

STATES OF JERSEY

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INCOME TAX: EXEMPTION THRESHOLDS, ALLOWANCES AND A HIGHER RATE

Lodged au Greffe on 18th July 2006
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PROPOSITION

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

- (a) to agree, in principle, that –
 - (i) exemption thresholds for all taxpayers should be increased by 2.5% for the years of assessment 2007, 2008 and 2009;
 - (ii) all current tax allowances and reliefs for those not paying tax at the marginal rate should be maintained;
 - (iii) a higher rate of income tax should be set on income over £40,000 for those single taxpayers whose net income after allowances and reliefs exceeds this sum, and on income over £80,000 for those married taxpayers whose net income after allowances and reliefs exceeds this sum;
- (b) to request the Minister for Treasury and Resources to bring forward the necessary legislation to give effect to these proposals as part of the Budget 2007 proposals.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

This proposal must be viewed and judged in the light of the measures proposed by the Minister for Treasury and Resources in P.58/2006.

The Treasury and Resources Minister lodged P.58/2006 on 19th May 2006 and asked for debate of his proposals after a 9-week lodging period on 18th July. In justifying this relatively short lodging period, and refusing a request to defer debate until the first meeting in September, he has stated that members and the public know by now and understand what he is trying to do.

The fact remains that P.58 is the third version of his “20 means 20” proposals and each has contained major changes in the structure and range of the mechanism. The Corporate Services Scrutiny Panel has heard the concerns of some sectors of the community and shares some of them, but, heavily engaged as it is in long-overdue examination of GST and zero/ten, it has not the resources to take on a further topic. It is also true to say that the attention of members (and scrutiny panels) has been fixed almost solely during the consultation period on the Strategic Plan debate and amendments to it.

As a consequence of the above, it is not true to say that most people understand what the Minister is trying to do, and those that do understand, recognise that his measures actually do not achieve his wider aims, although the core aim of raising an additional £10 million may be delivered.

The first thing to recognise and indeed welcome, is that the Minister has recognised the folly of further freezing exemptions with the consequent fiscal drag causing the tax net to catch households ever lower down the earnings scale. With relative poverty levels standing at 24% and the tax threshold at around 25 to 26% of the resident population, one had to question whether we were about to start taxing the genuinely poor. Although the research has not been done on whether the group who are in relative poverty are the same as those exempt from tax, one has to hope this is the case.

But to go on to say, as the minister does in his report to P.58, that –

“Raising exemption thresholds will remove a significant number of households entirely from the payment of tax”

is simply not true. To suggest that the number of households paying no income tax will rise to 28% is misleading. It depends on there being no pay (or benefits) rises over the next 3 years; a situation that is extremely unlikely. Provided that incomes rise in line with the predicted 2.5% figure for exemptions, the numbers should be relatively stable.

Nevertheless, this fixed sum of £230 for single people and £367 for married couples delivers the greatest relative benefit to the least well-off taxpayers and is to be wholeheartedly welcomed. **The measures contained in this proposal will retain this element of the “20 means 20” proposals.**

The retention of tax relief for children is also to be welcomed. However, what is apparent from the figures is that the highest tax increases are to be found amongst the childless, whether single or married. For two-earner households, tax rises of between 10 and 15% can be found between incomes of £70k and £85k. Figures for childless single people are not given at all between incomes between £30k and 60k. These are the middle earners, the professionals who are supposedly protected from rises under this latest scheme.

The scheme is less punitive than its predecessor, but only marginally so. According to the Minister it still does not meet the original criterion of only affecting the highest earners (defined as singles over £40k, and married couples earning over £80k). The starting points are raised only marginally from £25k to around £27 – 28k (the average wage on the Island) for singles, and from £40k to around £42k for couples.

Again, the reality of these tax rises is hidden in the figures by taking a static picture of earnings. This is obviously not the case, as most employees can reasonably expect to be earning considerably more in 5 years' time than they do today, and paying proportionally more income tax as a result. Overall, the impact of the withdrawal of

allowances and reliefs contained in P.58 cannot be clearly assessed by members of the Assembly or the public.

Further, the proposal to cap life insurance premiums at £1,000 has not been investigated and has caused legitimate concern to those involved in advising on long-term financial planning for many households. The contribution of life insurance to mortgage arrangements, or savings plans to cover the costs of education is unknown. The extent of the impact of this measure upon family finances has had no research. It is solely motivated by the need to achieve the £10 million required from the proposals.

There is also concern that the Student Grant contributions system and the new “20% means 20%” proposals target families over similar income ranges. What will be the extent of the impact on the family budgets of these middle-earning professional families with mortgages and children at university? The Committee have not addressed this question.

The measures contained in (a)(ii) and (iii) of this proposal will ensure the progressive nature of the tax regime whilst protecting middle earners from measures designed to raise £10 million.

The financial and manpower implications arising from this proposition are no greater than those arising from P.58/2006 lodged by the Minister for Treasury and Resources.