ST HELENA GOVERNMENT TAX PROPOSALS FOR 2019

A report by the St Helena Government Economist

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INTRODUCTION

The domestic tax system in St Helena was implemented in 1986 and was characterized by a primary reliance on income tax. The laws had relatively few changes since implementation and as international best practice with regard to tax design and tax administration had progressed significantly, there was a review of the tax system undertaken in 2008. Many of the recommendations of the 2008 tax review have been implemented, although some which were offset to a later date have not yet come into effect. This document consolidates the tax recommendations which have not yet been put into place, but are still relevant, and includes a number of additional changes which could be made going forward.

Clearly not all the laws, systems and processes used in the tax systems of large developed countries will be relevant to St Helena but there is strong evidence to show that all effective tax systems have similar features.

- They have laws that are fair and can be applied equitably so that all members of the community pay taxes according to their capacity to pay.
- They have effective administrative systems and practices that enable the tax administrators to provide community support to help all people meet their tax obligations. They will also ensure that taxpayers who do not comply voluntarily will be held accountable through strong enforcement activities.

Historically, tax in St Helena has focused on a very narrow income base and do not levy income taxes in all areas of gains or profits where there is a capacity to pay taxes. This disadvantages people who rely solely on local employment and business for their livelihood and favour people who are able to sustain a lifestyle from gains or profits that are not presently taxable. This is clearly evidenced by the relatively high proportion of income tax paid by employees.

Tax reform provides St Helena with an opportunity to ease the tax burden on individuals, particularly the lowest-paid, by improving the efficiency of tax-collection and spreading the tax system over a wider base.

It also provides an opportunity to ensure that the tax system enables the Island's community as a whole to be in a position to benefit from tourism and successful inward and local investment. Also, very importantly, tax reform will provide the funding we need for the safety net of welfare benefits.

Taxes are chosen with regard to a set of principles. At the Tax Working Group on 25 January 2017, the following guiding principles were agreed for St Helena. These were then re-confirmed on 21 February 2018, as new elected members were in attendance. The principles used, when setting new taxes in St Helena, are as follows:

- **Tax rules should be fair and equitable**
  SHG supports laws that are fair and can be applied equitably and believe that members of the community pay taxes according to their capacity to pay.
- **Tax rules should be attractive to local business and investment from overseas**
  SHG supports the growth of business and tourism as per the 2010 Memorandum of Understanding[1] with DfID where SHG agreed to implement the reforms needed to open the island's economy to inward investment and increased tourism.
- **Tax rules should help reap the benefits of the airport**

[1] http://www.sainthelena.gov.sh/wp-content/uploads/2012/08/mou_2012101.pdf

In order to achieve a return on the airport investment, revenues should increase as visitor numbers and air traffic increases.

- **Tax rules should be sustainable considering an aging population**
  Our statistics show that St Helena has an aging population and one of the highest dependency ratios (the ratio of those above/ below working age to those of working age) in the world[2]. SHG supports tax streams which will continue to yield revenue despite these demographics.
- **Tax rules should favour those who make efforts to be greener**
  SHG supports investment into low carbon vehicles, electricity and heat generation and water collection.
- **Tax rules should stimulate supply of land, housing and infrastructure**
  Land and housing is scarce and expensive on St Helena, and tax should encourage the sale or rent of currently under occupied plots, and the development of infrastructure to support development.
- **Tax revenue generated should outweigh cost of tax collection**
  Any taxes will need to generate enough revenue in order to justify their existence.
- **Tax rules should work to reduce market failure**
  Tax exemptions should only be granted where they enable the provision of a public good, improve equity or encourage significant additional resources to the island which would not otherwise arrive.

The Tax Working Group ensures all tax proposals going forward align with the principles set out to ensure that the tax system is sustainable going forward.

The proposals for a new tax system in St Helena fall under the three broad categories of incentivising investors and broadening the tax base.

