STATES OF JERSEY

PROPOSED GOVERNMENT PLAN 2024-2027 (P.72/2023): SEVENTH AMENDMENT

EXTENSION OF MARGINAL RELIEF

Lodged au Greffe on 20th November 2023
by Deputy S.Y. Mézec of St. Helier South

STATES GREFFE

PROPOSED GOVERNMENT PLAN 2024-2027 (P.72/2023): SEVENTH AMENDMENT

1 PAGE 3, PARAGRAPH (l) –

After paragraph (k) insert the following new paragraph (l) –

> "(l) to agree in principle that from the year of assessment 2025 the 20% personal income tax rate should no longer be available (except for High Value Residents, for whom no change is proposed), and personal income tax should instead be charged at a rate of 25% (with all personal income taxpayers being entitled to the allowances and reliefs which are available to marginal rate taxpayers when calculating the amount of income taxable at the rate of 25%), and to direct the Minister for Treasury and Resources to bring forward the necessary legislative changes for debate by the Assembly during 2024; and"

and redesignate the existing paragraph (l) as paragraph (m).

DEPUTY S.Y. MÉZEC OF ST. HELIER SOUTH

Note: After this amendment, the proposition would read as follows –

THE STATES are asked to decide whether they are of opinion −

to receive the Government Plan 2024 – 2027 specified in Article 9(1) of the Public Finances (Jersey) Law 2019 ("the Law") and specifically –

(a) to approve the estimate of total States income to be paid into the Consolidated Fund in 2024 as set out in Appendix 2 – Summary Table 1 to the Report, which is inclusive of the proposed taxation and impôts duties changes outlined in the Government Plan, in line with Article 9(2)(a) of the Law;

(b) to refer to their Act dated 30th September 2016 and to approve the application of existing resources for work on the development of 'user pays' charges in relation to all aspects of waste, including commercial and domestic liquid and solid waste;

(c) to approve the proposed Changes to Approval for financing/borrowing for 2024, as shown in Appendix 2 – Summary Table 2 to the Report, which may be obtained by the Minister for Treasury and Resources, as and when required, in line with Article 9 (2)(c) of the Law, of up to those revised approvals;

(d) to approve the extension of the use of the existing Revolving Credit Facility to include the provision of funds that would otherwise be implemented through bank overdraft or bank overdraft facilities under Article 26 (1)(a) of the Law, should they be needed, subject to the limits outlined in that article;

(e) to approve the transfers from one States fund to another for 2024 of up to and including the amounts set in Appendix 2 – Summary Table 3 in line with Article 9(2)(b) of the Law;

(f) to approve a transfer from the Consolidated Fund to the Stabilisation Fund in 2024 of up to £25 million, subject to a decision of the Minister for Treasury and Resources based on the availability of funds in the Consolidated Fund as at 31 December 2023 in excess of the estimates provided in this plan, or from budgeted underspends identified before 31 December 2024;

(g) to approve each major project that is to be started or continued in 2024 and the total cost of each such project and any amendments to the proposed total cost of a major project under a previously approved Government Plan, in line with Article 9(2)(d), (e) and (f) of the Law and as set out in Appendix 2 - Summary Table 4 to the Report;

(h) to approve the proposed amount to be appropriated from the Consolidated Fund for 2024, for each Head of Expenditure, being gross expenditure less estimated income (if any), in line with Articles 9(2)(g), 10(1) and 10(2) of the Law, and set out in Appendix 2 – Summary Tables 5(i) and (ii) of the Report;

(i) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in 2024 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 6 to the Report;

(j) to approve the proposed amount to be appropriated from each States trading operation's trading fund for 2024 for each head of expenditure in line with Article 9(2)(i) of the Law and set out in Appendix 2 – Summary Table 7 to the Report;

(k) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2024 as set out in Appendix 2 – Summary Table 8 to the Report;

(l) to agree in principle that from the year of assessment 2025 the 20% personal income tax rate should no longer be available (except for High Value Residents, for whom no change is proposed), and personal income tax should instead be charged at a rate of 25% (with all personal income taxpayers being entitled to the allowances and reliefs which are available to marginal rate taxpayers when calculating the amount of income taxable at the rate of 25%), and to direct the Minister for Treasury and Resources to bring forward the necessary legislative changes for debate by the Assembly during 2024; and

(m) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2024-2027, as set out at Appendix 3 to the Report.

REPORT

Summary

If this amendment is adopted, from January 2025 Jersey's '20 means 20' Income Tax band would cease to exist, and all taxpayers would pay under the Marginal Relief system. The basic rate of Marginal Relief would also be reduced from 26% to 25%.

