

So this group will have a considerable extra tax burden. Deputy Perrot said yesterday how important it is for our economy to encourage young people to stay on the Island and come to the Island and I completely agree with him, but GST would do the very opposite, by increasing the tax liability for them and making it harder for them to save to get on the housing ladder.

325

Deputy Perrot: Point of correction, sir.

The Deputy Bailiff: Point of correction, Deputy Perrot.

330 **Deputy Perrot:** I said it was important for *'people'* to come to the Island. I did not say *'young people'*.

The Deputy Bailiff: Deputy Dorey.

335 **Deputy Dorey:** Okay. I thought I heard young people, but I am corrected.

But I believe that it is important that we do keep our young people (**A Member:** Hear, hear.) and GST will do the very opposite by increasing their tax liability and making it hard for them to save to get on the housing ladder.

340 The group with the second biggest increase is the 26 to 35 group. You see the Income Tax is down there and the GST percentage is up there.

The main beneficiaries are the 46 to 55-year-old age group. Yes, retired people will pay proportionately more tax overall with GST, but it is only a small extra amount when you compare it to the Income Tax, as opposed to Social Security and Income Tax.

345 So, if the point of a consumption tax is to collect proportionately more from the retired population, because of demographics, it does do that but by only a small amount; but it would be at the cost of collecting a lot extra from our younger age groups and their overall tax burden increasing significantly.

350 One further point: in paragraph A8i.35, it states that, 'GST will be chargeable on the importation of goods, but there will be a threshold.' And it says, 'In Jersey, this threshold is set at £240,' which would surely just encourage people to buy more and more goods from the internet rather than local shops, because they would no longer be charged the GST if they buy those goods over the internet, while if they use the local shops they will be. So how can that be good for our economy and local shops? (**A Member:** Hear, hear.)

355 To sum up, GST is not revenue neutral. It adds costs for the States. It adds costs for business. It would discourage people from buying in local shops and it considerably adds to the tax burden of young people. It will mean that some people are losers – some of the most vulnerable people in our community – because the mitigation measures will not fully mitigate the cost of GST for them.

360 If we follow the Jersey system, food will also be taxed and if we are going to keep the administration down for businesses, of course, I think we will have to follow the Jersey system and, to me, to be taxing food is absolutely unacceptable. (**Several Members:** Hear, hear.)

I, like others, have enough information to make a decision. I do not want to waste valuable staff resources, spending another two years working on GST. We felt there was enough information to go out to consultation, and 55% were against and only 13% were supportive.

Please support this amendment and reject GST.

365

Several Members: Hear, hear.

The Deputy Bailiff: Deputy Soulsby, to be followed by Deputy Hadley.

370 **Deputy Soulsby:** Sir, last week I was attacked by a certain ex-Deputy for having an open mind. Apparently, the fact I wanted to have further information before making an evidence-based decision was seen as a bad thing, whatever hat I was wearing. I am sorry it may be considered a failing, but I always like to start with an open mind and make evidence-informed decisions. The last four months has shown me just how important such an approach is.

375 In terms of today's debate, what I can say is I have read and researched the evidence for quite some time, to enable me to make an informed decision about whether we should look further into a broad-based consumption tax now and I have made up my mind now, based on all the evidence put in front of me; from the research I have undertaken, not just from the last six weeks but over several years, and from first-hand experience. No, we should not!

380 Of course, when it comes to taxes, as well as death and child birth, there is never a convenient time for any of them, (*Laughter*) but this is not about not understanding the need for change. I believe we do need to rethink our approach, which is why I welcome this debate now and why I will be laying an amendment to seek to explore alternatives.

385 Now, instead of repeating much that has already been said that supports my standpoint, I would like to focus on why I believe, even considering GST, particularly now, will be dangerous to our economy; but, before I start, I would like to know: where is the comment from the Commerce & Employment Department? We were treated to a 12-page document from C&E on the perils of a width and emissions tax. (**Several Members:** Hear, hear.) But, when faced with a Report that will have a significant impact on virtually every business on this Island, we have silence! (**Several**

390 **Members:** Hear, hear.)

And I have to say, I was astonished to hear that the Commerce & Employment Minister, Deputy Stewart, would support further research into GST, when his Department is meant to encourage local businesses and look for ways to promote a positive environment in which to conduct business on Guernsey.

395 So why should we be concerned about a threat to our economy by even considering GST now? Well, firstly, we need to consider business uncertainty. We have heard a lot about how we must very careful in how we discuss possible changes to our corporate tax system, as this might cause business uncertainty. Well, the same goes for GST. If I were thinking of setting up a business involved in the provision of goods and services, particularly where I will be having to compete

400 against those from off-Island, I would think long and hard about setting up, before I knew where the States were going on GST.

We are already an expensive place to do business. All a broad-based consumption tax will do is increase costs and have inflationary consequences, in addition to adding to the administrative burden. And, to pick up on a point made by my colleague, Deputy Luxon, yesterday, remember it is far easier for a large firm with a separate accounting function to absorb those extra costs than for smaller, owner-managed businesses. (**A Member:** Hear, hear.)

405

Just looking at Jersey's GST website, there are pages upon pages of what you can and cannot claim, advice for different business, various options, such as partial exemptions, as well as when and how to pay; that it will clearly be a more unproductive activity at a time when we need to reduce the obstacles we put in businesses way. On that note, I think the red tape audit which, for me, was an important part of the Economic Development Framework, could not come soon enough.

410

Secondly, I am concerned about some of the assurances given in the Report regarding the shape that GST would take here. The Report talks about a turnover-based threshold that would exempt some businesses from paying VAT and there is an indication that this might be similar to that in Jersey, which is currently as high as £300,000. However, as picked up by Deputy Conder, given the relatively small size of Guernsey businesses, where more than two-thirds employ less than five people, according to the latest facts and figures booklet, that threshold would have to be much lower to obtain the £50 million claimed could be raised.

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420 But I suspect the truth is that businesses may be forced to register, as the cost of not doing so may be prohibitive if they cannot reclaim Import Tax. So there is a catch-22: register and spend

more time and money on administration or do not register and incur increased cost of goods and services themselves. Lose-lose. The small businesses will lose out the most.

425 Thirdly, I have concerns about the assumptions of economic growth. Paragraph 1.1.15 states that growing the economy is not within the mandate of the review, but assumes a modest level of economic growth. However, was that taking into account the introduction of a broad-based consumption tax? There is no getting away from the fact that GST undermines economic growth for two reasons.

430 Firstly, it disincentivises productive behaviour by driving a larger wedge between pre-tax income and post-tax consumption. And, secondly, it makes for bigger government and bigger government means, in a static population, the transfer of people from the productive sector in the economy to the public sector, diminishing economic efficiency.

435 It would make perfect sense to consider talking to Jersey as a means of mitigating the administration costs, though I believe it will be of limited benefit unless we adopt Jersey's system wholesale. (**A Member:** Hear, hear.)

By the way, I suspect, the fact the reviewers think GST will be cheaper to administer than Income Tax, probably says more about the adequacy of our Income Tax systems, than about the administration of GST; (**A Member:** Hear, hear.) and, in terms of Returns Creator, as Deputy Perrot mentioned yesterday, I would request he speaks to those who use it and he may get another word back to describe it other than 'brilliant'.

440 But, of course, when considering administration costs, we should not just focus on GST. As the Deputy Chief Minister stated yesterday, this is a package of measures. We should not look at GST in isolation. I agree, we should not.

445 We should not forget all the supposedly mitigating measures that will be needed to be brought in through pensions and benefits and how they will be administered. These are not going to come at nil cost to SSD or whatever Department becomes the one administering benefits in the future. GST may possibly be efficient in terms of tax collection, but how many more SSD staff will be needed to handle the increased benefits claimed?

450 And this brings me to the final, and what I consider to be the fundamental, reason why I cannot accept recommendation 38, and it revolves round this one sentence in the Report, and I quote:

'Data suggests that, while a consumption tax in isolation may be regressive, it is possible to mitigate much of the regressive nature through the pension and benefits systems.'

455 My greatest criticism of this Report is that little consideration has been given to the ability to pay. In fact, that phrase is only used twice – one being a quote from a respondent to the consultation and the other, ironically, to justify the introduction of a £1 prescription charge for those who currently do not pay.

The only way I could conceivably accept a GST would be if there were exemptions. I fundamentally have a problem with the taxing of food, other than possibly as a means of influencing behaviour and certainly at a time when we are seeing food banks appearing across the Island.

460 What about fuel and power? This could have serious consequences for those on lower incomes, but the truth is we could not afford to make such exemptions, we are too small an economy or, if we did, the rate of tax would have to be put at a much higher level to compensate.

465 Now, Deputy Perrot's likening the purchase of a litre of milk to a tax and calling it progressive is complete nonsense. (**A Member:** Hear, hear.) Charging GST on a litre of milk is what is regressive. The definition from the Oxford dictionary:

'(of a tax) taking a proportionately greater amount from those on lower incomes.'

Indirect taxes are, as a group, regressive. But we are told there is more detail that needs to be ironed out. What, after two years? It is hardly rocket science. It is broad-based, so there are going to be very few exemptions. There will be a threshold, but then it is likely to be meaningless

470 anyway and it is going to be 5%. And if the writers of this Report do not know broadly how this broad-based consumption tax will work, how can they say it will raise £50 million and how can they provide 16 pages of how their favoured scenario will affect a variety of households?

475 And, on that front, according to this Report, there will be people adversely affected. For instance, it states that 30% of couples with children will benefit, which means a huge 70% will not! Whether that means it will not affect them at all or they are badly affected, is unclear – as is how many of them may have to start claiming benefits. Is that what we want: making more people dependent on benefits, giving them even less disposable income that can be circulated in the economy? That is not a future I want to see.

480 Life since 2008 has been bad enough for businesses, which has had a direct knock-on effect on jobs and wages, such as we are now seeing net immigration. The introduction of a broad-based consumption tax will cripple our economy at a time of ever-increasing costs, red tape and, though emerging, a still fragile growth.

485 Back in 2012 I said it was imperative we got the Personal Tax and Benefits Review right, because if we got it wrong it could have a lasting detrimental effect for the future of Guernsey's economy. Getting it right means rejecting recommendation 38, supporting this amendment and supporting our local businesses and I urge Members to do just that.

Members: Hear, hear.

The Deputy Bailiff: Deputy Hadley, followed by Deputy Brehaut.

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Deputy Hadley: Thank you, sir.

495 Mr Deputy Bailiff, the former Deputy and Treasury Minister, Charles Parkinson, believes that a territorial tax would raise £35 million a year – a figure which is disputed by the T&R Department and by former Treasury Minister, Lyndon Trott. So, while that would be nice, we will have to see what happens.

Many in the finance industry believe that a hike in Income Tax would be very damaging to the economy and it would certainly have to be directed at higher income earners because, at £30,000 a year, a Guernsey taxpayer gets less of their income than they would in the UK and that – taxing higher earners – might scare people away.

500 In any case, Income Tax will not get much money from moderately wealthy, retired people. They will probably have their assets in stocks and shares, and will sell them to generate an income which will be largely tax free. Any cash deposits they have earn little interest, so that is not going to generate tax. So we miss out on taxing that sector of the population.

505 Now, other forms of taxation will probably not raise the sort of sums this Island requires and they will be vigorously opposed. Look at the opposition to a wealth tax, which basically destroyed our Transport Strategy. A luxury tax is being suggested and I certainly have been lobbied against the damaging effect that that will have.

510 Any form of taxation that we come up with, whether it is TRP or anything you can think of, will be vigorously opposed. It may be that VAT is the only tool in the box and 5% might be an issue for people... actually, it is probably not more than normally a year or two's inflation. It is the sort of figure that everybody will rally against, but in reality it probably will not be noticed after a while.

515 The VAT has the advantage of taxing those moderately wealthy people. It will tax the wealthy more than anybody because 5% on your new Bentley is a considerable sum of money. It will tax visitors to Guernsey and indeed some of the tax will, in effect, come from high street retailers, like Next and Burtons and Costa Coffee, who charge exactly the same here as they do in the UK. So I cannot think they will have the nerve to put 5% on top of the UK prices that they charge at the moment.

520 Now, Deputy Conder opposes VAT principally, I think, for three reasons. Firstly, he says that it is difficult to administer for small businesses and he says that it is bureaucratic and burdensome. Well, it is not.

525 I mean I operated VAT in much more difficult circumstances than we would have to here on Guernsey and let me say, it is so simple, a retailer simply has to add up the value of all their sales and multiply that total by 0.477, if the rate is 5%, and that is the figure that they have charged their customers and they, therefore, have to send to the tax office. They then add up the VAT on all the invoices and bills that they have received –

Deputy Kuttelwascher: No. Point of correction, please, sir.

530 **Deputy Hadley:** – and they subtract that from the figure they would be sending –

The Deputy Bailiff: Point of correction, Deputy Kuttelwascher.

535 **Deputy Kuttelwascher:** Sir, it is a little irritating to keep hearing about VAT because that is a specific tax in the European Union, which we are not proposing. So I wonder if he could change it to GST, which is very different.

The Deputy Bailiff: Deputy Hadley to continue.

540 **Deputy Hadley:** Well, in fact, that is not what the Ministers have said, Mr Deputy Bailiff, when they have been proposing this Report. I certainly heard one of them stands up and says that there is virtually no distinction between GST and VAT, but anyway VAT is probably the more complex – if there is a distinction at all – to administer and I am just showing that it is not difficult to do; it is far easier than submitting your Income Tax return or working out how much tax you pay for your employees.

545 Secondly, he says that the tax is regressive. Well, again, accepting the argument that the Deputy Chief Minister has made, providing you look at the whole package, it is not regressive.

550 Finally, he says that it would be too easy for governments to increase it. He told us how Anthony Barber had introduced VAT at 10% and then he listed all of the increases. In fact, the first change to VAT was the reduction to 8% in 1975 by Denis Healey. I am surprised he missed that one.

Deputy Conder: Point of correction, sir.

555 **The Deputy Bailiff:** Point of correction, Deputy Conder.

Deputy Conder: He is quite correct that Chancellor Healey reduced the standard rate to 8%, but he also introduced a luxury rate of 25% at the same time.

560 **The Deputy Bailiff:** Deputy Hadley to continue.

Deputy Hadley: Well, Mr Deputy Bailiff, I do not think that changes the argument because it is the standard rate that most people here would be most concerned about.

565 Now, he told us that it is too easy for Government to get money and they would take advantage of that. Now, Mr Deputy Bailiff, I find that really extraordinary.

On Tuesday, we debated an amendment to remove the cap on Government income of 28% of GDP. Deputy Conder told us that the Government to this Island accepted its responsibilities and was fiscally prudent. We responsibly controlled our expectations and, therefore, we did not need a cap on income.

570 Now, I hope when he sums up he can explain to me why we are fiscally prudent, accept our responsibilities and do not need a cap on income, but if there is VAT or GST, we would become profligate and raise large sums of money to be frittered away.

Now, I have tried to outline the pressure on Health & Social Services Department and, certainly, members of the HSSD Board are particularly diligent in examining the accounts of HSSD
575 and challenging any attempt to spend money. So we will not be asking this Assembly for more money unless it is absolutely necessary.

However, as we have said and the Minister has said, it is our belief that we will have to ask for considerably more money for HSSD, to deliver the care in the community and in the Hospital that our community demands.

580 In fact, an interesting statistic I stumbled across today is that in the UK, per 1,000 population, they have three times the number of hospital doctors that we have on this Island. So, in actual fact, we deliver a very cost-effective service at the moment because we have fewer doctors than would be considered necessary and we have fewer nurses than would be considered necessary.

Now, Deputy Conder wants to introduce early years' education and spoke for about an hour to this Assembly on the urgent need to introduce it. He wants improvements in primary, secondary
585 and tertiary education.

I think the Environment Department has totally underestimated the expenditure that we will have to incur because of climate change and totally underestimated the likely rise in sea levels. We also know that, unless we increase the population of this Island considerably, the economically
590 active sector of the population will shrink, thus reducing ETI receipts.

Now, as a Government, we must spend as little as possible to deliver the services that are our responsibility. We need to grow the economy and look for new opportunities for the Island. But if, at the end of the day, we need to increase our income, we need to do it in a way that damages the economy least.

595 Now, large numbers of Islanders will stand at North Beach shouting 'Enough is enough' and they seem to forget why we want to increase taxation. It is, of course, to provide essential public services like road maintenance, but also, more importantly, to help the less well-off in society who cannot help themselves; to provide a good education for those who cannot afford to pay for it themselves; to help the disabled and the infirm who cannot work; to provide healthcare for those
600 who cannot afford to pay it for themselves.

We have to find a way of increasing the income of the States to provide these services. We have to look at all options and find the best options to increase our income and we cannot afford to discard the important option now before it is clear where the money would be –

605 **Deputy Wilkie:** Point of correction, sir.

The Deputy Bailiff: Point of correction, Deputy Wilkie.

610 **Deputy Wilkie:** Deputy Hadley is misleading this Assembly by saying that these proposals will increase the tax take – increase our income. It will not. These are supposed to be revenue neutral.

The Deputy Bailiff: Deputy Hadley to continue.

615 **Deputy Dorey:** Point of correction, also, sir.

The Deputy Bailiff: Point of correction.

Deputy Dorey: I waited.

620 He talked about the working age population reducing because of the demographic, but actually, if you look at the figure A5.8, which I referred to yesterday and Deputy Fallaize did

yesterday, it quite clearly shows that if we increase the pension age as we proposed there is only a very small reduction in the working age population.

The Deputy Bailiff: Deputy Hadley to continue.

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Deputy Hadley: Thank you, Mr Deputy Bailiff.

Because of the uncertainty from the future and the large sums of money that we may well need to raise and, because of the opposition that we will for every tax-raising measure that we want to increase, we cannot afford at this stage to discard any important option before it is made clear where the money can come from.

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Thank you, Mr Bailiff.

The Deputy Bailiff: Deputy Brehaut.

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Deputy Brehaut: Thank you, sir.

I stand in the knowledge that I have not got the body of a Greek god, although a parishioner did say that they could not wait to get their hands on my body. It was later I found out that I was actually talking to an undertaker. *(Laughter)* Boom, boom!

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I was reading a small piece by Robert Peston, the BBC political correspondent and he was concerned that both the Tory Party and the Labour Party were reassuring the electorate by, effectively, giving undertakings that they could not deliver on. The Tories were saying there would no rise in VAT and Labour were saying there would be no rise in National Insurance.

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They were giving themselves a bit of a headache. They are wrestling with a similar problem to what we are dealing with. Now, their remedy usually is a rise in VAT or its National Insurance contributions.

I feel the area – and Deputy Hadley alluded to it... I think the black cloud that has been following me, as long as I have been in this Assembly – this deficit, this financial hole we are in, or have been in, and the process we are emerging from – is remedied once and for all by a real resolution on Corporation Tax, whether it is territorial or whatever it is.

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Now, I did say to Deputy Green earlier this morning that I had not actually made my mind up about this issue – whether to support GST or not – but why I have eventually decided not to support GST is because in the Guernsey context what we tend to not really acknowledge is the cost of living. Guernsey is a fantastic place to live and work but we ignore, at our cost, the cost of living.

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Now, there are families, people – I am 51 – not a great deal younger than me that have absolutely enormous mortgages that they are trying to service at the moment. Sadly, because of procrastination in this Assembly, some people are opting out of the States-provided education and are going to burden themselves with huge monthly commitments, whether it is a place at the college, whether it is a place at Blanchelande, wherever it is – and it is a reality – rather than send their children to a school that every States' Member will tell you is decrepit.

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And I say that... I have absolute confidence in the ability of staff at that school and, sadly, the lack of investment sits with this Assembly; and, for some Members of the community, they feel that because of issues they may not... It is just a reality that some people will burden themselves with a huge commitment on their child's education, because they do not have the confidence in the States' education system, which is very, very sad indeed.

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That said, there are areas that we can tweak. We are very nervous about TRP and let us be candid about this. There are people who have mobile homes across France – Guernsey residents – who pay more for the ground rent of a mobile home – £1,800 or £2,000 a year, whatever it is – and come back to their principal residence on Guernsey and pay £150 or £160 in TRP. That simply cannot go on forever. I have recently bought a house. We are renovating it. We are trying to live there at the same time, which is not easy, and the current TRP is £120, which is ridiculous. It is

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ridiculous! And I do not believe, like other people, that 'tax' is a four-letter word. 'Tax' is not a four-letter word. (*Interjection*)

675 Can I be allowed to do the fringe theatre in here, sir? Well, myself and Deputy Perrot, obviously! (*Laughter*)

But tax is not a four-letter word and what the community understand is – as Deputy Le Clerc catches my eye... The electorate and the community are educated enough to know that if you want a maternity benefit you just might have to look at what you pay in insurance broadly. People are ready for that conversation. People want that conversation.

680 But a GST at this time, before we have really, truly resolved this issue of Corporation Tax, is just not the way to proceed. (**A Member:** Hear, hear).

I would just close by saying that, although I was teasing over the crib sheet yesterday, I truly appreciate the real effort, the real commitment, by both Boards, by both Departments, by both Ministers and the staff in trying to resolve this issue, (**Two Members:** Hear, hear.) and I give them 685 full credit for that, but I think to be at this place in time on Guernsey, contemplating introducing GST, and of course with it being revenue neutral, is just not the correct remedy or resolution at the moment.

Thank you.

690 **Deputy Queripel:** Sir, could I invoke Rule 14(1), please?

The Deputy Bailiff: Yes, Deputy Lester Queripel.

The Deputy Bailiff: Rule 14(1) is available, as Members know, for a Member who has not 695 spoken in debate – that includes Deputy Lester Queripel – and it is a motion to close the debate (**A Member:** Hear, hear). It needs to be supported by two-thirds or more of the Members voting. I will put it *aux voix* to start with.

Those in favour of closing debate, subject to the ordinary wind up on this amendment; those against.

Some Members voted Pour, others voted Contre.

700 **The Deputy Bailiff:** We will have to have an *appel nominal* now.

There was a recorded vote.

The Deputy Bailiff: Well, I am satisfied, before waiting for the formal declaration of that, that 145 was not carried by two-thirds. Therefore, debate will continue.

Chief Minister.

705 **The Chief Minister (Deputy Le Tocq):** Thank you, sir.

Well, I have always thought that there is a strong connection between politics and comedy, between politicians and comedians, and I remember, sir, Eric Morecombe being interviewed once by Michael Parkinson. Michael Parkinson asked him what the secret of comedy was and he did not 710 reply to begin with, but then slowly lent over and said, '*Timing!*' – just like that! (*Laughter*)

So I find myself on my feet, grateful, because I think this debate is about timing and I want to share with Members a little journey that I have been on here.

Like Professor Doctor Deputy Conder, I also started off my life in VAT – VAT fraud. Like him, I did not work for very long in that Department. I was quite surprised to be appointed to that. It 715 was in the late-1980's, as opposed to the late-1970's, so we did actually have the beginnings of computers. It was, interestingly, the first time I came across a modem and at that time we could check on any registered company's details, their balance sheets, their turnover, at the click of a switch on a computer screen. It was the early days of what we know now as the internet.

720 Like him, I grew to have a real dislike for VAT. Even though, when I first introduced to it, I thought it was probably quite a good thing, in that everybody paid. It was fair in the sense that everyone who bought something was paying, effectively, the same amount for it.

725 I was grateful for VAT and my time there, for two reasons, really. Firstly, I was taught accounting through that and, secondly, it showed me a side of human nature that I had never seen before and that was because the ability and the opportunity for people to be fraudulent was huge. Unbelievable! It was very complex. Hardly a week went passed without some new VAT notice being issued. And Deputy Conder can probably remember those blue books – we had to file them in and it became more and more cumbersome, very expensive. I think at the beginning, when it was introduced, it would say, 'It would be a self-policing tax.' Well, it was anything but a self-policing tax and I was proof of that in the section I worked in.

730 There were all sorts of complexities with that sort of tax. For example, the digestive biscuit, because it was a basic food, did not have tax on it but when it had chocolate on top, it did. And exemptions such as education... was exempt, but then buying a computer to help you with your work was not. And things were zero-rated for export and then you had to define... And manufacturing, obviously, was involved in that. And so it put me off. When I first heard of GST, I thought, 'We do not want this. We are too small to cope with the administration, let alone the opportunities it gives' and I could see the effect it had on small business – and, obviously, most businesses in Guernsey are small businesses, compared to elsewhere.

740 Also I was concerned, and still am concerned, that people are caught up in the net of paying a consumption tax, irrespective of where they are in the spectrum; and, of course, whilst this Report, admittedly, does not go into detail of how we might be able to help those who would be inadvertently caught up, my concern is that not everybody who is vulnerable is on benefits or would be on benefits. In fact, there are a number of people – and we have been in this position ourselves... I am talking really about carers who give their time to care for others in the community who may well be on benefits, who are not caught up by being helped by having increased benefits, but would be effected if we were to introduce consumption taxes.

745 I am also disappointed at the porosity of the percentage change in dependency, which has been mentioned already, on direct taxation, based on the income as a result of introducing consumption taxes. It would seem to me, if the balance needs to change, it needs to change by a far greater ratio than that which this would produce.

750 But I want to be clear, VAT is a very different sort of tax, it seems to me now, than the GST that is being proposed here and I will tell you why. First of all, VAT obviously is a Value Added Tax and so it effects manufacturing and it effects wholesalers and all sorts of things, so it is complex in terms of its activity in claiming back VAT and there were far more opportunities. A sales tax on goods and services is a far simpler tax to administer and so I do not think we should confuse both of them just like that.

755 Secondly – and I will come onto this in a moment, but I will mention it now - the Jersey experience has been a surprise to me. I have been surprised at how they have been able to introduce it in such a cost-effective way and by the amounts that they have raised and I think, bearing in mind our similarities with our sister island, that is certainly arresting and it has made me think again.

760 To support this amendment, sir, I think I have to countenance, and others would have to countenance, a number of alternative scenarios; and I must say when I met with the Treasury Minister to discuss my views on the consultation process of the Personal Tax, Benefits and Pensions Review, at the time I was thinking – as I think Deputy Trott and others have mentioned – that we could probably resolve most of our issues of dependency by increases in TRP.

765 But I think I have to say that that causes, also, huge problems and we would not be able to raise the sorts of monies that we would need to balance the income that we need in the future, bearing in mind the demographics, just be doing that. So, again, I was cautioned in my approach because it was clear from the figures that that would not be enough in total.