Proposals to Incentivise Investors

These proposals will make the tax environment more appealing to investors who help to meet the goals within the Sustainable Economic Development Plan and Principles of the Investment Policy. The Investment Tax Credit has been in place to incentivise investment, however, because it is applied as a credit on tax paid, it has only been useful to businesses when they profit. The scheme has therefore been a benefit to existing businesses and new businesses in their later years. However, it is not providing assistance to new ventures in the earliest phases, when cash flow is the biggest issue. It is therefore proposed that alternatives to the Investment Tax Credit are implemented.

Proposals to Broaden the Tax Base

These proposals will broaden the overall tax base and enhance the capacity of SHG to generate revenues over the medium term. These proposals improve the fairness of the tax system by ensuring that everybody who derives profits or gains and has the financial capacity to pay tax, contributes to the cost of providing the social and welfare benefits enjoyed by all members of the community.

This report has been designed to provide recommendations for tax reform. Tax reforms shall be progressed only through endorsement by St Helena's Economic Development Committee and approval from Executive Council.

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[2] http://www.sainthelena.gov.sh/wp-content/uploads/2016/06/Census-2016-summary-report.pdf

INCENTIVE PROPOSALS

St Helena's existing tax incentives include:

- An Investment Tax Credit based on 15% of any investment made by a business either through new build or importation of a depreciable asset
- Loss carried forward (unlimited number of years)
- Import duty exemption up to £1000 based on application
- No excise duties on local production (with the exception of alcohol)
- No VAT applied to all business

The possibility for import duty exemption does exist, however it is made through a cumbersome application to the Financial Secretary and Executive Council.

Furthermore, whilst the Investment Tax Credit has benefited many big businesses on St Helena it has been questioned whether the Investment Tax Credit is really helping St Helena's trade balance and whether it is targeting the businesses who can help deliver the SEDP.

Businesses have used the Investment Tax Credit to import machines and vehicles and to construct buildings, which has led to money flowing out of the economy. In 2016/17 financial year it was predicted that the cost of the Investment Tax Credit to Corporation and Self-Employment tax was £500K.

In the Financial Secretary's Budget Speech in April 2017 and May 2018, it was indicated that the Investment Tax Credit is to be phased out. Another set of incentives need to replace it in order to make investment attractive. These incentives need to focus on helping to deliver the goals of the Sustainable Economic Development Plan.

The role of tax incentives are four fold. Primarily, tax incentives help bolster financial cash flows, allowing a business owner more confidence in the rate of return that their business can generate. Secondly, if focused on providing relief at the start-up stage, the tax incentive can help reduce the upfront capital required (usually loaned). Thirdly, the tax incentive can also encourage non-residents who are undecided about investing and operating in St Helena (compared to elsewhere) to bring their investment to St Helena. Fourthly, conditions set alongside tax incentives can encourage entrepreneurs to enter certain sectors or deliver best practice (environmental sustainability, for example).

A review of tax incentives within the African Continent was undertaken for comparison. Tax incentives elsewhere have been targeted against eligibility criteria. For example, for businesses to receive tax incentives in Libya the project must achieve one or more goals including increased exports or decreased imports; creation of new employment or training opportunities; use of modern technology; use or help in making use of local raw materials. In Zimbabwe, a business is eligible if it exports 30% or more of its total manufacturing output. In South Africa, for businesses to be eligible for the Film Incentive, the equivalent of £150,000 must be invested.

It is recommended that going forward, St Helena's tax incentives shall include:

- A corporation tax rate of 15% (a reduction of 10%) on profits from the exportation of goods and services and from the following activities: fishing and fish processing; cultivation of honey; growing and roasting of local coffee; farming and butchering of meat; farming of vegetables, legumes, nuts and fruit; distilling/brewing of liquor, wine or beer; production of traditional craftwork and jewellery (with the majority of inputs being from locally derived or recycled materials), upholstery and clothes.

