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Residents bear brunt as island fights competition

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By Michael Peel
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In St Helier's Royal Square, where British and French soldiers fought the Battle of Jersey in 1781, two local activists rue the impact of modern international realpolitik on the island.

For Rose Pestana and Chris Steel, members of Attac, a campaign group on taxation, the *casus belli*is a radical proposal that would over the next three years slash taxes for businesses and raise them for individuals.

"It's screwing the locals to look after the rich," protests Ms Pestana, a hospital cleaner. Mr Steel, who is unemployed, adds: "It's more expensive to live here than in the centre of London."

Their strength of feeling highlights a historic shift in tax policy that Jersey plans in response to competition from other offshore financial centres and pressure from the European Union and other bodies to scrap levies that "discriminate" in favour of foreign investors.

Frank Walker, chief minister, suggests it is "completely and totally wrong" to suggest the changes will hit the poor disproportionately. The changes simply reflect moves worldwide towards indirect taxes, he says.

"In philosophical terms, it's quite a change - no question of that," he says. "But in reality it's a change that most other countries have gone through at some point."

The starting point of the Jersey reforms is a proposal known as "zero-ten", under which corporate tax rates for the finance sector will be cut from 20 per cent to 10 per cent and other companies will pay nothing at all. Jersey's parliament backed the reforms in a historic vote last month.

The Jersey government says the overhaul is both a response to the EU's initiative on savings taxes and an acknowledgement of the need to keep pace with rival offshore centres such as Cayman Islands, Singapore, Guernsey, the Isle of Man and Dublin.

The controversy arises over the measures the government proposes to fill the resultant "black hole" in the public finances of between £80m and £100m. These would include introducing a sales tax of 3 per cent, lowering tax allowances for people on higher incomes and requiring shareholders resident in Jersey to pay an income tax on their companies' profits.

While many people support the plan and even more accept the need for some kind of change, there is debate and anxiety over the potential impact on people with no or low incomes.

"We have to go through a bit of pain domestically," says Anthony Dessain, a lawyer. "OK, to be a good neighbour that's the price, so we adapt. But we need to protect less well-off people."

Despite its image as populated exclusively by the super-rich, the island is home to more poorer people than outsiders might imagine. At the island's general hospital, Tony Keogh, assistant chaplain - a nephewby marriage of Aneurin Bevan, the late Labour health minister - tells how earlier that day he had baptised the shivering child of a young woman addicted to heroin.

Mr Keogh and others say the cost of living in Jersey is high, in part due to a combination of transport costs, harbour duties and lack of competition between shops. A pint of milk costs 55p on average, compared with 34p on the mainland, while a one bedroom flat is £169,000. Income levels vary sharply: average weekly earnings range from more than £700 in the finance sector to £300 in hotels, restaurants and bars.

The service industries are staffed in significant part by immigrants from outside Britain and Ireland, who account for more than 10 per cent of the population.

"The cost of living in Jersey, the cost of property, the cost of mortgages - many are living on that dangerous edge," Mr Keogh says.

Mr Walker, chief minister, plays down those fears, pointing to "very robust steps to protect the poor" in areas such as income tax allowances and a sales tax exemption on medical supplies.

The controversy over how many tax breaks to give business and the rich may be far from unique to Jersey, but the island's small size and its dependence on the finance industry make it a particularly vivid illustration of the forces shaping fiscal systems worldwide.

As Terry Le Sueur, Treasury minister and main architect of the reforms, says: "Whether one likes it or not, the financial industry pays the lion's share of our taxes."