



CHIEF PLEAS CONSULTATION
by the Finance and Commerce Committee
Revenue Generation and Fairer Taxation proposals
Part of Securing Sark's Future Policy 2014

Introduction

The document '*A Vision for Sark*' noted by Chief Pleas refers to the development of economic policies & income strategies (page 10) including a review of options for taxation. The policy *Securing Sark's Future 2014* includes the item: Revenue Generation (Empty Properties and Fairer Taxation) with reference to Direct Taxes and the distribution of the taxation burden.

This consultation is being conducted to get your views on the collection of direct taxes to ensure that they are collected in a manner that more fairly distributes the burden of taxation.

Background

The Direct Taxes (Sark) Law, 2002 came into operation on January 1st 2004 and since that time the two taxes that exist under that Law, Property Tax and Personal Capital Tax, have raised the largest part of the Island's income to meet the yearly budget requirement. The Direct Taxes Law has now operated for 10 years without any major change.

We now propose looking at this current system of taxation, to see if it is still the best method of raising the required taxes. We want to make it as fair as it can be for the majority. We also need to make sure the government can continue to raise sufficient resources to fund its commitments to the community in a changing climate of regulation and international obligations. We also want to make it financially advantageous to have empty properties occupied with economically active persons.

Chief Pleas wishes to know the views of residents on changes to taxation, if you want to respond then details of how to do this are at the end of this document.

To help you we have set out next year's budget and the current tax arrangements below, followed by other possible changes for the future.

Next Year's Budget

Next year's budget requirements (2015) will be raised by the current method of taxes and charges. The agreed (Michaelmas Chief Pleas) budget expenditure of £1.342 million is a 1.85% increase on the current year's £1.318 million (an extra £24,400).

Taking the estimates for expected income from other taxes, together with other incomes from charges for services and licences into account, it has been necessary to increase the rates for direct taxes significantly again (by 11%) to meet the requirement. This has been mainly due to the continued fall in income from Impôt (alcohol and tobacco duty) and Property Transfer Tax.

The proposed government income for 2015 consists of:

Direct Taxes - 53% (£716k)	Impôt - 25% (£337k)
Poll Tax (Landing Tax) - 4% (£50k)	Property Transfer Tax - 1% (£15k)
Payments for services *, licences, fees etc. - 17% (£225k)	Total - £1,343k

The total income (£1.34m) will be raised to pay for estimated government expenditure in 2015 as follows:

Island Maintenance – 18% (£235k)	Island Administration 16% (£209k)
Education – 15% (£198k)	Social Support (Procureur) 12% (£150k)
Harbours and Crane 7% (£92k) *	Public Works 6% (£82k) *
Tourism Support 6% (£78k)	Legal Expenses 5% (£65k)
Policing and Fisheries 4% (£49k)	Health Services 3% (£40k)
Legal Aid 2% (£27k)	Court Costs 1% (£16k)
Grants & Subsidies 1% (£18k)	Miscellaneous Other 3% (£38k)
Unforeseen Reserve 1% (15k)	

* These amounts are raised as far as possible by charging for the services.

The current tax arrangements and possible changes for the future

1. Direct Taxes consist of Property Tax and Personal Capital Tax.

Property Tax is paid on each property by the person recorded in the Cadastre as being the possessor of that property. The amount paid is related to the size of the property as recorded, in quarters, multiplied by the current rate as set in the budget. (£9.38 per quarter for 2015)

Personal Capital Tax (PCT) is paid by all adult residents under 8 options available as set out on our annual tax assessment forms.

The latest statistics available, for 2014, show that the majority of residents, 62% of the total 555 tax payers, pay the minimum tax, £288 or £5.54 per week. Add to this the residents over 69 years who are zero rated under the tax and the total becomes 70% (388).

Maximum Tax (£5,760) is paid by 5 residents i.e. 1%

The remaining 28% pay by the Forfait method or Declaration of Assets. Forfait payers pay on average £1,800 each, those who declare assets pay on average £792.