- A reduction in 5% of the self-employed tax rate on profits from the exportation of goods and services and from the following activities: fishing and fish processing; cultivation of honey; growing and roasting of local coffee; farming and butchering of meat; farming of vegetables, legumes, nuts and fruit; distilling/brewing of liquor, wine or beer; production of traditional craftwork and jewellery (with the majority of inputs being from locally derived or recycled materials), upholstery and clothes.
- Import duty exemption or deferral based on application to the Approved Investment Status scheme.
- Charitable donations above £500 being tax free.

The following incentives that exist shall continue in 2019/20:

- Loss carried forward (unlimited number of years)
- No excise duties on local production (with the exception of alcohol)
- No VAT applied to all business

The Investment Tax Credit will be revoked as it shall be replaced by the new incentives.

1. TAX INCENTIVES - INCOME TAX REDUCTIONS FOR EXPORT / IMPORT SUBSTITUTION ACTIVITIES

In order to meet SEDP goals whilst avoiding subjectivity, it is recommended that a lower corporation tax amount (15%) should apply to the activities within the business which produce goods and services which are directly exported by the business, i.e. bought and used abroad.

Additionally, activities which produce physical goods deemed as key import substitution or export goods will also be subject to a lower corporation tax amount (15%). These activities are namely fishing and fish processing; cultivation of honey; growing and roasting of local coffee; farming and butchering of meat; farming of vegetables, legumes, nuts and fruit; secondary processing of locally grown food; distilling/brewing of liquor, wine or beer; production of traditional craftwork and jewellery (with the majority of inputs being from locally derived or recycled materials), upholstery and clothes. The lower corporation tax amount would not be available for businesses which solely distribute market and/or retail the goods for example, as this would not be classed as primary production. The lower corporation tax amount would not be available in sectors which are deemed to be saturated, and therefore the activities eligible will need to be regularly reviewed (for example every 2 years).

Because Corporation Tax rates do not apply to self-employed persons, should we wish to extend the incentive to self-employed, we recommend reducing self-employment tax rates by 5%, when applied to activities within the business which produces goods and services which are directly exported by the business, i.e. bought and used abroad and activities which produce physical goods deemed as key import substitution or export goods. It is noted, however, that the percentage reduction of 5% is lower than the Corporation Tax reduction of 10% both to take in account personal allowances and also in order to encourage business entities to incorporate to take advantage of the Corporation Tax Incentives.

To benefit from these reductions and deductions, the business/self-employed person would be able to declare income and costs relating to export and import substitution activities, and the lower tax rate will apply accordingly.

Examples of how the law would apply

1. Wendy tailors clothes and sells them at the Jamestown Market, alongside some items which she has imported to sell. Wendy has set the business up as a company. She calculates that over the 2019-20 financial year, £8,000 of sales are of her homemade clothes, £2,000 of sales are of her imported clothes. Meanwhile, £3,000 of her overheads pertain to her homemade clothes and £1,500 of her overheads pertain to the imported clothes and general costs. When Wendy does her corporation tax return she enters these numbers, and pays 15% income tax on the £5,000 profit pertaining to her homemade clothes and 25% on the £500 profit pertaining to the rest of her business.

Potential Revenue Impact

Many of the SEDP sectors we are trying to encourage through incentives are sectors which are currently under represented. As a result, there aren't many businesses paying tax in the sectors we are trying to encourage. According to 2016-17 tax data, tax which would have been forgone owing to a 10% reduction in Corporation Income Tax and 5% reduction in Self-Employed Income Tax, would have been £6,350 and £2,100 respectively. The amounts are low as a result of low tax takes in the fisheries and farming sectors and not a significant amount of activities currently undertaken that we are incentivising beyond fishing and farming. The incentives exist to encourage entrepreneurs into the sectors which are currently lacking business activity.

It is noted that both accommodation and construction are profitable sectors, and fairly saturated, however they have not been included within the incentive scheme. This reduces the risk of lost revenues and incentivising more businesses to enter already saturated markets.

