

# STATES OF JERSEY

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## **INCOME TAX: ALLOWANCES, RELIEFS AND EXEMPTION THRESHOLDS (“20 MEANS 20”)**

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**Lodged au Greffe on 19th May 2006  
by the Minister for Treasury and Resources**

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**STATES GREFFE**

## **PROPOSITION**

**THE STATES are asked to decide whether they are of opinion –**

to refer to their Act dated 13th May 2005 in which they agreed a progressive package of tax and benefits, and to agree –

- (a) that all tax allowances and reliefs, other than approved pension contributions, allowable employment expenses, child allowance, additional personal allowance and allowances on the first £1,000 of life assurance premiums on all policies in existence as at 31st December 2006, should be phased out over a five-year period, commencing 1st January 2007, for those paying income tax at the standard rate of 20%;
- (b) that exemption thresholds for all taxpayers should be increased by 2.5% for the years of assessment 2007, 2008 and 2009; and
- (c) that the option for all taxpayers to continue to receive all exemptions and allowances and to pay tax at the marginal rate of 27% should be retained following the introduction of the changes set out in (a) and (b) above.

**MINISTER FOR TREASURY AND RESOURCES**

## REPORT

### PHASING OUT ALLOWANCES FOR TAXPAYERS ON HIGHER DISPOSABLE INCOMES

#### Introduction

In May 2005 the States agreed to the principle of phasing out tax allowances for taxpayers on higher disposable incomes as part of a package of measures aimed at replacing the tax revenues lost by the move to 0/10% corporate rate of tax.

The purpose of this proposition is to approve the detail of the phasing out of the allowances for higher earners over a 5-year period, commencing 2007, in order to achieve the target yield from the tax of at least £10 million.

#### Progressive tax package

In the Fiscal Strategy the States approved a progressive package of tax and benefit measures capable of generating £55 million. The form of GST proposed, together with income support, will tend to be proportional, i.e. the amount of tax paid will increase proportionally with incomes.

To ensure that the overall tax package was progressive, the Finance and Economic Committee's proposal was also to phase out income tax allowances for higher earners.

Because of the high level of tax allowances in Jersey it is, at present, not uncommon for households with incomes in excess of £100,000 to be paying an effective rate of tax of less than 15%. Though the effect will vary, depending upon households' circumstances, generally the Committee's proposals would have increased the rate of tax paid by a married couple earning £100,000 by up to 3%, i.e. up to £3,000 a year. The proposals were a means of increasing the effective rate of tax for higher earners without raising the headline 20% rate of tax which has been in existence for 65 years.

#### Amended proposals

Over the past 5 years incomes have increased but tax exemption thresholds, apart from an increase for the year of assessment 2003, have remained constant. Consequently, recent calculations have shown that the anticipated tax yield, based on the proposals originally put forward for last year's Budget, would have raised significantly in excess of £10 million. Accordingly, if the objective remains one of raising approximately £10 million from taxpayers with higher disposable incomes, this objective can be achieved by more closely targeting those at the higher end of the income spectrum.

Concerns have also been expressed by taxpayers about the loss of certain allowances and reliefs to which they had been accustomed and which they had taken into account in their financial planning.

In the light of those concerns, and the higher yield, it is now proposed that the earlier proposals for raising more tax from those on higher incomes are amended in the following manner –

- Tax relief for children, including those in higher education, will be retained for all taxpayers.
- Relief will continue to be available on the first £1,000 of life assurance premia on all policies in existence as at 31st December 2006.
- Tax exemption thresholds for all taxpayers will be increased by 2.5% per annum in the December 2006 Budget, with similar proposals in 2007 and 2008. These will affect the years of assessment 2007, 2008 and 2009 respectively. Appendix A details the proposed new exemption limits.

Retaining tax relief for children will ensure that all taxpaying families will continue to receive allowances in respect of their children. Furthermore, bearing in mind the growing cost of higher education, tax relief will

continue to be provided for all taxpayers with children receiving full time higher education at universities or colleges of further education.

Retaining relief on the first £1,000 of life assurance premiums recognises the commitments that individuals may have entered into in advance of the move to 20 means 20.

The biggest change to the original proposals, however, is to combine the introduction of the phasing out of allowances with a commitment to increase exemption thresholds for all taxpayers by 2.5% a year in 2007, 2008 and 2009. Raising exemption thresholds will remove a significant number of households entirely from the payment of tax and benefit those on so called “middle incomes”. Generally, this effect will be to reduce the impact of 20 means 20 on “middle incomes”. Many previously affected by the proposals will now find no change in their tax bills and, in certain circumstances, the raising of exemption limits will result in tax bills actually reducing.

