STATES OF JERSEY

DRAFT BUDGET STATEMENT 2018 (P.90/2017): THIRD AMENDMENT (P.90/2017 Amd.(3)) – COMMENTS

Presented to the States on 27th November 2017
by the Council of Ministers

STATES GREFFE

COMMENTS

The Council of Ministers opposes this Amendment and encourages States Members to vote against it.

The Council of Ministers recognises the time and effort that Deputy S.Y. Mézec of St. Helier has committed to the proposals contained in his Amendment (P.90/2017 Amd.(3)); however, the Council of Ministers draws States Members' attention to the review of personal tax that is underway and strongly recommends that this review should be completed before such fundamental changes are considered to the personal tax system.

Review of personal tax regime

This Amendment proposes a fundamental change to the personal tax regime by effectively removing the well-established 20% standard tax rate and replacing it with a rate of 25%, whilst also reversing the "20-means-20" policy by giving tax allowances and reliefs to all taxpayers, including those with the highest incomes.

As previously outlined, the Treasury is undertaking a full review of the personal tax system with a view to modernising the current system, and the Council of Ministers cannot support making any fundamental changes to the personal tax system whilst this review is in progress.

Stage 1 of this review reported in March 2017[1] and included the collation and publication of a body of data and information that outlined the personal tax changes implemented over the period from 2006 to 2015. The purpose of that aspect of the review was to provide a comprehensive data set; establishing a platform of common and shared understanding of the Island's personal tax system which States Members could rely upon when considering future tax policy proposals.

The next stages of the review are underway. Firstly, the development of a modelling tool to help assess the impact, both on taxpayers and on the Treasury, of any changes in the personal income tax system, is well progressed. This modelling tool is entering a test phase and should be available for use by policymakers early in 2018.

Secondly, engagement with Islanders on potential future changes has commenced. The Treasury recently ran an Apptivism "chat bot" which was aimed at gathering views on the equality of the current personal tax system and exploring preferences for taxing households, married or otherwise, in the future.

Over 1,200 people responded to the "chat bot", and the results are currently being collated. Initial data indicates there are a number of taxpayers who are unaware of the difference in the tax treatment of married/unmarried couples, and that there is a general appetite for a change away from the current approach.

Once the results from the "chat bot" have been fully analysed, this information will be used to inform focus groups which are scheduled for early 2018. Further consultation with the Public will be carried out through the 2018 Jersey Opinions and Lifestyle Survey, scheduled to be launched in spring 2018.

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[1] see R.30/2017

Emerging findings will be published in the Draft Budget Statement 2019 (in autumn 2018); leading into a full public consultation in 2019, with final recommendations to be included within the Draft Budget Statement 2020 (in autumn 2019).

This timeline dovetails with the proposed replacement of the Taxes Office's computer software. Under current plans, the new computer software should be available for online returns and assessment from 2020 onwards. This approach avoids the need to make changes to the existing computer software, which is nearing the end of its useful economic life and is broadly under a "change freeze" to maintain its operational capabilities. This timeline also dovetails with the development of the next Strategic Plan and, subsequently, the next Medium Term Financial Plan ("MTFP").

It is not appropriate to pre-judge the findings of the review; but if it favoured a move to independent taxation (where each individual is taxed on their own income only), this might require wholescale changes to the system of allowances and reliefs and applicable tax rates (e.g. it might involve a move to stepped tax rates as utilised in the UK – say, the first £x of income is exempt from tax, the next £x of income is taxed at 10%).

With such a major ongoing review, this is not the right time to be making fundamental changes to the personal tax system.

Other issues

Although the majority of personal taxpayers would experience a reduction in their income tax liability, the small number of existing standard rate taxpayers[2] would experience a significant increase in their liability, as their increased tax rate of 25% outweighs the benefit of the additional reliefs and allowances they would be entitled to claim. The overall net effect for the Treasury is estimated to be an additional £6 million of personal income tax revenue (assuming no change in behaviour from those required to pay more income tax). Although not an insignificant amount, £6 million represents a very small percentage increase (less than a 1.5% increase) in personal income tax revenues, considering the fundamental nature of the change being proposed and the potential impact on the competitive position of the Island's tax system. In addition, the proposed changes further concentrates the Island's dependency on a small group of taxpayers who already make a significant contribution to tax revenues.

Any changes of such a fundamental nature should be subject to a full consultation and review process. Whilst it is clear that Deputy Mézec has given careful consideration to his proposal, requesting and analysing relevant data on the distributional impact, this is no substitute for a full consultation and review process when considering such fundamental changes. As outlined above, the personal tax review that is underway will seek to engage with the Public in a number of ways, and will culminate in a full public consultation before making final recommendations.

[2] A small number of standard rate taxpayers will experience a reduction in their tax liability because the benefit of being able to claim tax reliefs and allowances will outweigh the cost of being subject to a 25% tax rate.

The impact on Long-Term Care ("LTC") contributions highlighted in Deputy Mézec's report requires careful analysis. As LTC contributions mirror the tax system (up to the income cap that applies for LTC purposes), changes in the income tax system will automatically result in changes to LTC contributions. Whereas the estimated net impact on income tax revenues is an additional £6 million, the existence of the income cap means that the changes are likely to reduce the yield from LTC contributions. This may result in the need to accelerate anticipated increases in LTC contributions, potentially negating the income tax benefit expected to accrue to the majority of taxpayers.

Utilising the additional funding

The Amendment also requests some ring-fencing of the revenue this proposal would generate to direct towards the Higher Education budget to subsidise the University tuition fees of Jersey students. Deputy Mézec's report refers to a separate proposition for the use of the additional funding to be directed to the Higher Education budget to subsidise university tuition fees, as an alternative to any proposals for Student loans, and for the Budget Amendment to be considered in this light.

The Council of Ministers would like to make clear that the expenditure limits for this MTFP period, from 2016 – 2019 are fixed, so any proposal for use of the additional £6 million should be for expenditure from 2020 onwards, which can also then be considered as part of the next MTFP for the period from 2020 – 2023. This would be consistent with the Amendment, which proposes in principle agreement to changes for the Year of Assessment 2019, and would therefore not deliver additional tax revenue for the States until 2020.

Statement under Standing Order 37A [Presentation of comment relating to a proposition]

These comments were submitted to the States Greffe later than the noon deadline on Thursday 23rd November, specified in Standing Order 37A, as final internal review processes had not been completed in the time available from the lodging of all the amendments to the 2018 Budget.