2. TAX INCENTIVES – APPROVED INVESTMENT STATUS FOR CUSTOMS DUTY REDUCTIONS

An 'Approved Investment Status' has been developed so that investors can benefit from Import Duty reductions. An Investor Matrix has been prepared as part of the Investment Strategy; the Matrix asks questions of the investor to pertain whether the investment will add value to St Helena's economy, environment and society. Questions are asked of the investment and scores are entered against weighted criteria. The Matrix gives an investor an overall weighted score out of 100%. The score, together with the magnitude of investment, could denote whether the investment is eligible for 'Approved Investment Status', and if so, whether the Investment is eligible for delay repay of customs duty, reductions in customs duty to 5% or exemptions in customs duty. More detail on the 'Approved Investment Status' is available in the Investment Strategy.

Tax incentives can mean a reduction in revenues for SHG. But by removing the Investment Tax Credit (ITC) at the same time, there is a reduced risk to SHG revenues. In the 2016/17 financial year there was a projected under collection in Corporation and Self Employed of £500K as a direct result of the use of the Investment Tax Credit. Removing the Investment Tax Credit and focusing incentives on project start-ups is estimated to be a zero-sum move.

With regards to customs duty incentives, approval of the 'Approved Investor Status', must be sought prior to any initial investment in a project. By asking businesses to apply for incentives in advance, this allows SHG to track the magnitude of incentives given and monitor the scheme. The investor will need to submit an itemised list of capital items (over £100) that they are looking to import as part of their bid under the scheme.

It should be noted that a business would not be able to 'double dip' i.e. use the Investment Tax Credit and the new Approved Investment Scheme incentives on the same project. It is also noted that if the investment would have proceeded regardless of the scheme, and/or the investment is made using government grants, then the Investment Enabling Group will reserve the right not to approve the scheme.

Examples of how the law would apply

1. Paul decides to expand his business and start providing composting services. He needs to buy a commercial composter, and contacts Enterprise St Helena (ESH) to apply for Approved Investment Status. ESH take the necessary information from Paul, pertaining to his investment including some cash flow forecasts. The information is taken to the Investment Enabling Group (IEG)[3] who decide that Paul is eligible for a reduction in duty from 20% to 5%, plus 'deferred repayment' and is issued a certificate from the IEG, which he presents to Customs when his capital item arrives at the wharf.

Potential Revenue Impact

Tax forgone will be tracked over time. If it becomes clear that there is a significant effect on revenues, there could be a scaling back or capping of the number of investors approved in any one particular financial year. However, many investments may not be able to proceed unless some support is provided to them. And because of the necessity to ensure that the scheme breaks even, it is likely that that negative effects on revenue can be minimised.

[3] Because the investment is less than £1m, the sign off level is at the IEG; an investment over £1m would also need EXCO sign off

3. TAX INCENTIVES – CHARITY TAX RELIEF

It is recommended that donations by individuals and companies to charities or to other forms of voluntary organisations including community amateur sports clubs in St Helena should be tax free. Donations over £1,000 (cumulative over the tax year) to any single organisation with charitable aims will be eligible.

Gift Aid is a new term for St Helena. It means charities, other voluntary organisations including community amateur sports clubs (CASCs) can claim an extra 25p for every £1 that basic rate tax payers give. The charitable organisation will need to register at the tax office for them to claim.

Donors will need to make a Gift Aid declaration. The donor would make a declaration by filling in a form – made available by the charity, which at a minimum would outline the donor's name, address, and a declaration to say that the person is a taxpayer. The amount of gift aid claimed by an organisation in respect of any eligible donation made by an individual during a tax year, may not exceed £5,000 or the amount of tax paid by the individual, whichever is the lesser amount.

The donor will also be able to claim 10p for every £1 donated. This would be done through the tax return as a tax credit. Such tax credit for an individual may not exceed £2,000 but if the tax credit exceeds the amount of income tax for which the individual would have been liable on his or her chargeable income for that year, that individual is entitled to claim payment from the Commissioner of an amount equal to that excess.