Examples of the effect of the revised proposals, once fully in place, are as follows –

- A married man, wife not working with no children and no mortgage, earning £40,000, will benefit from a tax cut of £367 compared to his current 2005 tax bill
- A married man, wife working, one child at school and one child at university with a mortgage of £240,000, earning £70,000, will receive a tax cut of £251 compared to his current 2005 tax bill, rather than a tax increase of £116 under the former proposals.
- A married couple, earning £100,000, wife working, two children at school, with a mortgage of £360,000 capped at £300,000 for qualifying tax relief, will pay additional tax of £1,801 under these revised proposals rather than £2,168 under the former proposals.
- A single person earning £30,000 with one child at school and a mortgage of £120,000, will receive a tax cut of £230 compared to his current 2005 tax bill.

Numerous additional examples are contained in Appendix B.<sup>[1]</sup>

In addition it is proposed that the phasing out of allowances for higher earners will take place over a 5-year period commencing 2007, so for many the full impact will not be felt until 2011.

### **Distribution of tax burden following phasing out of allowances for higher earners**

It is proposed to retain the current system of generous exemptions which benefit those on lower and middle incomes. As a result of this, based on current data, once the proposed changes to the income tax system are fully implemented the majority of people in Jersey will either be unaffected by the proposals or receive a tax cut –

- Approximately 28% of households will not pay any income tax;
- 45% of households will benefit from the increase in exemption limits;
- 21% of households will pay more tax than currently but not experience the full effect of the changes; and
- 6% of households will experience the full effect of the phasing out of allowances.

As a result of these revised proposals for phasing out allowances for higher earners only those households in the top quarter of incomes will experience an increase in their tax bills and only the top 6% will experience the full impact of the phasing out of allowances. These changes are truly targeted at higher earners and do not hit those on “middle incomes”.

Furthermore, under no circumstances can any household pay more than 20% of its income in tax.

### **Conclusion**

There has been extensive consultation on the 20 means 20 proposals to which the Minister has listened and this has been reflected in the revised proposals.

The revised proposals meet the States criteria of ensuring the overall fiscal strategy is progressive by raising at least £10 million from higher earners. Approximately, three quarters of households will pay no tax, or less tax under these proposals and only one in 17 households will pay at, or just under, the full rate of 20% of their incomes in tax.

### **Financial and manpower implications**

There will be no additional manpower implications, and no additional revenue costs. However, the proposals should ultimately generate around £10 million per annum.

