

Memorandum for Executive Council

SUBJECT

Tax Reforms 2019

Memorandum by the Acting Financial Secretary

ADVICE SOUGHT

1. **Executive Council is asked to advise whether the following Bills should be printed and published and presented at a forthcoming formal meeting of the Legislative Council:**
 - a) **The Income Tax (Amendment) Bill, 2019 which provides for changes to Self-Employed and Corporation Income Tax to incentivise export and import substitution activities (in place of the Investment Tax Credit) and incentivise charitable giving; and**
 - b) **The Property Tax Bill, 2019 which provides for the introduction of a Charge on Commercial Properties which are empty for over nine month of the year.**
2. **Executive Council is also asked to advise:**
 - a) **Whether the Income Tax (Amendment) Regulations should be made and come into force on 1 April 2019;**
 - b) **Whether the Customs and Excise (Approved Investor) Regulations should be made and come into force with effect from 1 April 2019 and;**
 - c) **Whether the Stamp Duties Order, 2019, should be made and come into force on 1 April 2019.**

BACKGROUND & CONSIDERATIONS

3. At the Executive Council meeting held on 12th February 2019, Council considered various proposals for tax reforms during 2019 as set out in Executive Council memorandum number 65/2019. Council advised that public consultation on the proposed reforms should go ahead, noting that any new or amending legislation required to facilitate any agreed changes to existing legislation would need to be prepared in time for a formal meeting of the Legislative Council to be held on 22nd March 2019. This would require Bills to be printed and published by no later than 7th March 2019.
4. The Sustainable Economic Development Plan (SEDP) sets out a number of sectors from which the St Helena economy

could benefit and reduce the current trade deficit. The recently approved investment policy and investment strategy looks to support the achievement of the goals in the SEDP. As a result, a number of changes to tax policies have been explored to facilitate an environment which encourages exports and import substitution.

5. In addition as part of the annual budget process the Tax and Revenue working group (T&RWG) has explored options for increasing revenues through broadening the tax base and supporting other policy initiatives such as tackling the housing shortages.
6. A long list of revenue generation options were considered by the Tax and Revenue Working Group and of these, five options were shortlisted for further consideration by the Economic Development Committee (EDC). They were shortlisted based upon their ability to meet a set of agreed tax principles.
7. The Tax Principles are:
 - Tax rules should be fair and equitable
 - Tax rules should be attractive to local business and investment from overseas
 - Tax rules should help reap the benefits of the airport
 - Tax rules should be sustainable considering an ageing population
 - Tax rules should favour those who make efforts to be greener and healthier
 - Tax rules should stimulate supply of land, housing and infrastructure
 - Tax revenue generated should outweigh cost of tax collection
 - Tax rules should work to reduce market failure

Consultation

8. After advising on a number of changes to the Customs and Excise (Approved Investor) Regulations to create an Approved Investment Committee, (shown to be amended in Annex E), Executive Council agreed that a public consultation could commence on a number of shortlisted tax and revenue changes. This occurred between 13 and 23 February and included two radio interviews, a public meeting at the Canister, a meeting with the Chamber of Commerce and an invitation to send comments by telephone or email to the Financial Secretary or Government Economist. The

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response to the consultation is provided as Annex B to this memo and the proposed legislation for Vacant Properties (Annex F) and Income Tax (Annex C) has been amended accordingly.

Tax reforms proposed

9. The proposed **Self-Employed and Corporation Income Tax Reductions and the Approved Investment Scheme** with regards to exporters and selected import substitution industries have been an output of the Investment Strategy. This incentive will replace the Investment Tax Credit as it is more targeted to sectors which will directly support St Helena's balance of payments. See Annex C and E. Executive Council is asked to endorse these regulation proposals.
10. Furthermore, a change to the Income Tax Ordinance (known as Gift Aid) is proposed to incentivise charitable giving over £500 per annum. The legislation regarding these taxes has been drafted and Executive Council is asked to endorse the request that the legislation be published and presented as government business at the formal Legislative Council meeting currently scheduled for 22 March 2019. If approved it is proposed that the legislation would come into force on 1 April 2019. See Annex C and D.
11. The housing market on St Helena currently experiences a low turnover, with more demand than supply whilst 25% of properties on St Helena are currently empty, according to the 2016 census. The **Empty Commercial Property Tax** intends to encourage owners to let out their empty commercial property. Empty properties are still a cost to SHG; SHG maintains the infrastructure (such as roads) servicing the property, and makes available police and fire services. It is noted that the empty commercial property tax will not force owners to rent their commercial properties; should property rental not be desirable, then the tax can simply be paid, Executive Council is asked to endorse the request that the legislation be published and presented as government business at the formal Legislative Council meeting currently scheduled for 22 March 2019.
12. In order to help first time buyers get onto the property market, Executive Council is asked to endorse the legislation pertaining to changes in **Stamp Duty**. See Annex G. Currently there is a flat 2.5% rate of stamp duty applied to all transactions and it is proposed to exempt first time buyers on stamp duty on the first £100,000 of the value of the land or property they purchase; exempt stamp duty on properties up to the value of £10,000, introduce a stepped charge for higher

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value properties and an additional 2.5% for those purchasing a second home.