Setting aside personal allowance, if a person was to be paid £1,351.30 before tax, and paid tax on this amount at the basic rate of 26%, they would pay £351.30 tax and take home £1000.00. If they donated £1000.00 to an organisation with charitable aims, who was registered with the tax office for Gift Aid purposes, that organisation would be able to claim back £250. Through the donor's tax return, the donor could claim back £100 as a tax credit.

<u>Examples of how the law would apply</u>

1. Belinda is a basic rate tax payer and donates £500 to the St Helena Donkey Home - they claim Gift Aid to make her donation £625. Belinda can claim £50 tax credit in her tax return for that financial year.
2. Eric is a high rate tax payer and donates £1000 to the SPCA charity - they claim Gift Aid to make his donation £1250. Eric pays tax so he can personally claim back £100 through his tax return.
3. Mandy donates £100 to the St Helena Conservation Group each month and her total donation to that charity is £1200 across the year. The St Helena Conservation Group records that her total donation is over £500. They claim £300 gift aid (£1200 x 25%) to make the total amount received £1500. Mandy is a basic rate tax payer and she can claim £120 (£1200 x 10%) through her tax return.

<u>Potential Revenue Impact</u>

The impact is uncertain, as the magnitude of charitable donations above £500 in St Helena is unknown.

PROPOSALS TO BROADEN THE TAX BASE

SHG needs to increase revenue streams in order to afford the increasing cost of public services. However, it is noted that the current resident population, particularly the working population, is already relatively heavily taxed. Tax revenue in St Helena is around 38% of GDP compared to tax revenue in the UK being around 25% of UK GDP. The focus of tax reforms in St Helena in 2019 should therefore not be focused upon income, but be focused upon attracting income from abroad ('new money') and taxing wealth to improve asset productivity.

The proposals to broaden the tax base are as follows:

- Property Tax on vacant Commercial Property
- Stamp Duty changes

These are not the only possible tax reforms which could be undertaken. A full list of potential taxes are outlined in the Microsoft Excel Spreadsheet 'Tax Types St Helena' and the long list has been shortlisted considering the ability of the revenue generating mechanism to satisfy the tax principles, as well as being the most socially and politically acceptable.

A similar exercise was undertaken in 2017 whereby the Economic Development Committee shortlisted the 'sugar tax' and 'short term entry visa' fees for reform, based on their ability to support the healthy eating campaign and to reap the benefits of the airport. Changes to these taxes and charges were implemented in 2018.

1. BROADENING THE TAX BASE – PROPERTY TAX ON VACANT AND UNOCCUPIED COMMERCIAL PROPERTY

People who own properties and rent them commercially are contributing to the country's economic benefit through their taxes but those that leave their properties vacant or unoccupied contribute little, other than standing charges. Meanwhile, despite a property being vacant, SHG still makes available services to support that property, such as the police service, fire service and road provision.

Vancouver, Canada, due to its high rental prices and low rental availability, passed an Empty Homes Tax which will begin in April 2018. All homeowners in Vancouver are required to self-declare whether a property is their principal residence. Homes that aren't principal residences and aren't rented out or exempted for a number of other reasons would be taxed based on 1% of the assessed value. Similarly, Victoria, Australia, also passed a vacant residential property tax in 2018, which charged an annual tax of 1 per cent of the capital improved value (CIV) of taxable land (with some exemptions applying), based on properties being vacant for over 6 months of a tax year.

Although a property tax on homes is not currently favoured by Elected Members, the merit in taxing commercial property has been identified because of the possibility to incentivise the availability of some of the approximately 460 properties which are empty, habitable and not under construction.

A Commercial property is a property which has been designed as a business premises i.e. as set out in the Land Development Control Ordinance, all classes A and B, plus C1.

Class A1: Shops
Class A2: Financial and professional services
Class A3: Restaurants and cafes
Class A4: Drinking establishments
Class A5: Hot food takeaways
Class B1: Business, storage and distribution
Class B2: General industrial
Class C1: Hotels
Class C2: Residential institutions not including secure residential institutions
Class C3: Dwelling houses
Class D1: Non-residential institutions
Class D2: Assembly and leisure.