**Increase in exemption thresholds by 2.5% in each of the years 2007, 2008 and 2009**

**Single Person**

Current exemption threshold = £11,020

2007 = £11,300

2008 = £11,580

2009 = £11,870

**Married Person**

Current exemption threshold = £17,680

2007 = £18,130

2008 = £18,580

2009 = £19,040

**Single person over 63 years of age**

Current exemption threshold = £12,300

2007 = £12,610

2008 = £12,930

2009 = £13,250

**Married person over 63 years of age**

Current exemption threshold = £20,250

2007 = £20,760

2008 = £21,280

2009 = £21,810

APPENDIX B

Description of household	Household income	Tax payable in 2005	Tax payable in 2012 (New proposals)	Tax increase or decrease (New proposals)	Tax payable in 2012 (Old proposals)	Tax decrease (Old proposals versus new proposals)
Single, no children, no mortgage	£12,000	£265	£35	-£230	£265	£230
Single, no children, no mortgage	£20,000	£2,425	£2,195	-£230	£2,425	£230
Single, no children, no mortgage	£30,000	£4,800	£4,895	£95	£5,125	£230
Single, no children, mortgage £120,000	£30,000	£3,407	£3,178	-£230	£3,407	£230
Single, 1 child at school, mortgage £120,000	£30,000	£1,517	£1,288	-£230	£1,517	£230
Single, 1 child at school, no mortgage	£30,000	£3,235	£3,005	-£230	£3,235	£230
Single, no children, mortgage £120,000	£40,000	£5,528	£5,878	£350	£6,107	£230
Single, 1 child at school, mortgage £120,000	£40,000	£4,128	£3,988	-£140	£4,217	£230
Single, 1 child at school, no mortgage	£40,000	£5,400	£5,705	£305	£5,935	£230
Single, no children, mortgage £200,000	£50,000	£6,680	£7,433	£753	£7,663	£230
Single, 1 child at school, mortgage £200,000	£50,000	£5,280	£5,543	£263	£5,773	£230
Single, 1 child at school, no mortgage	£50,000	£7,400	£8,405	£1,005	£8,635	£230
Single, no children, no mortgage	£60,000	£10,800	£12,000	£1,200	£12,000	£0
Single, no children, mortgage £240,000	£60,000	£8,256	£9,561	£1,305	£9,790	£230
Single, 1 child at school, mortgage £240,000	£60,000	£6,856	£7,671	£815	£7,900	£230
Single, 1 child at school, no mortgage	£60,000	£9,400	£10,600	£1,200	£11,335	£735
Single, no children, no mortgage	£70,000	£12,800	£14,000	£1,200	£14,000	£0
Single, no children, mortgage £240,000	£70,000	£10,256	£12,261	£2,005	£12,490	£230
Single, 1 child at school, mortgage £240,000	£70,000	£8,856	£10,371	£1,515	£10,600	£230
Single, 1 child at school, no mortgage	£70,000	£11,400	£12,600	£1,200	£14,000	£1,400
Single, no children, no mortgage	£80,000	£14,800	£16,000	£1,200	£16,000	£0
Single, no children, mortgage £240,000	£80,000	£12,256	£14,961	£2,705	£15,190	£230
Single, 1 child at school, mortgage £240,000	£80,000	£10,856	£13,071	£2,215	£13,300	£230
Single, 1 child at school, no mortgage	£80,000	£13,400	£14,600	£1,200	£16,000	£1,400
Single, no children, no mortgage	£90,000	£16,800	£18,000	£1,200	£18,000	£0
Single, no children, mortgage £240,000	£90,000	£14,256	£17,661	£3,405	£17,890	£230
Single, 1 child at school, mortgage £240,000	£90,000	£12,856	£15,771	£2,915	£16,000	£230
Single, 1 child at school, no mortgage	£90,000	£15,400	£16,600	£1,200	£18,000	£1,400
Single, no children, no mortgage	£100,000	£18,800	£20,000	£1,200	£20,000	£0
Single, no children, mortgage £240,000	£100,000	£16,256	£20,000	£3,744	£20,000	£0

**le, 1 child at school,  
igage £240,000**

£100,000

£14,856

£18,471

£3,615

£18,700

£230

Description of household	Household income	Tax payable in 2005	Tax payable in 2012 (New proposals)	Tax increase or decrease (New proposals)	Tax payable in 2012 (Old proposals)	Tax decrease (Old proposals versus new proposals)
le, 1 child at school, mortgage	£100,000	£17,400	£18,600	£1,200	£20,000	£1,400
le, no children, no mortgage	£110,000	£20,800	£22,000	£1,200	£22,000	£0
le, no children, mortgage £240,000	£110,000	£18,256	£22,000	£3,744	£22,000	£0
le, 1 child at school, mortgage £240,000	£110,000	£16,856	£20,600	£3,744	£21,400	£800
le, 1 child at school, mortgage	£110,000	£19,400	£20,600	£1,200	£22,000	£1,400
le, no children, mortgage £300,000	£115,000	£18,620	£23,000	£4,380	£23,000	£0
le, no children, no mortgage	£115,000	£21,800	£23,000	£1,200	£23,000	£0
le, no children, no mortgage	£120,000	£22,800	£24,000	£1,200	£24,000	£0
le, no children, mortgage £240,000	£120,000	£20,256	£24,000	£3,744	£24,000	£0
le, 1 child at school, mortgage £240,000	£120,000	£18,856	£22,600	£3,744	£24,000	£1,400
le, 1 child at school, mortgage	£120,000	£21,400	£22,600	£1,200	£24,000	£1,400
le, no children, no mortgage	£130,000	£24,800	£26,000	£1,200	£26,000	£0
le, no children, mortgage £240,000	£130,000	£22,256	£26,000	£3,744	£26,000	£0
le, 1 child at school, mortgage £240,000	£130,000	£20,856	£24,600	£3,744	£26,000	£1,400
le, 1 child at school, mortgage	£130,000	£23,400	£24,600	£1,200	£26,000	£1,400
ried, wife working, children, no mortgage	£20,000	£0	£0	£0	£0	£0
ried, wife not living, no children, no mortgage	£20,000	£626	£259	-£367	£626	£367
ried, wife working, children, no mortgage	£30,000	£2,111	£1,744	-£367	£2,111	£367
ried, wife not living, no children, no mortgage	£30,000	£3,326	£2,959	-£367	£3,326	£367
ried, wife not living, 1 child age 3, mortgage	£30,000	£2,651	£2,284	-£367	£2,651	£367
ried, wife working, children, no mortgage	£40,000	£4,811	£4,444	-£367	£4,811	£367
ried, wife not living, no children, no mortgage	£40,000	£6,026	£5,659	-£367	£6,026	£367
ried, wife not living, 1 child age 3, mortgage	£40,000	£5,351	£4,984	-£367	£5,351	£367
ried, wife not living, 1 child age 3, mortgage £160,000	£40,000	£3,062	£2,695	-£367	£3,062	£367
ried, wife working, children, no mortgage	£50,000	£7,380	£7,144	-£236	£7,511	£367
ried, wife working, children, mortgage £100,000	£50,000	£4,649	£4,282	-£367	£4,649	£367
ried, wife working, 2 children at school,	£50,000	£3,299	£2,932	-£367	£3,299	£367

