STATES OF JERSEY

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BUDGET 2007 (P.130/2006): AMENDMENT (P.130/2006 AMD.)– COMMENTS

Presented to the States on 4th December 2006
by the Minister for Treasury and Resources

STATES GREFFE

COMMENTS

This amendment is opposed in the strongest possible terms.

The cost of this amendment in terms of lost tax revenue in 2007 is estimated to be £2.2 million and, as no compensatory tax measures are proposed this will translate directly into an increased deficit of an equivalent amount in each and every subsequent year. This is at a time when the States is attempting to establish a sustainable financial position from which to address the changes to the corporate tax structure.

I should point out that there are a number of differences between this amendment and the increase in exemptions I am proposing for the next 3 years –

- The "20% means 20%" proposals are a package of measures aimed at making the Fiscal Strategy progressive
- As part of that package the target was for a net £10 million in additional revenues to be found from the withdrawal of allowances from those with higher incomes
- When the revised proposals were agreed in July (P.58/2006) I was able to temper the effect on middle income earners and protect certain key allowances by raising £16 million from higher earners and using £6 million of this sum to raise exemptions over a 3-year period.

I would refute the statement that I have acceded to the principle of annually increasing tax exemptions. I have proposed 3 years of increases in exemptions solely because I have identified a recurring source of funding. Conversely this amendment increases States deficits without identifying any recurring source of funding.

Effect of Part (a) of the Amendment

Although the stated intention of this proposition is for a better balanced budget, in reality it does the opposite. Part (a) of the proposition reduces States income without any compensatory measures. It therefore increases the States deficit for 2007 and every subsequent year by over £2 million per year.

Who would benefit?

I would also wish Members to understand exactly who will benefit from this amendment. The Deputy uses somewhat emotive language and I would want States members to be clear that the 2002 Income Distribution Survey only showed that 24% of households were below the **relative** low income threshold (60% of median equivalised income), and this is not the same as saying that 24% of our population is living in poverty. Given that incomes are generally higher in Jersey than in other countries it gives us very little indication of the numbers living in real poverty in Jersey.

What needs to be clearly understood in any debate on tax exemptions and allowances is the distribution of taxpayers under the current taxation system. Approximately 65,000 people are liable to tax of which–

- 23,900 or 36% are protected by our generous exemption limits and pay NO income tax;
- a further 24,500 or 38% are middle income earners and are assessed at the marginal rate, these taxpayers have an average effective rate of 8%; and
- the remaining 16,600 or 26% are higher income earners and are assessed at the standard rate, these taxpayers have an average effective rate of 14%.

I therefore maintain the view that the amendment would have no benefit whatsoever for the poorest of the Island as they do not pay tax and so do not benefit from increasing the exemption limits.

Those that would benefit from this amendment are the group of 24,500 middle income earners who pay tax at the marginal rate and include taxpayers with income in excess of £60,000. The maximum tax saving that could be received by any taxpayer from this amendment is £138 and most would benefit from less than this.

If the Deputy really wanted to target more funding at the poorest of the Island then this should be done through the new income support system and not through this amendment.

Effect of Part (b) of the Amendment

Part (b) proposes using States reserves (i.e. the Consolidated Fund) to make up the increased shortfall between States income and expenditure. This is poor policy because –

- such a policy results in the States living beyond its means;
- it is unsustainable as eventually the reserves are used up; and
- by increasing the States deficit it adds to inflationary pressures.

There is also no need to reduce the Strategic Reserve transfer as although there is a £2 million deficit envisaged for 2007, there remains a healthy balance of £32 million in the Consolidated Fund, even after the £10 million proposed transfer.

This amendment does nothing for the poorest of the Island, adds to the inflation of the Island and increases the forecast deficit in 2007 and every subsequent year by £2.2 million.