A rented or leased building or unit is considered vacant when it does not contain enough personal property to conduct customary business operations and/or business operations have not been conducted at the property. The building or unit is considered unoccupied when it contains contents but no people occupy them on a regular basis and/or there is no contractual arrangement in place between the landlord and a commercial tenant who is present and operating on St Helena. In St Helena, if a building or unit is vacant or business operations are not conducted for over 270 days (approximately 9 months of a year), it is recommended that a fee of £5 per day is paid. The maximum fee any commercial property owner will pay in a year is £475.

The tax should not be charged on:

- property under renovation or construction with valid planning permission (for up to two years after planning permission was granted, or longer on discretion of the authority);
- Buildings not fit for occupation (defined as having no toilet and sanitary facilities).

- homes that are empty because the occupant is getting medical care
- Homes that are empty because the occupant has recently died (within the last 6 months).
- Property recently inherited (exemption of 3 months from the date of the grant of probate).
- And properties which are advertised for public sale (up to a period of 6 months).

An empty property tax is recommended in line with the Tax Principle that '**tax rules should stimulate supply of land, housing and infrastructure'**.

Owners of vacant residential properties will be required to notify the SHG Tax Office by 1 June of the following tax year if their property was empty during the tax year. For example, if the property was empty in 2019-20, the tax office should be notified by 1 June 2020. If a property is eligible for an exemption, the land owner is required to notify the Tax Office and advise which exemption applies. If an owner fails to notify the State Revenue Office by 1 June, it is deemed a notification default and it is recommended that a fine may apply. Owners who miss the deadline would be encouraged to notify the Tax Office about vacant property as soon as possible. Late disclosures would be treated more favourably than if vacant properties are identified as the result of an investigation. The SHG Property Team and Tax Office shall undertake monitoring and compliance activities, and instigate investigations where necessary.

Why is this change necessary?

Government is concerned that property on St Helena is not being utilised productively, and that properties are not being made available to businesses willing to start-up or grow on St Helena. It is also concerned that some shops, restaurants and bars can be closed for long periods of time. An incentive is required to ensure that commercial buildings can come into productive use.

Examples of how the law would apply.

1. Barbara rents a unit in Half Tree Hollow where she runs a gift shop. Until now, she only opened the shop once a month on the last Saturday of the month. Her landlord tells her that to avoid paying the empty property tax and passing the fee onto Barbara, she should open 195 days in the year, which is approximately four times a week. Barbara decides to open four times a week to avoid paying the fee.
2. Russell rents a shop unit to Sandra. Sandra occupies the unit, but doesn't open the shop to customers. Sandra does not want to open the shop twice a week. Russell decides that he can either pass on the empty property charge to Sandra through a review of her rental agreement (charging Sandra £475 per annum), or ask her to vacate and advertise for another merchant to occupy the shop. Russell declares his empty property by 1 June in the following tax year. When he fills in his tax return, he declares that his property was open less than once a week for 1 year and pays £475 to the tax office.
3. Brian is constructing tourist accommodation. He will not be charged empty commercial property tax during construction, within 2 years of the planning permission being granted. After construction, he fills his accommodation for 120 nights as this is greater than 95 days he therefore does not have to pay empty property tax.
4. John works on the Falklands, and comes back to his home in half tree hollow for two months each year. His home is occupied for two months, and unoccupied for 305 days of the financial year. As dwellings are not liable for the charge he is not charged the empty property charge.
5. Margaret and Bill own a third home in Jamestown, where they live during one month in the winter. As dwellings are not liable for the charge he is not charged the empty property charge.

Potential Revenue Generation

According to the 2016 Census in St Helena, 529 dwellings are unoccupied. Of these, 100 were under construction. 62 were occupied within the last 3 months and 113 within the last year. There were plans for 119 or 21% of unoccupied buildings to be occupied within 12 months. 1% were not for occupation, 15% had no definite plans, 20% didn't know and 31% had not stated.

