

Open Agenda

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Memorandum for Executive Council

SUBJECT

MID-YEAR CHANGES TO CUSTOMS DUTY TARIFFS

Memorandum by Chairman of the Economic Development Committee

ADVICE SOUGHT 1. **Executive Council is asked to consider and advise whether the attached Customs & Excise (Tariffs) (Amendment No 3) Regulations 2019 (Annex A) should be approved and come into effect from 1 December 2019.**

BACKGROUND & CONSIDERATIONS 2. Executive Council on 20 August 2019 approved an amendment to the customs duty tariff on vehicles under the Customs (Tariff and Exemptions) Regulations 2011, to amend the structure of the tariff so that the basis of duty payable is based on fixed incremental rates of duty rather than a percentage applied to the value of the vehicle. This change will become effective from 1 December 2019 and applies to all vehicles imported from this date.

3. In preparing for the implementation of the new tariff, two issues have been identified with regard to paragraph 4(2)(b) of the Second Schedule to the Customs (Tariffs And Exemptions) Regulations, 2011 which states that:

“In the case of passengers arriving in St Helena to take up any employment approved by the Governor in Council for the purposes of this exemption, on first arrival to take up such employment:

(iii) One vehicle to be available for official duties, but if sold duty is payable based on the value of the vehicle at the time of sale.”

4. The first issue is that there now exists a disparity between the method of calculating duty under the new tariff for vehicles and the method for calculating duty payable under the exemption should the vehicle be sold. The new tariff is based on fixed rates of duty rather than a percentage of sale price at the date of sale.

5. This means that should a vehicle previously exempted under paragraph 4(2)(b) of the Second Schedule to the Customs (Tariffs And Exemptions) Regulations, 2011, be sold on or after 1 December 2019 HM Customs & Excise (HMCE) are unable to calculate or charge the appropriate amount of duty.

6. The second issue is in relation to the timing of importation of the vehicle against the implementation date. There are currently vehicles

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already imported for which this exemption has been applied and could be sold after the implementation date. The owners will now pay duty under the new tariff rather than under the old tariff and might as a result have to pay more duty.

7. For example, if a vehicle was brought in January 2018 valued at £3,000 on first arrival with CO2 emission levels of between 166-185g per km and at the end of their contract in January 2020 decide to sell the vehicle for £2,000 after the change in duty on 1 December 2019 they will incur £480 duty more on the new tariff than on the previous tariff.
8. The following three options have been considered to address the two issues identified:

Option 1 - make no changes and leave it as it is

This is not a viable option as it does not address the current anomaly that has been created by the introduction of the new vehicle duty tariff. There are financial implications on revenue if we are unable to collect the duty payable and in addition, SHG is exposed to reputational damage if we are unable to determine the appropriate duty payable because of an anomaly in the Regulations.

Option 2 - align the method of calculation under the exemption to the new method under the new tariff

This option presents the minimum change required to ensure that duty payable can be determined under paragraph 4(2) (b) (iii). This will rectify the current anomaly within the Regulations. To address the issue around any potential increase in duty payable, it is also recommended as part of this option that HMCE will make those persons aware, whose vehicle has previously been exempted under paragraph 4(2) (b) (iii), that they can request a cancellation of the exemption and pay the duty before 1 December 2019 under the current tariff if they plan to sell their vehicle at the end of their contract. This element will not require a change to the Regulations but will use existing provisions. There is no significant implications on revenues expected from this option.

Option 3 - apply the new tariff only for vehicles imported and sold after 1 December 2019

This option provides a transitional approach to the implementation of the new tariff by providing that any vehicle imported before 1 December 2019 and is exempted under paragraph 4(2) (b) (iii) be charged under the old tariff if sold after the implementation date. For vehicles imported from 1 December 2019 onwards and later sold the new tariff will apply. This will mean that there will effectively be two tariffs in operation and require two amendments to the Regulations.

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There are no significant financial implications resulting from this amendment.

9. Option 2 was recommended to EDC and was endorsed recognising that this option addresses both issues and requires the least amount of changes to the Regulations. There is also minimal impact on revenues.

10. The attached Customs & Excise (Tariffs) (Amendment No.3) Regulations 2019 has been drafted on the basis of Option 2.

FINANCIAL IMPLICATIONS

11. As indicated above if Option 2 is agreed this will have limited impact on revenues. This option will ensure that the revenue due is able to be collected by HMCE.

ECONOMIC IMPLICATIONS

12. This is a change to correct the method of calculation that allows the collection of customs duties and not to the policy itself, therefore there are no economic implications.

CONSISTENCY WITH INVESTMENT POLICY PRINCIPLES

13. N/a

PUBLIC / SOCIAL IMPACT

14. This is a change to correct the method of calculation that allows the collection of customs duties and not to the policy itself, therefore it is not expected to have any significant public or social impacts within the community.

ENVIRONMENTAL IMPACT

15. This is a change to correct the method of calculation that allows the collection of customs duties and not to the policy itself, therefore it is not expected to have any environmental impacts.

PREVIOUS CONSULTATION / COMMITTEE INPUT

16. Option 2 and the attached Customs & Excise (Tariffs) (Amendment No.3) Regulations 2019 have been endorsed by the Economic Development Committee at their meeting on 8 November 2019.

PUBLIC REACTION

17. It is expected that there will be limited public reaction to this change as it simply ensures that we can collect the revenue due.

PUBLICITY

18. It is proposed that mention should be made in the Ex Co report and associated broadcast.

SUPPORT TO STRATEGIC OBJECTIVES

19. This paper supports the *Effective, Efficient and Accountable Public Sector* goal and Strategic Objective 6.2 *Ensure sustainable public finances by continuing to collect revenues.*

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**LINK TO
SUSTAINABLE
ECONOMIC
DEVELOPMENT
PLAN GOALS**

20. N/a

**OPEN /CLOSED
AGENDA ITEM**

21. Recommended for the Open Session.

LAH

Corporate Support
Corporate Services
19 November 2019

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