This will simplify our Income Tax system, by subjecting all taxpayers to the same rules, whilst providing a small tax reduction for tens of thousands of Islanders to assist with the cost-of-living crisis.

Background

It is the longstanding policy of Reform Jersey to see a simplification of our Income Tax rules which would put all taxpayers on a more equal basis and result in a more progressive system.

> "We **pledge** to reform our Income Tax system by removing the '20 means 20' calculation and allowing all taxpayers to claim tax allowances. This will enable us to reduce the marginal rate from 26% to 25%, providing a tax cut for middle earners, whilst asking the highest earners to contribute more. The majority of taxpayers will be better off under these proposals."
>
> - Page 11, *The 'New Deal' for Jersey*, Reform Jersey's 2022 manifesto

The detail of this policy was first developed in consultation with officers in Revenue Jersey, who provided objective advice and financial analyses of the potential consequences of this change. We are grateful for their assistance, which has been essential in developing a policy which is credible and deliverable.

Reform Jersey has previously brought amendments to Budgets and Government Plans in the States Assembly to implement this policy and will continue to do so in line with the clear mandate we have from those who elected us.

Change Proposed

Currently, a taxpayer's Income Tax liability will be determined based on the calculation of two potential tax rates, either a 20% rate with few allowances or a 26% rate with several potential allowances applied, and applying whichever of those calculations results in the lowest liability.

The effect of this is that the lowest earners will pay no Income Tax, as their income will be below the total amount of the allowances they are eligible for. Most earners will pay an effective rate of something between 1% and 19%, whilst the highest earners will pay no more than 20%.

This results in a progressive tax system (i.e. a system where the tax rate increases as the taxable base increases), but one which plateaus at a relatively low level when compared to most jurisdictions.

Tax Principles

The Government of Jersey allegedly has a longstanding policy of requiring taxes to be "low, broad, simple and fair".

Despite the obvious incompatibility of these principles with much of Jersey's tax code, the change proposed in this amendment suits all of them.

Low

This amendment reduces the marginal rate for most taxpayers. Even for those who see a slight rise, it will still be a very low rate when compared to many nearby jurisdictions.

Broad

This change would extend the breadth of the Marginal Relief tax calculation to more taxpayers.

Simple

Having one tax calculation system rather than two is, by definition, simpler than the current system.

Fair

This proposed change would see greater fairness for Jersey's taxpayers by having them pay under the same rules, irrespective of what level their income was.

Distributional Analysis

The vast majority of taxpayers are either better off or no worse under this proposed change.

Every taxpayer who currently has a 0% effective tax rate will continue to pay no Income Tax. A small number of taxpayers who pay a negligible amount under the current system will pay nothing under the new system. Revenue Jersey estimates this would be around 50 taxpayers, based on the 2021 Year of Assessment data.

Almost all taxpayers who pay an effective rate between 1% and 19% will see their tax liability decrease. The rate applied to their taxable income (i.e. their remaining income once tax allowances have been applied) will reduce by 1%.

Some taxpayers who currently pay the standard rate (20%) will see their tax liability decrease, because they will find themselves eligible for tax allowances that they currently do not have access to. This is estimated to be around 2,050 taxpayers.

The maximum amount that a taxpayer may see their tax liability increase by is from 20% to 25%, however this will only happen at an extremely high threshold. Only c.4,750 taxpayers would see their tax liability increase, and most of these will only have minor increases.

Attached as an appendix to this proposition are a series of charts which demonstrate the impact that this proposed tax reform will have on particular household examples.

A single person with no children or mortgage, who is not eligible for any tax allowances beyond the basic Personal Allowance, would not see their tax liability increase under this change until they were earning around £100,000 a year.

A married pensioner couple would not see their tax liability increased until they are earning around £200,000 a year.