<b> Mortgage £200,000</b> <b> Married, wife working, 1</b> <b> child at school, 1 child at</b> <b> university, mortgage</b> <b> £1,000</b>	£50,000	£2,624	£2,257	-£367	£2,624	£367
<b> Mortgage £200,000</b> <b> Married, wife working, 2</b> <b> children at school, no</b> <b> mortgage</b>	£50,000	£6,161	£5,794	-£367	£6,161	£367

Description of household	Household income	Tax payable in 2005	Tax payable in 2012 (New proposals)	Tax increase or decrease (New proposals)	Tax payable in 2012 (Old proposals)	Tax decrease (Old proposals versus new proposals)
ried, wife working, children, no mortgage	£60,000	£9,380	£9,844	£464	£10,211	£367
ried, wife working, children, mortgage £,000	£60,000	£6,777	£6,410	-£367	£6,777	£367
ried, wife working, 2 children at school, mortgage £240,000	£60,000	£5,427	£5,060	-£367	£5,427	£367
ried, wife working, 1 child at school, 1 child at university, mortgage £,000	£60,000	£4,752	£4,385	-£367	£4,752	£367
ried, wife working, 2 children at school, no mortgage	£60,000	£8,380	£8,494	£114	£8,861	£367
ried, wife working, children, no mortgage	£70,000	£11,380	£12,544	£1,164	£12,911	£367
ried, wife working, children, mortgage £,000	£70,000	£8,836	£9,110	£274	£9,477	£367
ried, wife working, 2 children at school, mortgage £240,000	£70,000	£7,836	£7,760	-£76	£8,127	£367
ried, wife working, 1 child at school, 1 child at university, mortgage £,000	£70,000	£7,336	£7,085	-£251	£7,452	£367
ried, wife working, 2 children at school, no mortgage	£70,000	£10,380	£11,194	£814	£11,561	£367
ried, wife working, children, no mortgage	£80,000	£13,380	£15,244	£1,864	£15,611	£367
ried, wife working, children, mortgage £,000	£80,000	£10,200	£10,951	£751	£11,318	£367
ried, wife working, 2 children at school, mortgage £300,000	£80,000	£9,200	£9,601	£401	£9,968	£367
ried, wife working, 1 child at school, 1 child at university, mortgage £,000	£80,000	£8,700	£8,926	£226	£9,293	£367
ried, wife working, 2 children at school, no mortgage	£80,000	£12,380	£13,894	£1,514	£14,261	£367
ried, wife working, children, no mortgage	£85,000	£14,380	£16,594	£2,214	£16,961	£367
ried, wife not working, 2 children at school, no mortgage	£85,000	£14,280	£16,000	£1,720	£16,826	£826
ried, wife working, 2 children at school, no mortgage	£85,000	£13,380	£15,244	£1,864	£15,611	£367
ried, wife working, 1 child at school, 1 child at university, mortgage £,000 (capped at £,000)	£85,000	£9,700	£10,276	£576	£10,643	£367
ried, wife working, children, mortgage £,000 (capped at	£85,000	£11,200	£12,301	£1,101	£12,668	£367

