States of Jersey

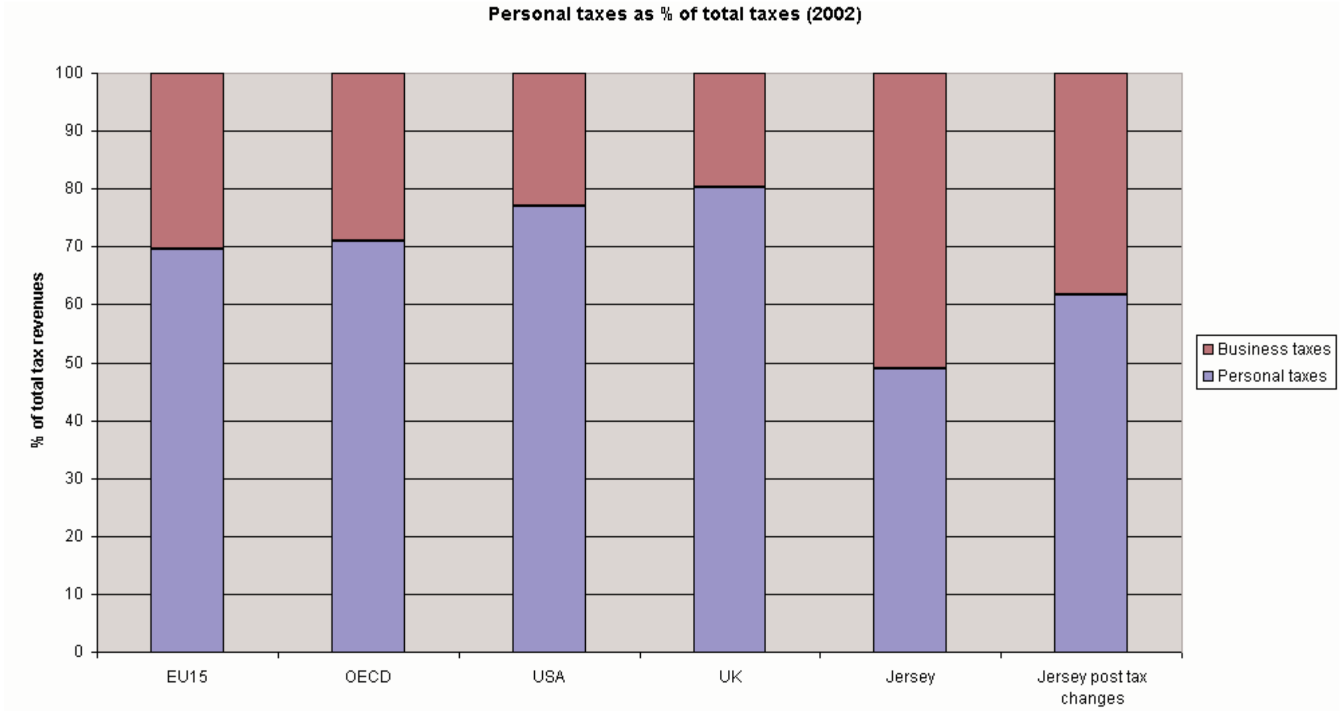
Finance and Economics Committee

TAX PROPOSALS

SOME INTERESTING FACTS AND FIGURES

States of Jersey

1. Percentage of tax which will be paid by companies post 2010)



Percentage contribution to total taxation revenue

Country	Personal taxes	Business taxes
EU15	69.7	30.4
OECD	71.1	29.0
USA	77.1	22.9
UK	80.3	19.7
Jersey current	48.9	51.2
Jersey post tax changes	61.8	38.2

