Jersey to reduce corporate tax bills

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Published: February 27 2007 18:48 | Last updated: February 27 2007 18:48

Jersey has launched radical tax reforms aimed at slashing taxes for businesses and raising them for individuals, sparking vocal opposition among less well-off locals.

The tax haven has proposed the plan in response to competition from other offshore centres and pressure from the European Union and other bodies to scrap levies that "discriminate" in favour of foreign investors.

As the British dependency, which is independent of the UK parliament, grapples to satisfy the regulators' demands without leaving a huge hole in its public finances, it is acting as an exemplar of the social fall-out from reforms across the world's tax havens.

Anthony Dessain, a lawyer, says: "We have to go through a bit of pain domestically...but we need to protect less well-off people."

The starting point is a proposal under which corporate tax rates for the finance sector will be halved to 10 per cent and other companies will pay nothing. Jersey's parliament backed the reforms 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 centres such as Cayman, Singapore, Guernsey, the Isle of Man and Dublin.

At issue are the measures the government proposes to fill a resultant hole in the public finances of between £80m ($157m) 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 change, there is anxiety over its effects, particularly on people with no or low incomes.

The Channel island is home to more lower-income people than outsiders might imagine.

Locals say the cost of living 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 in Britain, and a one-bedroom flat £169,000.

Income levels also vary sharply: average weekly earnings range from more than £700 a week 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.

Frank Walker, chief minister, says "very robust steps" are being taken to protect the poor in areas such as income tax allowances and a sales tax exemption on medical supplies.

The controversy over tax breaks for business and the rich may be far from unique to Jersey, but the island's size and 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 Jersey's reforms, puts it: "Whether one likes it or not, the financial industry pays the lion's share of our taxes."