(,000)						
ried, wife working, 2 lren at school, igage £340,000	£85,000	£10,200	£10,951	£751	£11,318	£367
ped at £300,000)						
ried, wife working, hildren, no mortgage	£90,000	£15,380	£17,944	£2,564	£18,000	£56

Description of household	Household income	Tax payable in 2005	Tax payable in 2012 (New proposals)	Tax increase or decrease (New proposals)	Tax payable in 2012 (Old proposals)	Tax decrease (Old proposals versus new proposals)
ried, wife working, children, mortgage £360,000 (capped at £300,000)	£90,000	£12,200	£13,651	£1,451	£14,018	£367
ried, wife working, 2 children at school, mortgage £360,000 (capped at £300,000)	£90,000	£11,200	£12,301	£1,101	£12,668	£367
ried, wife working, 1 child at school, 1 child at university, mortgage £360,000 (capped at £300,000)	£90,000	£10,700	£11,626	£926	£11,993	£367
ried, wife working, 2 children at school, no mortgage	£90,000	£14,380	£16,594	£2,214	£16,961	£367
ried, wife working, children, no mortgage	£100,000	£17,380	£20,000	£2,620	£20,000	£0
ried, wife working, children, mortgage £360,000 (capped at £300,000)	£100,000	£14,200	£16,351	£2,151	£16,718	£367
ried, wife working, 2 children at school, mortgage £360,000 (capped at £300,000)	£100,000	£13,200	£15,001	£1,801	£15,368	£367
ried, wife working, 1 child at school, 1 child at university, mortgage £360,000 (capped at £300,000)	£100,000	£12,700	£14,326	£1,626	£14,693	£367
ried, wife working, 2 children at school, no mortgage	£100,000	£16,380	£19,000	£2,620	£19,661	£661
ried, wife working, children, no mortgage	£110,000	£19,380	£22,000	£2,620	£22,000	£0
ried, wife working, children, mortgage £360,000 (capped at £300,000)	£110,000	£16,200	£19,051	£2,851	£19,418	£367
ried, wife working, 2 children at school, mortgage £360,000 (capped at £300,000)	£110,000	£15,200	£17,701	£2,501	£18,068	£367
ried, wife working, 1 child at school, 1 child at university, mortgage £360,000 (capped at £300,000)	£110,000	£14,700	£17,026	£2,326	£17,393	£367
ried, wife working, 2 children at school, no mortgage	£110,000	£18,380	£21,000	£2,620	£22,000	£1,000
ried, wife working, children, no mortgage	£120,000	£21,380	£24,000	£2,620	£24,000	£0
ried, wife working, children, mortgage £360,000 (capped at £300,000)	£120,000	£18,200	£21,751	£3,551	£22,118	£367
ried, wife working, 2 children at school, mortgage £360,000	£120,000	£17,200	£20,401	£3,201	£20,768	£367

<b>ped at £300,000)</b>						
<b>ried, wife working, 1</b>						
<b>l at school, 1 child at</b>						
<b>ersity, mortgage</b>	£120,000	£16,700	£19,726	£3,026	£20,093	£367
<b>,000 (capped at</b>						
<b>,000)</b>						
<b>ried, wife working, 2</b>						
<b>lren at school, no</b>	£120,000	£20,380	£23,000	£2,620	£24,000	£1,000
<b>lgage</b>						
<b>ried, wife working,</b>	£130,000	£23,380	£26,000	£2,620	£26,000	£0
<b>hildren, no mortgage</b>						