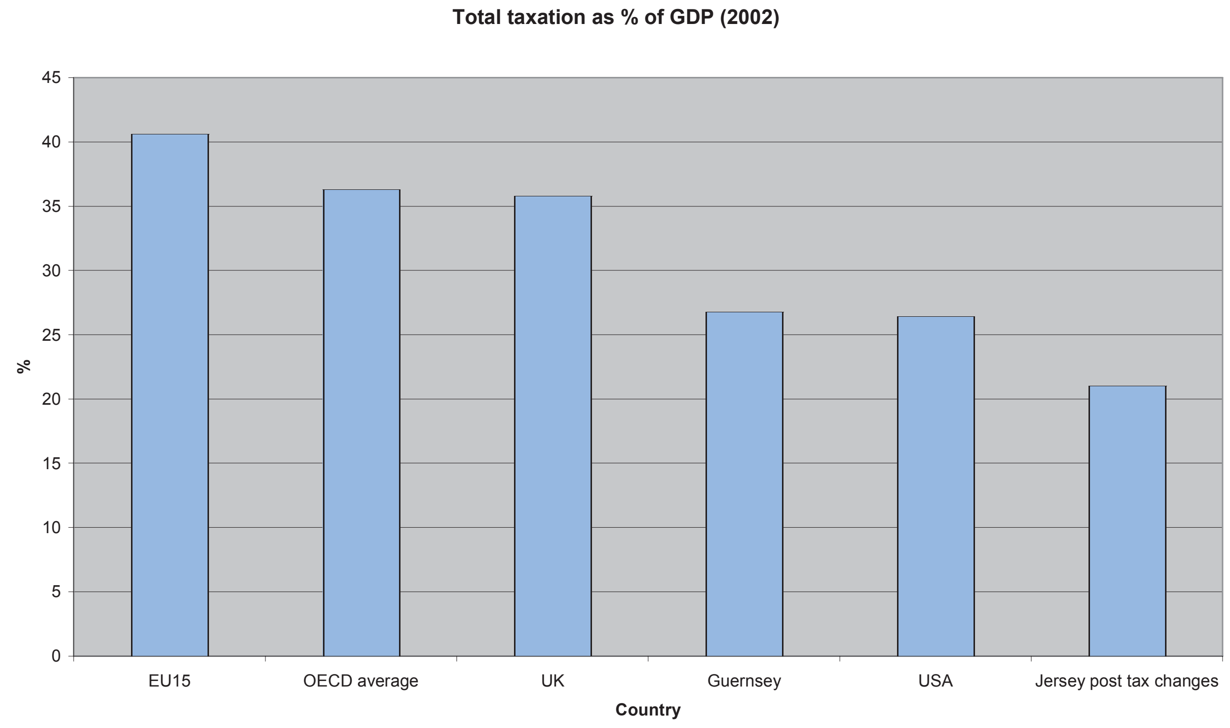
Sources:
OECD, Revenue Statistics 1965-2003, 2004, tables 11, 13, 15, 17, 19, 21, 23, 29, 31, States of Jersey, Report and Accounts, 2003, Annual report, Employment and Social Security Committee, 2003, States of Jersey, Review of the Relationship Between the Parishes and the Executive, 2003, page 9, Oxera calculations.

Conclusion -

Jersey's businesses contribute much more to total taxation than businesses in most other countries in the world, and will continue to do so following implementation of the proposed tax changes.

The percentage of total taxation paid by individuals in Jersey is much less than that paid by people in most other countries in the world. This will still be the case following Jersey's tax reform.

