

# **STATES OF JERSEY**



## **FISCAL STRATEGY (P.106/2004) – AMENDMENTS**

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**Lodged au Greffe on 22nd June 2004  
by Deputy G.P. Southern of St. Helier**

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**STATES GREFFE**

FISCAL STRATEGY (P.106/2004) – AMENDMENTS

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- (1) *In paragraph (c)(ii), for the words “a target for economic growth of 2% per annum” substitute the words “a sustainable annual target for economic growth concomitant with the objective of restraining overall population growth”.*
- (2) *Delete paragraph (d)(ii) and renumber accordingly.*
- (3) *In paragraph (d)(iii), after the words “payroll tax” insert the words “further changes to income tax, wealth taxes”.*
- (4) *Before paragraph (e) insert the following new paragraph–*

*“to charge the Employment and Social Security Committee, in consultation with the Finance and Economics Committee, to bring forward to the States for approval proposals to reduce or eliminate the requirement for the supplementation of social security contributions from general tax revenues.”*

*and renumber accordingly.*

DEPUTY G.P. SOUTHERN OF ST. HELIER

## REPORT

In bringing forward this proposal at this time, the Finance and Economics Committee is effectively putting the words used in the opening to its report into action –

*“doing nothing is not an option, and delaying a decision increases the risk of a loss of jobs and revenue”.*

But the case for immediate action can only be said to apply to part (a) of the proposition. The Committee, it may seem to members, may indeed have made the case for its intention to move to a zero/ten corporate tax structure. Should members agree that the best way forward is to give up £80 – £100 million of company tax, then a prompt decision to implement such action in 2008 is called for.

I have no argument with the principle of an early decision on part (a) of the proposition, however, the remaining parts –

- (b) mitigation of the loss;
- (c) (largely) non-taxation strategy;
- (d) new taxes;
- (e) low income support,

cannot be considered to require the same urgency. Indeed the Committee itself admits as much in its own timetable. Thus part (b) requires detailed measures to be brought by February 2005, as does the growth target in (c)(ii).

In recommending a Goods and Services Tax, but agreeing to defer the decision on its introduction until February 2005 in part (d), the Finance and Economics Committee has acknowledged the concerns that have been expressed by many in the community about the detailed form that GST will take and the impact it will have. In the words of the report (page 32) –

*“The Committee appreciates that more information and further research is needed.”.*

### **Pre-empting debate: GST and Income Tax**

The Committee appears to be bowing to the concerns of the public in general and the business community by delaying the final decision on GST until next year. However, in reality, that is not the case. The OXERA background paper of February 2004 clearly states that to raise significant amounts of revenue (of the order of the £45 million proposed from GST) only personal income tax, payroll tax or consumption taxes are realistic options.

Whether or not one agrees with the arguments set out by the Committee for its preferred options, by fixing the phasing out of tax allowances as its most immediate target, the Committee effectively precludes any further debate not only on alternative changes to income tax, but also the principle of GST. By proposing the introduction of the “20% means 20%” principle for the 2005 budget, additional revenue from income tax measures will be limited to the £5 to £10 million obtainable from the reduction in allowances.

At the same time as arguing that any tax impact on business will cause a mass exodus of businesses, and that any impact upon 1(1)(k)s will cause a similar exodus of the wealthy (although in both cases without a great deal of supporting evidence) the Committee has ignored the impact its “20% means 20%” measures may have on the recruitment and retention of the professionals who service the needs of the Island. What will be the effect on our doctors, teachers, and lawyers of withdrawal of allowances on annual incomes of single persons from £40,000 and of couples from £80,000? This is a serious question, which thus far has not been addressed. Before we proceed with this measure, as this proposition demands, we must assess its impact. I believe that, on this topic too, in the committee’s own words *“more information and research is needed”.*

Not only would my amendment forestall the pre-emptive nature of this part of the proposal and permit a fuller debate on the way forward in February, it in no way damages the overall timescale for the phasing in of measures. The zero/ten proposals do not come into effect until 2008, thus the requirement for phasing out allowances does

not have to be in place or enacted until 2006 or even 2007. There is absolutely no need to act so precipitately on this matter. The substantive debate on the full range of measures to ameliorate the loss of tax revenue from the zero/ten proposals will be had in February 2005 and should include this aspect too.

