1240/5/1(204)

APPROVED

**WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES
BY DEPUTY G.P. SOUTHERN OF ST. HELIER
ANSWER TO BE TABLED ON TUESDAY 18TH APRIL 2017**

Question

Following the publication of R.30/2017, 'Review of Personal Tax (Stage 1) – Data Analysis', does the data contained in Figure 5.3 (p. 37) show that the impact of GST is regressive, having a greater impact on those on low incomes than it does on higher earners; will he apologise, on his own and his predecessors' behalf, to the public and Members for repeated statements that the effect of GST is not regressive; and if not, why not?

How is his argument that tax paid by the lowest earners has been reduced over the past decade borne out by the data in figures 6.2 to 6.8 in that report, which appear to show that when all taxes and contributions are included, the lowest earners in each household illustrated are subject to a higher effective rate of tax in 2015 than in 2006?

Does the combination of GST and the caps on social security and the Long-Term Care charge result in regressive effective rates of tax for those on higher earnings?

Answer

The Review of Personal Tax was commissioned by the Minister and overseen by a political oversight group made up of Ministers and other States Members.

The analysis in the Review is not inconsistent with previous analysis of the distributional impact of GST. For example, the 2009 Fiscal Strategy Review Green Paper stated that "*while a certain proportion of every family's expenditure is made up of GST it has more impact on lower-income households*". In recognition of this, Ministers increased the components of Income Support subject to GST by 3% when GST was introduced and increased them further when GST rose from 3% to 5%. In addition, tax exemption thresholds were increased and a Food Costs Bonus was introduced to benefit those who were not eligible for Income Support and who did not pay income tax.

Taxes on consumption are accepted to be regressive: at 5% Jersey's GST is mildly regressive compared, for example, to VAT rates in the European Union which often exceed 20%. Nevertheless, paragraph 35 of the Review's Work Stream 3 (policy considerations) paper notes that the "*Literature suggests that corporate and personal income tax have a strong negative impact on growth while consumption taxes…are found to be less harmful…..*" The introduction of GST was a necessary part of our responses to make Jersey's corporate tax system internationally compliant and competitive; and to retain the many economic benefits which the financial-services industry brings to the Island.

Figure 2.32 demonstrates that for the range of households considered those on lower incomes paid less income tax in 2015 than they would have done if the changes to income tax had not taken place in the period since 2006. Figures 6.2 to 6.8 take account of the impact of the changes to GST, Social-Security Contributions and the LTC Contribution over the same period.

Broadly speaking, the combination of GST and the caps on social security and long-term care contributions does mean that, at higher incomes, the effective tax rate starts to fall slightly but the system overall remains broadly progressive as those on higher incomes still pay a higher effective rate than those on lower incomes.

All of the fiscal measures covered by this review were adopted by the States Assembly because the Assembly considered that they were in the best interests of all of the people of Jersey. Nobody in this Assembly needs to apologise for securing our people's jobs and financial wellbeing through a period of severe economic upheaval worldwide.