High Value Residents

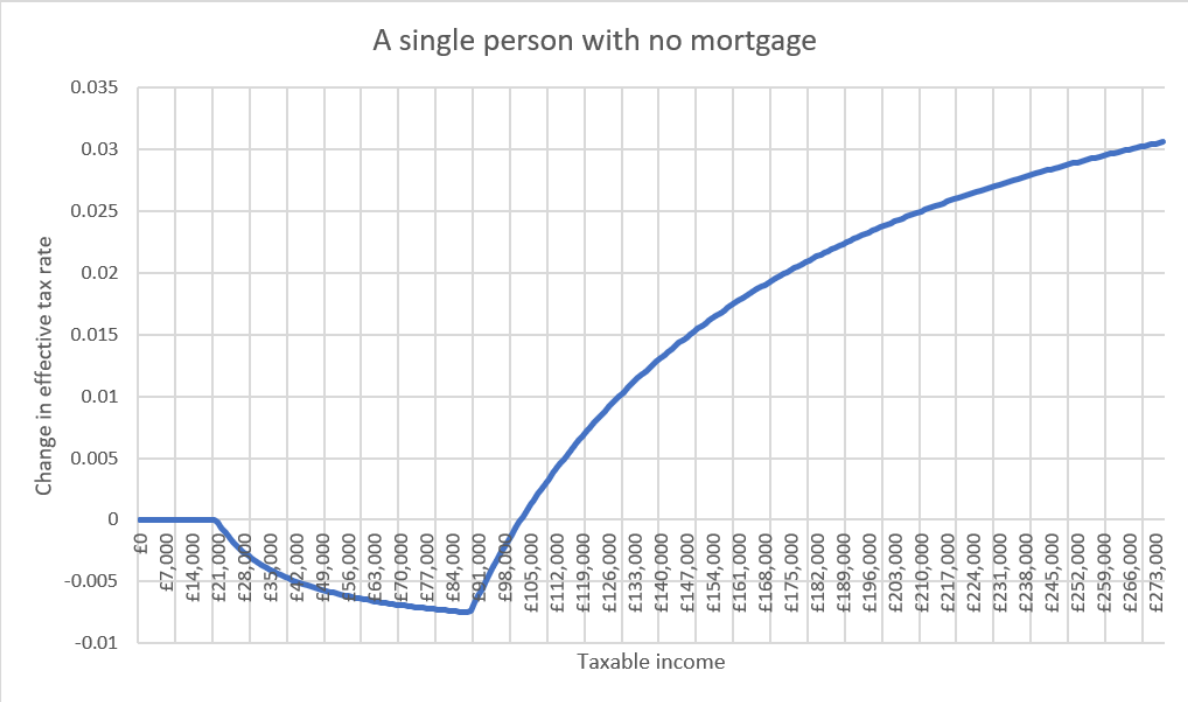
The exclusion of HVRs is not done on any issue of principle. It is simply that their arrangements are significantly different to those that ordinary taxpayers are subject to, and so should be amended on a separate basis.

Financial and staffing implications

The staffing implications for implementing this change are minimal, as the new tax regime is entirely based on one of the existing systems. The computer system which calculates tax liabilities can easily be adjusted to replace the 26% calculation with a 25% calculation.

The Treasury and Exchequer has estimated that an extra £11.5m would be raised based on the most up to date data they possess. This amount will be slightly different by 2025 when the change would be implemented.

Appendix


A single person with no mortgage
Change in effective tax rate
Taxable income
0.035
0.03
0.025
0.02
0.015
0.01
0.005
0
-0.005
-0.01
£0
£7,000
£14,000
£21,000
£105,000
£112,000
£119,000
£126,000
£133,000
£140,000
£147,000
£154,000
£161,000
£168,000
£175,000
£182,000
£189,000
£196,000
£203,000
£210,000
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£231,000
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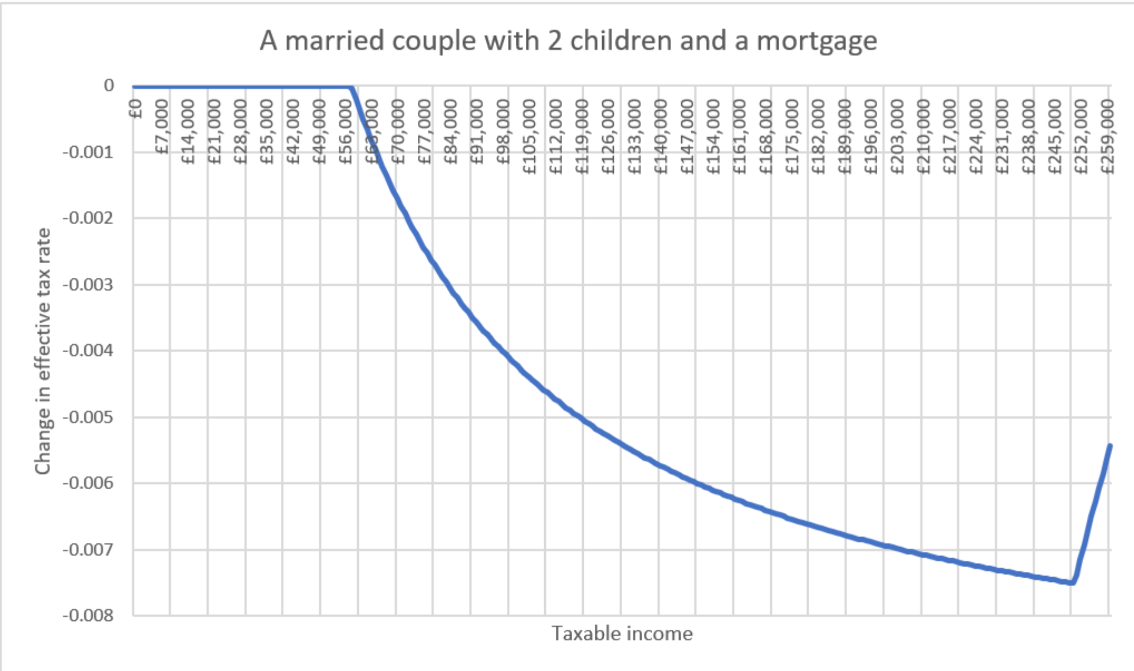
£252,000
£259,000
£266,000
£273,000