770 But there are a number of things that we would have to countenance and maybe these form some of the ways... I do not want to anticipate what Deputy Conder will say in terms of what alternatives he might be able to suggest, in line with the sorts of research that he wants to happen, but I am sure, just as we can envisage what a GST would look like, we can envisage what the alternatives might be and some have been mentioned already.

775 To support this amendment, I think I would have to countenance, first of all, a reduction in Government services – a cut in our current spending in the future – and the problem with that that I have is – and Deputy De Lisle mentioned that in his speeches – that I have heard Deputy De Lisle talk for more spending and the way that we run our system of Government is that, taking a snap shot at any point, we can choose whichever view we want, depending on the debate; and it may well be at the moment that we would say, ‘We need to reduce spending and be more efficient,’ and I would agree in part with that, but the problem is we are not very good, we are not very disciplined, at doing that when it really does count.

780 And there are going to be times in the future, no doubt, where there will be downturns in our economy – and I think this is what Deputy Adam was probably getting at – that, whilst we do not want to spend more, the advantage of having a diversified tax base and income base, is that when the downturn occurs and maybe there are pressures on unemployment, the point would be that we could still continue to spend on the services that are urgent to us if our income base is more diversified, in terms of taxation than it is at the moment. I think that is a good point to make.

790 The second area I think we need to countenance, if we go down this route of taking a consumption tax off the table at this point, is that we will have to deal with potential increases in personal taxation or taxation on wealth – either on income or on wealth – and that would be difficult for some to countenance because we are living in a global environment where, in fact, personal, direct taxation generally is coming down and so, to remain competitive, there is not a lot of margin for movement there; and some have already made those comments.

795 The third area where I think we would have to look at – I have mentioned it already; it may have to be part of a proposal if this amendment is carried – is significant increases in tax and real property, and that will cause problems for those who are asset rich and income poor and so it is not a solution by itself. We would have to come up with all sorts of ways or emolliating that particular problem.

800 A fourth issue that we would have to countenance is an increase in population – working population, particularly – and I believe we need to do that in any case, because whilst the trends may be that there is only a slight decrease with an increase in the age of the pensionable age, the fact is the general trend is for a decrease and we are just not producing the numbers that we used to in the past and particularly of working age; and I think that pressure will continue to be there if the rest of the world is anything to go by.

805 We love living in this Island, but we like the lifestyle of the rest of the world around us. We so often say, we do not want to compare ourselves with other places, we prefer life here, but we want it with all the stuff that they have and the way that the rest of the world works, and that is going to continue over the next two years. I believe we will have to consider these things anyway, but all I am saying is some of those are pretty unpalatable to those who are in favour of this amendment.

810 Now, the Jersey experience is significant and has made me stop and think, because, in terms of its cost to administer, it certainly has not been what I would have imagined it to be and it has not caused the sorts of difficulties. Now, maybe that is because they are an island and they are certainly even dealing with the issues that Deputy Dorey raised in terms of internet sales; they are focussing on things like that. And I have looked through the pages, as Deputy Soulsby mentioned, and to me it is nowhere near as complicated as I imagined them to be, compared to VAT in the UK. Now, maybe that will change but I had to recognise that it is not as problematic as I thought it would be.

820 There seems to be a lack of fraud and opportunity for fraud so far. And the effect on their economy: whilst it is debatable – and again I know that Deputy Fallaize alluded to this – as to

whether it was GST or the general downturn that caused their unemployment to rise, it has clearly not had some of the effects on their economy that I would have imagined it to have.

I say that because I am sure most of us have shopped in both islands and it is significant the number of prices that are exactly the same in both islands, which makes me, of course – and it is a slightly different thing but – it makes me question whether I am inadvertently paying more than I should be in Guernsey and that we are not benefitting as an Island jurisdiction from that.

Then what has also surprised me positively of the Jersey experience is the significant funds that they have brought in from businesses which are currently exempt under theirs, and would be under our Zero-10 regime. There are a lot of people who are, perhaps rightfully, upset at the fact that Corporation Tax has not been part of this and that we should not be reviewing that, but what Jersey have managed to do, through their GST, is to exempt financial services and to bring in quite a significant amount of money from the fees and charges that have been applicable for that exemption and I am impressed at that.

So what am I saying? I am saying that it has made me think again and, as a result, I could envisage a scenario where a consumption tax, such as a GST, may be the lesser of two evils – and that is exactly what Deputy Fallaize said, I think, when he spoke.

If we were voting on bringing it in today, my vote would be Contre – no doubt about that, absolutely! But, in the opposite way to Deputy Trott – and I was on Treasury when he was a Treasury Minister and we brought in the enabling legislation... I think that was a good thing to do because I think we may need to be swift of foot in the future in order to bring in such measures, if it is necessary.

I do not want us to cut off our nose to spite our face. At the moment, I am willing to keep it on the table because it may be the lesser of two evils. It is not enough at the moment to persuade me that GST is the *panacea* for future demographic trends, but I believe we should still consider it. We should not rule out anything at this stage, because we do not know what the future holds.

So I cannot support this amendment, even though I associate with all the empathy and the motivation that has come behind it and I probably agree with most of the proposer's views, bearing in mind my own background; but I have to say that the journey I have been on, and particularly considering the Jersey experience, has made me reconsider and so I will not be supporting this amendment.

Thank you.

A Member: Hear, hear.

Rule 14(1) – Deputy Lester Queripel:

Not carried – Pour 21, Contre 25, Ne vote ne pas 0, Absent 1

POUR	CONTRE	NE VOTE PAS	ABSENT
Deputy St Pier	Deputy Ogier	None	Deputy Storey
Deputy Stewart	Deputy Fallaize		
Deputy Gillson	Deputy Laurie Queripel		
Deputy Le Pelley	Deputy Lowe		
Deputy Trott	Deputy Le Lièvre		
Deputy David Jones	Deputy Duquemin		
Deputy Spruce	Deputy Green		
Deputy Collins	Deputy Dorey		
Deputy Paint	Deputy Le Tocq		
Deputy Adam	Deputy James		
Deputy Perrot	Deputy Brouard		
Deputy Sillars	Deputy Wilkie		
Deputy Luxon	Deputy De Lisle		
Deputy Quin	Deputy Burford		
Alderney Rep. Jean	Deputy Inglis		
Deputy Harwood	Deputy Soulsby		
Deputy Robert Jones	Deputy O'Hara		
Deputy Le Clerc	Deputy Hadley		

Deputy Gollop	Alderney Rep. McKinley
Deputy Bebb	Deputy Kuttelwascher
Deputy Lester Queripel	Deputy Brehaut
	Deputy Domaille
	Deputy Langlois
	Deputy Sherbourne
	Deputy Conder

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The Deputy Bailiff: Members of the States, for those that are interested in numbers, on the Rule 14(1) motion of Deputy Lester Queripel, there voted in favour, 21; against, 25. It required 31 votes and therefore was lost.

Deputy Robert Jones.

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Deputy Robert Jones: Thank you, sir.

I, too, was undecided last night and the quality of the debate the morning is helping me move towards my decision. I do thank the Chief Minister for his latest speech and also Deputy Soulsby.

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I am pretty much in a position where I would like to leave it on the table, but I am fully aware of one of the disadvantages, which Deputy Soulsby brought up – this uncertainty. We have an uncertainty with the public and also the uncertainty of leaving it on the table with businesses.

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So I am not quite there with my decision. I do not think it would necessarily be the end of the world if we were to keep it on the table for another couple of years but, as it stands, I do appreciate some of the arguments that have been raised, that do give us an indication to some of the disadvantages of bringing such a tax and I am fully aware of that, but I do have concern about the uncertainty that we may give the public and members of the business... and it was interesting that Deputy Soulsby did bring up the point about the Commerce & Employment Department, but we should bear in mind that the other four Members, I think, did speak against GST and I suspect that the only voice from Commerce & Employment that was in support of GST was the Minister –

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Deputy Stewart: Sir, just a point of correction. I did not speak in favour of the GST.

The Deputy Bailiff: Point of correction, Deputy Stewart.

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Deputy Stewart: Thank you, sir.

I did not speak in favour of GST. I said that I was undecided as yet.

The Deputy Bailiff: Deputy Jones to continue... Deputy Inglis, to be followed by Deputy Gollop.

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Deputy Inglis: Thank you, Mr Deputy Bailiff.

I do not want to labour on a lot of things that have been said, but I would like Members to focus on one or two items that I have taken on board. But, if we look at the amendment, Deputy Conder says:

‘To agree that the States shall not introduce a broad-based consumption tax as described in that Report.’

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I think the Department who presented the Report never actually said this is the way it should be. We clearly want, seeking the favour of the Assembly, to take this to the next stage of consideration, which will be fully debated yet again.

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So I would certainly have difficulty with some of the presumptions that are written down here and it is interesting that it came out in debate, as a Member of the Joint Boards, there is an inclination that we could raise £50 million. But Deputy Fallaize is quite right in saying that we could be looking for £30 million to seek the spread of, what I would loosely call, the pain – because this is a pain.

Deputy Perrot did stress last night that nobody likes paying tax. We have to accept that it is the only way that we are going to ensure that services are provided in the manner that the taxpayer wants them. So the difference between £50 million and £30 million might clearly be the difference in the rate or the application of a tax that could be considered by the further investigation.

I certainly cannot support a GST that puts tax on clothing, on children's clothing, on food. The whole thing needs developing and understanding. So, from that point of view, Deputy Conder, I would like you, in your summing up, to clearly prove to me that, whilst you say, 'as described in the Report', are you saying that you would favour a revised something that was more equitable for our community?

I will give way to Deputy Brouard.

Deputy Brouard: Thank you, Deputy Inglis.

If it helps, on page 291, paragraph 447, 'this includes the introduction of a broad-based consumption tax'. I think food would be in a broad based consumption tax. That is from the proposal.

Deputy Inglis: I think we have had lots of history lessons during this debate and Deputy Conder has clearly outlined the VAT scenario which came in 1974. I think it is worth going back slightly further and Maurice Lauré, in 1954, devised this wonderful VAT and it was devised to rebuild Europe, because they needed to generate taxes to support the economy.

I think we have come a long way from then and we, certainly, are not looking to generate or create additional revenue, which is what I feel a lot of the Assembly seems to feel is what we are out to achieve. We clearly want to spread the reliance on the Income Tax revenue stream for future generations and I do have concerns that people seem to think this is just going to happen.

We have asked to come back in 2017 and the question has been, 'What have we been doing for the last two years?' Well, I think you would all agree this is a very, very complex strategy that needs linking with other elements within our community and taking on board the impact of what that will do. So the timeframe, I feel, is not unrealistic. It is sensible. It is preparing for good evidence to be provided, which is clear what everyone is seeking to achieve.

A couple of points that Deputy Conder made about jurisdictions that still do not have a GST. He talked about Bermuda. Well, Bermuda has one tax. It has 5% tax on employers for employing people. After that, they do not have Income Tax. It is unbelievable what they pay to live and so taking that as an assumption as the right way to deal with revenue streams, I feel, is a bit disingenuous to what a simple tax system could bring on for Guernsey and spread the load in terms of where our revenue sources are coming from.

I question this belief about Guernsey being a VAT area that draws tourism in. I, like Deputy Perrot again mentioned last night... lots of us go to European countries. A GST, a VAT, whatever we want to call it, is applied. I had a week in Madeira three weeks ago – very pleasant. They charged me 22% on a bar of chocolate. Now, do they class that as a luxury item or do they class that as just general living? But that is their choice. The unique thing is that we clearly are not looking to charge 22% on a bar of chocolate.

There is a feeling that some people would like to see a luxury tax element. Would that be incorporated in the GST? I am unsure as to whether the rate for a luxury item, through the GST, would apply and that is what we need to find out. We need people to come back and advise what is the best way that we should approach this.

I would probably like to conclude by saying that... and these words have been used today or at least certainly two of them.

Tenacity – we have got to have strength in what we are doing. It clearly is something that is focussing on the future for Guernsey, as Deputy Duquemin clearly emphasised yesterday. We are not making this judgement for what is happening at the moment. We are making this judgement

950 for the next generations coming along and we want to ensure that the services that we can provide at the moment can be maintained.

Timing – Deputy Le Tocq has just brought that up. It is waiting for the right time. I do get the feeling that everyone thinks this is just round the corner and going to happen like that. It clearly will not be the way.

955 And the one word that Deputy Jones has used and Deputy Fallaize has used – ‘trust’. There seems to be a lack of trust in that you are putting trust and reliance in others to come back and give an honest and evidence-based approach to what we are trying to do. Whilst Deputy Brehaut was very right in saying that TRP is ridiculously low here, I do not want to see that being impacted on the housing – which is our biggest problem, in terms of cost, for many young Islanders here.

960 So, Members, I will not be supporting the amendment. I want more evidence to make the decision that GST is right for Guernsey and is right for our future.

965 Could I just conclude... Deputy Brehaut did relent on his going on at the crib sheet. I was very disappointed that an educationalist picked it up again today, but a lot of your will recall, when you were sitting in the classroom – and I have written it down to make sure I do not forget because, unfortunately, creeping of age sometimes does allow you to forget but – failing to prepare is preparing to fail and this is what we have done. We have – *(Interjection and laughter)*

Deputy Sherbourne: Point of correction, sir.

970 **The Deputy Bailiff:** Point of correction, Deputy Sherbourne.

Deputy Sherbourne: I think, from my speech, I was talking about the impact of one of those notes in the crib, not the criticism of the crib. I believe in planning for these occasions, as explained yesterday by the Deputy Chief Minister on a specific point.

975 **The Deputy Bailiff:** Deputy Inglis.

980 **Deputy Inglis:** If that was the case then I apologise to Deputy Sherborne, but there clearly has been an approach that thinks just because we came here with evidence that we want to remind ourselves. This is a huge document and we wanted to make sure that we have the answers that could relay the fears that a lot of you have.

Members, please, I would encourage you not to support the amendment and thank you very much.

985 **The Deputy Bailiff:** Deputy Gollop.

Deputy Gollop: Sir, I voted for myself not to speak earlier, so I think I was rather intrigued by Deputy Le Tocq’s comparison with comedy, because I have done a little bit of both.

It was said yesterday that you cannot chose the food you eat. Well, you can actually. I could have chosen not to have bought these sweets or paid the tax on them.

990 Deputy Inglis referred just now to Bermuda. I think that is an interesting place. In fact, I am wondering if the PTBR Joint Committees, could send me there on a fact finding mission to explore the island and its transport levels –

995 **The Deputy Bailiff:** Are we bringing you back as well, Deputy Gollop? *(Laughter)*

1000 **Deputy Gollop:** But my point about Bermuda is not just that it has an employment tax that has been identified, but it has indeed a variety of other unacceptable taxes, I suspect. \$25 – £15 – entrance tax; importation – not sales taxes, but customs taxes on electrical goods, which can be as high as 32%; an inheritance stamp duty tax, which excludes personal property, that can be 7% or 8%. I could go on. There are taxation forms there that, for good reasons, we reject here or would

be self-defeating. There is even a hotel tax of 7.5%. So they may not have an income tax as we understand it, or sales tax, but they do have other strings of income.

1005 And it is interesting too, I actually agree with what Deputy Perrot said about milk, because a long time ago – it was just after the Millennium – we actually deliberately reduced the price of milk for both ecological and consumer reasons and, for political reasons, we have allowed to price the rise. And, by definition, a rise in milk price is harsher on lower-income people than higher-income people and that has come partly out of a political decision.

1010 I certainly align myself with a lot of what Deputy Adam has said, particularly, because I am a bit of a GST boy. I appreciate one or two of our colleagues did not return at the last election, precisely because they took an ambivalent view on GST or the principle of consumption tax, because it is not politically popular. But then again I think if you went out to the public and asked them what they want, they would invariably say they want people who can afford it to pay more taxation, as long as it is not themselves. They would say they want better public services, especially health, and they would want the cost of the States reduced. Well, we are not going to
1015 get anywhere with opinion surveys of that nature. We have to make choices and we have to benchmark our competition.

Actually, we are not voting for GST or VAT. As Deputy Inglis reminded us, we are just voting to go to the next stage of the process and the process is for a broad consumption tax. I think, on balance, I would be in favour of exemptions for certain things and I also would consider a
1020 reduction or an exemption for the Island of Alderney, because I appreciate that their income levels, their economy and their freight costs are substantially greater than ours.

And so I think we have to put that argument to one side. I do accept there has been a degree of differing arguments about the crucial point Deputy Fallaize raised, about the cap on Government spending. I voted the way I did on that because it allows a flexibility within an
1025 envelope. We are currently at 26.5%; we were at 29%.

We – I would not even say 'aspire', because we do not aspire to spend money; we aspire to be efficient and safe money, but we aspire to have a level whereby we can respectively spend on the services and goods that we need as a Government.

1030 Now, I suspect that figure of 28% will prove to be too low over time, but the whole point of bringing that in – which has been approved by the States now, really – is to give a certain security that we will not follow the wild arguments that Deputy Trott has made, that we will just raise and raise and raise without any degree or restraint. That raising may go on over time; that time may be 30 years in the future.

1035 We heard one or two speeches yesterday which suggested we were bringing this in to balance the Budget at the moment. We are not. This is for the long-term demographic issues that have been raised and I think the point needs to be made.

I do respect what Deputy, Professor, Richard, Doctor Conder said, yesterday. (*Laughter*) He spoke... It was a masterclass of a lecture and he brought out historical points about VAT that had been continued with a reference to Lord Healey today. I just want to repeat them. We have had
1040 too much repetition in this debate, but I will repeat them because there is a point to it.

He mentioned the Chancellors, Mr Barber, Lord Lamont, Sir Geoffrey Howe, now Lord Howe, and, the current incumbent, George Osborne, who all raised VAT. What do those poor gentlemen have in common, apart from being Chancellors? They are Conservatives. Each Conservative government since 1970 has had a policy of raising VAT. That is the Heath government, the
1045 Thatcher government, the Major government and now the Cameron government.

Labour stuck to the rates, generally speaking, although there was a temporary rise, I think, but did not, in real terms, reduce them – not after the Healey-era, that we heard of. They kept them going. Why do Conservatives support VAT and Labour parties not? Well, we know the regressive argument, but there is another reason as well because, within the context of a vibrant, free-
1050 enterprise, neo-liberal, free-market economy, VAT or GST or broad-based consumption taxes work. And they work better than taxing employment, taxing raw materials and taxing investment and taxing capital and taxing average incomes.

1055 Labour parties are more inclined to go for extra taxes on the corporate sector or extra taxes on
high earners. Part of me would support that. Wouldn't it be great if we taxed higher earners more
in Guernsey? But we would lose them. We are not a typical Scandinavian economy. We are an off-
shore economy that relies on enterprise and imported wealth to survive. Therefore, unfortunately,
to maintain the level of public services that a modern, civilised society needs – and we have
diseconomies of scale, albeit we do not have defence – we need an extra source of revenue and
1060 we need one that is as fair as it can be, but inevitably will hit middle Guernsey as much as it will
upper Guernsey.

We can protect lower Guernsey, if you like, lower income people, by better targeting of SWBIC
and welfare. We can also improve and enhance our public services. But if we fail to make this, we
are going down the route of an underfunded public sector, with the only alternative being
swingeing increases in rates or, as Deputy Brouard said – he had the courage to mention it; he
1065 was not afraid to say – some of you may have to face a 25% Income Tax rise in the future.

So after half a century of staying on one-fifth, when many other countries have reduced, we
would go upwards. Would that help Deputy Stewart? Would that help Deputy Le Tocq? Would
that help our future and our economy? No, it would not. We would be closing the door to new
wealth in many, many respects.

1070 The GST is an inevitability unless we seriously cut services and we have gaps already in what
we provide. We know that Deputy Hadley is right really in suggesting these extra facilities. We
know that we have to meet a new standard of regulation in many areas. We know we have to
introduce CEDAW and all these other things and we can only do that through GST.

1075 **Deputy Dorey:** Thank you for giving way.

Could Deputy Gollop explain to the House whether he actually supports what is in the Billet, (**A
Member:** Hear, hear.) because what he is saying is that he does not support the mitigation
measures, which is, to me, the part of it which makes it acceptable or tries to make it acceptable?

1080 So if he is saying that we are putting on GST to raise extra money, that is not what has been
proposed. So he, therefore, does not support this in the Billet. (**Several Members:** Hear, hear.)

Deputy Gollop: It is more complicated than that! (*Laughter*) For a start, the figure that we have
agreed on – the 28% – could include an additional expenditure of £25 million or £30 million. We
know already that we have heard from our statements, that we will have to find some additional
1085 money for Health and Social Services, probably on an ongoing basis. We know that we are likely
to see an increase in our expenditure, but we have already been to 28%-29%.

I am in favour of mitigating measures and my philosophy would actually be more radical than
any of this. It would be to look at a much higher rate of indirect taxation and to reduce,
significantly, Income Tax and to reorganise the tax and benefits package, so that we had a system
1090 that did not particularly penalise investment, but also gave more incentives to middle earners to
work for the future.

Our system is not generous in terms of tax breaks and I think it lacks vision. I went to a
business presentation last night and another one this morning and they both said, in different
ways, 'We need more vision. We have to understand that the future will be different from the
1095 past.'

I am surprised really that more people on the centre left of politics do not realise that we have
wasted too many years on being obsessed with saving and saving and saving money and we need
to actually have the pot of money to take advantage of opportunities.

And I will leave you –

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Deputy Fallaize: Sir, I am grateful to Deputy Gollop giving way, but this has now reached a
stage where the sponsors of the Report are speaking completely at odds with each other.

Paragraph 1.1.2 says, 'This Report does not seek to raise further income through taxation.' We now have three speakers of the Joint Committee this morning arguing in favour of the measures in this Report in order that more can be invested in essential public services.

Now, they have got to clarify, which is it? (**A Member:** Hear, hear.) Because that will make a difference to way I vote on the amendment and on Proposition 38. Are they proposing – and I want Deputy Gollop to address this – imposing GST, in order to invest more in public services or are they presenting a revenue neutral package? There needs to be absolute clarity on this point. (**Several Members:** Hear, hear.)

Deputy Gollop: My personal view (*Laughter*) is that there will be a rise in public expenditure, but actually, just to maintain where we are, with the definite reduction in our working population over time, our ageing society, we will need greater certainty and diversity of income. And that is why you have this point.

Deputy Jones, yesterday in his opposition to GST – Deputy David Jones – talked about, 'We will have to look at other ways of raising money'. And yet I was castigated for thinking of motor taxes as a way of raising money. The States rejected the vehicle width tax. We rejected targeted paid parking tax, amongst other things. We rejected increasing social security.

We have to find new ways. If you do not want those kinds of motor taxes to return, GST is a different way of setting off revenue, of balancing the books. That is why we need to consider and to not set aside a consumption tax, because if we do we will only find that we will be putting more and more pressure on Income Tax and the failure to keep up with personal allowances, even compared to the United Kingdom who have now gone to £11,000.

I will make one other point. What is the difference between us and Jersey and the Isle of Man? (*Interjections*) Yes. We are a more efficient public sector state – maybe we have a more intelligent Assembly. (*Laughter*) I do not know. But we do not have a GST or a VAT.

Do you know the problem with that? It means we either spend less on essential public services and fall behind or we maintain our parity by using other forms of taxation and charges. We get the money from somewhere else and that leads to losers. We actually are behind the game in spending on financial promotion, for example. We have been behind the game in looking for economic alternatives. We have been behind the game of building new schools. The reason we fall behind is because we do not have the diversity of income.

The Deputy Bailiff: Deputy Kuttelwascher.

Deputy Kuttelwascher: Thank you, sir.

I am going to speak against this amendment purely for technical reasons. Proposition 38 says:

'To agree that the States shall not introduce a broad-based consumption tax as described in that Report.'

Well, that is not what was ever proposed and certainly, for this States to introduce it, has not been proposed. So I am not quite sure what the point of that is, because whatever decision might be made, will be made by the next States.

Proposition 26 of the amendment, half way through, it says, 'To agree in principle' and that is exactly the start of the Proposition 26 in the original Propositions; and there is a difference in wording or whatever, but I am not sure that there is much difference in meaning at the end of the day. And what I find with this is that the agreement is that it would be advantageous to diversify sources of income – we all know that it would be advantageous - but there is absolutely no suggestion of how to do it.

And the third big problem is this amendment would have some power, some effect, if it had decided to add another Proposition to rescind the existing enabling legislation which remains in place.

And I think it was Deputy Trott and his Board who sanctioned the drafting of this legislation, obviously in anticipation of some problems in the future, I suspect, but I am not sure why.

1155 The other point I want to make is there is no such thing as a General Sales Tax. It is one of these strange names which actually does not deliver what is implicit in the name. VAT is the least general of sales taxes because it has so many exemptions. It has weird rates, like 'zero-rate' and 'exempt'. GST, as it is in Jersey, has less exemptions, but they still have exemptions. So all I am saying is the word 'general' is rather inappropriate. 'Selective Consumption Tax' would be more appropriate.

1160 Now, when I refer to the actual legislation we have in place, we have at least four consumption taxes in place now which would fall within the definitions of our legislation, although they were never introduced under that legislation.

1165 I will give you three obvious ones. Fuel duty – that is a sales tax. We could have called that, under this 2000 Law, 'Fuel Consumption Tax', 'Fuel Sales Tax'. We have got other ones. We have got alcohol taxes and we have got tobacco taxes, and the most interesting one, which nobody ever thinks of as a consumption tax, is Stamp Duty. My goodness, that is a sales tax or a purchase tax paid by the buyer of a property when he buys something. So Stamp Duty could come under this legislation.

1170 If this amendment is passed, it does not take the issue of developing some sort of sales tax or another – whether you want to call it broad-based, general, selective or whatever – it does not preclude that. It takes away only what is in the Report, in that, to bring forward a tax based on this... there is nothing to stop anybody bringing back some alternative and, in fact, one of the options, if you think about it, could be...

1175 Well, let us forget about this toxic name 'GST'. To me, it sounds like – and to some people – the Black Death or Ebola or something (*Laughter*) and during our deliberations, I said, 'Why don't we change it? Can't we change it?' And what was coming back to me was, 'The legislation calls it a General Sales Tax, so it is difficult.' But, even when you look at the legislation, the General Sales Tax is in brackets and I think you could define that or call it something else on the day, but I would love to have something like 'Selective Sales Tax' or 'Selective Consumption Tax'.

1180 And what could be done and, in fact, it has already been intimated in two of the amendments, to introduce further restricted sales taxes. One of them is this interesting one of a 'Luxury and Unnecessary Goods Tax'. Now, that could be introduced under the legislation we already have.