6 persons pay no PCT under Option 6- property not available (1%)

In Summary:

For 2015 the proposed Tax rates are projected to raise the following amounts –

Property Tax	Number of Properties		Revenue
£9.38/ Quarter	343		£303,530
Personal Capital Tax		Number of Tax Payers	
Minimum Tax £320		343	£108,231
Zero Tax		51	£0
Maximum Tax £6,400		5	£31,360
Forfait @4x£9.38/Qtr		127	£254,223
Declaration of Assets		29	<u>£25,519</u>
Total PCT			£419,333
Totals	343	555	£722,863

Fairness and robustness of the system are still prime concerns of the government. **Income Tax** has been discussed in the past as an alternative or addition to property tax. The main drawback in a small population would be the cost of administration for employees, employers and government alike, together with easier evasion via non-disclosed earnings and residents here for reasons of personal convenience but not in employment. This option remains unworkable for Sark, for the same reasons.

It may be that the current system is still a good basis and that adjusting the emphasis appropriately and removing any opportunities for avoiding payment would be the best option.

2. Impôt

Impôt (Duty) raises a quarter of Sark's tax revenue and unlike direct taxes is contributed to by visitors as well as the local population. Obviously raising this tax is always unpopular everywhere. However, it is a fairly universal means of raising tax and is used to some extent to control consumption of alcohol and tobacco with their associated health issues. Sark's rates of duty on these products are relatively low compared with elsewhere, currently about 70-75% of Guernsey's rates.

In the past there has been an informal agreed link with the Guernsey rate (around 75%) which had got out of step when Sark's rate did not keep pace. Recent increases have restored this. **One option could be to increase Impôt further.** Consumption of alcohol and more noticeably cigarettes has dropped recently, coinciding with temporary building workers leaving and the smoking ban inside buildings. Impôt may form a smaller proportion of revenue in future and this change will have to be built into the overall budget.

3. Poll Tax

This is a tax on every person landing in Sark; at £1.00 per head it has remained the same for 20 years and contributes approx. £50,000 per year, the greatest amount coming from visitors. When it was introduced it formed a much greater proportion of the ticket price. **We have the option of increasing this perhaps just for visitors while having lower or zero rates for residents, identified when a definition of Resident is in place.** The loSS fare could be reduced by £1 and the landing tax would be a separate charge on the ticket, discounted for residents. A doubling of tax for visitors would mean a doubling of income estimated at £80,000 to £90,000 a year in total.

4. Property Transfer Tax

Property Transfer Tax (PTT) income has not reached the forecasted budget level for several years and the budget expectation for next year has been set at just 1% of revenue, £15,400. This reflects the very low level of property transactions currently taking place.

Land Reform and Divisibility in the longer term are key to stimulating the property market which would have a positive effect on the economy as well as increasing tax income for the government. The present uncertainty caused by Land Reform being progressed from the old system to a new system may be contributing to a short term reluctance to buy/sell property leases. Some short term leases (less than 20 years) do not come within the scope of PTT. The current PTT rules may be discouraging activity in the property market and leading to only short leases being offered. **Should the PTT Law be reviewed to see if modification is needed to address any weaknesses?**

5. Other Income

Charges are also made for services, applications, licences and permits. The main services are provided by Public Works for waste disposal and Harbours & Pilotage for harbour services and crane use. The Government is proposing that all charges across the board are sufficient to cover the cost of administering the service including purchase, renewal and maintenance of equipment. **i.e. the cost of the service should reflect the cost of provision.** This means if capital expenditure is required to update a service then in the process of buying equipment, the cost is built in to the charges of the improved service over the lifetime of the equipment. For example, Public Works wish to purchase a new incinerator to improve the way in which burnable waste is disposed. This major expenditure (estimated £115,000) can be paid for over the incinerator's lifetime by building the cost into the charges for the service.

