

**WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES
BY DEPUTY T.M. PITMAN OF ST. HELIER
ANSWER TO BE TABLED ON TUESDAY 16th NOVEMBER 2010**

Question

Will the Minister clarify the following issues in relation to the 1(1)(k) policy:

1. As the rate of tax required was reduced from £200,000 in the 1990s down to the present £100,000 – will the Minister clarify his justification for not increasing the present rate to more accurately reflect the benefits such individuals gain in being able to avoid the residential qualification period that applies to others?
2. Will the Minister clarify what would be the financial increase in taxation if the rate was to be increased to £150,000 for all new applicants?
3. What factual evidence is there, if any, to support the Minister's contention that an increase in taxation for 1(1)(k)'s would result in a mass exodus of such residents?

Answer

1. The figures referred to in the question relate to the minimum contribution – this is not a rate of tax or maximum contribution. When they 1(1)(k)s apply they need to demonstrate to the satisfaction of the Housing Minister that their forecast income is sufficient to ensure they pay a tax liability of **at least** the minimum amount set at the time.

These amounts are a policy decision set by the Housing Minister set at a level to attract a certain number of applicants. As such they are driven by market forces. The amount of tax they actually pay is based on tax law. All pre-2005 applicants pay tax at 20% on all of their taxable income. All post-2005 pay 20% on all of their Jersey source income and differential rates up to 20% on foreign income.

The reason for the decrease from £200,000 in the late 1990s to £100,000 subsequently was that there were very few applicants at that level. Jersey was not competitive and wealthy individuals were choosing other jurisdictions.

The Minister committed in his Budget speech in 2009 to undertake a review of the 1(1)(k) regime and that review is near completion. He is considering a number of options which include whether it would be possible to increase the minimum contribution for **future** applicants and still remain competitive.

2. It is not possible to determine what the financial increase in taxation would be if the minimum contribution was increased to £150,000 for all new applicants as it would depend on how many people decided to move to Jersey. If the level is set such that it is uncompetitive, the number of successful applicants would be minimal, if any, resulting in negligible increase in tax revenues. As noted above, this is being considered by the Minister as part of the review.

3. The Minister has said in debate that an increase in the tax rate charged to 1(1)(k)s could, in theory, result in a number leaving the island. Logic suggests that highly mobile individuals who can choose where they live will consider the amount of tax they have to pay. If the tax rate for existing 1(1)(k)s was increased above 20%, then it is likely that some would leave the island as there are a number of places which would then be far more attractive. Indeed, while Jersey has great advantages from its location and as a pleasant place to live – which mean it is able to place itself at the more costly end of the spectrum when granting housing consents - it also must remain competitive. Jersey also has no cap on the total amount payable by an individual so, depending on income, the amount of tax actually payable is unlimited. Guernsey and the Isle of Man, for example, *do* have income tax caps and would be a natural choice for someone currently living in Jersey who wants to stay close to the UK for business or personal reasons.

There will be a further announcement made concerning the future of 1(1)(k)s in the budget speech to be made on 7 December 2010.