1185 Now, what is interesting, when you say a 'luxury tax' or an 'unnecessary sales' – or 'inessential', I think, is the word that was used – how on earth do you define these. I know Deputy Green was asked this on the radio and he said it would need a very definite –

Deputy Dorey: Point of order.

The Deputy Bailiff: Point of order, Deputy Dorey. What Rule has been broken?

1190 **Deputy Dorey:** We seem to be discussing an amendment which has not been laid yet.

The Deputy Bailiff: It has happened in other speeches. It is desirable to focus on what we are talking about, but I regard this as broadly relevant to the current debate to say why Deputy Kuttelwascher is against this amendment... but he did say he was speaking technically.

1195 **Deputy Kuttelwascher:** Yes. What I was trying to point out was that it is possible to introduce selective sales taxes – and there are two attempts going to be made later on to do just that – and the other one is the environmental tax, which I would presume would be basically on home heating fuel and other things. That is another way of introducing sales taxes as and when you need them and they would diversify our tax base.

1200 Now, when we all had our deliberations – and when there are 10 of you, you do not always all agree – I did suggest that this might be a way forward, but it did not have majority support. Fine. It may yet happen that this may be a way forward, but at the moment it could only be done on an annual budgetary basis. T&R, at the next Budget, could say, 'We are going to introduce a Luxury

1205 Tax and define it as a source of income,' and you may, in fact, with the current legislation on General Sales Tax, say, 'We are going to redefine what sales taxes we have already got, under this legislation.' Say, 'These are four taxes' – there are most probably a few more – 'and we will add to them as and when we need them.'

1210 Now, that does not seem such a bad idea because there are so many unknowns in the next 20 years, five years, 10 years – the main ones being economic growth, population, whatever – we may suddenly find ourselves being a booming economy and we just stop where we are and enjoy life. *(Interjection and laughter)*

1215 So I suggest you reject this amendment. If you do not want to even talk about GST, just vote against the Propositions. What is the point of the amendment? I really do not see what the point of it is. If you do not want the Propositions that are in there, just vote against it. So, to me, I almost see this as completely pointless. So I will not be supporting it.

Thank you.

The Deputy Bailiff: Deputy Le Pelley.

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Deputy Le Pelley: Could I invoke 14(1) again, sir?

1225 **The Deputy Bailiff:** Very well. Deputy Le Pelley, who has not spoken in debate yet, is invoking Rule 14(1). I put the motion to you that we should close further debate on this, other than the winding up. Those in favour; those against.

Some Members voted Pour, others voted Contre.

The Deputy Bailiff: I am going to have to go to an appel nominal, because it is a two-thirds majority that is required.

Deputy Greffier.

There was a recorded vote.

1230 **The Deputy Bailiff:** Well, Members, once again, that has not secured the two-thirds majority. The exact numbers will be forthcoming in due course.

You now want to speak, Deputy Le Pelley?

Deputy Le Pelley: If I may, sir – *(Laughter)*

1235 **A Member:** Quite right too. Quite right too.

Deputy Le Pelley: – in the light of that vote, I would just like to say that I am fully in support of the amendment and I hope people vote in favour of it.

1240 **The Deputy Bailiff:** Deputy Wilkie.

Deputy Wilkie: Thank you, sir.

1245 I have to say, sir, that I am disappointed with this Report on a number of levels and, to start with, I am going to differ with my good friend and self-proclaimed Adonis, Deputy Perrot, with his self-congratulation on the consultation process.

1250 The Treasury & Resources Department and the Social Security Department did consult with Members of this Assembly sometime before Christmas. That, I agree. However, they were told by Members that a GST or consumption tax would not be desirable. A clear message was sent to these Departments that to go down that road would be a waste of time and in reflection, sir, I agree with Deputy Fallaize that GST should have been floated in a review of pensions, tax and

benefits. However, here we are with a Report which does not just float the idea of GST, but it is the central plank around which the majority of the Report is built.

1255 Consulting with Members of this Assembly and the public should not be a box ticking exercise. What is the point of any type of consultation process which does not end in some sort of compromise? To ask for the views of Members and of the public and to blatantly disregard them in such a manner is always going to cause a problem when you bring a report to this Assembly.

I would be interested to see the consultation replies that T&R and Social Security Department received during the consultation process. I have not received one representation from any commercial body that is in favour of a GST or consumption tax.

1260 I have to confess when I first saw this Report I was shocked at what the implications could be for the poorest members of our society and that view has not been changed during this debate. The ramifications for pensioners, for disabled people, for the sick are indefensible. This has to be the most regressive piece of work we have seen for a generation and, as someone who has spent a vast amount of time over the last three years trying to improve social policy in Guernsey, I feel this Billet is a huge step backwards for our Island.

1265 I am going to give you some examples. If you are a couple without children, who have paid off their mortgage and earn over £40,000 year, evenly between you, under these proposals you will earn a huge tax break. Under these proposals we will be sending you on the equivalent of a free cruise for no particular reason.

1270 However, if you are a parent who has a mortgage and children to pay for and if you have one parent who earns significantly more than the other parent, under these proposals you will be worse off than ever before.

1275 If you are a pensioner who survives on the State Pension, under these proposals you will be worse off than ever before. If you are a person who works in a charity shop who believes that helping fellow members of your society is more important than financial gain, under these proposals you will be worse off than ever before. If you are sick or disabled and require doctors' appointment and prescriptions, guess what? Under these proposals you will be worse off than ever before.

1280 The tax burden is being shifted onto those who can least afford it and it is the regressive consumption tax that will make this misery possible.

And I am not convinced by claims that sometime in the future the Social Security Department will bring proposals to mitigate these costs. We all know what happens when that Department brings a Billet to this Assembly to increase spending on benefits as they did in 2012.

This Report has been constantly promoted as a cost neutral set of proposals –

1285 **Deputy St Pier:** Sir, point of order.

The Deputy Bailiff: Point of order, Deputy St Pier.

1290 **Deputy St Pier:** Deputy Wilkie does seem to speaking in general debate, rather than on the amendment.

The Deputy Bailiff: Yes –

1295 **Deputy Wilkie:** I am making the point that these proposals would not be possible if it was not for the GST that is being proposed.

The Deputy Bailiff: Yes, I understand that, Deputy Wilkie. Do continue.

1300 **Deputy Wilkie:** I am dubious whether this is the case. Judging by speeches made by certain members of the Joint Committees, I think there is quite obviously an attempt to use this review to

reduce the cost of our benefits system and to use a consumption tax to burden the poorest in the Island.

1305 So what are we going to gain if we inflict all this pain and anguish on the poorest in our society? It has already been alluded to: what we will gain is just an 8% shift in our reliance on contributions of tax coming from earnings. How can that small shift possibly justify the implications of a GST?

1310 This Report claims to try and solve the demographic time bomb that we all know is coming. However, GST, removal of universal benefits and the blunt use of raising the tax threshold... young families will be hit hardest. We are actually dissuading people from having children and, as we know from our cousins in Alderney, when depopulation takes place – and, Members, we are officially in the second year of depopulation – it is the young families who leave first. We are, in effect, creating a worsening demographic issue if plans for a GST are carried forward, which is the issue that the Treasury Minister gave as a very reason for this Billet.

1315 I have heard the arguments that we should not buck the trend and we should not follow the crowd, because we do not know better in little old Guernsey. Let's examine that theory a little.

1320 Over the last 30 years, who out of Guernsey and our nearest neighbours, with VAT or GST, have had the best employment record? Strangely enough, it is Guernsey. It is the jurisdiction that relies on Income Tax that works best with high employment. (**A Member:** That is true.) Is this a coincidence or is the Government's mind subconsciously driven to provide an environment for high unemployment due to a need for high employment rates?

1325 We have just been through the worst world recession since the 1930s and we have managed to keep a higher employment rate than any of our neighbours. So where is the great risk? Where is the imminent financial crisis that will require a GST, a shift in reliance on Income Tax by a mere 8%?

1330 Most of the population believe GST is the tax of last resort, as mentioned by Deputy Green. This amendment just stops us agreeing to a GST now and wasting money on an investigation. It does not stop this proposal being made in the future, if the coffers are empty and we simply have no other choice. But what it should not be is used for a linchpin to create a regressive tax system that puts the burden on the least fortunate in our society. Vote for this amendment and put GST back in the emergency box where it belongs.

Thank you, sir.

1335 **A Member:** Hear, hear.

The Deputy Bailiff: Deputy Sillars.

Deputy Sillars: I shall be very brief, sir.

1340 I would like to thank my good friend, Deputy Conder, for his excellent speech opening.

GST – widening the tax base, not increasing the tax take. I had no intention of speaking today and I made it very clear on the Sunday phone-in I was going to support this amendment, but actually I am really quite concerned.

1345 GST – widening the tax base, not increasing the tax take. How many people have we heard speaking today, talking about the future, already raising it? And that is the whole point – that is why I do not want to go down the GST route.

We had Deputy Gollop talking about the width tax and the parking tax. Well, those taxes were specifically for the Transport Strategy and whether it went through or not is irrelevant, as far as I am concerned at this point, because actually it was to go to Transport. It was not for General Revenue.

1350 But as I go back to it, it seems to me a lot of people voting for looking into this are looking to raise taxes in the future and that is exactly, for me, the heart of why we cannot go down GST. But it will be good to have it in an emergency box, years down the line, since we are looking at 20-30 years' time.

1355 So, please, listen to what everyone says and then vote for this amendment.
Thank you.

The Deputy Bailiff: Deputy Le Clerc.

1360 **Deputy Le Clerc:** Sir, I am just going to read out something from the Institute of Directors and I have been prompted to stand up by things that Deputy Wilkie has said. I am just going to read out a few lines:

‘It would be a wasted opportunity if an important piece of long-term planning, such as this, were to be derailed by the Deputies focussing too much on details which should be addressed in subsequent debates.’

I will go on.

‘We are concerned that the growth rates and immigration assumed in the review may be over-estimated and we will comment further on this when the 2014 statistics are reviewed.’

And I think that is an important thing for us to remember – that population is part of this and we have not got all the necessary information.

‘This report makes recommendations for a direction of travel which will help the States navigate through these challenges in a way which is sustainable and fair to all members of our society. If the States agree to the recommendations, it will have established a framework in which a number of interrelated – ’

1365 - and I think that is really important to remember –

‘– interrelated work streams can move forward.’

I have lost my place now.

‘GST. The report includes a recommendation that T&R should come back with detailed proposals for a broad-based consumption tax. The proposals should include measures to off-set GST with a reduction in Income Tax and increase benefits to mitigate the impact on those with low or fixed incomes.’

I can go on and on, but this is supporting the GST option.

1370 It is also saying that corporate taxation is not within the scope and that we must continue to monitor these movements. We have got an election coming up in the UK in April. I mentioned it at the last debate and I will mention it today. We have got an election. Things are moving on the corporate front. We need to keep our eye on what is happening in the UK and globally on the corporate taxation.

1375 However, I think we should not vote for this Proposition. We should stick with our own Proposition, because that leaves us an option and I welcomed Deputy Duquemin’s speech, yesterday because he is right: we need to keep all our options open; we do not want to close any of those avenues. So I think it is really important for us to keep this consumption tax as an option there, a tool in the box, for the worst case scenario, that we do not see economic growth and we do see troubles and we have more troubles ahead. So thank you, sir.

Rule 14(1) – Deputy Le Pelley:

Not carried – Pour 21, Contre 24, Ne vote pas 0, Absent 2

POUR

Deputy St Pier
Deputy Gillson
Deputy Le Pelley
Deputy Trott
Deputy David Jones
Deputy Spruce
Deputy Paint

CONTRE

Deputy Ogier
Deputy Fallaize
Deputy Laurie Queripel
Deputy Lowe
Deputy Le Lièvre
Deputy Collins
Deputy Duquemin

NE VOTE PAS

None

ABSENT

Deputy Stewart
Deputy Storey

Deputy Adam	Deputy Green
Deputy Perrot	Deputy Dorey
Deputy Inglis	Deputy Le Tocq
Deputy Soulsby	Deputy James
Deputy Luxon	Deputy Brouard
Deputy Quin	Deputy Wilkie
Alderney Rep. Jean	Deputy De Lisle
Alderney Rep. McKinley	Deputy Burford
Deputy Harwood	Deputy Sillars
Deputy Langlois	Deputy O'Hara
Deputy Le Clerc	Deputy Hadley
Deputy Gollop	Deputy Kuttelwascher
Deputy Bebb	Deputy Brehaut
Deputy Lester Queripel	Deputy Domaille
	Deputy Robert Jones
	Deputy Sherbourne
	Deputy Conder

1380 **The Deputy Bailiff:** I am going to call the Minister of the Treasury & Resources Department, Deputy St Pier, to respond to the debate. But to let you know that Rule 14(1) motion proposed by Deputy Le Pelley: there voted in favour, 21; against, 24. That is why it was lost.
Deputy St Pier.

1385 **Deputy St Pier:** Thank you, sir.
It is a very long debate. I think nearly a full day of debate on this one very important issue.
I think actually Deputy Le Clerc's speech there, at the end, is probably the summary that I could have given and then sat down. However, because of the length of the debate and the number of points that have been raised that do need challenging, I am going to go through and address the points – not, obviously, every speaker, but a number of points that have been raised.

1390 Starting with Deputy Conder, I do welcome this amendment. Of course, strictly speaking, it is not necessary. He could have just voted against the Proposition, but it has created a discrete debate around this one issue and I think that is important and so I welcome the amendment and the opportunity for this issue to be debated. It is an important part of the overall Report, but it is not central to it and I will return to that later.

1395 Deputy Conder said that this felt like a minute failure of collective nerve and I can assure him that that is not the case. This was not a rushed decision in any way, shape or form. So why did we propose so much detail in the Proposition? – he asked. Well, that is because there are the issues that do need to be looked at in much greater detail, including of course defining the broad base.
1400 What does 'broad-based' mean, and the scope the tax?

Deputy Conder was, of course, the first person – and many others have subsequently referred to it as well and made the same point that a Goods and Services Tax is regressive and I do think that is misleading, if you are not taking account of it within the system as a whole.

1405 If you look at the most regressive tax of all, of course, it is the tax on tobacco. In 2012, the household expenditure survey, quite clearly, identifies that that is the most regressive tax that we have. But the point of labelling it as regressive takes no account of how you might compensate or mitigate the measures.

I think also, dare I say it – and with due recognition to the comment that Deputy Sherbourne made in his speech – with respect to Deputy Conder, that there were some spurious links made.
1410 He referred to VAT in the UK and the rising disparity in wealth, but failed to note that, of course, the disparity of wealth has increased in this jurisdiction over the same period without VAT.

He also failed to note that the Nordic countries, that have much higher rates of VAT, have much greater equality of wealth. Therefore, to make any kind of link between a Value Added Tax system and distribution of wealth, I think, is wholly spurious.

1415 We then refer to Professor Swords and, as Deputy Fallaize would say, Deputy Conder prayed in aid of his case from Professor Swords' Report. I received an e-mail overnight, actually, which I shall

quote from because it chimes with what I was going to say. It was forwarded on so I will not say who it is from, but nonetheless it was an interesting observation and the individual said:

'I often reread the Swords Report to amuse myself. It is by far the worst academic paper I have ever had the misfortune to come across and I have seen many of those over the last 30 years.'

1420 And I have to say, I do think – Deputy Stewart made the same point yesterday – I do agree with that and I do not think that Deputy, Professor, Doctor Richard Conder should have referred to Professor Swords' Report in seeking to make his argument at all.

1425 Reference to the retail and visitor economy being reliant on us being a low tax or a non-VAT jurisdiction, sir, was completely without any supporting evidence or foundation; and the idea that anyone in this Assembly has ever chosen a holiday destination based on sales tax or VAT rates, which is the implication of that comment, is quite frankly ludicrous.

1430 We then talk about thresholds and of course 78%, in Jersey, of businesses are excluded because of the high threshold at £300,000, but that still captures 90% of turnover. Well, Jersey is different, of course, but actually it is different because they have more smaller businesses than we do; 81% of Jersey businesses have under five employees. And of course small businesses might actually be helped, because they would have the price advantage over the larger businesses and that could particular help the start-ups.

1435 Deputy Conder then referred to the Jersey visitor economy. Of course, not noting that 2009 was the year immediately after the deep financial crisis of 2008 and 2010 was of course the year of the Icelandic volcano. But he also failed to mention that the Jersey visitor economy has been the best performing sector since 2009, in Jersey.

We then have some assumptions made on the inspection staff that would be required in Jersey. Again, that is exactly what would need to be looked at and, again, that statement was made without any reference to the experience of our new neighbour.

1440 And, of course, we would be raising £45 million from Islanders and the argument goes it is the same group of taxpayers, but of course it is a different group of Islanders and that is why the analysis shows that it could be progressive and that consumption is higher amongst higher income households and, of course, the £4 million from international services exemptions which has been referred to.

1445 Now, I do pick up, I think it was Deputy Brouard's point, about the Guernsey Registry and I absolutely accept that that would need to be looked at, in ensuring that there was a correct balance between the burden between the two jurisdictions. But, undoubtedly, there would be additional revenue that would come from international service exemption, but again that would be something that would require further examination.

1450 Cost of administration was another issue. Again, it is quite clear Jersey's experience... 1% of the amount collected is the cost of administration so on £50 million that equates to £500,000. So that gives you some kind of context to that.

1455 The cost of business was another issue that has been raised by Deputy Conder, and indeed many others, but no attempt is made to quantify that and that is exactly why it has been identified in the Joint Board's Proposition as being something that would need to be investigated. And I think Deputy Duquemin made that point.

1460 Deputy Conder made a number of international comparisons. He ran through a list where the VAT rates were well in excess of 20%. But, of course, those do not have necessarily a broad base, which obviously does force up the rate that is required to raise a similar amount of revenue; and that of course will be one of the issues that we will need to discuss should we be discussing the luxury goods tax amendment later, plus all the complexity of administration that that brings. And that point has been made by others.

1465 However, there is one point that I do agree with Deputy Conder on, which was towards the end of his speech, which was that a clear decision is needed now. (**A Member:** Hear, hear.) That is precisely why the Proposition was put in the way that it was – because the Joint Boards do want direction from this Assembly.

1470 Deputy Stewart, I think, in particular made the point about what economists would advise and the economic efficiency of consumption taxes. And this, I think, was really the point that Deputy Gollop was making as well... is that, actually, consumption taxes distort behaviour – particularly board-based consumption taxes – less than many other forms of tax, because spending decisions are the least effected; and that, of course, will not apply to a luxury tax which only applies to certain goods where you will get good distortions in behaviour.

1475 But a broad-based consumption tax distorts behaviour less than other forms of tax – which was precisely Deputy Gollop's point. And at appendix A8i.6 that point is made in relation to the increase in incentive to work and the fact that there would be more left in households' pay packets at the end of each month to allow them to make their spending choices.

I do welcome Deputy Stewart's open-mindedness to keep this on the table, given his role as the Minister of Commerce & Employment, representing business interests.

1480 Deputy Duquemin, I think, obviously gave a widely-acclaimed, excellent speech; in particular, that we know the problem but are not investigating the solution, and I do fear the reappearance of the headline that he referred to.

1485 Deputy Lowe said that the business community was not supportive of the Goods and Services Tax. Well, of course, the so-called G4 of the business organisations actually was the G3 when it commissioned the Swords' Report and became the G2 by last week, in relation to their press release of which was disowned by a number of members within those groups. And of course the IOD is supportive, as Deputy Le Clerc said, that it should remain on the table.

Deputy Luxon made the point that the economy may be too fragile now – and I would not disagree with that assessment – if the Proposition were to introduce GST at this point.

1490 The negative consequences – and the Chief Minister made this point as well – did not arise in Jersey as perhaps was anticipated. The impact on inflation and so on was much less than expected and, indeed, when Frontier Economics were asked to model the impact on the economy, their conclusion was it would be too small to have any material impact.

1495 Deputy Brouard said that GST was not the creator of wealth and, of course, I make the point that of course no taxes are the creator of wealth. The key point though was that, with a shrinking tax base relying on Income Tax, the only alternative will be higher Income Taxes on that smaller working population.

1500 Now, as the working population falls – and I will address Deputy Fallaize's point on working numbers as a result of pension changes in a moment – Deputy Brouard was making... the working population falls and the GST is redistributing the tax burden across the whole population. And of course as income falls in retirement, consumption would not necessary fall by the same amount. So your contribution is maintained from a broader section of the population.

1505 Now, Deputy Brouard, to be fair, I think, made a very amusing speech, but the amendment does say that we should agree in principle to diversify... 'That it would be advantageous to diversify sources away from Income Tax' and Deputy Brouard's solution to diversifying sources away from Income Tax was Income Tax! Well, that does not diversify sources away from Income Tax by having Income Tax. So his suggestion of increasing it to 25% – again, the competitive point certainly was made by others.

Deputy Laurie Queripel referred to the personal allowance as being... that those with an income of under £17,500 would not benefit and of course the modelling does envisage changes to benefits and pensions for those under £17,500 to recognise that.

1510 I would just correct one misunderstanding – which I did not want to interrupt Deputy Laurie Queripel's speech, sir... in relation to imports. The discussion that I had with him was that if we were to tax imports alone, then that in itself would risk being a tariff which would fall foul of the common external tariff rules within the EU and Protocol 3. So the point is if you are going to tax imports, then you have to tax everything equally through a sales tax rather than just targeting imports.

1515

Deputy Brouard: Correction.

The Deputy Bailiff: Point of correction, Deputy Brouard.

1520 **Deputy Brouard:** Thank you, sir.

The point I was making was that GST or Income Tax comes out of the same purse. So you do not diversify it away by going through GST. In the majority of cases, it comes out of the same purse.

1525 **The Deputy Bailiff:** Deputy St Pier.

Deputy St Pier: Sir, the point is it is not entirely the same purse, because you have a broader section of the population who are contributing than through Income Tax.

1530 Sir, if I could just return to Deputy Laurie Queripel's point about imports, if we were to impose a duty or some kind of taxation on imports, it would be a duty and that could fall foul of the EU Rules.

1535 I would suggest also that it would be regarded by many Islanders as being protectionist of local business and many of the population would be aggrieved if they felt that imports alone were being taxed, forcing them to make choices which they would not otherwise make. So I think the opportunity just to impose a tax on internet imports, irrespective of the EU Rules, would be a very difficult proposition for the local community.

I do not recognise the basis of his £200 million internet sales. I have no idea where that figure came from.

1540 Deputy Bed – (*Laughter*) *Bebb* made a contrast to the position of the Board in relation to the other amendments. Of course, slightly misconstruing the arguments that the Joint Board made on the other amendments, which is that we were arguing that in essence, for the pension amendments, work had already been done. There was no point in asking for further investigations. There is clearly a difference here, where further work is required.

1545 But again I disagree with much of Deputy *Bebb's* speech, but I do agree with his one comment – and I have said it before, sir – that if Members will never support GST then it would be better to not support it now (**A Member:** Hear, hear.) and to provide that clarify of signal.

I am going to return to Deputy *Domaille's* point, if I may, towards the end, sir.

1550 Deputy *Dave Jones* made the point that we pay VAT in UK retail stores – we pay UK retail prices – but he specifically said we pay VAT here, and of course we do not. What we do pay is a much larger profit margin for those retailers who are using UK pricing policy, or indeed Jersey pricing policy, to charge exactly the same prices as they do in those other jurisdictions – which was Deputy *Hadley's* point and the Chief Minister's point.

1555 The Jersey experience was of course that those stores simply absorbed GST, which was one of the reasons why the impact on inflation in Jersey was much less than had been originally anticipated, because of that. When you also looked at the imposition of VAT on food in Jersey, some of their experience was that, again, the UK pricing policies... the big retailers simply chose to absorb it on food as well, because many of the goods are marked up for pricing in the UK.

So Deputy *Dave Jones* said, 'Do something!' but did not, of course, say what we should do; leading us to the inevitable Deputy *Duquemin* headline.

1560 I would say, in relation to Deputy *Green*, I thank Deputy *Green* for his balanced contribution to the debate and that perhaps we should look at some form of GST in the future, but of course I am not sure how that sits with voting against this amendment. He said that he could not totally rule it out and, in particular, if public services needed to be put in the position of safety – I think was his phraseology – that, sir, is precisely the point of this piece of work. The clue is in the title of the Report; it is planning for a sustainable future.

1565 The scenario which he indicated was, 'Well, if Income Tax falls, we will have to cut our cloth.' Well, how can we cut our cloth with Income Tax falling, if we need to secure and put public services in a position of safety? And that, of course... consumption is more stable; it would enable that process to be better managed, at the very least.

1570 And he made one other point which links with Deputy Domaille who, as I say, I will return to at the end.

Deputy Burford talked about tax allowances, but did not make any mention of the fact that these proposals do envisage the opportunity to introduce a Social Security free allowance which I think is particularly important in relation to low income earners and the ability to do that will be hampered – and I will talk about the consequences of supporting this amendment, but it would be hampered if the amendment is supported.

Deputy Trott referred to his amendment, which may be laid – amendment 9 – as being a partial solution and I would agree, but it would only be a partial solution and still does not, necessarily, deal with this diversification away from a particular source.

1580 Deputy Fallaize referred to the administration costs and, again, emphasising that the administration costs appear to be less than Income Tax, but that is one of the issues that would require further investigation.

He also said, in essence, 'I do not see how on earth the Joint Boards are ever going to get this approved without the immediacy of a crisis.' And I think he makes a very valid point. I think Deputy Trott admitted to one mistake, yesterday. The mistake he did not admit to was – and he will not admit to it – that the crisis on which GST could have been introduced, of course, was the introduction of Zero-10 in the mid-2000s, which of course was what Jersey did.

1590 **Deputy Trott:** Sir, may I ask my friend to give way?

The Deputy Bailiff: Is it a point of correction?

Deputy Trott: No, I am asking him to give way, sir.

1595 **Deputy St Pier:** I do not think I will give way, sir.

Deputy Trott: Then it is a point of correction! (*Laughter*)

The Deputy Bailiff: Point of correction, Deputy Trott.

1600 **Deputy Trott:** A little earlier, sir, the Minister advised us that a crisis was precisely the wrong time to introduce a GST. You would not want to impose that on an economy at a time of stress and now he is saying it is the perfect opportunity to do so! Which is correct, sir?

1605 **The Deputy Bailiff:** Deputy St Pier.

Deputy St Pier: The point – if he allowed me to finish, rather than a spurious point of correction! (*Laughter*) – I would have made, and to answer Deputy Fallaize's point, is I agree it is not... Politically, Deputy Fallaize's point was a crisis is what would be required to make it effective or, if you like, for it to be politically acceptable. I agree with Deputy Trott that it would not be the right thing to do, fiscally and economically. And, therefore, that is precisely why –
Do you wish to me to give way?