However, it is unclear how many of these properties would be deemed commercial properties for the purpose of this charge. Therefore it is unknown how many will pay the empty property charge.

2. BROADENING THE TAX BASE - STAMP DUTY CHANGES

The Stamp duty rate on St. Helena has not been amended since the 2013 Ordinance. Currently the Stamp Duty rate for the transfer of land is 2.5% of value. Property prices on Island have risen over this period of time. Part of the property rises can be attributed to persons purchasing multiple residential property on Island for buy to let thus increasing demand. Furthermore, to enable SHG to show tax rules are fair and reasonable, and targets those who can afford to pay it is recommended that a stepped rate should be charged on the value of the property.

This is an approach similar to the UK. For example, the **UK** Land Registry Stamp Duty Rates are as follows:

0-under £125,000	0%
£125,001 to £250,000	2%
£250,000 to £925,000	5%
£925,000 to £1,500,000	8%
Over £1,500,000	12 %

In the UK, first time buyers are exempt from stamp duty for properties purchased up to £300,000. An additional tax of 3% is charged if an individual purchases a second residential property.

When applying this approach to **St Helena**, the bands will need to be different as a result of the differing property market. Considering the market in St Helena, the following changes to St. Helena Stamp Duty are proposed.

i. Under £10,000	**exempt**
ii. £10,001 to £150,000	**2.5%**
iii. £150,001 to £500,000	**3%**
iv. Over £500,000	**5%**
v. First time buyer up to a home value of £100,000	**exempt**
vi. Second home owner	**+2.5%**

A first time buyer who has been resident on Island for at least 12 months for tax purposes would be exempt from stamp duty on a property value up to £100,000.

An additional second residential property owner tax at 2.5% should be introduced. Second home ownership should be defined as a person who wholly owns or who is a co-owner of part of another residential property on Saint Helena Island. Thought will need to be given to shareholders of companies who purchase residential properties.

All divested properties to SHG Companies will be exempt from Stamp Duty from the date of the Ordinance. Stamp duty would not be payable when the transfer is an inheritance transfer.

<u>Why is this change necessary?</u>

The majority of wealth in St Helena is held as assets. Currently the Stamp Duty is a flat rate of 2.5%. It would be beneficial to change this so that those affording low value properties and those who are first time buyers are exempt to encourage low income earners and first time buyers to gain new assets, whilst those affording high value properties and those who already benefit from asset ownership pay a larger share. This will ensure those who can afford to pay more tax, do.

Examples of how the law would apply.

Example:

1. Steve who is not a first time buyer purchases a property for £200,000. The stamp duty payable would be

£10,000 x 0%	=0
£140,000 x 2.5%	=£3,500
£50,000 x 3%	=£1,500
Total Payable	£5,000

2. Jennifer has lived on St Helena since birth, is a first time buyer and purchases a house for £80,000. No stamp duty would be payable.

3. Susan and David purchase a second home as a buy to let investment for £400,000. The stamp duty payable would be

£10,000 x 0%	=0
£140,000 x 2.5%	=£3,500
£250,000 x 3%	= £7,500
£400,000 x 2.5%	= £10,000 (Second home ownership)
Total Payable	£21,000

Potential Revenue Generation

The Stamp Duty collected will entirely depend upon the number of properties sold and its value. In 2017-18, the Land Registration and Property Disposal Team earnt £122,000. Whilst there will be some loss of revenue coming from the low value properties and first time buyers (who will pay 0%), there is likely to be increases in revenue from the high value properties. However, the net change is very much unknown.

A very high level estimate looks at a -40%, 0% and 40% change.

Medium revenue estimate per annum	High revenue estimate per annum	Low revenue estimate per annum
£ 0	**£ 50,000**	**-£ 50,000**

Since the introduction of second home ownership stamp duty it has almost doubled the stamp duty collection to HMRC. Last year it contributed £4 billion to the £9.3 billion collected in the UK.