STATES OF JERSEY

CAPITAL GAINS TAX ON THE SALE OF RESIDENTIAL PROPERTY THAT IS NOT A MAIN RESIDENCE

Lodged au Greffe on 10th September 2024
by Deputy M.B. Andrews of St Helier North
Earliest date for debate: 1st October 2024

STATES GREFFE

PROPOSITION

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

(a) that, from 1st January 2028, a 20 percent tax should be introduced on any capital gains received on the sale of residential property purchased after that date in Jersey, excluding the sale of a main residence; and

(b) to request the Minister for Treasury and Resources to bring forward the necessary legislation for approval by the Assembly no later than June 2027.

DEPUTY M.B. ANDREWS OF ST. HELIER NORTH

REPORT

Jersey's Fiscal Policy Panel (FPP) Annual Report shows that the balance of the Strategic Reserve is forecast at 17 percent of Gross Value Added (GVA) for 2027 when it should be somewhere between 30 to 60 percent of GVA. In order to grow the Strategic Reserve Fund (the 'Fund') the government will need to generate greater surpluses to ensure transfers can be made to the Fund to increase the Fund value as a percentage of GVA.

The States Assembly will be unable to increase the value of the Fund to the FPP recommendations using existing revenue streams and reducing public spend alone. As shown in the 2021 FPP report it reads 'Current forecasts suggest the Strategic Reserve will remain below the desirable range of 30-60% of GVA for the next 40 years' (Fiscal Policy Panel 2021 Annual Report (gov.je)). As a consequence, the States Assembly is left with little choice but to introduce new taxes to increase government revenue to ensure transfers can be made to the Fund. Otherwise, the value of the Fund will remain below its recommended Fund value as a percentage of GVA. It will also mean the government is more inclined to turn to borrowing due to the Fund value being insufficient which means the national debt could be increased.

To address this, I am proposing residential properties purchased after January 2028 and later sold in Jersey which are not main residential properties will be subject to a Capital Gains Tax (CGT). By introducing such a tax, the government could generate additional funds to increase the public sector surplus to supplement transfers to the Fund. It must be recognised that domestic real estate has appreciated with substantial capital gains being achieved which remain untaxed. The proposed tax is a tax on the 'capital gain' amount alone, and therefore, this shows that the recipients have benefitted from an asset that has appreciated.

The housing market has slowed down due to bank rate increases which has made borrowing more expensive. Hence, there are less transactions, and therefore, the aggregate amount borrowed has reduced. Investors seeking to purchase a second or additional home via borrowing will often be seeking to achieve a marginal efficiency of capital where the investment return exceeds the rate of interest charged by credit lenders. Where the marginal efficiency of capital cannot be achieved then investors will be disincentivised to invest in the housing market which has happened in recent times due to bank rate increases making borrowing more expensive. This could be subject to change once the Monetary Policy Committee reduce the base rate which could stimulate investment in the housing market which could lead to demand-pull inflation and therefore this will be reflected with property price increases.

Persons who sell a second or additional home may be living in a home with an implicit rent. In this case, the individual or individuals are not expending monies on rent because such parties own their home outright. Even in the case where an individual or individuals have an outstanding mortgage, the proceeds of selling a second or additional home could be used to cover part of, or even the entire mortgage. Nevertheless, homeowners are more inclined to generate a greater positive net wealth position by discharging a second or additional home. The government taxing such a flow means the government can generate additional tax revenue from an appreciating asset.

It could be argued that the introduction of a CGT will lead to a reduced amount of transactions in the market. I believe this will be the case for second or additional home purchases, as a CGT is a demand side constraint which will deter future investment in the housing market. In turn, this will create more opportunities for first time buyers to buy a home on the open market. Although, many prospective first-time buyers will not meet credit lenders mortgage criteria unless the States of Jersey provide financial assistance via shared equity loans.

I do recognise there is a need for private sector rental stock however the extent of investment we have seen has compounded the economy with investors generating an economic rent to the cost of tenants who in some cases cannot afford a deposit to gain a footing on the property ladder. As a States Assembly, we need to encourage diversified investment across the economy, and I believe, a CGT will discourage investment in housing, and it will stimulate diversified investment in other forms of capital across the economy.

Proposals

I am proposing the Minister bring forward legislative proposals before June 2027 to ensure properties purchased after January 2028 are subject to a 20 percent CGT upon discharge, excluding main residences. I believe we need to capture taxes on the disposal of second or additional homes where capital gains are realised because the government needs to increase revenue to enhance surpluses to increase the value of the reserve funds as well as meeting future social expenditure needs for future years too.

Financial and staffing implications

There will be various staffing requirements –

- the department for Treasury and Resources will need to bring forward the relevant legislation, however, this should be within existing department budget;
- there will be a staffing requirement within the Legislative Drafting Office to draft the required legislation; and
- there will be a staffing requirement to implement the new taxation regime.

There is no data available to provide revenue forecasts.

Children's Rights Impact Assessment

A Children's Rights Impact Assessment (CRIA) has been prepared in relation to this proposition and is available to read on the States Assembly website.