description of household	Household income	Tax payable in 2005	Tax payable in 2012 (New proposals)	Tax increase or decrease (New proposals)	Tax payable in 2012 (Old proposals)	Tax decrease (Old proposals versus new proposals)
married, wife working, children, mortgage £300,000 (capped at £300,000)	£130,000	£20,200	£24,451	£4,251	£24,818	£367
married, wife working, 2 children at school, mortgage £360,000 (capped at £300,000)	£130,000	£19,200	£23,101	£3,901	£23,468	£367
married, wife working, 1 child at school, 1 child at university, mortgage £300,000 (capped at £300,000)	£130,000	£18,700	£22,426	£3,726	£22,793	£367
married, wife working, 2 children at school, no mortgage	£130,000	£22,380	£25,000	£2,620	£26,000	£1,000
married, wife working, children, no mortgage	£140,000	£25,380	£28,000	£2,620	£28,000	£0
married, wife working, children, mortgage £300,000 (capped at £300,000)	£140,000	£22,200	£27,151	£4,951	£27,518	£367
married, wife working, 2 children at school, mortgage £400,000 (capped at £300,000)	£140,000	£21,200	£25,801	£4,601	£26,168	£367
married, wife working, 1 child at school, 1 child at university, mortgage £300,000 (capped at £300,000)	£140,000	£20,700	£25,126	£4,426	£25,493	£367
married, wife working, 2 children at school, no mortgage	£140,000	£24,380	£27,000	£2,620	£28,000	£1,000
married, wife working, children, no mortgage	£150,000	£27,380	£30,000	£2,620	£30,000	£0
married, wife working, children, mortgage £300,000 (capped at £300,000)	£150,000	£24,200	£29,851	£5,651	£30,000	£149
married, wife working, 2 children at school, mortgage £400,000 (capped at £300,000)	£150,000	£23,200	£28,501	£5,301	£28,868	£367
married, wife working, 1 child at school, 1 child at university, mortgage £300,000 (capped at £300,000)	£150,000	£22,700	£27,826	£5,126	£28,193	£367
married, wife working, 2 children at school, no mortgage	£150,000	£26,380	£29,000	£2,620	£30,000	£1,000
married, wife working, children, no mortgage	£160,000	£29,380	£32,000	£2,620	£32,000	£0
married, wife working, children, mortgage £300,000 (capped at £300,000)	£160,000	£26,200	£32,000	£5,800	£32,000	£0
married, wife working, 2 children at school, mortgage £400,000	£160,000	£25,200	£31,000	£5,800	£31,568	£568

<b>ped at £300,000)</b>						
<b>ried, wife working, 1</b>						
<b>l at school, 1 child at</b>						
<b>ersity, mortgage</b>	£160,000	£24,700	£30,500	£5,800	£30,893	£393
<b>,000 (capped at</b>						
<b>,000)</b>						
<b>ried, wife working, 2</b>						
<b>lren at school, no</b>	£160,000	£28,380	£31,000	£2,620	£32,000	£1,000
<b>lgage</b>						
<b>ried, wife working,</b>	£170,000	£31,380	£34,000	£2,620	£34,000	£0
<b>hildren, no mortgage</b>						

Description of household	Household income	Tax payable in 2005	Tax payable in 2012 (New proposals)	Tax increase or decrease (New proposals)	Tax payable in 2012 (Old proposals)	Tax decrease (Old proposals versus new proposals)
ried, wife working, children, mortgage £400,000 (capped at £300,000)	£170,000	£28,200	£34,000	£5,800	£34,000	£0
ried, wife working, 2 children at school, mortgage £400,000 (capped at £300,000)	£170,000	£27,200	£33,000	£5,800	£34,000	£1,000
ried, wife working, 1 child at school, 1 child at university, mortgage £400,000 (capped at £300,000)	£170,000	£26,700	£32,500	£5,800	£33,593	£1,093
ried, wife working, 2 children at school, no mortgage	£170,000	£30,380	£33,000	£2,620	£34,000	£1,000
ried, wife working, children, no mortgage	£180,000	£33,380	£36,000	£2,620	£36,000	£0
ried, wife working, children, mortgage £400,000 (capped at £300,000)	£180,000	£30,200	£36,000	£5,800	£36,000	£0
ried, wife working, 2 children at school, mortgage £400,000 (capped at £300,000)	£180,000	£29,200	£35,000	£5,800	£36,000	£1,000
ried, wife working, 1 child at school, 1 child at university, mortgage £400,000 (capped at £300,000)	£180,000	£28,700	£34,500	£5,800	£36,000	£1,500
ried, wife working, 2 children at school, no mortgage	£180,000	£32,380	£35,000	£2,620	£36,000	£1,000
le, no children, mortgage £120,000, Life Insurance Premiums £0	£30,000	£3,407	£3,178	-£230	£3,407	£230
le, 1 child at school, mortgage £240,000, Life Insurance Premiums £0	£60,000	£6,656	£7,671	£1,015	£7,900	£230
le, no children, mortgage £240,000, Life Insurance Premiums £0	£90,000	£13,256	£17,661	£4,405	£17,890	£230
ried, wife working, 2 children at school, mortgage £200,000, Life Insurance Premiums £0	£50,000	£3,299	£2,932	-£367	£3,299	£367
ried, wife working, children, mortgage £400,000 (capped at £300,000), Life Insurance Premiums £0	£90,000	£11,200	£13,651	£2,451	£14,018	£367
ried, wife working, 2 children at school, mortgage £360,000 (capped at £300,000),	£90,000	£10,200	£12,301	£2,101	£12,668	£367