1615 **Deputy Trott:** That is precisely why, sir, I would not admit to it being a mistake.

Deputy St Pier: I shall move on, sir. (*Laughter*) I think we all know that Deputy Trott conceding one mistake in his political career, it is likely to be another 25 years before we hear him (*Laughter*) utter those words and I am not going to achieve it this morning, so I shall move on.

1620 In relation to Deputy Fallaize saying, 'Why has it taken two years?' Well, of course, there is a lot more work to be done in terms of fully scoping and designing such a system and all the more work because we are not in crisis. So actually the case that needs to be made would be so much

greater than if we were in crisis and I think that does succinctly explain why it has taken two years to get to this point.

1625 He also made the point that it would have been better to get the building blocks in place in one term and, of course, the practical reality is that is simply not achievable.

Sir, I am going to address the point that has been made by Deputy Fallaize, and repeatedly by a number of other people, which is this apparent confusion about this Report being presented as being net neutral, not about raising revenue, but these references to revenue being raised.

1630 I think either Members may have not managed to read all of the Report or perhaps are being a little disingenuous in relation to the presentation of this point, because the Report is quite clear. Paragraph 5.1.4:

'While the package presented is broadly revenue neutral, the recommendations are structured in such a way that it would be possible to raise additional revenues from within this structure should the States agree it to be necessary, as more detailed information of potential cost pressures become available.'

Those, of course, are the potential cost pressures I spoke about in my opening address, as a result of the ageing demographic.

'Any decision to increase revenues would need to be debated and agreed as part of the annual budgeting process and should reflect both the progress in controlling total expenditure levels and the cost implications of the ageing population.'

1635 So it comes back to the point: in the short-term this is absolutely not about raising additional revenue, but in the long-term we recognise there are pressures on our economy, on our public services, and this is about planning a sustainable future – going back to the title of the Report.

1640 In relation to the numbers of working age population falling from 42,800 to 42,000, of course participation rates do decline over 55, so although the working age population would not have fallen much, the number of people who will continue to participate in the workforce will decline faster than the drop in the working age population and, of course, the dependency ratio will go up, from 53, at the moment, to over 80. So an increase in the pension age will not necessarily increase the workforce by the same extent.

1645 In relation to the point which Deputy Fallaize made about – and, indeed, the Chief Minister – a fall from 74% to 66% reliance on Income Tax and Social Security: was it right? Yes, we confirmed it was right. It felt like an awful lot of work for only an 8% drop, but of course that is £50 million a year. So, yes, in percentage terms it may not be a lot overall, but that is more than the cost of running the Home Department. It is nearly as much as the cost of running the Education Department. So these are significant sums in absolute terms.

1650 The impact on single parents, which he referred to – and in fact I think some of the points which Deputy Wilkie was referring to – of course, do not relate specifically to GST, but other elements of the package, which still need to be thought about and mitigated, including the move to independent taxation, for example.

1655 Deputy De Lisle made – I am not sure whether he did make the link, but it sounded as if he might have been... but, again, I would say it was a spurious or unproven one – again, perhaps not worthy of Deputy De Lisle's academic background – of a link between unemployment and GST. There is no evidence to support that.

1660 And Deputy De Lisle says, dare I say it – and I think the Chief Minister picked up on this point – sometimes is never knowingly consistent. He frequently speaks against rises or frequently speaks about the need to control public spending, but of course he was against the cap yesterday, he voted for the amendments on pensions, which would have come at a cost to the system and of course he frequently speaks of the need for sewerage treatment and the cost of that.

Deputy Dorey –

1665 **Deputy De Lisle:** On a point of correction, sir.

The Deputy Bailiff: Point of correction, Deputy De Lisle.

1670 **Deputy De Lisle:** I did make the point with regard to the connection, because I feel it is a fair hypothesis with respect to certainly not introducing GST at a time when an economy is in difficulty.

1675 **Deputy St Pier:** Deputy Dorey said, in essence, that the Supported Living and Ageing Well Strategy and the work of SWBIC of course would be funded by contributions, but of course in this work we are treating contributions, taxes, fees and charges as all being part of the same draw on the public.

I referred to the work of Frontier Economics in terms of the impact –

The Deputy Bailiff Point of correction, Deputy Le Lièvre.

1680 **Deputy Le Lièvre:** Did I hear the Minister of Treasury refer to SWBIC being funded by contributions charges, because that would not be the case?

1685 **Deputy St Pier:** I believe I was referring to Deputy Dorey's speech. If I have misheard what Deputy Dorey said, I am happy to withdraw.

Deputy Dorey: Sir, I thought I said that –

The Deputy Bailiff: Point of correction?

1690 **Deputy Dorey:** That is right. I thought I said maternity benefits and SLAWS would be funded from Social Security contributions.

The Deputy Bailiff: Deputy St Pier.

1695 **Deputy St Pier:** Sir, I thought I heard reference to SWBIC. If that was not the case then I obviously apologise to Deputy Dorey. However, the point remains the same, of course, in relation to SLAWS and maternity benefits; the point remains valid that we are looking at the whole.

1700 Deputy Soulsby, in relation to the increase in existing pensions and benefits, which would be necessary – the one-off increase in existing pensions and benefits to compensate the introduction of such a tax – would of course not have any increase in the staff to administer that.

Deputy Brehaut, I think, made a very valid point about the cost of living in Guernsey and I think that will have to be recognised. The estimate of the impact of introducing GST would be a 3%-4% one off increase in inflation and that, obviously, would have to be mitigated in the way that we have spoken about.

1705 He also referred to TRP and I think it is worth noting what the consequences of this amendment would be, because if we are recognising we need to diversify our sources of income and to create more stable platforms... and the taxation of property is undoubtedly one of those, which was the point that Deputy Brehaut was making, and I think we would need to go back and look at that afresh and that would bring, again, some interesting challenges from Members of the Assembly, including Deputy David Jones, who speaks against TRP of many occasions. It would bring the same challenge on that issue, but it would need to be looked again.

1715 He did speak about maternity benefits and the willingness of the community to embrace the costs of that. Well, of course I think the – and this was a point that Deputy Adam was, I think, intending to make yesterday, but for the debate being curtailed, in essence, by the acceptance of the amendment from Deputy Burford – that, actually, the time that maternity benefits were looked at, yes, a majority firmly wanted them, but a majority also was not prepared to pay for them and that of course remains our constant challenge.

Deputy Le Tocq, I would agree this is not a *panacea* at all and is not seeking to present it as such.

1720 In relation to Deputy Rob Jones' point about the uncertainty for business, I think there is a significant difference between the uncertainty of the possible introduction of a Goods and Services Tax in several years' time, compared to the uncertainty of looking at the taxation of business *per se*. Investment decisions will not alter as a result of any uncertainty about the introduction of GST, but it would, I suggest, alter in relation to the wider issues.

1725 And in relation to Deputy Wilkie's comments, as I say, I think many of the comments he made are very relevant in relation to the discussion of the wider package and less so, specifically, in relation to GST, but I do want to just spend a couple of minutes talking about what we will miss if this amendment succeeds.

1730 Well, will miss the flexibility of an additional tool in the box, as the expression that has been used. We will not have the opportunity to raise personal tax allowances as far and as fast as many would wish. Deputy Dorey provided a challenge in Question Time to me yesterday on my statement about not raising personal allowances in the Budget last year, as a result of the economic performance and the performance of revenues last year. But the point I wish to make, sir, is we cannot continue to have it all ways and we cannot continue to raise personal allowances, unless we have got something to pay for that.

1735 If we do not have GST... and this comes to Deputy Wilkie's point: is the whole package dependent on it? Well, no, there is still much that we can do by the reorganisation of much of the rest and we could perhaps get to an allowance of £12,500, but we would not have the Social Security Contribution Allowance that I referred to and would assume a form of independent taxation. We could get to about £12,300 with no allowance on Social Security and restricting independent taxation to working age only. We could get to £10,300, which of course is not much higher than it is now, if we did want to introduce a Social Security free allowance and, again, restricted independent taxation to working age.

1745 So the point we wish to make, by that illustration, is there are permutations, there are still things that we can do, but, quite firmly, we will not be going as far and fast as might otherwise be the case. And we will reduce our dependence on direct taxes, instead of the 66% probably to around 70% or 72%. So we are still leaving ourselves really quite exposed on that issue.

1750 We will forgo the £5 million from the visitor economy, making the point that no visitor to any other jurisdiction ever really notices that contribution to the economies they visit. We will forgo the international services exemption, subject to the work on the interrelation with Guernsey Registry. If we wish to stick with Deputy Green's red lines of no capital taxes and 20p in the pound, then our options are very limited and will come down, inevitably, to a much more serious look at TRP, accepting that there is a link, that it is mildly regressive, as we have said, and accepting the consequences of looking at TRP once again.

1755 I would say also the other consequence of this, sir, would be, in terms of flexibility, the impact on population policy – and the Chief Minister touched on this. I think it is almost inevitable that this will help steer the outcome of our population policy debate, because if we are not going to create any more sustainable on-Island sources and we do need to grow our revenue base, then that will be about growing the working population and that will help to shape our population policy; and, again, I flag that because I do think it does limit our flexibility on that particular issue, as well.

1765 Sir, I said that I was going to return to Deputy Domaille's speech. Deputy Domaille threw down a challenge to both the Joint Boards and also to Deputy Conder. And I particularly liked it because, in his speech, he said that if the Proposition when through he would wish the Joint Boards to return with two or three alternatives, whilst, in addressing Deputy Conder, he said he wanted to three or four; and I thought that was a very fair allocation of responsibility between the two sides! (*Laughter*)

But, in all seriousness, I think Deputy Domaille's challenge is a very good one and I would certainly be very happy, on behalf of the Joint Boards, to say that I would absolutely be content to

1770 include that in a final report coming back to the Assembly, so the Assembly is making a fully-informed choice, a fully-developed suite of opportunities on which it could make a final decision. Of course, the challenge to Deputy Conder will be whether he can come up with alternatives that are unrelated to Income Tax.

Sir, with that, I do of course urge the Members to reject the amendment.

1775

The Deputy Bailiff: Deputy Conder, I do not want to impose any time limitations on you at all, in replying to the debate. Is it your preference to speak now or to speak at 2.30 p.m.? (*Interjection by Deputy Conder*) Right, we will adjourn until 2.30 p.m. then.

*The Assembly adjourned at 12.27 p.m.
and resumed its sitting at 2.30 p.m.*

**Planning a Sustainable Future –
The Personal Tax, Pensions and Benefits Review –
Debate continued**

1780 **The Deputy Bailiff:** Deputy Conder, then, to reply to the debate on his amendment.

Deputy Conder: Thank you, sir.

1785 Deputy Bailiff, fellow States' Members, thank you to all of those who have participated in this debate. There have been some excellent speeches and the debate has been lengthy and robust, as befits a subject of such importance to this Government and the future of this Island. I am not sure whether or not this is the most important issue this Government will debate during its term. A certain school rebuild is quite near to my heart and to some other colleagues, but it certainly ranks up there with some of the big issues we have to decide upon.

1790 Sir, I will now respond to some of the points made in debate but just before I do could I make a plea on behalf of perhaps all of us? It is a plea which, if answered, will, I believe, make the last 12 months we have together as a Government much more productive and much more congenial.

1795 A couple of times during the debate it has been suggested that supporters of this amendment were electioneering in anticipation of what will happen in more than 12 months' time. Whilst I take no personal offence whatsoever at such comments, I do believe that they were unfortunate and unnecessary, and perhaps impugn the motives of some of our colleagues. None of us can make assumptions about the intentions of many of our colleagues in terms of seeking re-election. But, colleagues, if we are to descend to those sorts of comments every time someone chooses to take a stance on an issue which may receive public approbation or opprobrium, in our debate and our effectiveness as a Government, in our remaining term of office will, I believe, be demeaned.
1800 Let's leave those sorts of comments to the letters page of the *Guernsey Press* and the cowardly anonymous blogs on their website. (**Several Members:** Hear, hear.) I think we are better than that. (**Several Members:** Hear, hear.)

1805 Sir, our debate has largely focussed around those who wish to give a clear signal now that GST should not be entertained as part of our tax regime and those who, in due course, are clearly strongly disposed to introduce GST, in order to diversify our tax base. That is a perfectly and understandable dichotomy.

1810 Sir, Deputy Langlois suggested that GST is the best way of widening our tax base. He suggested it would not be regressive if it was combined with increased personal allowances. Others have attempted to demonstrate why that would not necessarily be the case, if individuals or families earn less than the threshold or partners had very differing incomes. Further, of course, even if we accept that a £17,500 personal allowance compensates for the regressive nature of a 5% rate of GST, what does the Personal Allowance have to climb to if, for example, the rate

increases to 10%. We cannot forever, if we see GST rates rising – as you know I believe they will – keep pushing up Personal Allowance to compensate.

1815 Deputy Langlois also suggested that GST was a good way of gathering taxes from visitors to the Island. Well, so was charging them twice as much to go on our buses, but that was not an outstanding success, was it? (*Laughter*) (**A Member:** Hear, hear.) Surely, we should be doing all we can to encourage our visitor numbers. They generate far more in GDP than simply seeing them as a tax cash cow.

1820 My friend, Deputy Stewart, seemed to get himself in a bit of a muddle about how Smart cards could be used to free some individuals from paying tax. Of course, GST is a tax on goods and services; it is not a personal tax. I have to confess, if we were to use Smart cards in that way, to make individuals exempt from GST, we would be quite unique in the world in terms of structuring and collecting of GST, but I sort of know where he is coming from, but I think it will be a long while coming.

1825 I was a bit disappointed that I had not yet – but I do not give up hope – persuaded him of the advantages of keeping our tax system simple. He is so passionate about attracting and keeping new business here and he works so hard to do so, he is so keen to support innovative small businesses, that I would hope, even at this late juncture, he might be persuaded to support this amendment and give clarity and certainty to those businesses that, even now, he is trying to persuade of the merits of setting up in Guernsey. That is what this amendment is trying to do: provide certainty for, amongst others, him and his team.

1830 I am going to give him a little slap on the wrist for rubbishing Professor Swords' Report. It was quite fun, but he must be careful or he will get a reputation for not accepting experts' reports in this Assembly and, like the boy who cried wolf, one of these days, when he tries to introduce one of his own expensively commissioned reports – which one could I be thinking of? – to support one of his own proposals, that wolf might turn round and bite him where it hurts. (*Laughter*)

1835 Deputy Duquemin questioned why Guernsey had to be different. Well, I would like to suggest because it is different and usually we are very proud of that fact. But mostly it is different because it is tiny – *very tiny* – and, consequently, needs a tax infrastructure which is itself simple, uncomplicated and cheap to administer. There is a good tax rule for any jurisdiction, but particularly a small one: keep it simple.

1840 Deputy Lowe, as so often, hit the nail on the head in one short sentence: the rubric of the Proposition 38 posits the introduction of GST – not the 'possible' introduction of GST, the *introduction* of GST – viz. '... to report to the States... with detailed proposals for a broad-based consumption tax...'

1845 I thank Deputy Luxon for his very kind comments, regarding the seminars I did for his two Departments. He said that I did them for free. Well, actually I have been waiting to send him the bill, but I am not sure whether I have to add GST to it or not! (*Laughter*)

1850 Deputy Brouard spotted of course that, essentially, most of any income from GST is going to come from the same pocket as those who pay Income Tax. He asked what problem are we trying to cure by introducing GST. A very good question. The mantra seems to be that we must diversify our tax base because we have an ageing demographic and, in the absence of GST, those in work will pay less Income Tax if the economy turns down and the elderly would then bear more of the tax burden by way of GST.

1855 Well, actually, as Deputy Dorey demonstrated, on average, older people spend less than younger people and as they get older they spend less and less – well, some of us do – and in a recession, if people's incomes shrink, they also spend less and less on essentials – food, clothing and heating – so a broad-based GST will always hit those worse off.

1860 Deputy Spruce suggested we do not have all the facts. 'Do not have all the facts!' – after two years and with a working example 20 miles away and they need another two years to work out the recommendations.

Deputy Green asked whether GST would be acceptable in the most extreme case. Well, I suppose anything is acceptable in the most extreme case and, of course, we do have legislation.

1865 But I would suggest that alternative taxes or possibly using our existing tax structures more aggressively would be a better model in such circumstances. Even in extreme circumstances, the many disadvantages associated with GST, which I elucidated earlier, remain. That is, it is increasingly regressive as rates go up, burdensome on business and add to the cost of Government.

1870 I thank Deputies Burford, Trott, Fallaize and many others for their excellent analytical and supportive speeches; each of whom demonstrated, from different perspectives, why GST would be so inappropriate for this little community and such a burden on our most vulnerable citizens.

1875 My good friend, Deputy Perrot, was, as ever, entertaining. I am so fond of him that I forgive him for his cheeky personal comments and accept without reservation, and in front of all of you as my witness, his invitation to be his best man! (*Laughter and applause*) Just send me the location, the time and the place and I will be there.

1880 After being so honoured, he can call me whatever he likes – ‘Prof’, ‘Doctor’, ‘Deputy Conder’ or, as so many of you do in this Chamber, ‘Deputy Condor!’ (*Laughter*) I simply could not take offence. (*Interjection and laughter*)

I note that his remonstrations to me, at one stage during my long speech, I veered towards the theatrical. He is, of course, quite right to chide me and I accept his ticking off. We should never be theatrical within this Assembly, (*Laughter*) should we, Deputy Perrot? (*Laughter*) (**Deputy Perrot: Touché.**) (*Laughter*)

1885 I now turn to Deputy Domaille’s points regarding alternative indirect taxes. He set the Treasury Minister and me a challenge. I noticed Deputy St Pier slightly ducked his challenge by promising to include it in the next draft of the report. I will not, but before I answer let me just say that I have yet to hear a compelling case for having to diversify our tax base. I am in the Deputy Brouard and Deputy Dave Jones camp. To a large extent, these taxes both come out of the same wallet or purse.

1890 But, putting that to one side for a moment, I would ask colleagues just to read the amendment to Proposition 26. It says, ‘in principle’ – and I emphasised that in my introductory speech – ‘to examine ways of diversifying that tax base.’ But if you want examples of other direct taxes which could be considered in principle and which would not have the enormous disadvantage associated with a board-based consumption tax, here are some: environment tax, corporate tax, territorial tax, property tax; and I do not recommend any of them, but in principle I am quite happy for them to be examined.

1895 And there are others, remember. Colleagues, even the imposition of GST only brings our dependence on direct taxes down from 74% to 66%. All this agony, all these risks to business and vulnerable groups, for that – unless, of course, the rates start to go up, as we all know in our hearts they will.

1900 Colleagues, you witnessed some quite embarrassing moments this morning as one or two Members of the Joint Committee started to go off message as they – (*Interjection and laughter*) yes, amongst others! – as they expanded on the need to raise additional revenue above the 26.5% of GDP and how useful GST would be to fund all of this additional revenue we need to find.

1905 Colleagues, you should have seen the Ministers’ faces as their colleagues were stumbling into that minefield. They were something to behold. Of course, GST will go up and then you will see the real regressive impact upon our most vulnerable people, the impact upon new businesses – and so it will go on.

1910 Finally, sir, to Deputy St Pier’s summing up. This old Prof is going to give him a bit of a telling off too. I did think about sending him to detention, but he is a good chap. (*Laughter*) I am going to tell him off for rubbishing Professor Swords’ Report.

1915 He has, of course, every right to disagree with it and come back with a compelling case, but to rubbish it in the way that he did was not edifying and, in my opinion, did not help his cause. Professor Swords is, I believe – and I have only met him twice – a very distinguished and experienced business academic, and his case deserved to be treated with respect.

I will share a little secret with you, providing you do not tell anybody else. There is another consultant's report doing the rounds at the moment, commissioned by the T&R Department. It relates, if I remember correctly, to a rebuilding of a school. But when it was published there was quite a lot with which I did not agree and nor did my colleagues. Now, my friend, Deputy St Pier, at the time, implored me to treat it seriously, not to rubbish it or its authors, which of course I did not and I will not. Pots and kettles, Deputy St Pier! Pots and kettles! *(Laughter)*

Deputy Bailiff, colleagues, this has been a long debate. I hope have not extended it for too long. I doubt many of us would disagree this is a subject of some moment. You have read, heard and should now be familiar with all the same arguments relating to the possible introduction of GST in this Island. It is regressive. Everyone acknowledges that. It is burdensome to business. It adds to the cost of Government just at the time we are trying to keep the cost of Government down and every piece of external evidence shows that, once introduced, it proceeds on an upward trajectory and a widening scope, creating more anomalies in society and disincentivising Government to constrain their cost base.

The time has now come to decide whether or not you wish to see GST introduced in the relatively near future, because make no mistake about it, that is what Proposition 38 portends. Ask yourself, do you really believe that if this amendment were to be defeated the two Boards would come back in 2017, or before, and say, 'Well, we have looked at GST for another two years and we have decided after all we do not want it.' They know now they want it and in Proposition 38 they have told you what it will look like.

Before you decide how to vote, can I remind you that the Treasury & Resources Minister has said on a number of occasions that he does not want this Assembly to instruct the two Departments to go away and spend another two years investigating GST, only for this Assembly to turn to them when they come back with their proposals, and say, 'Sorry, we never wanted it in the first place, but thanks for spending two years on it.' That would be a dreadful waste of the Department's and officer time and would be very bad Government. **(A Member:** Hear, hear).

Sir, I finish as I began. I thank our colleagues, my friends in the two Departments for their excellent work they have done on our behalf. We are, indeed, indebted to them. There is much to work on and much to achieve as a result of the many recommendations and proposals they have offered us. They just do not need to depend on the introduction of GST for their delivery.

Colleagues, please vote to keep this Island free of GST, as it has been for all of its history. We do not need to be like everyone else. Please vote in favour of this amendment.

Thank you. *(Applause)*

A Member: Could I have a recorded vote, please, sir.

Deputy Conder: Could I have a recorded vote, please, sir.

The Deputy Bailiff: Yes, of course.

Members of the States, we go to the vote, which will be a recorded vote, on the amendment proposed by Deputy Conder and seconded by Deputy Dorey to replace the wording in Propositions 38 and 26.

Deputy Greffier.

There was a recorded vote

The Deputy Bailiff: Well, Members, I will formally declare the results when I have got the numbers, but that appears to have been lost – to have been carried! *(Laughter)*

As I indicated a while ago now, I am proposing to take the next three amendments by having the three of them placed and then a single debate on the three of them, unless anyone indicates differently.

So I am going to call Deputy Soulsby to propose the amendment that is numbered 7.

Amendment 7:

To insert a new Proposition between propositions 27 and 28 as follows:

'27B. To direct the Treasury & Resources Department to investigate the implications of, and proposals, if appropriate, for, the introduction of a progressive system of income tax with lower tax bands being applied to lower earners and higher tax bands being applied to higher earners and to report no later than 2016.'

1965 **Deputy Soulsby:** Sir, it is not unreasonable that the rich should contribute to the public expense, not only in proportion to their revenue, but something more than in that proportion. Those are not my words, but perhaps, somewhat surprisingly, those of Adam Smith in Book V of the Wealth of Nations, covering resources of general and public revenue of society.

1970 And it is in support of that argument; this amendment seeks to direct Treasury & Resources Department to investigate the implications of and proposals, if appropriate, for the introduction of a progressive system of Income Tax, with lower bands for lower earners and higher bands for higher earners.

1975 Now, there is always a lot of nonsense heard whenever the idea of charging higher rates for higher earners is mooted; that, by increasing tax rates, it will make Guernsey less competitive. Indeed, in the appendices it states that increasing the tax rate for higher earners would put Guernsey at a disadvantage.

1980 However, on the assumptions that we are not talking about pernicious rates of tax – which I do not believe we need to do and certainly do not advocate – I question that reasoning. For a start, I would question just how much more supportive of high earners we could be here. We have no Capital Gains Tax or Inheritance Tax, for a start. Add to that low property taxes and the most well off in our society actually do comparatively well, compared both to other Islanders and high earners elsewhere.

Quite frankly, when I read in this Report that, and I quote,

'Increasing tax rates... [and withdrawing]... allowances for higher earners... [would] increase the number of people... who plan their affairs in such a way as to minimise their tax liability'.

1985 I was flabbergasted. Do not make people pay more or they will seek to avoid it. Yes, I would say the more complicated a tax system, the easier it is to avoid, but the higher tax band is hardly going to see hordes of people rushing to their tax accountant.

1990 Arguments are often made that high earners are synonymous with entrepreneurs. Indeed, the Report states that 'highly-skilled individuals "tend to" generate economic growth for developing businesses and devising new products and services', and that, by charging tax rates which could discourage such people from moving to or staying in Guernsey, could be detrimental for the Island's economy and its growth potential, which, we are told in this Report, must be the States' first priority.

1995 Could I say, if generated economic growth is our first priority, what are we doing to encourage people to set up businesses in the first place? Surely, we should not set our Income Tax rates and hope someone comes along, but to actively help investment in our economy. What support do we genuinely give real entrepreneurs – those who may not start out on fantastic incomes, but have great ideas, with nothing in the way of Government support to help make it happen? That is a barrier to growing our economy. **(A Member:** Hear, hear.)

2000 Now, this amendment calls on Treasury & Resources to not just look at the higher rate band, but the lower rate band as well. Appendix I, Principles and Issues Document, even states itself that:

'... in some cases, the direct tax burden of lower and middle income [families] in Guernsey may not compare favourably with the UK or Jersey.'

At present, we have a recruitment crisis in nursing. This was made clear by the HSSD Minister in a Statement on Tuesday. Our biggest source of skilled nurses is from the UK, for a variety of reasons. They are actually in a disadvantageous position, in terms of recruitment, as there are no

2005 tax benefits of coming over here; in fact, quite the opposite. Neither does it help the recruitment of local nurses on an Island where the cost of living is high. A lower rate band would contribute to making Guernsey an attractive location for those key workers.

The Report in front of us today is dismissive of any changes to the Income Tax system, other than looking at allowances and, even more strangely, amongst all the 41 recommendations there is not a single one that asks us to confirm our support of the current structure of Income Tax, only that we should be less dependent on it. I find that unacceptable.

2010 Whether or not GST had been killed off, I believe further analysis needs to be undertaken of our Income Tax system, with consideration of people's ability to pay. And let's not hear anyone from the SSD or T&R Department stand up and say we have got all the information we need in this Report – it was looked at extensively and we have all the answers – after the comments they made after needing to look further at GST. That was their focus. They are not happy they had enough details on GST and there definitely was not enough research on the Income Tax structure.