13. The following papers provide background information:

- Annex A: Tax Proposals for 2019 paper
- Annex B: Feedback during the consultation period
- Annex C: Income Tax (Amendment) Bill
- Annex D: Income Tax (Amendment) Regulations
- Annex E: Customs and Excise (Approved Investors) Regulations
- Annex F: Property Tax Bill
- Annex G: Stamp Duties Order

FINANCIAL IMPLICATIONS

14. Whilst the commercial air service is bringing in more visitors, the lack of money in the economy particularly from the Airport project coming to an end and also the lack of a Capital Programme means that it is not expected that SHG revenue will increase significantly without changes to tax and charging policies.

15. Whilst it is important to ensure that spending programmes are run as efficiently as possible (in order to obtain value for money), revenue generation also needs to be a consideration during the budgeting process.

16. If we do not seek other ways of generating revenues then we may not be able to afford continued investment in many public services in priority areas. As part of the budgeting process, a significant deficit in funding has been identified. This will need to be tackled, either by raising revenues, or forgoing improvements.

17. The potential revenues which could be generated have been estimated based upon certain statistics (for example information within the Census) and a range of assumptions.

18. Although revenue forecasts for new taxes are highly uncertain, an attempt to estimate them has been undertaken. It is estimated that:

- A range of -£50,000 to £50,000 in any one year could be gained from changes in the stamp duty. This would be administered through the property team. The range is as a result of both concessions and increases being made to stamp duty.
- It is estimated that the changes to Income Tax and Customs duties as a result of the incentives related to the Investment Strategy will be cost neutral as a result of the

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removal of the Investment Tax Credit.

- Changes to revenue from the charity tax relief incentive are too uncertain to estimate a range. However, a provision has been included to ensure that gift aid payments are only provided to those individuals who pay income tax to ensure that the scheme does not pose a liability to the balance of the consolidated fund. This scheme would be administered through the tax office.
- Equally, because the charge on empty commercial properties will be new, and we do not have census data on the number of empty commercial properties (although we know that 1 in 4 residential properties are empty) it is uncertain in any one year what revenue could be gained from an empty property tax. The charge would be administered through the property team and tracking of empty properties would be undertaken there.

ECONOMIC IMPLICATIONS

19. The tax incentives encourage export and import substitution industries in order to help St Helena to become altogether wealthier. Improving the balance of payments is a key component of both the Sustainable Economic Development Plan and Investment Strategy for St Helena. The end goal is to increase the amount of money that St Helena earns as an island and to improve self sufficiency where viable.
20. The tax proposals focus on taxing wealth and has avoided taxing income, which have benefits to both workers and businesses. We are conscious that the incomes in St Helena can be relatively low compared to developed countries and therefore taxes focusing on wealth and not income avoid having a detrimental affect on workers by squeezing their incomes.
21. The tax proposals focus on encouraging land and property productivity. One of the barriers to expanding business in St Helena is the availability of business premises, and the empty property charge will incentivise supply of premises. Furthermore, the changes in stamp duty will assist first time home and land buyers to invest their income into property.

CONSISTENCY WITH INVESTMENT POLICY PRINCIPLES PUBLIC / SOCIAL IMPACT

22. The taxes proposed help investors or businesses who wish to export or substitute imports.
23. The following groups will be affected from the new revenue charges within this paper (black is a direct effect for the majority of the group and grey is some effect for some of the group).

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Tax	Tax on purchasing	Tax applicable to business	Tax related to employment	Tax related to landowners	Tax relating to newly built homes
Empty commercial property tax					
Stamp Duty changes					

Tax	Tax related to homeownership	Tax on tourists	Applicable to off shore St Helenians	Tax on wealth or land
Empty commercial property tax				
Stamp Duty changes				

24. In terms of the new incentives the following groups will benefit:

Incentive	Incentive on purchasing	Incentive applicable to business	Incentive for exporters	Incentive for primary producers	Incentive relating to charitable giving
Income Tax reductions					
Approved Investor Scheme					
Charitable Giving					

ENVIRONMENTAL IMPACT

PREVIOUS CONSULTATION / COMMITTEE INPUT

25. The corporation tax and self-employed income tax reductions will be applicable for revenues from products created from recycled materials.

26. EDC was consulted on 6 December 2018. A discussion was had at Chairpersons Assembly and Informal Legislative Council meeting in December 2018. Executive Council endorsed the consultation on 12th February 2019.

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27. The following consultation was undertaken:
- A public presentation on the 18th February at 5pm at the Canister above the Tourist Office
 - A meeting with the Chamber of Commerce on the 19th February
 - Radio discussions
 - Email responses
28. The summary of responses and proposed updates to the draft legislation is outlined in Annex B.
29. EDC endorsed the proposals, based on the updated legislation, on 28 February 2019.
30. The issue of taxation is an emotive subject, and would have to be explained as part of the overall need to facilitate the right climate for business, balance the budget and afford infrastructure improvements.
31. Publicity has been undertaken through a press release, radio interviews and articles have been published within both local newspapers.
32. The public will be notified through a press release and the Financial Secretary's budget speech in March 2019.
33. The Policy supports all National Goals in the 10 Year Plan because the result of the tax reforms will allow SHG to achieve more revenue which it can use to spend on achieving National Goals. It supports in particular the 'Altogether Wealthier' Goal where it is stated that "We will ensure that the Tax and benefit system protect the most vulnerable"
34. The proposals supports the following SEDP Goals:
- 6. Reinvesting Tax Revenue to Improve Infrastructure.*

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PUBLIC REACTION

PUBLICITY

SUPPORT TO STRATEGIC OBJECTIVES

LINK TO SUSTAINABLE ECONOMIC DEVELOPMENT PLAN GOALS

OPEN /CLOSED AGENDA ITEM

Corporate Services

1st March 2019