Jersey GST – Newsletter 1

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Jersey will be introducing its first consumption tax, known as Goods and Services Tax ("GST"). The aim of this newsletter and subsequent ones are to provide its readers with an overview of the new tax system and discussion on some practical issues. GST is expected to operate in a similar manner as value added tax (VAT). At a standard rate of 3% it will be the lowest rate compared with any other jurisdiction.

1. *Some of the facts*

Standard rate of tax	3%
Start date	Target date late April or early May 2008
Registration	Taxable supplies £300,000 plus OR voluntary
Types of supply	Standard rated / Zero rated and Exempt
Administration	Submission of tax returns and payment on a quarterly basis

2. *What is GST?*

It is an indirect tax which will be charged:
- on most business transactions made in Jersey,
- on goods, and most services, imported from outside Jersey

So, businesses that register for GST ("taxable persons") will be required to charge GST on supplies of good or services that are GST rated ("taxable supplies") – either at standard rate or zero rate.

For example, taxable persons will need to charge GST on the following transactions:
- selling goods (except for those exempted by statute)
- supply of professional services
- hire of goods
- using office goods for private use ("self supply")

3. *So how will GST operate?*

GST is expected to operate on a similar principal to UK VAT, but with an intention of it being simplified.

This can be best explained with an example. Let us consider supply chain from the manufacturer to the consumer. For example, 1,000 tins of tomatoes cost the manufacturer £500 to make (assuming no GST is charged for the purposes of this example). The manufacturer then sells them to the distributor for £600 plus GST (or £618 gross). The distributor sells the same to the retailer for £700 plus GST (or £721 gross) and the retailer sells them to the consumer at 90p per can plus GST, with a gross turnover of £927.

Assuming that there are no other costs that we need to consider, such as marketing cost etc then the GST collection at each level of the supply chain will be as follows:

	Sales (Net)	**"output tax" @3%**	**Cost (Net)**	**"input tax" @3%**	**Net GST due to the States**
Manufacturer	600	18	500	0	18
Distributor	700	21	600	18	3
Retailer	900	27	700	21	6

Thus, the consumers pay GST of £27, which equals to total tax that the States collect in case of the above example.

It is worth noting that the costs to the "taxable persons" are still the same as before as they can reclaim "input tax". Thus they are only acting as collection agents for the States.

4. *Who will need to register for GST?*

Broadly, any one that makes "taxable supplies" in excess of £300,000 per annum in the course or furtherance of their business. And there are provisions with the legislation which allows voluntary registration.

5. *Why would anyone want to register voluntarily?*

If the taxable turnover of a business is below the registration threshold it can apply for 'voluntary registration'. There are advantages and disadvantages to registering voluntarily and careful consideration will need to be taken. Benefits include increased credibility for your business and, if your business makes standard or zero-rated supplies, you'll be able to claim back input tax. However, there are costs such as on ongoing administration which need to be considered against.

It must be noted that once registered on a voluntary basis the taxable person will need to carry on with GST administration for three years!

6. So what is excluded?

Certain types of supplies of goods and services are "outside the scope of GST" or "exempted" by legislation. Exempt supplies include certain forms of medical supplies, insurance and certain financial services. Services of the employees will be classified as "outside the scope of GST". However, recruitment agents that have registered for GST will need to charge GST on their fees for providing staff to their clients.

Those making exempt supplies will generally not be required to register for GST and will also not be able to reclaim any input tax.

7. So what about zero-rated supplies?

These are generally supplies goods and services exported to other jurisdictions. So sale of Jersey royals to UK buyers will be a zero-rated supply. The GST due will be at zero-rate. However, as zero-rated supply is also "taxable supply" then the Jersey royal supplier will be able to reclaim input GST on business expenses.

IN CONCLUSION

This summary sets out the very basic information which we hope will provide a useful guide to those who are not familiar to GST and a refresher for those that have had previous experience.

We will be happy to discuss any queries you might have in relation to GST.

Our services include:

- GST consulting and health checks
- GST planning
- GST assessment reviews
- GST compliance services
- Act on behalf of clients on disputes/appeals to Commissioners.

Compliance Services:

- GST registration and de-registration
- Advice on choosing the right scheme
- Drafting/Completion of GST returns
- Filing to GST returns
- Act as agents for non-taxable principles
- Act as GST representative

Consulting and Health Check

Our VAT health checks ensure that your tax system complies with GST legislation and corresponds with correct procedures. It also identifies any GST optimisation opportunities.

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Mekad Limited provides the following services:

- Jersey taxation (includes GST)
- UK tax compliance (i.e. drafting SA900, SA700, FS50s)
- Bespoke outsourced bookkeeping, accounting and related services (such as project management and consulting services)