2015 This investigation will have been needed irrespective of whether we had voted the way we have done on GST, just now. The 20% rate has been treated as sacrosanct for too long. There is a shibboleth that needs to be challenged. Now is the time to do just that and I urge Members to support this amendment.

The Deputy Bailiff: Deputy Conder, do you formally second that amendment?

2025 **Deputy Conder:** I do, sir.

The Deputy Bailiff: Thank you very much.
I now invite Deputy Green, who wishes to move the amendment that he is proposing.

Amendment 8:

To insert a new Proposition 27A between Propositions 27 and 28 as follows:

'27A. To direct the Treasury & Resources Department, in conjunction with any decision to increase personal tax allowances along the lines set out in Proposition 27, to report to the States with detailed proposals to remove the universality of personal tax allowances and instead to introduce a scheme which provides for personal tax allowances to be withdrawn gradually as a person's income increases up to the point where a person whose income exceeds a certain amount receives no personal tax allowance.'

Deputy Green: Sir, yes, thank you very much.

2030 This is amendment 8 and I will read it for the benefit of Members and those listening. The amendment is proposed by myself, seconded by Deputy Andrew Le Lièvre, and the effect of this amendment, if carried, would be to insert to new Proposition 27A between Propositions 27 and 28, as follows:

'27A. To direct the Treasury & Resources Department, in conjunction with any decision to increase personal tax allowances along the lines set out in Proposition 27, to report to the States with detailed proposals to remove the universality of personal tax allowances and instead to introduce a scheme which provides for personal tax allowances to be withdrawn gradually as a person's income increases up to the point where a person whose income exceeds a certain amount receives no personal tax allowance.'

2035 That is the amendment's wording.

Mr Deputy Bailiff, Members, one of the major issues raised within the Personal Tax Review is the very strong case for ending the payment of so-called universal benefits for those who do not need them and to examine the case for the much better targeting of public money to those in the greatest need.

2040 This amendment is, in my view, based on a rather similar idea. The idea that the Personal Income Tax Allowance is, as it currently stands, a universal allowance, available to all wage earners

across the piste of the tax system, regardless of need. In character, the Personal Income Allowance is not that different from various universal benefits.

2045 Mr Deputy Bailiff, I was therefore surprised to find that this policy letter did not contain a Proposition to look at removing the universality of Personal Income Tax Allowances and, instead, to move to a system, as set out in the text of the amendment – a system which would provide for these allowances to be withdrawn gradually, as a person's income goes upwards and, indeed, to get to a point where on a certain scale a person whose income exceeds a certain amount would receive no allowance at all. There is no Proposition on that whatsoever in this policy letter.

2050 Mr Deputy Bailiff, Deputy Le Lièvre and myself are firmly of the view that there is a perfectly good case for a proper and full analysis of the idea of removing and the tapering off of the universality of the Personal Income Tax Allowance. I had understood that the two Committees had looked at the idea of perhaps reducing the Personal Tax Allowance for people earning over £85,000 per annum, in conjunction with reducing the upper earnings limit in the Social Security system to £85,000 per year as well. But clearly there is no specific proposal to tackle the universality of this allowance in this policy letter and at this stage of the proceedings.

2055 In my view, if we are genuinely taking a long-term view of our tax system, then I think it too earlier in the process and, frankly, wrong in principle to rule out entirely the gradual withdrawal and/or removal of the Personal Income Allowances for certain individuals.

2060 Now, I want to make one thing absolutely clear. Very obviously, very expressly, this is not a tax diversification measure. I accept that. That is acknowledged. But it is undoubtedly a measure that, if calibrated with care, it could help to make a real contribution to our revenues, to our coffers and help to put our public services and our public finances on a proper long-term sustainable basis.

2065 In particular, this measure would raise more money from the more well-off section of our society, whilst also, potentially – mindful of the comments that my colleague, Deputy Soulsby, just made a moment ago and in terms of the amendment that I am proposing, potentially – it could raise more money from the more well-off sections of our society, whilst potentially maintaining the 20% general rate of Income Tax across the board.

2070 Incidentally, Mr Deputy Bailiff, I believe personally that the 20% generated Income Tax has some merit to it and for many years, certainly since the 1960's, it has been a potent symbol of our stability and a part of our success as an international finance centre and I know that many people in our community would wish to preserve that. But nothing in this amendment affects that one jot.

2075 Now, quite how much it could raise depends, clearly, on the particular scheme and the particular point at which you would begin to phase out allowances and the particular point at which you cease to apply the Personal Income Tax Allowance at all.

2080 The analysis within the appendices to the policy letter does actually set out two principle ways of implementing that sort of reform and the two examples given are: the UK model, where tax allowances are withdrawn at a rate of £1 for every £2 above the £100,000 threshold; and also the Jersey model, which uses a different mechanism known as '20% means 20%' where taxpayers are assessed under two different rate systems – a so-called marginal rate and a so-called standard rate. And I make no particular comment at this stage in terms of what is better. It might be that we ought not to follow the Jersey mechanism on this, but that, in my view, is a judgment for another day, if this amendment is indeed successful.

2085 It might be that we could look at a rather softer version of a model, such as '20% means 20%'. It might be that Treasury & Resources could look at a system where, for example, lower and middle income groups might have a basic tax allowance and an additional allowance, but that higher earners further up the spectrum and the very top earners perhaps would only have a very basic allowance. But these are various options to explore and I am not standing here giving the answers to these questions, I am really just flagging up what are the potential possibilities at this stage.

2090 Mr Deputy Bailiff, it is perfectly true that this amendment, if carried and if the concept behind this amendment were to be implemented, would involve some move away from the simple

nature, the simplicity, of the Income Tax system that Guernsey has at the moment. I accept that. That is a potential downside of this.

2095 But, of course, in these matters there are very few reforms that are entirely problem-free. Given the nature of the problems that this personal tax review process has identified and given the reality that there are no perfect solutions, I do genuinely believe that there is some sufficient merit in this amendment for this Assembly to instruct T&R to examine this in further detail.

2100 Now, of course, some Members might object to this amendment because they perceive it as potentially damaging to our competitive position – for attracting professionals, high net worth individuals, other well paid workers to the Island – and, frankly, I am not naive enough to dispute that point entirely.

2105 But this amendment and the concept behind it is in itself, to my mind, manifestly an obvious way that this Island could generate more income to deal with the pressures, the long-term pressures, on public finances. It is so manifestly an obviously solution that it should merit further careful examination and clearly possible concerns about the effect on the simplicity of the system and the concerns about the effect on our competitive position which are well-made observations. Those can be taken into account in the analysis by T&R.

2110 Mr Deputy Bailiff, Proposition 27, as drafted – this is the Proposition that will seek to increase the Personal Tax Allowance on the universal basis – will be an attractive Proposition to many. However, the idea of introducing a much higher Personal Income Tax Allowance for all wage earners in this Island, regardless of whether they earn £20,000 a year or whether they earn £200,000 per annum, is not necessarily the best use of precious public resources at a time of relative austerity. Nor, indeed, in the future when there will be real pressure on long-term public finances due to the implications of the demographics that we know about. However, much more targeted allowances could well be a merit-worthy idea that needs to be looked at.

2115 Mr Deputy Bailiff, scaling back on universal benefits and the better targeting of public money is something of a given within the policy letter from the two Committees. In essence, what this amendment will do is simply extend that logic into the domain of the universal Personal Income Tax Allowance and it will ask Treasury & Resources to examine that in detail.

2120 I would ask Members to support the amendment.

The Deputy Bailiff: Deputy Le Lièvre, do you formally second that amendment?

2125 **Deputy Le Lièvre:** I do, sir, and reserve my remarks.

The Deputy Bailiff: Thank you very much.

I now turn to Deputy Trott to place the amendment that he is proposing.

Amendment 9:

To insert an additional proposition between Propositions 33 and 34 as follows:

'33A. To direct the Social Security and Treasury and Resources Departments to investigate options to make the tax and social security system as a whole more progressive, through the withdrawal of personal tax allowances (such investigation to include consideration of the interaction with the upper earnings limit on Social Security contributions in order to avoid high marginal rates of taxation) and to report to the States with their findings no later than June 2017.'

Deputy Trott: Sir, this amendment number 9 and it reads:

2130

'To insert an additional proposition between Propositions 33 and 34 as follows:

"33A. To direct the Social Security and Treasury and Resources Departments to investigate options to make the tax and social security system as a whole more progressive, through the withdrawal of personal tax allowances (such investigation to include consideration of the interaction with the upper earnings limit on Social Security contributions

in order to avoid high marginal rates of taxation) and to report to the States with their findings no later than June 2017”.

Now, sir, what I am about to say is short in length, but fairly difficult to get one’s mind around. So I state in advance, there is no humour – this is me at my more sensible – but I would ask if Members could focus on these few sentences quite intently.

2135 Sir, in a progressive tax system individuals pay a larger proportion of their income in tax as their income increases and what this amendment seeks to achieve is a balanced progressive system.

2140 The idea of charging people who earn more a higher rate of tax is an appealing one for many people, but this is not as simple as it sounds, particularly here. One of the key reasons the Personal Tax, Pensions and Benefits Review considered Social Security contributions alongside Income Tax and other taxes is because it would be easy to overburden middle income households if you do not consider them together.

2145 In Guernsey, the upper limit on the amount of Social Security contributions any one person is liable for is exceptionally high when compared to our closest neighbours. In Guernsey and Alderney, you are liable for Social Security contributions at the full rate on all your earnings up to just over £135,000 a year. In Jersey and the Isle of Man and the UK, the equivalent limits are set between £40,000 and £50,000.

2150 In the UK, the higher earners’ rate kicks in just beyond the point at which you stop paying National Insurance at the full rate. This means that, as a UK taxpayer, your National Insurance rate drops from 12% to 2% at the same time as your marginal Income Rate increases.

2155 Now, sir, if the Bailiwick of Guernsey were to adopt the same principle, the higher rate would not kick in until more than £135,000 and at this level it would only capture about 2% of the population and would not raise enough additional tax to make it worth the risk of reducing our attractiveness to high income individuals.

2155 Beyond the tax these people pay, which is not inconsiderable, high earning individuals create economic activity, drive innovation and create jobs. Now, withdrawing tax allowances for higher earners has similar issues, if it is withdrawn below the limit on Social Security contributions. Middle-income households could be squeezed – in fact, almost certainly would be squeezed – by high marginal rates.

2160 So, sir, to withdraw tax allowances above the current limit on contributions raises a comparatively small amount of money, particularly when this is off-set against the cost of administering this. So we need to take a closer look at how our Social Security contribution system is structured, before we can consider this further.

2165 What this amendment does, sir, is it ensures that a future Assembly - because it will not be us - will see a report that allows an informed debate on a progressive system of taxation, which I know many in this Assembly want, allowing fair decisions to be made in a manner that avoids the main bear trap – that of high rates of marginal taxation. And I really, sir, could not impress upon the Assembly more seriously, in my view, of the importance of this work being undertaken for the reasons I have given.

2170 Thank you, sir.

The Deputy Bailiff: Deputy David Jones, do you formally second that amendment?

Deputy David Jones: I am happy to second it, sir.

2175 **The Deputy Bailiff:** Deputy Burford.

Deputy Burford: Sir, is it possible to invoke Rule 13(2)(b) and/or (d)?
Thank you.

2180 **The Deputy Bailiff:** It is certainly possible. The question is whether it is appropriate.

Mr Procureur.

2185 **The Procureur:** Well, subject to your ruling, sir, I respectfully wonder whether it is possible after the debate has already commenced. But certainly my view was that this does not invoke either of those Rules at all. The note of the possible Proposition under the Reform Law was in case a Member were to ask you and you were to rule otherwise.

2190 **The Deputy Bailiff:** Deputy Burford, in the context of this debate and the amendment that has been placed by Deputy Trott and seconded by Deputy Jones, I am not going to rule that Rule 13(2) is engaged in respect of it and we will proceed accordingly.

Deputy Conder: Sir, I wonder if you were going to announce the results that I have a slight interest in.

2195 **The Deputy Bailiff:** Well, I was if you give me a chance! *(Laughter)*

Deputy Conder: Very anxious, sir! Sorry about that. *(Laughter and interjection)*

2200 **The Deputy Bailiff:** Before inviting Members to speak on these three amendments, let me formally announce... I have lost my voice now! *(Laughter and interjection)*

Deputy Conder: You are doing this on purpose now.

Amendment 6:

Carried – Pour 28, Contre 18, Ne vote pas 0, Absent 1

POUR	CONTRE	NE VOTE PAS	ABSENT
Deputy Le Pelley	Deputy St Pier	None	Deputy Storey
Deputy Ogier	Deputy Stewart		
Deputy Trott	Deputy Gillson		
Deputy Fallaize	Deputy Spruce		
Deputy David Jones	Deputy Duquemin		
Deputy Laurie Queripel	Deputy Le Tocq		
Deputy Lowe	Deputy James		
Deputy Le Lièvre	Deputy Adam		
Deputy Collins	Deputy Perrot		
Deputy Green	Deputy Inglis		
Deputy Dorey	Deputy Luxon		
Deputy Paint	Deputy Hadley		
Deputy Brouard	Deputy Harwood		
Deputy Wilkie	Deputy Kuttelwascher		
Deputy De Lisle	Deputy Domaille		
Deputy Burford	Deputy Langlois		
Deputy Soulsby	Deputy Le Clerc		
Deputy Sillars	Deputy Gollop		
Deputy O'Hara			
Deputy Quin			
Alderney Rep. Jean			
Alderney Rep. Harvey			
Deputy Brehaut			
Deputy Robert Jones			
Deputy Sherbourne			
Deputy Conder			
Deputy Bebb			
Deputy Lester Queripel			

2205

The Deputy Bailiff: Let me formally announce the result of the amendment that was proposed by Deputy Conder, seconded by Deputy Dorey. There voted Pour 28; there voted Contre 18 and therefore I declare the amendment duly carried. (**Several Members:** Hear, hear.) (*Applause*)

Deputy Langlois, to be followed by Deputy Laurie Queripel.

2210

Deputy Langlois: Thank you, sir.

I just step forward to check the procedure – we are speaking on all three amendments in a single debate, sir?

2215

The Deputy Bailiff: We are, and then there will be three sets of winding up on each of them and votes on each in turn.

Deputy Langlois: Three from each proposer and from... Okay, fine.

Right, now we have got that clear, let's see if we can find our place.

2220

Sir, the progressive tax rates – we have three amendments here that are, on the face of it, simply different degrees of the same proposal, but the distinction between them is incredibly important, to my mind, in relation to the future of our economy.

2225

We have considered these carefully – the Joint Boards. Obviously, the question of progressive tax rates was at the centre of many discussions. There is a huge difference from the somewhat floored request to draw a parallel between this and GST with regard to research, because of course we were discussing these in the context of an existing Income Tax system and Social Security system, and the proposals all effect those two systems that are already complete, if needing considerable review.

2230

In fact, I think that the placing of these three amendments is once again positive proof of one of the key reasons why this Report has come before the Assembly; and that is the need, the desperate need, to take a longer-term view and to place all the options in front of people. It is very positive proof of that.

2235

Now, whilst superficially attractive, the figures on progressive taxation, as outlined by the first term amendment – Deputy Soulsby's amendment – simply do not add up; and, set against that, they do present very severe reputational risks.

2240

This is a direction that is moving strongly and directly towards a progressive tax system involving different banding. But, as Deputy Trott has already point out, because the upper limit on Social Security contributions is unusually high, we already have a significant amount of redistribution within our system. This is achieved through the insurance part of the system, the buffer fund part of the system, rather than through the tax system, as it is in other jurisdictions. For this reason, we must consider progressive measures alongside the exceptionally high upper earnings limit on contributions.

2245

In the UK, higher rates of tax are applied at the point at which an individual's income is no longer liable for full National Insurance contributions. In Guernsey, the level at which our limit is applied makes this impractical. Applying a higher earners' rate at earnings about £132,000 would affect – as already mentioned, but can I repeat the figure, because it is extremely important? – only about 2% of the population and, consequently, would raise a very limited amount of income.

2250

I can give you briefly, sir, some personal experience. I say 'personal experience' – some family experience. I have two sons who live in England. One is on moderate earnings, because he is a journalist – and I own up to the fact I have his solemn undertaking that he will not be returning to the Island whilst I am still in this position – but he is on modest earnings and he pays his taxes like everybody else – well, at least, I assume he does; he tells me he does – and, in fact, I think he would be roughly as well off here as he would be there and so on.

2255

My other son is somewhat different and he, having become almost a lifelong academic, as far as I was concerned when I was paying for his fees – he went through, did a PHD – he was fortunate enough, in spite of doing pure maths, to find a job where he actually used the subject that he studied for all those years, which is an unusual situation in itself, and he works for a

2260 Nottingham-based Chinese company. And, as dad would say, I am quite proud of what he is doing because he is doing quite well; he has progressed through the system, he has got a wife and one young child. Because he lives in Nottingham, he has been able to buy a house at a reasonable price and so on.

2265 So, sir, only last year – I am talking about a young man in his mid-30s – I was honestly shocked when I discovered that already, with his wife not working, he is on a higher tax rate. And he was shocked as well, because what it does is it sucks out, of a particularly generation who are making their way through careers, some of the motivation to carry on working hard, to carry on progressing and so on. And that is the biggest problem about this particular proposal.

Some may not like the inconvenient truth about this motivation, but it is of great value to the whole population because it will be people who make progress, who create the wealth, who create jobs and who keep the rest of the economy flowing.

2270 In terms of Deputy Green's proposals, the Joint Boards considered this in detail and do not oppose the steady withdrawal of allowances, in principle. But we must consider it carefully once again – this interaction between the progressive tax elements and the Social Security system. If we do not consider these in tandem, then we risk creating a situation where a portion of our society will be paying much higher marginal rates than perhaps we ever intended.

2275 So, for example, a self-employed individual already paying a marginal rate of 30.5%, if we withdraw their Income Tax Allowance at a rate of £1 for every £2 above, for the sake of argument, £75,000, we could increase that marginal rate of tax, overnight, to 40.5%. That is a huge uplift and, again, is subject to the same reservations that I have just expressed about my other example.

2280 The Jersey system operates very differently. It applies a dual assessment process where lower-paid households get bigger allowances, but pay a higher 26% tax rate, while higher-earning households get fewer allowances, but pay tax at 20%.

2285 The system is not dissimilar to the marginal rate system that used to operate in Guernsey – the system that Guernsey moved away from for a number of reasons, not least of all: the lack of clarity for taxpayers, the complexity of administering it and the disadvantages of applying a higher marginal rate to lower income households than higher income households.

So, in other words, from moving to the lower rate to the standard rate, you suffered a higher marginal rate than when you took the other step. Jersey are reviewing their marginal rate system with a view to withdrawing from it.

2290 Now, therefore, the Joint Boards would ask Members to reject both of these amendments in favour of what is being suggested by Deputy Trott, because we are of the opinion that, as the Report stands and without Deputy Trott's amendment, we will be missing a trick. And, therefore, if the Assembly indicates its wish to examine these methods further, our preferred option is to support Deputy Trott's amendment.

2295 If the Assembly is of the mind to totally throw out any further examination of progressive taxation – and it would be an interesting move in the light of something we have already thrown out; I wonder where any of the money will come from, if we are not careful this week, but if it is of the mind to do that then the only sensible approach for the reputation of this Island for ongoing promotion of entrepreneurship and of ambition is to go with Deputy Trott's amendment. This would meet the objectives that are being expressed by a number of people, with minimum risk to the economy.

2300

The Deputy Bailiff: Deputy Laurie Queripel, to be followed by Deputy Fallaize.

Deputy Laurie Queripel: Thank you, sir.

2305 I am very likely to support all of these amendments, because they are amongst the policy ideas that I told my constituents I would support and pursue, sir. Now, I said in my manifesto, sir, in regard to Deputy Green's amendment:

'Personal Tax Allowances are, to all intents and purposes, a benefit. The original intention of these allowances was to minimise the impact of direct taxation on the less well off. Allowances are no longer targeted. As a result, this intention

is not achieved, plus revenue is lost to the States annually. Allowances need to be recalibrated so as to accomplish their original aim.'

2310 So we often hear talk of the fragility of the business and corporate sector, sir – the changing international scene – which actually, interestingly, is changing. Chancellor Osborne in the UK is looking at introducing a Google tax, which I do not think can be directly relevant to our corporate tax review, but, nonetheless, it is a tax on profits.

2315 In some jurisdictions, sir, they have introduced, or are considering introducing, something called a Social Contributions Tax, which is also a tax on net profits. So, in regard to types of corporate taxation, sir, the scene is changing internationally and towards ways – whether it will be Territorial Tax or Social Contribution Taxes, things like that – of getting slightly more money from the corporate sector.

But, aside from that, sir, we are also told we have to be careful with high net worth individuals and high earners, in case we frighten them away and make ourselves less attractive or less competitive, sir.

2320 But it seems that there is no hesitation, sir, in further loading or imposing the burden on lower to middle earners and fixed income earners; knowing that, despite mitigation measures, it will leave a significant number of people in this category, sir, damagingly worse off. There seems no hesitation, sir, in targeting those people in regard to these kinds of reviews and reports.

2325 So, what about the fragility of their existence, sir – the middle to lower earners and people on fixed incomes? What about their costs? What about making life harder for Islanders, sir, here on-Island, to the point where they consider leaving the Island and seeing their future somewhere else.

2330 We know there is a problem or an emerging problem with Islanders leaving, because they just feel they are being too squeezed here, sir. I have heard examples – and it seems to be young families predominantly – of young families leaving, sir; both parents are economically active, with children, in the future, who are very likely to be economically active on the Island, and they are going, because of the squeeze on middle to low earners.

2335 So Members who are supportive of this Report – the tone and the nature of this Report – keep saying to the opposers, sir, 'Show us the alternatives in regard to revenue raising measures.' Happily, sir – better wealth distribution via a more progressive approach to taxation; and there are several amendments here proposing this idea.

2340 Now, sir, notwithstanding what Deputy Langlois said about Deputy Green's amendment, there is something I have noticed about the sponsors of this Report. Just about everything that has been put forward as an alternative idea, sir – either by the amendments we are considering today or some suggestions before we got to this debate – the commentary has been, 'Oh, that is complicated, tricky, very hard to achieve, technically difficult, etc.'

2345 But when it comes to the proposals, sir, all of those are apparently practical, workable achievable, but alternative suggestions are not and I find that a difficult thing to accept – that the Joint Boards have got it exactly right and the rest of us are absolutely wrong. I find that very strange indeed, sir. (*Interjection*) It is not as simple as that, I agree, but nonetheless that this is the impression that could be seen to be emerging.

2350 So, sir, as I say, I am probably going to support all of these amendments and I do not see... Deputy Langlois has explained to some extent his concerns about the amendments and the effects of them, sir, but I just urge my colleagues to support these amendments. We need to look at options, sir. Let us explore these options. Let us approve these amendments, sir, and I ask the Joint Boards to come back with some worktop, detailed proposals.

Thank you.

The Deputy Bailiff: Deputy Fallaize, to be followed by Deputy David Jones.

2355 **Deputy Fallaize:** Thank you, sir.

Members will know that most of my speeches are normally very brief. (*Laughter*) I notice that the average length of a speech in the States is about seven or eight minutes. Yesterday, sir, I made a speech and rather lost track of time. Deputy Perrot reminded me when I sat down that I had been speaking for about 40 minutes, which was slightly embarrassing because when I started speaking I said I was ambivalent about the proposal that was before the States. So I offer you, sir, and Members, an unreserved apology, and also vow that between now and the debate on the States' Review Committee's proposals in July – about which I might want to say one or two things – I will not make any speech longer than the average speech in the States. (**A Member:** Hear, hear.) (*Interjections*) Starting from now! Right.

These three amendments share similar objectives and they also share the characteristic of all being investigations or all proposing investigations rather than any firm action. I think that they are compatible. I did hear one or two chuckles when Deputy Laurie Queripel said he was intending to vote for all three of them, but I do think they are compatible and I think, if there is going to be an investigation into progressive tax measures, the investigation or the review would be strengthened if all of these three, slightly different themes are considered at the same time.

Deputy Soulsby's amendment proposes, effectively, differential Income Tax bands; Deputy Green's amendment proposes the withdrawal of personal allowances as one moves up the income scale; and Deputy Trott's proposes the same as Deputy Green's but in conjunction with an analysis of the upper earnings limit on social insurance contributions. So they all have similar objectives, expressed in slightly different ways.

I will give way to Deputy Trott, but the clock has stopped ticking!

Deputy Trott: And – I mean that is a fair analysis – a focus on avoiding the bear trap I referred to in my opening remarks and that is very high marginal rates for fairly modest earners.

Deputy Fallaize: Yes, that is a perfectly fair point.

So, the underlying objectives are similar but the way in which they are expressed is slightly different. Now, it may very well be that if this investigation is to take place, the subsequent report will come back, not to this Assembly but to a future Assembly.

Now, my sense is that if just one of the amendments is passed, when the results of that review come back to the States, a new set a States' Members will say, 'Well, this is an incomplete investigation, because what you ought to have been looking at is not just how the interrelationship between tax and social insurance contributions, but what about differential tax bands, what about withdrawing tax allowances for high earners?' So I think that the review would be strengthened, the investigation would be complete, when it comes back to the States, if all three amendments were successful.

Another problem I have with Deputy Trott's amendment, by itself, is that I am not sure that its net effect would do very much. In fact, if, for an employee, the social insurance upper earnings limit were reduced from, say, £130,000 to £70,000 today, the saving for that individual would be over £3,000 per year in social insurance contributions.

However, at present, they are benefiting through the Personal Allowance on Income Tax of a reduction in their tax liability of around £2,000 – notwithstanding any other allowances related to mortgage interest relief and that sort of thing. Now, under that scenario it would actually be beneficial for the person earning £130,000 if the social insurance earnings cap is dropped to £70,000 and they have their Personal Tax Allowance withdrawn completely.

So that is not a progressive tax system and I am concerned – I am not saying this will happen for certain, but I am concerned – that if Deputy Trott's amendment is approved in isolation, we will be narrowing the envelope in which these two Committees can operate in considering a progressive tax system and they may have no choice but to come back to the States with a system which is actually not more progressive, but more *regressive*.

So, while I entirely accept that alone Deputy Soulsby's amendment and Deputy Green's amendment could create the kind of marginal tax problems which Deputy Trott envisages, I think

2410 if all the three amendments are put together and are part of a single review, it can be a complete and robust review and the States can look forward to a reasonable report which is able to consider all of the issues and implications and I will, therefore, support all three amendments.