Assurance niums £5000 ried, wife working, 2 lren at school, lgage £400,000 ped at £300,000),	£170,000	£25,200	£32,800	£7,600	£34,000	£1,200
Assurance niums £10,000 le OAP (63 for the le year)	£12,000	£0	£0	£0	£0	£0
le OAP (63 for the le year)	£20,000	£2,079	£1,823	-£257	£2,079	£257

Description of household	Household income	Tax payable in 2005	Tax payable in 2012 (New proposals)	Tax increase or decrease (New proposals)	Tax payable in 2012 (Old proposals)	Tax decrease (Old proposals versus new proposals)
Single OAP (63 for the year)	£35,000	£5,800	£5,873	£73	£6,129	£257
Married OAP (63 for the year)	£20,000	£0	£0	£0	£0	£0
Married OAP (63 for the year), wife has pension by virtue of her contributions	£30,000	£1,418	£996	-£421	£1,418	£421
Married OAP (63 for the year), wife has pension by virtue of her contributions	£45,000	£5,468	£5,046	-£421	£5,468	£421
<p>Notes:  - Where single pension assumes additional personal allowance is due. Where working assumes pension over £4500  - Where child allowance is assumed any pension in the child's own name does not exceed £10  - Where Mortgage interest calculated at 5%  - OAP calculations assume no children and no mortgage</p>						

### An explanation of the 27% marginal rate of tax

Income Tax personal allowances in Jersey are quite low. The single person's allowance is £2,600 and the married man's allowance is £5,200. Although there is also a tax allowance of one quarter of earned income (earned income allowance up to a maximum of £3,400) this still makes a single person or a married man potentially liable to tax on a comparatively low income.

There are tax exemption thresholds to prevent liability to tax on low incomes. These are as follows.

Single person	£11,020
Married person	£17,680
Single person over 63 years of age	£12,300
Married person over 63 years of age	£20,250

These exemption thresholds are increased if the single person or married man is entitled to any of the following allowances or reliefs.

Lower child allowance (child at school)	£2,500
Higher child allowance (child in higher education)	£5,000
Additional personal allowance (single parent)	£4,500
Wife's earned income allowance (wife working)	£4,500 (max)
Child care tax relief	£6,150 (max)
Qualifying maintenance payments	
Qualifying interest tax relief	

Because of these exemption thresholds (increased as appropriate by the above allowances or reliefs) it is only those with high incomes who do not benefit from them.

Lower and middle income earners whose total income is in excess of their exemption threshold fall into what is termed the "marginal band". The calculation of their liability to tax at the marginal rate of 27% ensures that there is no disproportionate increase in their tax bill if their income exceeds their exemption threshold.

The attached examples show how the marginal rate of 27% is applied to lower and middle income earners.

## ONE

### **at 20% rate**

		£12,000
Personal allowance	£2,600	
Married income allowance (£12,000)	£3,000	
		<u>£ 5,600</u>
Excess =		<u>£ 6,400</u>

$$6,400 \times 20\% = \underline{\underline{£1,280}}$$

∴ tax due is the lower of the two calculations =

### **Single Person Calculation at 27% marginal rate**

Earnings	£12,000
Less: Exemption threshold	<u>£11,020</u>

$$\text{Excess} = \underline{\underline{£ 980}}$$

$$\text{Tax payable } £980 \times 27\% = \underline{\underline{£265}}$$

## TWO

### **at 20% rate**

		£21,000
Personal allowance	£5,200	
Married income allowance )	£3,400	
Child allowance (1 child)	£2,500	
Insurance relief	£ 500	
		<u>£ 11,600</u>
Excess =		<u>£ 9,400</u>

$$9,400 \times 20\% = \underline{\underline{£1,880}}$$

∴ tax due is the lower of the two calculations =

### **Married Man Calculation at 27% marginal rate**

Earnings	£21,000
Less: Exemption limit	<u>£20,180</u>

$$\text{Excess} = \underline{\underline{£ 820}}$$

$$\text{Tax payable } £820 \times 27\% = \underline{\underline{£221}}$$

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[1] Appendix C is included to explain the 27% marginal rate and its interaction with the 20% rate and why the 27% rate exists.