Turning to the Committee's words on page 6 of the report, in referring to its "20% means 20%" measure, we find –

*"The consultation has not resulted in any significant challenge to this approach, nor feasible alternatives. The principle therefore remains."*

This, interestingly, is followed by this statement –

*"However the consultation did identify concern about the way in which the allowances should be phased out, so that people's personal circumstances can be taken into account. The Committee is carrying out further work to find a way in which this can be achieved."*

Do members know what this means for the taxpayers who will be caught by this measure? More importantly, do members believe that the taxpayers affected know? If members believe that taxpayers do know, then they would be perfectly entitled to vote for this measure in (d)(ii), since the "absence of challenge" above would mean consent. If not, then they must require the Committee to return with further details of how this change will work in practice for individuals and families.

The consequence of accepting Amendment 2 is that it introduces much wider scope for a full examination of alternatives in February 2005. Amendment 3, therefore, re-introduces alternatives that the Committee have rejected on the basis of little hard evidence but a great deal of supposition. It follows on from Amendment 2, but I do not believe it is dependant on it. Whatever happens, we must have the widest possible debate of the issues and alternatives, based on detailed analysis that we do not have now, in February.

The Committee make reference to 6 years of examination and consultation, and refer often to the fact that "a better approach" or a "challenge to this approach" has not been forthcoming from the consultation, in particular over the past 4 months, as the process has been better focussed. I believe that in order to have a full and proper debate on all the aspects of this proposition apart from part (a), it is imperative that a decision on (d)(ii) is not made with the partial understanding we have now. I believe that a full endorsement of these proposals cannot be given by this house until February 2005.

### **Economic growth target**

Turning to Amendment 1, the growth target contained in (c)(ii), I remain fundamentally opposed an approach which has at its core an additional 500 workers on an annual basis. I remind members that the essential target here is to raise an additional £20 million in taxation revenue to help fill the "black hole" of £80 to £100 million, by growing the economy by 2% annually. It is noteworthy that in the 2 pages dedicated in the report to this topic (pages 21 – 23), there is no direct reference to the impact of population on infrastructure apart from the following –

*"Undoubtedly there will be implications for population growth." (p.21)*

*"There will be close links ... between the size of the Island's population and the stock of available housing in the private sector." (p.22)*

How true. Just how many quality houses and flats can we build to cater for these waves of high-earning immigrants? How many fields can we cover? How many corners of St. Helier are there left to infill with flats?

Equally, the whole argument about sustainable population gets one line, which clearly leaves sustainability squarely as the remit of the Strategic plan. Instead it concentrates solely on economic growth. There can be no doubt that economic growth is the sole target of the section. Rather than deal with the unavoidable consequences of the associated population growth here, I will restrict myself to 2 points –

- The 2001 census reveals that 3,152 households were set up by “recent arrivals” in the period 1996-2001. These households contained almost 10,000 people including partners and dependants, a ratio of over 3 to 1.
- Figures from the previous population debate in 2002 remind us that to attain such phenomenal economic growth rates require *net inward migration of 500 workers*. This comes on top of the natural growth of births over deaths of 250 per year. Net migration over the last 4 years, 2000– 2003 has in fact been negative. The policy proposed is a return to massive population growth.

One may argue that, since the Economic Development Committee is requested to bring forward this strategy in February, the real debate can be had then under the terms proposition. However, a decision taken in principle now, can at best only be rejected by the House in February. The Economic Development Committee should not be instructed to come back with the best way to achieve 2% growth but to come back with the best growth target to meet social and environmental needs along with the economic requirements. We surely cannot abandon a holistic approach at the first sign of pressure. The Economic Development Committee may well come back with a target of 2% as realistic and sustainable, but it will surely be justified by a wider set of criteria which once again may produce a better debate and proper endorsement of the way forward.

### **Supplementation**

Amendment 4 follows on from the recent debate on my proposition P.137/2003, Social Security– A New Method of Funding, in which many speakers, whilst reluctant to support my proposition in its entirety, expressed the view very strongly that something must be done to alleviate the burden of supplementation. Since that debate, all we have seen is a general statement from the President of the Employment and Social Security Committee, along with an invitation to members to meet him and his chief officer for a chat about what is being done in preparation for the advent of income support in 2006. I have paid the President a visit, and whilst I now better appreciate the complexities of both the long and short-term issues he and his team have to deal with, I feel that the President has not fully paid heed to the call for action that was made on supplementation.

I had previously considered bringing a proposition requesting that the Employment and Social Security Committee bring a report outlining solutions on the supplementation issue to the House. However, I am aware that consideration of any changes could not stand alone and would have to fit in with overall fiscal strategy, and that that debate will happen in February 2005. Since payroll taxes, of which the Social Security Contribution is one, are still on the list of possible options on which the Finance and Economics Committee require further research, they will form part of that debate. I consider that asking the Employment and Social Security Committee to contribute some researched options on supplementation to a fully informed debate on fiscal strategy at that time is the correct way to proceed.

There are no financial or manpower implications arising from these amendments.