Thank you, sir.

2415 **The Deputy Bailiff:** Deputy David Jones, to be followed by Deputy Kuttelwascher.

Deputy Kuttelwascher: Sir, I do not wish to speak, but I would like to ask a question.

The Deputy Bailiff: Well, you can –

2420 **Deputy Kuttelwascher:** Is it possible for propose a guillotine motion on amendment number 9, because the Joint Committee support it and it might truncate debate if that vote could be taken, because I am not sure anybody will oppose it?

That is the question I... I know it is an odd situation because we are debating three amendments together, but that is what I am suggesting. (*Interjection by Deputy Lowe*)

2425 **The Deputy Bailiff:** Deputy Lowe.

Deputy Lowe: Sir, if I may, there is not any reason perhaps, with the Deputy Bailiff's permission, to just go with a vote on 9, if you want that one taken out first and the rest can continue.

2435 **The Deputy Bailiff:** At the moment, Members of the States, we are debating, collectively, three amendments. That is the debate that is currently underway. Rule 14 engages on the debate, so Rule 14(1) will be a guillotine motion on all three amendments. So we would simply, if it carried, move to the closing speeches in respect of all three.

Are you wishing to invoke Rule 14(1), Deputy Kuttelwascher?

Deputy Kuttelwascher: Not for all three, no, sir.

2440 **The Deputy Bailiff:** Deputy David Jones.

Deputy David Jones: Thank you, Mr Deputy Bailiff, Members of the States.

2445 Now, I, like many of you, tried to wade through this joint Report and I do not have a degree in economics. I am just an ordinary old digger driver who does his best and what I did eke out of it was how it would affect the ordinary working person and the poorer people in our community, without trying to get into the technicalities of the whole of the economics of the Island, and tax thresholds and all the rest of it.

2450 But I was immediately attracted to Deputy Trott's amendment simply because in there somewhere is the self-employed and the self-employed are often forgotten in our Island, in terms of the higher rates of social insurance that they pay (**A Member:** Hear, hear.) and the tax.

The reason I am seconding this particularly amendment is because Lyndon explained to me how all it worked, at length, and most of it went over my head – (**The Deputy Bailiff:** Deputy Trott.) Deputy Trott explained... through the chair, sir.

2455 **The Deputy Bailiff:** Yes, but you referred to him by his first name.

Deputy David Jones: Oh, sorry, yes. Deputy Trott explained to me at length how it all hung together and most of it, I have to say, went over my head, except for the issues of the self-employed.

2460 He is an ex-Treasury Minister and ex-Chief Minister. He understands the technicalities of all this much better than I do and think there are a few of us, if only we were prepared to admit it, that have struggled with this Report – to try and take in all the ramifications and all the concepts... if we get it wrong.

2465 For instance Deputy Heidi Soulsby is putting forward an amendment on tax banding. Now, I am sort of attracted to that, but you would need to know how that is going to affect new people coming to Guernsey, new business coming to Guernsey. Although I am superficially attracted to it, I would want to hear from Treasury & Resources what their view is, for instance, on that. That does not mean to say that I will not support the amendment, because all of these three amendments are asking for T&R to go away and investigate these issues. And I do agree with Deputy Fallaize
2470 that they are all inextricably linked and, therefore, it is possible to support all three of them.

But, just getting back to the self-employed, they, as I say, already pay fairly high rates in Guernsey and I do not want to see a progressive tax system where they bear a disproportional amount of the burden and I was also attracted to the explanatory note in this about the co-terminus issue of social insurance and the tax rates. So that is one of the reasons why I am
2475 supporting it.

But I do agree with Deputy Alastair Langlois who said that we have to have one or the other. You cannot throw out GST and throw everything else out without having some form of tax system that brings in the kind of revenues that we are going to need to support our services.

2480 On the other side of that coin, as I said originally in my initial speech, we need to do more to cut out a lot of the wastage that have still got in Government, (**A Member:** Hear, hear.) so that we do not overtax our people and waste the money that we bring in.

So I hope you can support, particularly Deputy Trott and mine's amendment, but I would also recommend that we support the other two, because there are all worth being investigated.

2485 But, when they come back – for the Treasury Minister who has made a point to me about progressive tax rates – if they are going to frighten some of the horses that we want to bring to Guernsey in order to generate more wealth, then we will have to look at that, but certainly the only fair tax system is based on ability to pay.

2490 I have railed against indirect taxation in this Chamber for as long as I can remember, because it is not a fair tax system. It takes no account of people's ability to pay indirect taxes. It is the one slap fits all for everybody, regardless of income. So a progressive tax system is much fairer. Those of us who earn more should pay more and I think there is a general recognition now across the Island that we are going to have to pay more. We cannot continue, with the demographic situation that we have got, to have, as I think Deputy Fallaize always says, '60p in the pound services for 20p in the pound tax rate'. And that is a fact.

2495 Now, once we have all realised that then I think the way forward then is to find a fair, progressive tax system that will bring in the kind of revenue that will at least put our services in the comfort zone. And we might have to scrap some services altogether to give more money to Health, to give more money to Education. That may be what will have to happen in the future. Some of the things before we had the finance sector and £40 million, £50 million surpluses and
2500 we all happily lived without for decades, we may have to happily live without again, in order for fund our core services.

So we are moving into interesting times. I honestly do believe a progressive tax system is the way forward and I will support it if it comes back, but I will want to see some of the ramifications of it, which Treasury will probably lay out at that time.

2505 Thank you, sir.

The Deputy Bailiff: Deputy Stewart.

2510 **Deputy Stewart:** Deputy Bailiff, fellow States' Members, I think the amendment that I have the real problem with is the Soulsby / Conder amendment. This is really going to set some hares

running in a very, very big way and I am actually surprised at Deputy Soulsby, who seems to have gone over to the dark side since leaving Commerce & Employment. (*Laughter*)

Deputy Soulsby: I have seen the light! (*Laughter and applause*)

2515

Deputy Stewart: Well, we will hear the end of my speech and then we will decide, sir, whether Deputy Soulsby has gone to the dark side.

This is going to send a huge amount of hares running. Now, it would have been last year, when I was discussing with the Treasury Minister, sir, about what we can do to attract high net worth individuals to this Island.

2520

We know and we have had a huge amount of meetings – both myself, the Treasury Minister and even the Chief Minister – with estate agents, with lawyers, to understand why our Open Market has been diminishing and I think that comes out of an earlier States' debate.

I do not want to go over the history and the *Press* reports and all these other things, but this has the potential to do exactly the same thing and set us back because in the last year, although we did not have the money, but in anticipation of an Economic Development Fund becoming available, Commerce & Employment has done a huge amount of work within its existing budget, last year, in engaging with estate agents, those in the wealth management section of our finance industry, the Chamber of Commerce, lawyers, other corporate service providers, to understand how we can start to get confidence back and how we – as many have put it to me – compete with Jersey who, through Locate Jersey, have done – and I will say – a very, very good job at getting high net worth individuals, entrepreneurs into Jersey, which has raised a huge amount of income for that island and we are behind.

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Now, this has come at a time when actually this very week a business plan from Commerce & Employment, which we have been working on for the last seven months, called 'Guernsey First', has arrived on Treasury's desk for final approval. And, hopefully, it will be final approval, because it is very much a project which the Treasury Minister has assisted us in.

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Now, one thing about entrepreneurs is that, once an entrepreneur, always an entrepreneur; and even if they are moving out of the UK to come, resettle in Guernsey, to maybe set up a family trust, to start to look after the wealth of... most people – none of this wealth arrives in their lap. They have probably put their house on the line, they probably work 18 hours a day and they think, 'I want to keep my family wealth together, to look after my sons, my daughters', and they will look at Guernsey as an obvious choice. But if we start now having a two-year period of debate over higher tax bands, why would they come here? Where is the certainty for them?

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So if I just actually give you a preview of just a little bit of what is in the business plan, what we are looking at is best fit, high net worth individuals for the Guernsey First project and the intention is that best fit individuals will deliver many of the following:

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The Guernsey Exchequer receiving significant, possibly minimum contribution, Income Tax and other receipts, particularly around the sale of Open Market houses. So if you were to buy an Open Market house for about £3 million, immediately the tax take in that is £83,000.

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The creation of high value, sustainable businesses and although a lot of the names are in our business plan, I cannot, unfortunately, for reasons of confidentiality, read them out in this Assembly, but I can tell you without much research we came up with nearly three or four pages of high net worth individuals that have moved to this Island that have subsequently created well-known businesses and employed local people and created a huge amount of wealth for this Island.

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The possible interaction for existing Guernsey business, as a result of the wealth and entrepreneurial activity moving to the Island and, of course, the spending of the wealth in that Guernsey economy.

2560

And it is not just in our finance sector. As Deputies Laurie Queripel and Lester Queripel and Deputy Jones will know, who worked within the building trade, the amount of money... The first thing most people do when they buy their Open Market house is start to make it how they want it

and the spend is significant. It is high end. They want the best windows, they want the best kitchens, they want the best bathrooms, they want the best carpets. The contribution to the economy is enormous. We know of one couple that was used in the business case who, when they moved into their house, spent over £750,000 with local traders – and that is just one couple. These are the people we are trying to attract.

If I move to some of the other areas of our business case, we do point out – and it is well known to a lot of Members – Guernsey's Open Market can be described now as a fallow asset for the Island.

The property sales have been in decline for the 2008-14 period. The number of Open Market property sales was at a level less than half the 2000 to 2007 period – an annual average of 42 sales compared to an earlier 95 per year, average. This indicates that we now have an opportunity to consider doing more to stimulate this section of the economy and I will probably leave it to the Treasury Minister to give you the difference of the sort of receipts that he has had to the Exchequer, or the lack of receipts, because of that fall back in Open Market.

That is without the spend in our corporate services providers. That is without the spend to our tradesmen. That is without the spend of them going out and buying new cars from Jacksons. Most of them will put their children through a private school, from our research that is evidenced in our business case – and I do wish I could talk more about it but it is, in many ways, confidential.

But these are people that we need to attract to the Island. In fact, one of the biggest things that has been mentioned to me by industry is when are we going to have something like Jersey, with Locate Jersey? When are we going to start attracting these wealth creators, these people that not only create wealth but also end up doing a huge amount for our charities in this Island and contribute so much to our society?

Now, we have a business plan ready to go. What I will argue is that the Soulsby / Conder amendment will sink it before we even start, because the uncertainty, going out there saying... Deputy Fallaize, you can look like that, sir – or, through the chair, sir, Deputy Fallaize can look like that – but, one minute we are talking about let us give them certainty over GST and the next minute we are saying, 'Whoa. Maybe we are hiking up tax rates.'

I will give way.

Deputy Soulsby: Sir, Deputy Stewart seems to ignore the people that he is talking about. The ultra-high net worth individuals all pay a fixed amount of tax, not attributed to any tax banding whatsoever. So they are hardly likely to be effected.

Deputy Stewart: The other part of our business plan is to look at people who are on their way to being high net worth individuals. So identifying those... and, through the chair, sir, Deputy Burford can snigger, but we have a huge amount of private equity companies in this Island and at the time when someone takes on board private equity, they are already are, probably, reasonably successful and about to go up another few steps in their business.

So these will be companies that already have a track record, will be talking to some of our private equity suppliers in the Island, to get more capital into their Island, to take their business to the next level and these discussions I have already had with private equity firms.

So, what better for Guernsey than to attract someone that is already earning quite a good salary, but not an ultra-high net worth individual right now, where a private equity firm has already done the due diligence around their business and decided to lend them some money and if they fit within our economic development framework of being low footprint, high revenue earning, wouldn't it be good to say, 'And why don't you bring that business right now to Guernsey' and think that you could then exit that business in six or seven years' time, if you do a IPO or whatever you do with that business.

So what we do is: we have a high earner, who may not be a millionaire at that point, but earning a lot of money, who is about to bring a business that we know is already successful and is going to employ local people and fits in with our economic development framework. That is

2615 working smarter, rather than just nipping down to Cannes and bringing over every millionaire you can.

So it will capture these people that are thinking, 'I am about to take my business to the next stage.' The sort of businesses we want to attract to Guernsey. The sort of businesses that we will be looking at encouraging into our digital greenhouse and that business plan also sits on Treasury's desk right now for the sign off.

2620 So what I will say is, please, please, do not support this amendment from Deputy Soulsby and Deputy Conder. It will sink the work that we have done. It will set hares running and I think it will send out all the wrong messages, and we will not be as successful or maybe not successful at all with our Guernsey First initiative as we hope we might be.

2625 **The Deputy Bailiff:** Deputy Burford.

Deputy Burford: Thank you, sir.

2630 There does seem to be a thread running through the Tax and Benefits Review that says we cannot touch the rich. Inheritance tax, no; Capital Gains Tax, no; higher headline rate of tax, no; higher tax rates for higher earners, no; reclaiming tax allowances, probably not.

In relation to the Trott amendment, of course, the Joint Boards have done some work on this already in table A8.34 which gives a range of reductions in the upper earnings limit and sets that against the withdrawal of allowances at a rate of £1 for every £3 above the given upper limit. In each example given there is a net loss of revenue to Government and, by extension, a net gain to the wealthy individual.

2635 Now, that table is clearly not the only permutation, but where social insurance contributions and the upper earning limits are concerned, the Deputy Chief Minister is correct, we already have a degree of progressive taxation and I am not prepared to risk undoing what we already have.

2640 So I will be supporting the Soulsby and Green amendments. I cannot add anything to the excellent speech given by Deputy Soulsby, but I will be voting against the Trott amendment.

The Deputy Bailiff: Deputy Dorey.

2645 **Deputy Dorey:** Thank you, Mr Deputy Bailiff.

I will be similar to Deputy Burford. I will support 7 and 8, but I really struggled with amendment 9.

2650 If you look at current tax allowance, which is, for a single person, £9,675, if you withdraw tax allowances, the maximum extra tax is £1,935. I struggled to understand that, with an upper earnings limit of £135,000 on Social Security, if we then try to reduce the upper earnings limit, if we did it at the very highest end – reduce it to try and reduce the taxation rate by combining, removing of Income Tax Allowances, but to soften blow by reducing your Social Security upper earnings limit – you give away one in terms of the other and you do not actually achieve anything. So I really struggle.

2655 If we are concerned about the marginal rate, the simplest thing to do is to do it at a slower rate. You talk about £1 in £2. I think in the Billet it talks about doing it £1 for every £3. I think that is the far better way of achieving it, if you are worried about those marginal rates.

2660 So I would be very concerned about reducing the upper earnings limit or doing anything with Social Security contributions, because then you would have to increase the grant to the Social Security Fund. So, whatever you say, by giving the Tax Allowance, you then have to transfer that to Social Security. So in the end what is the purpose of it?

2665 Surely, the whole thing is... The purpose of these, as I thought, three amendments is to collect more tax and I am not convinced that – and I will listen to his summing up – Deputy Trott's amendment will actually involve collecting more tax. So, therefore, if it is not going to collect more tax, I cannot support it.

2670 Deputy Stewart spoke about Open Market residents. I think he painted a very bright picture, but it is possible for that Open Market house to change ownership by share transfer, which means it does not pay any document duty. It is possible for those people to bring in builders from the UK, which means that they have very little impact onto the local economy – and, from what I hear, that happens quite often. (**A Member:** Yes.) So, the picture that he paints, I think, is a very extreme picture. I think the more norm does not have anything like the benefit to the local economy. In terms of the –

2675 **Deputy Stewart:** Point of correction.

The Deputy Bailiff: Point of correction, Deputy Stewart.

2680 **Deputy Stewart:** This is just anecdotal. There is no evidence to this at all and so I believe that Deputy Dorey is misleading the Assembly on this.

The Deputy Bailiff: Deputy Dorey to continue.

2685 **Deputy Dorey:** I think anecdotal evidence is often used in this Assembly and I have heard it happen often enough to be confident that I can say it. If he shows me the number of Open Market houses which have changed ownership by share transfers, as opposed to by going through the conveyancing court, I think he would find that there is an awful lot that change by share transfer; and, if you look at any of the advocates' websites, they go to great lengths to explain about doing it by share transfer.

2690 Also I think part of the Open Market activity was because of the ability, before the changes, to have multi-occupancy of Open Market houses and that actually helped to increase the number of Open Market transactions. Hopefully, with the new Law that will be closed. At least the number that can operate under that system will not be able to increase.

2695 So I will ask Deputy Trott if he could explain to me how his amendment will raise additional money. I will then decide how I vote on it after he has answered my question.

Thank you.

The Deputy Bailiff: Deputy Domaille.

Deputy Domaille: Thank you, sir.

2700 I am just going to be very brief. I think the section in the appendix – and like Deputy Dorey, it is lamentable that there is no page numbers which caused me no end of grief, but – it is section A8b.13 to A8b.21, I think that sets out the very clear arguments against at least two of these three amendments.

2705 But I really stand just to sort of highlight to Members that it is made very clear in here and I think it is somewhere like the top 10% of households already contribute an estimated 40% of the total amount of personal income.

2710 Now, yes, you could probably squeeze some more out of that, whichever way you want to use it, but it is not going to be significant sums of money and you have got to balance that against direct occasional issues surrounding this. And we also have to remember that actually our current system has served us quite well.

2715 Now, if we are talking about diversifying the tax base, then that is something I can conceive, I can go along with and I can see you can do some things there. But I think we have to keep a sense of reality in this. We are all concerned about the economy and if we make changes that are really along the lines that I think some Members are talking about, the effects on the economy will be significant and actually the overall tax take will drop. So I just caution Members on this approach.

Thank you, sir.

The Deputy Bailiff: Deputy Harwood, to be followed by Deputy Duquemin.

2720 **Deputy Harwood:** Thank you, sir.

It is interesting we have three amendments which, as Deputy Langlois said, look rather similar, in that they are all keen to move with the argument for progressive taxation. And, incidentally, I have no difficulty with the principle of progressive taxation and no reason why those who are more wealthy should not pay some more tax.

2725 But, sir, like Deputy Langlois and Deputy Stewart, in particular, I have very serious reservations concerning the amendment that has been proposed by Deputy Soulsby, for the reasons that have already be said. I think it will be sending out a very, very dangerous message across, not just within the Island, but remembering that this is going out to beyond the Island, and it will undermine a lot of the good work that I believe Deputy Stewart and his team at Commerce & Employment are trying to do.

2730 I am inclined to support amendments 8 and 9 – the Green and the Trott amendments. In particular, Deputy Trott, I think, is absolutely right. He has hit the nail on the head, because the problems we have – and Deputy Domaille has already referred to the section in the appendix which goes into the difficulties we have got ourselves into, with the social insurance top cap, which is totally out of kilter with anything in the UK, Jersey or most other jurisdictions.

2735 And I would draw Members' attention, in particular, to one paragraph, which I think Members should take note of – and it is paragraph A8b.14 which is about one third back from the end:

'By restricting the increase to a smaller percentage of people, the increase in taxation necessary to raise a significant amount of revenue is higher. Either the higher rate threshold would need to be comparatively low or the higher rate would need to be high. For example, to raise £20 million (the amount raised by an increase in the headline rate to 21.5%) it is estimated that you would need to charge a rate of 30%...'

– 30% –

'... on all income above £45,000, capturing about 25% of the employed population.'

2740 In summing up, I would ask Deputy Soulsby, Deputy Green and Deputy Trott – well, no, I will forgive Deputy Trott, but Deputy Soulsby, certainly – to identify what, in her opinion, is meant by 'high earners', because it is very emotive to talk about high earners but do you mean somebody who is earning £45,000? Is that a high earner? Because that is clearly the implication. If you want to go down the progressive tax banding, you are going to have to go down to that sort of level to attack that level of high earner.

2745 I suspect most people in this Assembly and most people listening to this broadcast would say, 'No, a high earner is somebody probably about more than £100,000.' Now, if you go to that level, there is another table in here somewhere which points out the approximate number of people who are actually earning over £100,000 and it is not that many people, so the amount of tax take you will get, by trying to apply a tax rate at, say, a threshold of £100,000, if you want to, for a high earner, you are not going to get very much. And if the whole purpose of this exercise, having thrown out the GST – then clearly we are accepting that we are going to be dependent upon direct taxation, going forward – the whole nub of this is, therefore, to raise as much as we can. The reality is if you want to go down that route then your definition of high earner is going to be having to be closer to £40,000 than £100,000.

2755 Thank you, sir.

The Deputy Bailiff: Deputy Duquemin.

Deputy Duquemin: Thank you, Mr Deputy Bailiff.

2760 I rise to, I suppose, support the comments made by Deputy Harwood in the last speech and also that of the Commerce & Employment Minister, in his contribution to the debate.

I think I have said it in this Assembly before and I have certainly said it outside this Assembly. I think it is very important that we, as an Island, fall back in love with the Open Market. It has a huge role to play in Guernsey and can have a very positive effect.

2765 In the exchange between Deputy Dorey and Deputy Stewart on the Soulsby amendment, we were talking about evidence. For me, we need no more evidence than what is the once in a generation success story, Specsavers. I know it is often quoted but let us remember that that couple came to Guernsey to retire in an Open Market property and, as Deputy Stewart said, once an entrepreneur, always an entrepreneur, and I think we should all make –

2770

Deputy Soulsby: Point of correction, sir.

The Deputy Bailiff: Point of correction, Deputy Soulsby.

2775 **Deputy Soulsby:** Nothing within my amendment mentions the Open Market at all. It is irrespective of what address or accommodation somebody is living in.

The Deputy Bailiff: Deputy Duquemin.

2780 **Deputy Duquemin:** The point that I will continue to make, Deputy Soulsby, is that we are here in danger of slipping into the trap that we already slipped into once before, when we made some comments about the Open Market; and the mood music that was mentioned meant that we suddenly became very, very unattractive when compared to – (*Interjection*) It was when the Housing made their comments and the Open Market went through a huge dip. And we cannot afford to let that happen again. It would not be a case of, 'Should have gone to Specsavers,' we could have had a case that they would have gone to Jersey.

2785

I cannot stress that enough and I think Deputy Stewart is absolutely correct that we must do all we can to make sure that we should not give a competitive advantage to our near neighbours and our competitors.

2790

Thank you, sir. (**Several Members:** Hear, hear).

The Deputy Bailiff: On the basis that nobody else wants to speak, Deputy – Deputy Conder, do you want –?

2795 **Deputy Conder:** I will very brief, sir, as seconder.

I think we have had a good debate, but I just want to focus on, not the high earners, because I agree with Deputy Harwood and many others, and Deputy Stewart, in terms of the need to protect our unique regime in order to attract high net worth individuals. I think perhaps, as so often, we are missing some of the key words in this amendment – in Deputy Soulsby's amendment, and mine – which is to look at 'a progressive system of income tax with lower tax bands...' So if I may just focus on that very briefly.

2800

I came to Guernsey about 15 years ago. I had a very privileged existence and I would certainly have been defined as a high earner then. I am not now. But, more significantly, my wife also came here to work and she was a social worker for nine years at the PEH and, in many ways, I did live a privileged existence and I lived an existence which separated me completely, I think, from the reality of what it is like to have low earnings and live at and try to cope and live in a society which is mainly focussed around middle earners and high earners in terms of, certainly, profile and focus. And she opened my eyes to some of the levels of deprivation at lower earnings levels.

2805

So I would just like us to focus on that briefly, and that is why I am very keen and pleased to support this amendment. I am also really pleased and grateful to you, sir, that you have grouped them together, because I think they actually are a package and I will probably vote and support all of them, and be really interested in the results that come back from the investigation.

2810

2815 Just, again, forgive me, I quite often give anecdotal evidence, but there was a 10% lower earnings band in the UK for many years. Mr Brown, who was Chancellor of the Exchequer, withdrew it and I wish I could remember the date, but it was obviously in last Labour government; and it had a massive impact upon the welfare and the retained earnings of the lower paid in the UK.

2820 I am happy to be corrected. I am not aware that we have ever had a lower band of tax here. I wish we had. I think, combined with personal allowances, it could make a huge difference and, of course, I would say this wouldn't I? And, in the absence of GST, I think introducing lower bands for those who are on such low levels of income, in many cases – as I said my wife had to deal with many of them for many years – it could make a difference.

So I am really proud and pleased to support this amendment. For the reasons I have said, I will support all of the amendments and look forward to the outcomes and the results.

2825 Thank you.

The Deputy Bailiff: Deputy Kuttelwascher, to be followed by Deputy Spruce.

2830 **Deputy Kuttelwascher:** Thank you, sir.

I just want to address a point made by Deputy Dorey, regarding avoiding Stamp Duty by share transfer. We, in Treasury & Resources, have seen the latest draft of the legislation to close that loophole, if you want to call it. It is with the Law Officers and as and when it might become Law, I am not sure, but it is a matter that is being addressed and it will not persist.

2835 The other thing is just a few words about sentiment and perception. Now, in the last term, a few comments made by the then Population Group absolutely spooked and demolished the Open Market sentiment and it continues in that state. To come out and say, 'I will tell you what we will do with it after we have consulted with everybody' is enough. And that confidence, after three years – well, four years nearly, I suppose – in spite of everything that has been said, has not been rebuilt; because until the appropriate legislation from the Population Report on what is in there about the Open Market is before this Assembly – debated, and amended, if necessary, and passed. That sentiment will not change and the confidence will not return.

2840 I completely agree with Deputy Stewart about this first amendment – the Soulsby amendment – just reading it will spook any potential incomers because they will say, 'Hang on a minute, at the moment – ' (*Interjection*) No, it will because I already know some who have asked me what is going on about our taxation system. And you will not get that confidence back and I would think what we are suffering will continue and may even get worse.

2850 I find this very unpalatable and I would warn carefully or sincerely or aggressively or whatever, that Members should really be very careful about what they wish for here because, at the end of the day, even if it was successful and some form of progressive taxation was to come in, you are not going to get much from it. It will change people's behaviour and you could end up losing. So why do it? It is not worth the risk at the present time. It really is not.

The Deputy Bailiff: Deputy Spruce.

2855 **Deputy Spruce:** Mr Deputy Bailiff, Members of this Assembly, I will take these amendments one by one. Amendment 7 seeks to direct T&R to investigate the implications of introducing a lower tax bands for lower earners with higher tax bands being applied to higher earners.

2860 Now, that all sounds easy and simple, but one should remember that we already have a significant amount of tax redistribution within our system, caused by having an exceptionally high Social Security charge on earned income. This is especially so when compared to other jurisdictions. The current Social Security charges apply to an upper earnings level of just over £135,000. We, therefore, should not – I repeat, *should not* – increase that level of charge any further or combined rates of marginal tax would make us a most uncompetitive jurisdiction. (**Several Members:** Hear, hear).

