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3.10 Deputy S.Y. Mézec of the Minister for Treasury and Resources regarding the effect on economic growth of plans to increase taxes on middle earners:

What impact assessment, if any, has been carried out to predict the effect on economic growth of the Council of Minister's plans to increase taxes on middle earners to raise over £50 million per year and what official consideration, if any, has been given to raising taxes on the highest earners as at least a partial alternative?

Senator A.J.H. Maclean (The Minister for Treasury and Resources):

A number of potential future charges form part of a package of measures under consideration to balance public finances by 2019. The details of these have not yet been finalised so to suggest the impact will solely focus on middle earners is presumptuous. Full details will be lodged with Medium Term Financial Plan addition in June. To date, no detailed economic impact assessment has been carried out but the Council of Ministers is following the Fiscal Policy Panel advice that we should develop a plan that will address any structural deficit by 2018/2019 and to ensure that the range of measures minimises the risk to the economic recovery as it continues to develop. This means withdrawing fiscal support for the economy gradually, allowing economic growth already underway to gain momentum and aiming to balance the budget at a time when the economy is backed to capacity. To the second part of the Deputy's question about raising taxes on higher earners, I would remind him that at the budget I continued phasing out child allowances from standard rate taxpayers which of course are higher earners. Thank you.

3.10.1 Deputy S.Y. Mézec:

A supplementary. In terms of economic analysis, would he agree with the words of Senator Alan Maclean who said in November 2014: "Governments should be looking at tax-raising options as a last option. Clearly it is damaging to the economy. It is not good for Islanders in the community to have more money taken out of their pockets"? Does he agree with those words and, if he does agree, why is he pursuing a policy which is quite blatantly going to have a negative impact on economic growth?

Senator A.J.H. Maclean:

The final part of the Deputy's question was an opinion. I suggest it was presented as fact but it was an opinion nonetheless. The final point that you made there, as far as the quote that the Deputy has made, as far as I am concerned, and this is exactly what the Council of Ministers has been doing, we made it clear at the outset that any measures in order to balance budgets would be brought in towards the latter part of the Medium Term Financial Plan period. That is why in my opening comments I was making the points following the F.P.P. (Fiscal Policy Panel) advice around introducing charges from 2018. That is where the significant changes or potential changes with regard to charges are focused. Health charge - I will use as an example - in 2018 at £15 million and in 2019 the balance up to £35 million and that is the right approach. So it is a gradual withdrawal is the way that we should manage this based on solid independent professional advice.

3.10.2 Deputy A.D. Lewis of St. Helier:

At a recent presentation the Minister for Treasury and Resources attended, an example was given of £130,000 of income being earned by a family, yet still not paying 20 per cent in income tax. Does the Minister think that is acceptable? Also, if he could please define what he regards as a middle

earner, as many people would regard people earning £130,000 as perhaps not being a middle earner. Could he define what a middle earner is? Thank you.

Senator A.J.H. Maclean:

Yes, the Deputy gives a good example. At face value, again this does not look acceptable. Individuals earning more than £100,000 are effectively, in the example described, marginal-rate taxpayers. That is because there are some very generous benefits available to taxpayers and it ensures that our tax system is not on a slab basis but is graduated so you do not have sudden changes by, for example, turning round and saying that somebody earning £90,000 should suddenly move from a marginal rate on to a standard rate. You would get a slab effect there as opposed to a gradual rise. There are some drawbacks to the marginal rate but what the Deputy is describing is not easy to resolve. What he is describing is a change to the entire tax system, not just one small tweak.

3.10.3 Deputy A.D. Lewis:

A supplementary? Would the Minister not agree then it is a good time to completely review the marginal-rate computation? It is highly complicated, most people do not understand it, and it clearly is not doing its job.

Senator A.J.H. Maclean:

You do not rush to suddenly change a tax system that has worked for decades and worked very efficiently. There are costs associated with such changes. That does not mean that within the Tax Department there is not an ongoing process of reviewing the way in which the tax system works and indeed there is investment going in to ensure, working together with Social Security, we combine the I.T. (Information Technology) systems to make them more efficient and more effective. We are moving towards independent taxation. That is a requirement and indeed would be necessary for allowing us to change the system as the Deputy is perhaps suggesting. So there are various steps that need to be taken first in terms of modernising the tax system starting right now which could lead ultimately to a change to the marginal-rate system but you do not do it at the drop of a hat.

3.10.4 Deputy M. Tadier:

Would the Minister just put on record now whether he prefers regressive or progressive methods of raising revenue whether that be through so-called charges or taxation?

Senator A.J.H. Maclean:

I think there is always going to be a difference of opinion between perhaps myself and the Deputy and some of his colleagues as to what is regressive and progressive. I have said on many occasions that we need to have a tax system that is fair as it possibly can be. No tax system is perfect, ours included, and we need to continue to ensure that we develop it to be as fair and balanced as it possibly can be to meet the needs of the Island.

3.10.5 Deputy M. Tadier:

I was labouring under the impression that expressions such as “progressive” and “regressive” were well understood in parliamentary terms, so perhaps I can clarify for the Senator what I mean. When I say “regressive”, I mean something that impacts most on those with the least disposable income and “progressive” means that those who have the most disposable income will be asked to pay first before those with the least disposable income. So on that definition perhaps, can the Minister clarify whether he prefers progressive or regressive methods of funding the future deficit?

Senator A.J.H. Maclean:

I think we need to be clear about a particularly important point and that is where the burden of tax falls in this Island. At the current time we have got more than 50 per cent of the tax paid in the Island is paid by the top 10 per cent highest earners. More than 50 per cent of the tax paid in the Island. So the heavy burden of tax is falling on those that are earning the larger sums of money and that is exactly as it should be.

3.10.6 Deputy S.Y. Mézec:

It is difficult to know where to go with this after some of those answers. The question I would like to therefore ask the Minister is, would he not agree that introducing new taxes, which is the policy he seems to be wanting to pursue, involves creating more bureaucracy and involves increasing the costs of administering taxes from the State, so would he not accept that a good Conservative should be pursuing a version of taxation which includes altering income tax as the most cost-effective way of raising revenue rather than creating new bureaucracies, new systems and more forms to fill out for people?

Senator A.J.H. Maclean:

Is the Deputy describing himself as a good Conservative?

Deputy S.Y. Mézec:

I think I was speaking in the third person.

Senator A.J.H. Maclean:

I am pleased the Deputy has clarified that point. It is important that we focus on what we are trying to achieve here and that is balancing public finances by 2018 or 2019 based on good solid independent advice from the Fiscal Policy Panel. That is what we are seeking to do. We have been putting money into the economy to ensure that we maintain the recovery that we are beginning to see. We want to maintain that and it is critically important that we do so. We are needing to make some changes to charges and that will be in the latter half, as I have already stated, to ensure that we do not put in danger the recovering economy which we want to and absolutely must maintain for the good of the Island to maintain jobs and generate the revenues necessary to pay for our quality public services.