A married couple with 2 children and a mortgage
Change in effective tax rate
Taxable income
0
-0.001
-0.002
-0.003
-0.004
-0.005
-0.006
-0.007
-0.008
£0
£7,000
£14,000
£21,000
£28,000
£35,000
£42,000
£49,000
£56,000
£70,000
£77,000
£84,000
£91,000
£98,000
£105,000
£112,000
£119,000
£126,000
£133,000
£140,000
£147,000
£154,000
£161,000
£168,000
£175,000
£182,000
£189,000
£196,000
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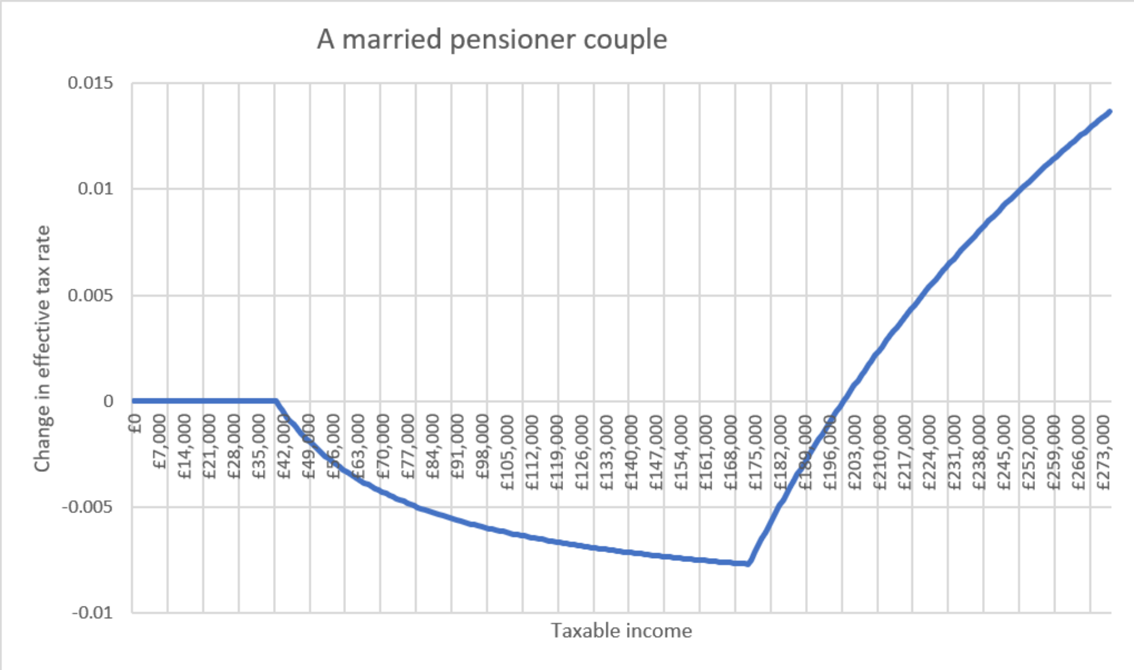
£252,000
£259,000


A married pensioner couple
0.015
0.01
0.005
0
-0.005
-0.01
Change in effective tax rate
Taxable income
£0
£7,000
£14,000
£21,000
£28,000
£35,000
£42,000
£49,000
£63,000
£70,000
£77,000
£84,000
£91,000
£98,000
£105,000
£112,000
£119,000
£126,000
£133,000
£140,000
£147,000
£154,000
£161,000
£168,000
£175,000
£182,000
£196,000
£203,000
£210,000
£217,000
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£245,000
£252,000
£259,000
£266,000
£273,000