2865 Even in the UK, higher rates of tax are only applied at the point which an individual's income is no longer liable to full National Insurance contributions. It is, therefore, absolutely vital that we maintain a competitive, combined marginal tax rate. If we do not, we will make Guernsey less attractive for individuals who are likely to encourage wider employment and entrepreneurial innovation, particularly when compared to the headline rates of Jersey, our nearest neighbour.

2870 We must remember that we live in a competitive world. If this amendment is accepted, we will send out an entirely bad message – a message that could only scare higher earners away from Guernsey. I, therefore, ask you to reject amendment number 7.

Now, moving onto amendment 8, as you have already heard, the Joint Boards have considered this in detail and are not opposed, in principle, to the idea of investigating the impact of the withdrawal of Personal Allowances for higher earners. But, as stated earlier, we must consider carefully the interaction between the progressive tax elements of such a proposal and the levels of Social Security contributions already paid into the system from this group of people. The message really is tread carefully with this proposal. There is no doubt that significant analysis will be required before embarking on this option.

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2880 As Deputy Langlois has already said, we would therefore ask you all to reject this amendment in favour of amendment 9, laid by Deputy Trott. That amendment more succinctly recognises the relationship between all taxes.

Moving onto amendment number 9, as I have already stated, I would ask you to support this amendment. I am happy to support it solely because it recognises the importance of the link between how Social Security contribution rates and charges are applied and their link with both the overall tax charged on income and any withdrawal of Personal Tax Allowances that may be agreed.

2885
2890 It is essential that we avoid falling into the trap of considering these interlinking elements separately. We must ensure that one portion of our society do not end up paying very high marginal rates of tax.

I ask you, therefore, to support amendment 9.

Thank you.

The Deputy Bailiff: Deputy Lowe, to be followed by Deputy Inglis.

2895
Deputy Lowe: Thank you, sir.

I am going to support all three amendments here, and we are discussing them all three together because the Deputy Bailiff, very wisely, said they all sit rightly together; and when you read the amendments... and I am disappointed, because there are speakers standing up here saying, 'We are open for business' but if you are in this Assembly you are closed, because if you have got any amendments you must not place them, because you are upsetting the package, but T&R and SSD have said, 'We have got it right. Do not actually come up with any amendments.' We must not look at any ideas. Yesterday we were being asked to come up with ideas. Today we have got ideas. 'That is wrong.' Make up your mind what you really want Members to do.

2905
Deputy St Pier: Sir, point of correction.

The Deputy Bailiff: Point of correction, Deputy St Pier.

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Deputy St Pier: Sorry, point of correction, sir.

Deputy Lowe is incorrect. The Joint Boards have supported one amendment already and have indicated their support for at least one other so she is misleading.

The Deputy Bailiff: Deputy Lowe, to continue.

2915

Deputy Lowe: Yes, I accept you have supported amendment number 8 but there are still 7 and 9 here. (**Two Members:** Nine.) Number 9, beg your pardon. No, it is 8!

The Deputy Bailiff: No, it is 9, Deputy Lowe.

2920

Deputy Lowe: Nine, sorry. Yes, I have got it the wrong way round – wrong order. I have got them here. I put them back down in the wrong order.

2925

But this is 'to investigate' and what is wrong with investigating? What is wrong with having evidence before us? Members have come up with ideas here, and very good ideas, but I need the evidence before me to know if they are a good idea or not and I have not actually got that.

2930

The definition of a high earner? Well, we all know that actually bonuses are put into the pot and your average is £30,000. So what is a high earner? All of you in this Assembly would be, I guess, high earners, because... and I am not suggesting that come down as low as £30,000 but this is where it is rather crazy really, because £48,000 is actually a high earner. In Guernsey terms, that is a high earner.

So I would like that information before me, before I can make decisions – and there is nothing wrong with that. This is a long-term plan here and it is really important that Members are not sent out the message of 'We must not look at things', because that maybe should have been in the Report in the first place.

2935

But I welcome these amendments and I want to see the reports back on this so I can make my own informed decision whether I think that is appropriate or not.

So I shall be supporting all three.

The Deputy Bailiff: Deputy Inglis.

2940

Deputy Inglis: Thank you, Mr Deputy Bailiff.

I think the key words that we must all think of in relation to amendment 7 and 8 is, 'Do not bite the hand that feeds you.'

2945

I have major concerns that we are in danger. As Deputy Kuttelwascher said, we are spooking people.' As Deputy Duquemin said there are success stories that have filtered through our economy in a very big way. I do not think people can clearly appreciate how it affects right down to the low income earners. And, as Deputy Stewart said, these people like to enjoy the trappings of their wealth, and why not? And that is, again, spread through our economy.

2950

So, I would really ask Members not to support amendments 7 and 8, but to consider and support amendment 9, which does give us the scope to investigate and, of course, there are areas within the Social Security band that could allow us to have a look at how we can make things more competitive for those people that really are at the high end of the tax break who are suffering.

I do urge Members to support this.

2955

Thank you, sir.

The Deputy Bailiff: Deputy Robert Jones.

Deputy Robert Jones: I am going to support all three amendments.

2960

I think we are starting to over-egg the possible influence that an investigation into the three elements, that are raised by these three amendments; because we have actually got a Report in front of us, which is the Report that has already been published, that we are all debating here and we have a list of – in A8b.8 – all of the headline rates for Jersey, Isle of Man and the UK, and beneath that we have another paragraph that says:

'A8b.9 This means that, in 2014, a low- to middle-income individual could pay less income tax in any of the three jurisdictions listed above than they currently would do in Guernsey.'

2965 So we have already put it out there that we are a little bit uncompetitive. We have also put it out there, below there, that, because of our Social Security contributions in 2015, we also state that:

'This adds a further competitive disadvantage for middle to high income households when considered in comparison to Jersey and the Isle of Man, Guernsey...'

2970 So I think we are over-egging this perception that another investigation is going to lead to spooking. And, to be honest, the only people that have brought up and set the hares running are the people that would try to stop the hares running, (*Laughter*) by claiming that the discussions into the Open Market were going to lead to that. So it seems a little bizarre to me.

2975 So I think, considering this Report, most people have not read it. I think we have already spooked people enough. I do not think further investigation just to look into... is going to spook them any more than they have been spooked by this particular Report because, in the last six weeks, I have not heard one person mention the Open Market in relation to this Report. (**A Member:** Hear, hear.) It has only arisen in the last 15 to 20 minutes of this debate (*Laughter*) and I think it has been raised really just to try to defeat these amendments. So I think we should just sort of proceed with a little bit of caution and not be led into the over-egged argument of spooking people again.

2980 Thank you, sir. (**Several Members:** Hear, hear) (*Interjection*)

The Deputy Bailiff: Deputy Perrot. Deputy Sherbourne afterwards.

2985 **Deputy Perrot:** How far up do I actually have to go, sir, before I am standing. I lost out on doing that yesterday.

The Deputy Bailiff: Deputy Perrot, if you want an answer to that question, it is: once you stand, stay standing up, please.

2990 **Deputy Perrot:** Purely rhetorical. Just my little joke! (*Laughter*)

The reason why I have got up at all is the reference to the Open Market. Now, I know that we are not talking about the Open Market today, but it has been used – (*Interjections*) please – as an analogy.

2995 There is absolutely no doubt about it whatsoever, that when that matter was not handled properly, the information went around the world to people who were interested in the subject. There is a place in Massachusetts called Concord. We would pronounce it 'Concord'. But there, just before the war between America and Britain, a shot was fired to quell what was perceived to be a potential riot. And that was called 'the shot that rang around the world' and even though things took a long time, messages took a long time to be communicated in those days, that one was communicated instantly.

3000 Be under no illusion at all that what we decide today about progressive tax... If we are talking about a breach of the thus far hallowed rate of 20%, that will go around the world immediately and that is going to put us at a disadvantage. It will put us at a disadvantage with our direct competitors, who are in Jersey and in the Isle of Man.

3005 So far as progressive taxation is concerned I think, curiously, nobody would expect me to say this, but I think I will support progressive taxation from 20% downwards, so that those who are not as well off are paying within lower bands, but, for me, the real danger, for the reasons already expressed by me, are if we go above that 20%.

3010 Now, I am not as certain as Mr Trott would say – my good friend, Deputy Trott, I should say... I am not so concerned, but people are concerned – the really wealthy people – about marginal tax rates, about there being higher marginal tax rates, because I think that the really high net worth people whom we would seek to bring to Guernsey are not too bothered about that. I think that –

Was that a signal to give way?

3015 **Deputy Trott:** Only to say that I could not agree with my very good friend more, sir, because those ultra-high net worth individuals already have a tax cap in place that gives them the security that they need. The Trott / Jones amendment is about making sure that relatively modest earners do not get caught in a marginal tax trap that no-one in this Assembly would wish.

3020 **Deputy Perrot:** Well, I think the point that I am making is that even those who come below the tax cap are less bothered about high marginal rates of tax than those on lower incomes. And the magical figure, the truly magical figure, is 20%. 20% has been magical, as far as Guernsey is concerned, because if one is involved in commerce or in law or accountancy and one reads internationally-based articles, what people admire about the 20% is that it has always been there. Not always; that is an exaggeration, but it has been there for a very long time indeed and people trust that it has not gone up.

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3030 Oddly enough, in very many of the articles which I have read about this sort of thing, if that rate had gone down that would cause consternation, because it would mean that there is a relative lack of stability, but Guernsey does not want to stick to one figure and people will think, well, if it can go down, it can go up. (**A Member:** Hear, hear.) That is why I think that we really do need to stick at one figure.

3035 There is also a problem, if you go above the 20%, that it is felt that Guernsey is going into an area where perhaps some sort of socialism is kicking in whereby there is a wish to soak the rich. Actually, as we have had earlier on, those who are comparatively wealthy are very good contributors to what we need here, whereby the top 10% of earners are providing something like 40% of our income taxation revenue.

So my very strong suggestion to you is that, if we are going to have progressive taxation, it ought to be within that 20% band, from 0% to 20%, and certainly we ought not to be going above that.

3040 **The Deputy Bailiff:** Deputy Sherbourne.

Deputy Sherbourne: Thank you, sir.

3045 Members, I have a problem, not with the amendments, but I had a problem with the process that has brought us to where we are, because I am not in a blame game. It is one of the things I try to avoid – pointing the finger and saying, 'It is your fault.' But, in fact, these amendments are a result of what I consider to be a poor Report. (**A Member:** Hear, hear.) It is definitely a well-researched one, but the recommendations coming from it, for me, were poor because they did not address the issues that actually are being faced now with these amendments.

3050 There are a body of people in the Assembly who are very concerned that the Report did not really address the disproportionate burden of tax on our lower paid and more vulnerable people. That is where a lot of us are coming from and we want to see proposals that address that, that recognise that, as a community, we have the responsibility to look after those people and that did not come through. It did not come through in the tone or the tenure of that Report.

3055 So now we are looking at ways... because we know we need more money. I accept that. I have been saying that myself, privately to other Members, for a long, long time and I saw the solution as an increase in Income Tax. I certainly would not object to having to pay more. Contrary to those that say, 'No-one likes to pay Income Tax.' Maybe, foolishly, I say, 'I do.' I am very happy to be able to play my part in providing what I believe everyone in this Island, especially the children, deserve. (**A Member:** Hear, hear.)

3060 And I have a problem because I actually do, using Deputy Queripel's term, resonate with the messages that are coming from other colleagues. I do understand that and Deputy Stewart was very kind to introduce us to a term used in marketing, 'thud'.

Now, forget the uncertainty, although I suppose you could include that in it, and certainly not the debt. But the fear factor is the thing that has been thrown at us time and time again. We must

3065 not mess around with our corporate tax structure. I say, rubbish! We need to consider it. It needs to be part of the dialogue, the discussions. (**A Member:** Hear, hear.)

The number of people in industry – and not as many as Deputy Stewart meets, but certainly over 46 years in this Island I know, personally, a lot... During five wonderful weeks of canvassing in 2012, I was meeting many, many tradesman, some of whom I had actually taught, but people that I knew; the reason I served for St Peter Port North – I knew the families. And the number of ordinary Guernsey people that said, 'Look, I am running this business. I am paying my 20%, but I do not have to pay anything on my business.' They did not actually understand how they got away with that. Why aren't they included in that corporate tax programme? I do not know a lot about it, but I do know that there are people out there that actually do say, 'We want to contribute.'

3075 I have actually attended many of the GIFA academy presentations at St James, just to get up to speed on the fund industry; and, as many of you know, I have a son that has had quite an extensive career in funds. And for the first two years of my tenure in this Assembly I had members of the fund industry saying to me, 'When are we going to make our contribution?'

3080 Now, actually, to be fair to Treasury & Resources, and especially to the Treasury Minister, the Zero-10 band has been extended and we are now receiving income from it. But that took so long. Why weren't they involved as they emerged initially? Why did it take so long to actually get our corporate sector to make the contribution that they should be making?

3085 Those are the sort of questions that I ask, because I am an ordinary bloke – and my wife – paying our taxes. My earnings have always been upfront, because I have been employed by the States. Thank you, very much. And I now receive a pension from you that I paid into for 40 years.

But I still take an interest in the way that this Island is actually developing – where the wealth is generated – and I want to do my bit to help that process, but I do not want to be told every time we talk about improving the lot of everyone in the Island, that you cannot raise money here, you cannot raise money there, because it might frighten people away. I accept it is a reality that there is that possibility, but it stifles our thinking.

3090 Now, if I had full confidence... this is ever so difficult, because I have got confidence in our Treasury Minister, but I have not got confidence that the thinking, the mind-set of the people that determine our fiscal policies, from Jeffrey Woods down, are really doing the best thing for this Island.

3095 Yes, they are removing a deficit, but in terms of people out there, leading their normal daily lives, we do not seem to be addressing them and that is why many of them are complaining all the time about anything that happens here; and there are a lot of good things that happen here – things that I am really proud of being involved with.

3100 So, it is a difficult decision. Intuitively, I want to support all three, but I do understand there is this balance, but please, please, those of you that really, if you like, pull the strings and have the power, please address some of those basic problems that our lower paid and our most vulnerable people are facing. Only then, can I have really full confidence in accepting, fully, the advice of those perhaps a bit closer to the moving and shaking of high net worth individuals and bringing money into the Island. I know it has to happen, but I am not fully convinced. I have heard it far too often in 46 years.

Thank you. (*Applause*)

3110 **The Deputy Bailiff:** Deputy Adam, to be followed by Deputy Brouard.

Deputy Adam: Thank you, Deputy Bailiff.

3115 Deputy Sherbourne has just mentioned the fear factor and how he thought about the fear factor. Now, Deputy Soulsby, in her introductory speech, mentioned something to do with HSSD. That is one area I do know something about, as Deputy Sherbourne knows about – the people he taught etc. And I do have a fear factor concerning that.

3120 Deputy Soulsby, very rightly, said there was a problem with recruiting nurses and that is because, basically, they find that the pay here, compared with what they have or pay in the UK is very similar, partly because the Personal Allowances in the UK are going up to £11,000. They get more money in their hand or as much money in their hand, and that is what people like – whether it is 20% GST or VAT etc. That is what they like and there is not much incentive.

But she did not mention all those who work for the health services in Guernsey who actually do earn, some people would say a generous salary, some people would say excessive salary, I simply say a reasonable salary – and that is the consultants.

3125 You employ 11 consultants – one who is going to be on £200,000 or thereabouts, because that is the one that Deputy Luxon mentioned being employed in the A&E Department and I know another one who is probably above that, and x-ray, radiologists, psychiatrists – you employ them.

3130 Now, because the pay level and the costs of living here are such, as highlighted by Deputy Jones, and because there are so many jobs available in the UK and, unfortunately, for Guernsey and Jersey, the UK government upped consultants' pay considerably about 10 years ago, I think it was, when they cut their working down by 20% and increased their pay by 20%. Plus they have the added advantage of a lovely, final salary pension scheme, after 40 years. And, therefore, it is getting more difficult to attract consultants. The consultant for A&E took a year to get him to appointment, I think it was. But it is more difficult to attract consultants.

3135 But then, Deputy Soulsby, you do not even consider the other doctors in the Island which, again, are in that same range and self-employed – that is MSG consultants, which there are about 39 of, and the GPs, which there are about 42 full-time equivalents. And, again, are they not finding it more difficult to attract doctors to replace them, because of the competition in the UK?

3140 Therefore, if you go putting taxes up it makes it even less attractive, partly because, being self-employed, they are all paying 10.5% towards what I call a pseudo-insurance scheme now, of SSD – because it goes up to £135,000 – and, yes, the report from the Competition Authority suggested GPs earns somewhere between £150,000 and £190,000 if they were a partner in the practice; and I believe the MSG consultants – unless they get a lot of private practice – earn about £250,000. But the consultants in MSG do not just do 48 hours that the consultants do in the UK, but they do 48 hours plus extra and calls. It goes up 60 and they are still given the same amount or similar amount to UK consultants.

3145 Therefore, Deputy Soulsby, when you are talking about attracting and looking after your people within HSSD, you have to consider these things because you have to attract them and putting up taxation for them will not help very much. Putting up Personal Allowances would help the nurses and also, to a certain extent, the higher ones.

3150 So I cannot support that amendment at all. It has not been carefully thought through for the people who are not in business etc, but actually provide our health services, which most of us use.

3155 As far as the next one is concerned, I do not think you can put that one without, as Deputy Kuttelwascher said and Deputy Perrot said, comparing it with the SSD contribution and, therefore, I would favour Deputy Trott's amendment which, as he said early on to me, would partially help things and I suggest we should all vote for that one.

Thank you, sir.

The Deputy Bailiff: Deputy Brouard, to be followed by Deputy Luxon.

3160 **Deputy Brouard:** Thank you, sir.

Two days running, Deputy Duquemin has very kindly brought me to my feet.

The issue of the Open Market was an interesting one and there is a parallel here with our – I do not know which Billet it is; it is the one with all the appendixes in and I am looking at A8b.1, around there...

3165 If I remember rightly, the issue with the Open Market happened... it was that we had a population debate and there was a Billet produced and documents produced and in there, part of it was going to be a review of the Open Market. And where it got spooked was not –

I will give way.

3170 **Deputy Dave Jones:** Thank you.

The real problem with the Open Market at the time was the fact that every 10 years the housing licencing laws were reviewed. Now, in the past, unfortunately, estate agents had not made it clear to Open Market property owners that that was the case. There was nothing unusual about this review. Unfortunately, for some reason, under this review it set hares running that it should not have done, because it happened ever 10 years.

Deputy Brouard: Thank you, Deputy Jones.

That was seriously very helpful because that is exactly the point I am making.

3180 It was just the normal course of business. What happened was: the headlines in one of the media papers a few days later. That is where the... It was not the hares running from us here. And this is where it is not so much what we do, as the 47 of us, but it is sometimes what the media pick up on and the media could tomorrow – I hope they do not; please, the one person there in the media listening...

3185 This page A8b.2, a 2% increase in Income Tax could raise £25 million. Where there is your headline – raise that, run that round the world a couple of times. Where do we stop? We need to have sensible discussions in this parliament here but we also need the media to be sensible as well with how they report it. Deputy Duquemin was absolutely right: we do not want Hares running on this. But it just shows that there is information like that around and it is how we use it and how we treat it that is ever so important.

3190 We are not going to be a cheap jurisdiction; we never have been and we do not sell ourselves as a cheap jurisdiction. We are a quality jurisdiction, doing quality services. We have a very stable Government. We have a good time zone. We have got the climate. We have got the schools. We have got very good personal safety. You can go around the Island and you are safe. When the rest of the world is in turmoil and going helter-skelter, more and more people will look to oases such as ourselves.

3195 The amount of tax that someone pays is a small part when it comes to the overall package when they look to move from their existing jurisdiction. It is one of the elements, but it is not the major one that people use in moving here. There are other jurisdictions where it is zero. They can go there tomorrow. They choose not to because of the special situation we find ourselves in here.

3200 So, please, let us have a sensible debate and can the media, as well, report on it as fairly and equally and possible.

Now, I am in a dilemma. I do very much take on board the Minister's comments with regard to the amendments, but I also think the days when 20% paid for all the services that we have, as Islanders, are probably moving away. The services I want are slightly better than that and I may have to pay slightly more to get them. Now, whether you do that by taking away some of the allowances that you give me, fair enough, but I would rather somehow pay through an Income Tax system – Sorry? (*Interjection by Deputy Perrot*) (*Laughter*) – I would rather pay through some sort of Income Tax system, rather than having death by a thousand cuts or paying individual little cheques for different things.

3210 I think a lot of Islanders also feel the same way as I do. Rather than paying for things separately – and I know the user-pays policy is becoming more and more popular, but – a lot of people say, 'Well, actually, just put a few pence on Income Tax.'

So, although I understand the ramifications of that headline whizzing round the world, I think we do still need to have a very sensible, a very adult and a very mature conversation for how we pay for our services long term.

3215 Thank you, sir.

The Deputy Bailiff: Deputy Luxon.

3220 **Deputy Luxon:** Mr Deputy Bailiff, I will be brief.

Sir, I am very sad, not because I have not had enough sunshine during the winter, but because I have actually enjoyed reading all of the documents that the Joint Committees have furnished us with; and I have also enjoyed reading the 17 amendments – apart from one which I think is silly. But I have enjoyed them because this debate needed to be had and this is a very, very important issue.

3225 But, sir, today I realise that this States has had the tag of being the worst States ever, just as the last States did and the States before that did, but, for me, the three worst decisions we have made was throwing the Strategic Asset Management Programme into the long grass, (**Several Members:** Hear, hear.) kicking the Government Service Plan into the long grass, (**A Member:** Hear, hear.) and today – and I respect my 28 colleagues that voted for it – by deciding to dismiss a Goods and Services Tax as an option for us going forward, I think we and our Island will regret each of those three decisions.

3230 And my very good friend, Deputy Sherbourne, who often comes to this Assembly reminding us we should be prepared to invest more in social policy development, I find it ironic that he has probably voted the wrong way on each of those three. (*Laughter*)

3235 I truly believe we will regret those three decisions. I realise you Members will have different views about our three worst decisions. Those three: big strategic, impactful and are going to cause us problems over the next few years. (**Two Members:** Hear, hear).

3240 Sir, I was dumped with the Chairman of the Population Steering Group, because Deputy Jones decided he had had enough for a while, so he handed the mantle onto me; and those of you that attended a workshop on Valentine's Day at St Pierre Park, will remember that Stephen Langford – I think I am not allowed to mention his name, but I just have – presented a slideshow and in one of them he had his foot on the desk and he took a gun and he shot himself in the foot.

3245 If we walk away today, having allowed the Island to remotely contemplate that this Island will think about reviewing the corporate tax situation that we have at the moment, we will absolutely set the hares running. It will damage our economy and the reason that the Open Market is being used as a good example is – and I disagree with Deputy Jones and Deputy Brouard slightly – the 10-year issue was part of the problem, but there were two other factors.

3250 Some very clumsy words in the document that went out – some very clumsy words – that did not say that the whole Open Market should be reviewed in its entirety, but that it allowed itself to be perceived in that way. It was very, very, very dangerous and also some Members of the States – some of whom are with us today – absolutely had an abhorrent problem with the multi-occupancy of some Open Market property; and I understand that, but those things got conflated and it has resulted in a significant impact on the economic well-being of this Island ever since.

3255 Jersey had a significant problem and went into recession after the financial market collapsed, because of the nature and the make-up of its financial services sector. That was really unfortunate. It meant that Jersey followed the UK into recession, in a way that Guernsey has trickled into recession – but we are now confronted with it.

3260 So unintended consequences, please, do not just think that the Open Market issue just would have happened anyway. Actions in this Assembly absolutely had the most significant negative impact on our economy than it has done for many, many years. It was not done intentionally, but it was the unintended consequence of a significant issue, which we have now fixed. The Chief Minister and the Housing Minister and myself, in our role as the Population Steering Group, after this Assembly made some very good decisions about the proposals that we have brought forward last year, went out into the community and talked to some of those estate agents and talked to some of those conveyancing advocates – not all of whom are billionaires yet – and we tried to persuade them to understand that the uncertainty that unintentionally had been put into the market and around the world, as Deputy Perrot said, was gone, was removed. That uncertainty, we had clarified it. Previous Chief Ministers had tried to do that unsuccessfully, but we had done that.

3270 The efforts it has taken to try and galvanise people in the private sector to actually understand that the uncertainty that they used as being the reason for the Open Market being in such

doldrums... it has taken them a long time to grasp that and actually run with it. Deputy Stewart, in his Commerce & Employment role is trying to move forward that agenda, to work with them, to realise that we have got a message to tell, that Guernsey is open for business. But we made a decision that had significant impact.

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So I absolutely commend the two Ministers for the Report. I commend those Members that have brought the amendments. I will support the third amendment, because in three years I have not heard Deputy Trott introduce one of his speeches as, 'I am going to be serious now.' They have all been quite funny. But I am going to accept that, just as he apologised because he was wrong once yesterday, I reminded him he was also wrong a second time within the same debate. But I will support the third amendment.

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I will probably support the second amendment but I cannot – and Deputy Stewart, you are wrong, through the Chair, sir, Deputy Soulsby has been brought to the light side in helping us in HSSD, having moved from the dark side of Commerce & Employment... But, Deputy Soulsby, I am not able to support your proposal. It is as dangerous as the clumsy words of a few years ago about our Open Market. Please, Members, do not support my friend, Deputy Soulsby's, amendment. Unintentionally, it has danger. Please do not support it. (**Several Members:** Hear, hear.) (*Applause*)

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The Deputy Bailiff: Deputy Le Lièvre.

Deputy Le Lièvre: Thank you, sir.

Members of the Assembly, if I were T&R I would welcome the opportunity to vote for what is quite an innocuous amendment that just simply seeks to insert some better balance – this is the Deputy Green, amendment – into our tax and benefit system.

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Now, we have a complex benefits system which becomes even more complex when you weld it together with tax allowances, in particular – and, in particular, the Personal Tax Allowance. We have got Family Allowance, contributory benefits, non-contributory benefits, a rebate scheme, which is some form of benefit, we have got grants and we have got tax allowances. And there are some inconsistencies within these systems that need to be slightly adjusted or adjusted out of the system, to make the whole system better balanced and this is an opportunity for T&R to produce a little bit of better balance, in my mind.

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Now, we have heard today, and I was quite amused, somebody put high earners with a figure of £45,000. And we have heard about modest earners; well, that would make a supplementary beneficiary, a modest earner. We are not talking of levels of £45,000. There are people on substantially higher rates than that, but not necessarily as high as £135,000 or whatever.