All business sectors in Sark do not pay any specific business taxes. They pay property tax on premises and pay for necessary permits; it would not be beneficial to tax them out of business when overheads are high. We want to encourage businesses that make the most of the uniqueness of Sark in the sectors of tourism, finance, agriculture, fishing, e-commerce and IT. **However the government could apply the 'user pays' principle and require a specific contribution from all businesses for the services and infrastructure of the Island.**

In addition to this specific contribution from all businesses, the business sector could also fund economic development services co-ordinated by the government.

Further Consideration of Direct Taxation

The earlier analysis of income sources for the government shows that currently direct taxes account for over half the money received. It is therefore important that this is being collected as intended and in the fairest way possible.

When the Law was drafted in 2002 it wasn't foreseen that so much use would be made of corporate ownership. Personal capital tax is not collectable on corporate ownership of empty property, only the property tax is collected.

This means that leaving property empty has the double effect of lowering overall tax income for the government and there is no spending on the Island. This may suit the purposes of the owner but is not good for Sark's economy, so a measure designed to encourage occupation would be beneficial to Sark's economy.

An option could be to shift the balance of Property Tax and Personal Capital Tax. This would mean that Property Tax is a larger proportion of the total and PCT less. The intention would be that for most individuals the overall direct tax bill would not change greatly. However those owners not paying PCT (on business or empty properties) would have a higher bill.

The new levels would need careful calculation to achieve this desired outcome and some rebates may be needed to avoid penalising groups such as older residents or where all occupants pay minimum PCT.

Any of these proposals or any similar changes would require a change to the current Law. They could not be introduced by Yearly Ordinance as the current budget changes are, so careful consideration and examination of the consequences are needed.

In conclusion

For 2015 the basis for taxation remains the same but for 2016 it is intended to introduce new measures to secure tax raising ability in as fair a manner as possible, with a shift in emphasis that does not penalise the less well-off. In order for the Island to exist within its means as a relatively low tax jurisdiction, there must be a balance of affordability for the majority of the population that currently pays minimum PCT and the need to maintain the viability of the Community.

As universally unpopular as they are, taxes are needed to fund the services and maintenance of infrastructure essential for day to day life. Further, improvements are needed over time, to meet international obligations, aspirations of the residents and tourist expectations. Demands on the Procureur de Pauvres' budget, payment for services from Guernsey, responsibilities currently resting with individuals such as healthcare and pensions will all be pressures.

The cost of the Government must be proportionate, volunteering keeps costs down, and all adult residents make a contribution through tax. In order to preserve the aspects of life everyone values here this has to continue. 'A Vision for Sark' reflects these aspirations of maintaining the community lifestyle, preserving what is good while recognising what needs to change or improve to keep the best of Sark.

In forming the policy for future taxation we need to know the views of residents.

Please give your views under the following headings -

1. **Fairer taxation.** It may be that the current system is still a good basis and that adjusting the emphasis appropriately and removing any opportunities for avoiding payment would be the best option. What do you think?
2. **Impôt rates.** Should these be kept at a level relative to Guernsey duty, perhaps 75-80% of those rates or should it be increased?
3. **Poll Tax.** Do you think we should change this so that visitors pay more than residents?
4. **Property Transfer Tax.** Do you think that the current Property Transfer Tax Law should be reviewed to address any weaknesses?
5. **The 'User Pays' principle.** Should we apply this to all businesses as a specific contribution for maintaining the Island's infrastructure and services?
6. In addition to this specific contribution from all businesses (Q5), should the business sector also fund economic development services co-ordinated by the government?
7. **Property Tax.** Should we shift the balance so that Property Tax is a larger proportion of the total paid and PCT less, including rebates to some groups, for fairness?

Any other comments or suggestions are welcome; please send responses via the methods below and within the consultation period

Comments no later than 12th DECEMBER 2014 please –

by letter to - **The Committee Secretary (cp2).
La Chasse Murette,
SARK,
Channel Islands.
GY10 1SF**

or by e-mail to – **cp2.consultation@gov.sark.gg**