STATES OF JERSEY

PROPOSED GOVERNMENT PLAN 2024 - 2027 (P.72/2023) – SEVENTH AMENDMENT (P.72/2023 AMD.(7)) – COMMENTS

Presented to the States on 7th December 2023
by the Council of Ministers

STATES GREFFE

COMMENTS

Summary

The amendment is framed as simple movement of all taxpayers into the marginal relief system. In fact, amendment effectively proposes to increase the standard rate of income tax, from 20 pence in the pound to 25 pence. All personal taxpayers (except High Value Residents) would pay tax at the rate of 25% with access to available tax allowances. Marginal relief would no longer be needed.

The Council of Ministers understands that Deputy Mézec is obliged to bring forward this proposal as part of the Reform Jersey manifesto, despite the fact that similar amendments have been unsuccessful in recent years.

States Members are urged to reject the amendment. Any drastic changes to the tax system should consider the potential consequences for growth and recruitment of talent to the Island. This level of fundamental change should always be the subject of full consultation.

Impact on personal taxpayers and revenue

If adopted, the amendment would achieve a modest reduction in tax for around 90% of taxpayers. The remaining 10% of taxpayers would face an increase of 25% in the standard rate and would be asked to contribute additional £23.5 million (see note on financial implications below). That estimate of the additional revenue does not factor in long-term behavioural changes if standard rate taxpayers are discouraged from working in Jersey.

This proposal does nothing for those on the lowest incomes, who are already protected by our generous tax thresholds. With reference to the Appendix to Deputy Mézec's amendment, the second graph shows a notional married couple (with two children and a mortgage). It is notable that the couple would not benefit if their income were less than £56,000. The graph also shows a significant benefit to those with incomes from £56,000 to £289,000. Indeed, with rounding, those notional married couples would not see an increase in their ITIS effective rate until their income exceeds £321,000.

Deterring investment

Those higher income taxpayers already contribute around 45% of personal income tax revenues.[1] This change would further increase the reliance on that small group, which is a high-risk move given that many will be internationally mobile. It may also deter future inward investment at a time when Jersey is seeking to increase productivity. An increase in the standard rate of personal income tax of this magnitude could heavily influence future decisions as to where to site future businesses and their employees.

It is not possible to forecast the potential impact of such a significant step-change in the standard rate of taxation. Jurisdictions routinely increase or decrease income tax rates gradually to observe economic impact. If successful, this amendment could fundamentally affect the longer-term prospects for Jersey's labour market, economic output, and public finances.

[1] Those in the lowest decile contribute around 1% of personal tax revenue.

Current position
Nobody in Jersey pays more than 20% income tax on their total income in any year.[2]

Around 9 in 10 personal taxpayers pay less than 20% income tax because they benefit from marginal relief, which takes into consideration a range of statutory allowances. The average effective rate of taxation of all marginal rate taxpayers is between 11% and 12% – that is to say 11-12% of their total income is paid as personal income tax.

The 'dual calculation' – calculating the standard rated bill and the marginal rated bill and charging the lower of the two – has served the Island's economy and public finances well. The 20 pence rate has been a key feature of Jersey's competitive economic position in the post-war years.

Conclusion
It would be simply irresponsible to impose these changes without careful consideration of the longer term economic impacts.

Note on financial implications
The £23.5 million of additional revenue from higher income standard rate taxpayers is offset by a reduction of £12 million from marginal rate and some current standard rate taxpayers to arrive at the £11.5 million net fiscal gain provided by Deputy Mézec.

[2] ITIS effective rates may exceed 20%, for example because a person has tax arrears, or because LTC is collected through the income tax system.