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Yes, Deputy Doctor Hunter Adam talked about £200,000 as being reasonable income. Well, this is not about that. I see reasonable looking upwards; looking upwards from where we are, from the bottom end of the spectrum. We have systems that examine people's income and expenditure, down to the last penny almost, and we award them benefits based on very detailed research into these family circumstances.

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Supplementary beneficiaries do not get their Family Allowance, because it is absorbed within their actual benefit. Some do, if they have got a high requirement rate above 600 – but very few actually hit that ceiling. And these sorts of small – I call them anomalies, but small – items within our tax and benefits system are mainly focussed... When we focus on benefits in this Assembly we will talk about keeping them down, assessing them very carefully, looking at them carefully. But when you turn the whole system on its head, there is that care... that financial probity seems to disappear.

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We start talking about how we will be frightening people away and I am sure that the Open Market is not talking about the Green amendment. I am sure nobody would be impacted if we said, 'Well, we will actually reduce your Personal Tax Allowance to perhaps half of what it would normally be. You might lose £1,000 from your reasonable income of £200,000.' (*Laughter*) But I am sure that is not going to put people off.

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3325 The reason I seconded this amendment is that I wanted to insert into our tax and benefit
system a better balance. (**A Member:** Hear, hear) This is all about better balance (**A Member:**
Hear, hear) and, at the moment, we talk about tax allowances as though they are somewhat
different, but they are not. Supplementary Benefit is a benefit, Rent Rebate is a benefit, Family
Allowance is a benefit; and it is logical that Personal Tax Allowances, within what is a means tested
3330 scheme – Income Tax is a means tested scheme – is, in itself, a benefit. (**Several Members:** Hear,
hear). And we must apply certain rules to that, that tie up with the rules – not necessarily exactly
the same rules, because I do not want to put people off from benefiting from their hard work, that
is the last thing I want to do, but I also want to ensure that there is golden thread that runs
through our benefits system and upwards into our tax system...

3335 That is what this amendment is about. It is not about anything else. It is not about frightening
people away. It is not about putting people off spending £750,000 on the renovation of their
property or such like, or about buying cars from Jacksons or anything else that I have heard in the
Assembly this afternoon. All it is, is about obtaining better balance for those people who... Well, I
do not know where the money would go, if we saved anything, but I would presume that there
3340 would be a movement, a slight movement, trickle down, into improved benefits for those at the
bottom of the ladder. That is all I am asking for. It is nothing to do with putting people off from
coming here. It is a very simple amendment.

Now, it might well be subsumed into Deputy Trott's amendment, but when I read Deputy
Trott's... and then he started talking about all the marginal tax rates which are all very technical, I
got a feeling that there was a flavour to Deputy Trott's amendment which actually put money
3345 back into the hands of people I would already be talking about taking it away from; (*Laughter*) and
that worried me ever so slightly, because I am not talking about massive sums of money here. The
Personal Allowance, at the current rate, is only worth about £1,900 a year. Obviously, changing the
upper earnings limit with regard to social insurance contributions has a much larger effect.

3350 But I have just wanted to talk about balance. I just think that is the purpose of this amendment
– nothing else. (**Several Members:** Hear, hear.) (**A Member:** Well said.)

Thank you, sir.

The Deputy Bailiff: Well, Members of the States, we will now move to the closing in relation
to each of these three amendments.

3355 Deputy St Pier, if you want to, you can make a speech before each of the proposers of the
amendments reply to the debate, or you could combine it into a single speech, if you preferred.

Deputy St Pier: Thank you, sir.

3360 What I will do is respond to the entire debate and then make a few briefer closing remarks in
respect of each of these amendments.

Sir, earlier today we had an admission from a previous Treasury Minister that he had made a
mistake and I say to Deputy Sherbourne and to Deputy Green and to Deputy Le Lièvre, that I too
have made a mistake; and the mistake that I think I have made, together with the rest of the
Members of the Joint Board, is that we looked at the whole question of the withdrawal of
3365 allowances and, once we got into the detail of its interaction with Social Security, the proposal
that we had in the draft report, which would have removed allowances for higher earners, was
removed quite late in the day. And that was a mistake and, for that, I apologise.

3370 What I say to Deputy Sherbourne also, sir, is I cannot agree with him at all that this Report has
no help for the lower paid. This Report was structured around... the most effective way to deliver
help to the lower paid is through higher Personal Tax Allowances and a social insurance
contribution free allowance. That was the central mechanism that we used, having gone through
all the modelling, having looked at lower rate bands and all the rest of it, the evidence was there
that it was the most effective way to help those lower paid employees. So I must point that out,
very strongly, to Deputy Sherbourne because that cannot be left to stand.

3375 I would also say, in relation to Deputy Sherbourne's comments, in respect of local businesses, slightly off the track of the amendments, but of course local businesses – the sorts of businesses he was taking about – are contributing over £10 million a year, through the distributions to the owners of those businesses. That is in addition, of course, to corporate tax rates, as well. And that is often forgotten – even by the owners of those businesses, I might add.

3380 And I would also say to Deputy Sherbourne that our economy remains in a very fragile and exposed state. We have gone through a long period of downturn and only, from my statement to the Assembly – however many days ago now, I forget – is there some evidence that some growth is returning. So we must be extraordinarily careful, I would suggest, in how we handle some of these issues, because we must not imperil growth in our economy. And we must remember we
3385 are living in a different world; this is not the world of the mid-2000's. Nobody owes us a living. The international pressures are much greater upon us and we have to recognise that in everything that we do.

Deputy Green, in particular, made reference to the Jersey system and the Jersey marginal rate system and the Deputy Chief Minister did note that it is quite a complicated system. It is, of course, what we used to have and we withdrew it because it was so complicated. The tax codings that were given to people were always wrong and that just increased the costs of the administration of the whole system.

The question of marginal rates of taxation, which is the central point of Deputy Trott's amendment, is absolutely critical and, for me, sir, the most offensive marginal – and I have not used that term, unlike many Members in this Assembly; I have not used that term 'offensive', but
3395 the most offensive marginal – rate we have in our tax system exists for those earning £6,812, because at that level they pay a marginal rate of 35%, because they then get subject to social insurance on everything they earn. What a bizarre system we have created! So I agree with Deputy Le Lièvre that some of these anomalies that we have created through our tax and Social Security system absolutely have to be dealt with.

Deputy Laurie Queripel... and I think actually Deputy Harwood dealt with this point very clearly on my behalf when he referred to paragraph A8b.14, in relation to the sums that would be raised. If we are going to tinker with this system, I would suggest to you, sir, that we have to be sure it is going to bring in a sufficient amount of revenue to warrant the effort; and what that paragraph
3405 tells us is that if, for example, we wanted to raise £20 million, which is the equivalent of 1.5p on the basic rate, then we would have to charge a rate of 30% on all incomes above £35,000, capturing 25% of the employed population.

So, in essence, it is making the point that in order to raise... If we are going to do it for reasons of revenue-raising, rather than just because it looks cosmetically good and it makes us feel right, then we are going to have to recognise that it will need to kick in at a relatively low level.

In relation to Deputy Dave Jones' points about the self-employed and marginal rates, we have to remember our self-employed are generally paying a marginal rate of 30.5% and, if we start to withdraw allowances, at a rate of £1 withdrawn for every £2 of income earned, their marginal rate would go to 40.5% – 40.5%! So we have to look at the interaction between Social Security and
3415 Income Tax in any of this work. We would be foolish to do otherwise.

Deputy Conder referred to the lower rate band in the UK. Of course, it was introduced and then it was abolished. And the UK have determined – they have reached the same conclusion as us – that the most effective way to help those in lower income bands, is through the Personal Tax Allowance system. And, indeed, the Isle of Man have also done the same. As of their Budget only
3420 a few weeks ago, they have abolished their lower rate band, their 10p band, as from 2016-17 and, in turn, they will be increasing their Personal Tax Allowance from £9,500, which is currently below ours, to £14,000; and they are doing that by having a single rate of tax, and what is that single rate of tax? 20p.

Deputy Perrot spoke about higher rates and also lower rates and, if amendment 7 were to direct us to look at lower rates, introducing a lower rate band as a way of helping those on lower
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incomes, I would not have a problem with it. It is the focus on higher rate bands, which is the real concern.

3430 In relation to Deputy Rob Jones' point, which he referred to the earlier section of appendix A8b and some of the information that was given there – which was quite detailed about where our contribution upper earnings limit sits and so on – the world outside Guernsey does not look at that level of detail. What they look at is the headline rate. What they look at and they understand is that we have a social insurance rate of 6.5% and we have an Income Tax rate of 20%. They do not go beyond that in their initial scan of where they might be thinking of relocating.

3435 So when Deputy Brouard says it plays a small part, I, sir, would suggest to him that he is being a little naive, because in that first sweep of where somebody is going to go, they will be just looking at those headline rates. It will only be later, as they get in, they will start to think about whether it is close enough to London and whether it has got the right kind of environment and all those other things, which he quite rightly identified are the reasons that many people will relocate here. But he would be naive to think that that is the reason that many people would first think of
3440 Guernsey.

So what I say to you, sir, and to Members, is that the world worries about headline rates, but actually we should worry less about headline rates and worry more about effective rates of tax, because we can increase the effective rate of tax on higher income earners through the withdrawal of allowances. So we can keep the headline rate and increase our contribution from
3445 that group by the withdrawal of allowances, but the headline stays the same and all the signalling to the outside world stays the same and stays very positive.

In relation to Deputy Brouard, I would say there is a massive, massive difference between us putting information in the appendices of this Report and there being a Resolution of this Assembly to tell us to look at higher rates. There is a big difference between those two.

3450 Sir, finally, summing up in detail on amendment 7, Deputy Soulsby's amendment has been presented with her normal articulate and well-argued rationale and it is, of course, well-intentioned; but this Assembly should be under no doubts whatsoever that it carries significant risks and that has been expressed very well by Deputy Duquemin.

3455 There will be massive uncertainty and it will be exploited by our competitors. We would be naive to think otherwise. Local Jersey will have it on their website, I am absolutely certain, by first thing by tomorrow morning. And Deputy Dave Jones says, 'We do not want to frighten the horses with the investigation.' Well, merely passing the Resolution that tells us to look at higher rates will frighten the horses.

3460 Deputy Soulsby said, 'Well, it will not, because of course we are tax capped.' Well, only 32 people out of our 32,000 taxpayers are tax capped. That is not the level of which we are talking about. The level that will be affected is well below the tax cap and this will be sending out the signal. Forgive me, sir, I do not know who referred to sentiment but – Deputy Kuttelwascher referred to sentiment – this is all about sentiment.

3465 So what I say, sir, before Members vote on amendment 7, is they need to think of a few of the consequences that could happen. They, first of all, need to think of the Isle of Man and they need to think about why the Isle of Man abolished their lower rate band and have opted for a single rate of taxation with a higher allowance.

3470 They need to think about Locate Jersey and what Locate Jersey will do with this. They need to think about our friends in Alderney. Alderney are in the midst of what we all recognise is a period of economic decline. They have a well-developed economic regeneration programme which is centred around attracting high net worth individuals into Alderney, around our tax system. Not only will Deputy Stewart's work, and colleagues at Commerce & Employment, be threatened in relation to Guernsey First, but I think we can kiss goodbye to new residents moving to Alderney. It is difficult enough to attract those residents, but if we start sending out signals that actually the
3475 headline rate may no longer be 20%, that is a massive risk to Alderney – a massive additional headwind which they could really do without.

3480 Sir, amendment 7 would be a huge folly. In fact, in the three years that I have stood here, I do not think I can think of a single issue of which I feel more passionately and more strongly that it would be a massive mistake for this Assembly to support amendment 7 and I strongly, strongly urge Members to throw it out.

Several Members: Hear, hear.

3485 **The Deputy Bailiff:** I now invite Deputy Soulsby, as the proposer of that amendment, to reply to the debate on it.

Deputy Soulsby: Sir, well, welcome to the dark side! *(Laughter)* When my son hears that tonight he will be chuffed, I can tell you. I will have to dig out his Darth Vader mask.

3490 Deputy Langlois stated that he is shocked how much tax his son was paying in the UK. I do not see how much relevance that has got for Guernsey. Perhaps he should come over here.

Now, Deputy Stewart talks about this amendment setting hares running. Well, the only one doing that is Deputy Stewart within his crazy speech and getting everybody talking about the Open Market, clearly, trying to hijack this debate.

3495 Clearly, Deputy Stewart did not listen to a word of my opening speech. He speaks about how Jersey is attracting all these high earners. This is an Island that is running at a £50 million deficit – last year – with high levels of unemployment – certainly, higher than here. So perhaps their tax rates are unsustainable. I would say they are. Certainly, that is something they are probably going to have look at.

3500 He talks about uncertainty about Income Tax rates, but now at least we can guarantee we have no uncertainty over GST. **(A Member:** Hear, hear.)

Of course, all these ultra-high net worth individuals he is talking about have a capped tax rate, as I mentioned. Ultra-high net worth individuals that he was talking about. This amendment does not question that. I also repeat what I said earlier: what are his Department doing to help grow businesses?

3505 Deputy Harwood states that the top 10% provide 40% of the income, but what percentage of the Island's wealth does that represent? In many countries, it may represent up to 80% of the nation's wealth.

3510 And Deputy Harwood fell into good old trap of asking me what I think a high rate earner is. Well, that is why I want the evidence. I want to see an investigation. I am not providing the answers now; that is what I am seeking T&R to do.

I thank Deputy Conder for actually focussing on those who have been forgotten here. With all the talk about high earners, all those who have spoken about how it will hit the richest on the Island, have totally forgotten the lower earners. Remember median earnings, median earnings are only £30,000, if we are thinking about what a high earner and a low earner is.

3515 Deputy Spruce, again, forgets what this amendment says: 'investigate', not bring in, introduce or implement.

I will not mention about Deputy Perrot talking about the Open Market. I think Deputy Brouard dealt with that adequately well.

3520 Deputy Adam's comment was very interesting. Consultants' rate – talking about how well paid consultants are. We would have a rate of tax in the UK that would well be over 50%. There is nothing like what they are charged here. A bit of a gap to play with, I think!

3525 Sir, I thank the comments and support of Deputies Laurie Queripel, Fallaize, Burford, Dorey and others. Thank you for your comments, Deputy Jones, for bringing back some sanity to the debate. And also to Deputy Sherbourne for his passionate speech and for Deputy Brouard's common-sense. We are not a cheap jurisdiction. You are correct. What this amendment seeks to do is make it a more equitable one. **(Two Members:** Hear, hear)

Sir, I have made no secret of the fact that, for me, a tax system should be built around the ability to pay. During the debate on GST, I stated that the fundamental criticism of this Report was

3530 that little consideration had been given to the ability to pay, but considered that they should be.
This Assembly, by supporting Deputy Conder's amendment, just demonstrated its desire to
support a progressive system of taxation. For such, we now need to devote time and effort to
looking at what such a progressive system should be, that is fit for the future, and we really
cannot do that without looking at tax bandings. How can we not do so? Why is it okay looking at
one aspect but not another? If we are going to investigate a more progressive tax system, we
3535 need to do it properly and that means looking at our current tax rate and whether it is fit for
purpose.

I, therefore, urge Members to support this amendment.

The Deputy Bailiff: Members of the States, I am proposing to take a vote on that amendment,
3540 so that we know the outcome – though we might not know the exact numbers – before closing
the next amendment, and then do the same again.

So, there being no request for a recorded vote... There is a request for a recorded vote. *Appel nominal* then, please, Deputy Greffier.

There was a recorded vote

3545 **The Deputy Bailiff:** Well, Members of the States, I get the impression that that has been lost,
quite heavily.

Can we now move, Deputy St Pier, to anything you want to say in responding to the debate in
relation to the eighth amendment moved by Deputy Green?

3550 **Deputy St Pier:** Yes, I think I, personally, am a little ambivalent towards amendment 8. I think
amendment 9, by the recognition of the link with social insurance, at least consciously recognises
that. Having said that, amendment 8 – inevitably, we would have to look at that.

So I think I have got no strong objections to amendment 8. (**A Member:** Hear, hear.)

3555 **The Deputy Bailiff:** Deputy Green, then as the proposer of the amendment to reply to the
debate on that.

Deputy Green: Thank you very much, sir, and I am very grateful for the Treasury Minister
giving that indication just a moment ago. I will try to be relatively brief.

3560 The fundamental point that I made in my opening speech was that if you are going to have a
review on universal benefits then it should equally apply that same logic to universal tax
allowances. I genuinely do not think that that point has been shaken in this debate and it was very
articulately echoed and emphasised by my seconder, Deputy Le Lièvre, and I thank him for his
support.

3565 In terms of the substantive debate on this amendment, there was not actually that much
analysis of this amendment. There were concerns. Deputy Langlois, obviously, articulated the case
against it, in terms of the example of the self-employed individual who would face the high
marginal rate, but he did encapsulate the position of the two Boards, which is that they do not
necessarily oppose the steady withdrawal of tax allowances, in principle. The point is you have to
3570 consider it in tandem with the social security system and that is the point that the T&R Minister
just conceded a moment ago.

I think it has been quite clear that amendment 8 has always implied that the issue of tax
allowances would have to be looked at in the round and, in any event. Certainly in the chronology
of the amendments going in, I believe that Deputy Trott's amendment – amendment 9 – did come
3575 in some time after amendment 8. But, nonetheless, I join forces with Deputy Trott, because I think
the combination of amendments 8 and 9, in any event, are a package, clearly, and that is why
Members can feel very safe in voting for both and, in particular, amendment 8! (*Laughter*)

3580 One of the other points that Deputy Langlois made, which I think was a valid point. I think he was making this point more in the generality of what the impact could be of a more focussed withdrawal on personal tax allowances, in terms of the impact on enterprise and ambition; and I think I raised that issue in my opening point. I think that is valid, but that is why you need to have the investigation.

I thank Deputy Laurie Queripel for his support. He quoted from his Vale manifesto. I am glad that this amendment chimes with one of its policies.

3585 Deputy Fallaize, again, thank you for your support. You made the point that these amendments, taken together, are compatible. They are not inconsistent. They should be considered all at the same time and I would absolutely endorse that.

3590 The point about the danger of the high marginal rates, especially for the self-employed, is a point that I take and I do not disagree with that. In any event, that is something that would have to be looked at by the Department, if this amendment is successful, because the two are inextricably linked. The Social Security system and the Income Tax system – they will have to be looked at in the round. If you are going to tinker with allowances in one, you should do it for both, because it is the headline – the marginal rate, which is the more important.

3595 Deputy Burford, again, I thank her for her support. She asked, 'Why can't we tax the rich?' I would suggest that amendment 8 is actually a very moderate way of drawing in more income from richer members of our community.

3600 Again, Deputy Dorey – I thank him for his support. He made the important point that the option of withdrawing allowances for higher earners at the current level of the personal allowance, which is £9,675, the maximum amount of extra tax any person would have to pay would be, in terms of the withdrawn amount, £1,935.

Again, Deputy Conder, I thank him for his support. He, again, saw the three amendments very much as a package.

3605 Deputy Spruce, amongst others from the Department, made the point that the official line, if you like, was amendment 9 was better because it was more rounded; it mentioned Social Security, but I have already made the point... I think it was always implicit in what I was saying, that it would have to cover the round of taxation, which does include the Social Security system. But, in any event, I do note that he was not opposed in principle to the investigation of the steady withdrawal of allowances, but the issue is the interaction with Social Security.

Deputy Lowe, again, I was grateful for her support.

3610 And, indeed, Deputy Rob Jones made a very important point, I think, in terms of not over egging, not exaggerating, the significance of investigation of these matters.

3615 Deputy Perrot made the point about the truly magical 20% figure. I made it clear yesterday I think the 20% general rate of Income Tax is an important symbol for stability, certainty, business confidence. But of course having a detailed look at personal Income Tax Allowances and potentially withdrawing and tapering off those allowances for higher earners allows you to keep that 20% Income Tax rate; and I know that that was a massive part of the case why Jersey went down the route they did, with '20% means 20%' – because it allowed them to say to the outside world, 'We still have the 20% general rate of Income Tax'. But, nonetheless, they were then able to raise more money from higher earners – whatever that is taken to be defined as.

3620 I think I will probably just end by saying I was grateful for the apology that Deputy St Pier made a few moments ago when he admitted his mistake and I think that was very good of him and I think he deserves great credit for that. (**Several Members:** Hear, hear). He reminded us, or told us, that the section of the Report, in terms of the withdrawal of allowances and the interaction with Social Security, had been removed quite late in the day from the draft and it was very good of him, I think, to acknowledge that. And I agree with him, in terms of the question of
3625 marginal rates being highly critical.

So there is probably not a great deal more I can say. I would ask Members to support amendment 8.

Amendment 7:

3630 *Not carried – Pour 11, Contre 35, Ne vote pas 0, Absent 1*

POUR	CONTRE	NE VOTE PAS	ABSENT
Deputy Laurie Queripel	Deputy St Pier	None	Deputy Storey
Deputy Lowe	Deputy Stewart		
Deputy Dorey	Deputy Gillson		
Deputy Wilkie	Deputy Le Pelley		
Deputy Burford	Deputy Ogier		
Deputy Soulsby	Deputy Trott		
Deputy Brehaut	Deputy Fallaize		
Deputy Robert Jones	Deputy David Jones		
Deputy Sherbourne	Deputy Le Lièvre		
Deputy Conder	Deputy Spruce		
Deputy Lester Queripel	Deputy Collins		
	Deputy Duquemin		
	Deputy Green		
	Deputy Paint		
	Deputy Le Tocq		
	Deputy James		
	Deputy Adam		
	Deputy Perrot		
	Deputy Brouard		
	Deputy De Lisle		
	Deputy Inglis		
	Deputy Sillars		
	Deputy Luxon		
	Deputy O'Hara		
	Deputy Quin		
	Deputy Hadley		
	Alderney Rep. Jean		
	Alderney Rep. Harvey		
	Deputy Harwood		
	Deputy Kuttelwascher		
	Deputy Domaille		
	Deputy Langlois		
	Deputy Le Clerc		
	Deputy Gollop		
	Deputy Bebb		

The Deputy Bailiff: Thank you, Deputy Green.

3635 Before inviting Members to vote on that amendment, let me declare the result on the amendment proposed by Deputy Soulsby, seconded by Deputy Conder. There voted Pour, 11; Contre, 35. I declare that amendment lost.

Deputy Green: Can we have a recorded vote, please, sir.

3640 **The Deputy Bailiff:** There is a request for a recorded vote. So we will take the recorded vote please, Deputy Greffier.

This is the amendment proposed by Deputy Green, seconded by Deputy Le Lièvre, to insert Proposition 27A.

There was a recorded vote

3645 **The Deputy Bailiff:** Well, Members of the States, that amendment will be declared as carried. *(Laughter)*

3650 It has just gone 5.30 p.m. Clearly, we need to move to vote on the final amendment in this batch. I am going to propose, therefore, that we do that and that we then continue sitting to deal with the following amendment, which is to be moved by Deputy Soulsby and seconded by Deputy

Green, which is consequential on the vote that has just been taken, effectively, and then pull stumps for the night.

Those in favour of doing that; those against.

Members voted Pour.

3655

The Deputy Bailiff: I will declare that carried.

So, Deputy St Pier, do you want to say anything in response to amendment number 9?

Deputy St Pier: Nothing further to add, sir.

3660

The Deputy Bailiff: Deputy Trott.

Deputy Trott: Sir, in light of the strong vote the last amendment had and, in particular, with reference to the strong support that the amendment has had from both the Joint Committees and the majority of States' Members, I so move.

3665

The Deputy Bailiff: Well, there is no request for a recorded vote this time, so we will go *au voix*. Those in favour; those against.

Members voted Pour.

3670

The Deputy Bailiff: I declare that carried.

Deputy Soulsby, this is amendment number 10 now if you wish to move that.

Amendment 10:

To add the following to proposition 34:

' such investigation to have regard to the findings of the report as described in Proposition 27A in relation to high earners'.

3675

Deputy Soulsby: Sir, this amendment is relatively simple and straightforward, and ties in quite successfully really, for an amendment, to look at reducing tax allowances. As such, I will not speak for very long. Just to say that ... to require investigating reduction in the Income Tax allowances, but through that against Social Security contributions for everyone.

I urge Members to support this amendment.

3680

The Deputy Bailiff: Deputy Green, do you formally second the amendment?

Deputy Green: I do, indeed, sir. Thank you.

3685

The Deputy Bailiff: Is there any debate on this amendment?

On that basis, there is nothing to reply to. We will go *aux voix*. Those in favour; those against.

Members voted Pour.

Amendment 8:

Carried – Pour 46, Contre 0, Ne vote pas 0, Absent 1

POUR	CONTRE	NE VOTE PAS	ABSENT
Deputy St Pier	None	None	Deputy Storey
Deputy Stewart			
Deputy Gillson			
Deputy Le Pelley			
Deputy Ogier			
Deputy Trott			
Deputy Fallaize			
Deputy David Jones			
Deputy Laurie Queripel			
Deputy Lowe			
Deputy Le Lièvre			
Deputy Spruce			
Deputy Collins			
Deputy Duquemin			
Deputy Green			
Deputy Dorey			
Deputy Paint			
Deputy Le Tocq			
Deputy James			
Deputy Adam			
Deputy Perrot			
Deputy Brouard			
Deputy Wilkie			
Deputy De Lisle			
Deputy Burford			
Deputy Inglis			
Deputy Soulsby			
Deputy Sillars			
Deputy Luxon			
Deputy O'Hara			
Deputy Quin			
Deputy Hadley			
Alderney Rep. Jean			
Alderney Rep. Harvey			
Deputy Harwood			
Deputy Kuttelwascher			
Deputy Brehaut			
Deputy Domaille			
Deputy Langlois			
Deputy Robert Jones			
Deputy Le Clerc			
Deputy Gollop			
Deputy Sherbourne			
Deputy Conder			
Deputy Bebb			
Deputy Lester Queripel			

3690

The Deputy Bailiff: I declare that amendment duly carried.

Can we have the voting slip for the...? Members, this will come as a huge surprise! (*Laughter*) On the amendment that was proposed by Deputy Green and seconded by Deputy Le Lièvre, there voted Pour 46; Contre 0. (*Laughter and applause*) I therefore declare that duly carried.

3695

We will now adjourn until 9.30 a.m. tomorrow morning and move to the next amendment, the next topic.

The Assembly adjourned at 5.38 p.m.