2. Tax levied in Jersey post 2010 as a percentage of GDP



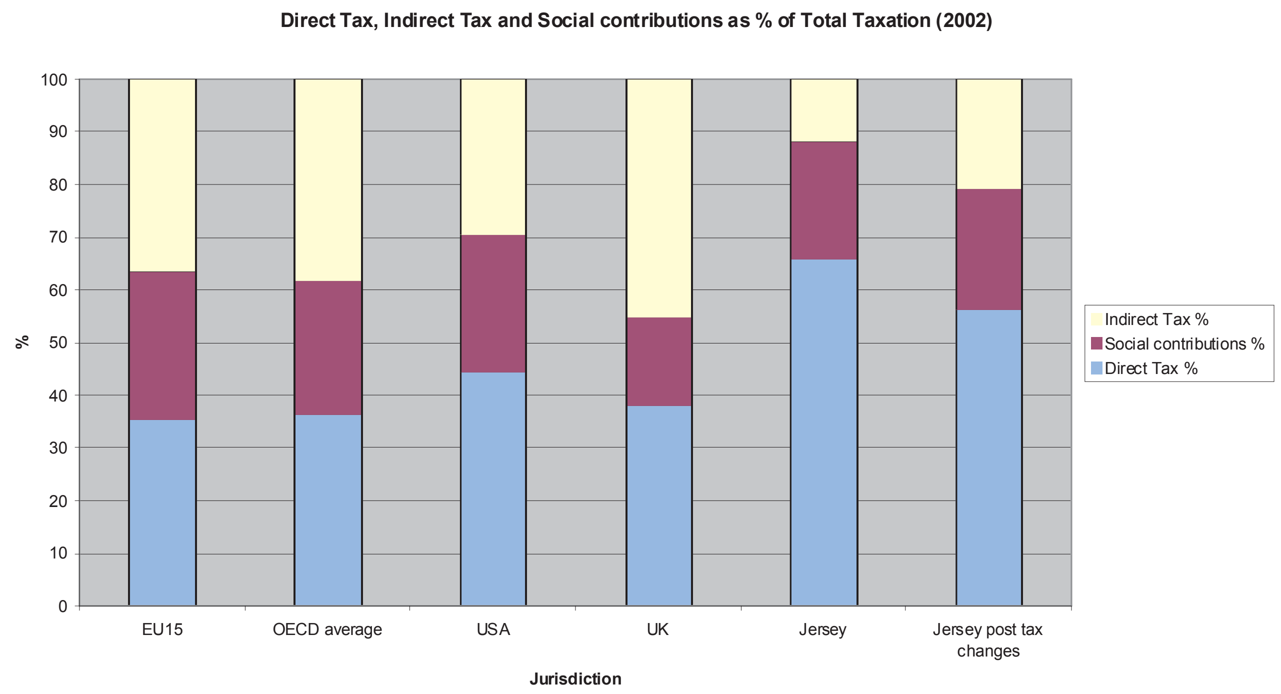
Country	Taxation as % of GDP
EU15	40.6
OECD average	36.3
UK	35.8
Guernsey	26.8
USA	26.4
Jersey post tax changes	20.9

Sources:
OECD, Revenue Statistics 1965-2003, 2004, Table A: http://www.gov.je/statistics/content/xls/GVA_GNI_data.xls, States of Jersey, Financial Report and Accounts 2003, page ii; Annual Report, Employment and Social Security Committee, 2003, pages 5 and 10; States of Jersey, Review of the Relationship Between the Parishes and the Executive, 2003, page 9; 2004 Guernsey facts and figures, Table 3.2, Table 9.2; Oxera calculations.

Conclusion -

Jersey has, and will continue to have, very low taxation as a percentage of the size of the economy compared to most other countries in the world. Jersey needs to remain a low tax, low spend economy if it is to remain successful.

3. Balance between Direct Tax, Indirect Tax and Social Security contributions, now and post 2010



Sources:
OECD, Revenue Statistics 1965-2003, 2004, tables 11, 13, 17, 19, 21, 23, 29, 31, States of Jersey, Report and Accounts, 2003, Annual report, Employment and Social Security Committee, 2003, States of Jersey, Review of the Relationship Between the Parishes and the Executive, 2003, page 9, Oxera calculations.
Notes: *Jersey post tax changes assumes that there is a loss of £80m from corporate income tax (direct tax), which is replaced by £45m GST (indirect tax) and £15m personal income tax (£5m from ITIS and £10m from 20 means 20 - direct tax). Jersey taxes includes taxes paid to the Parishes.*

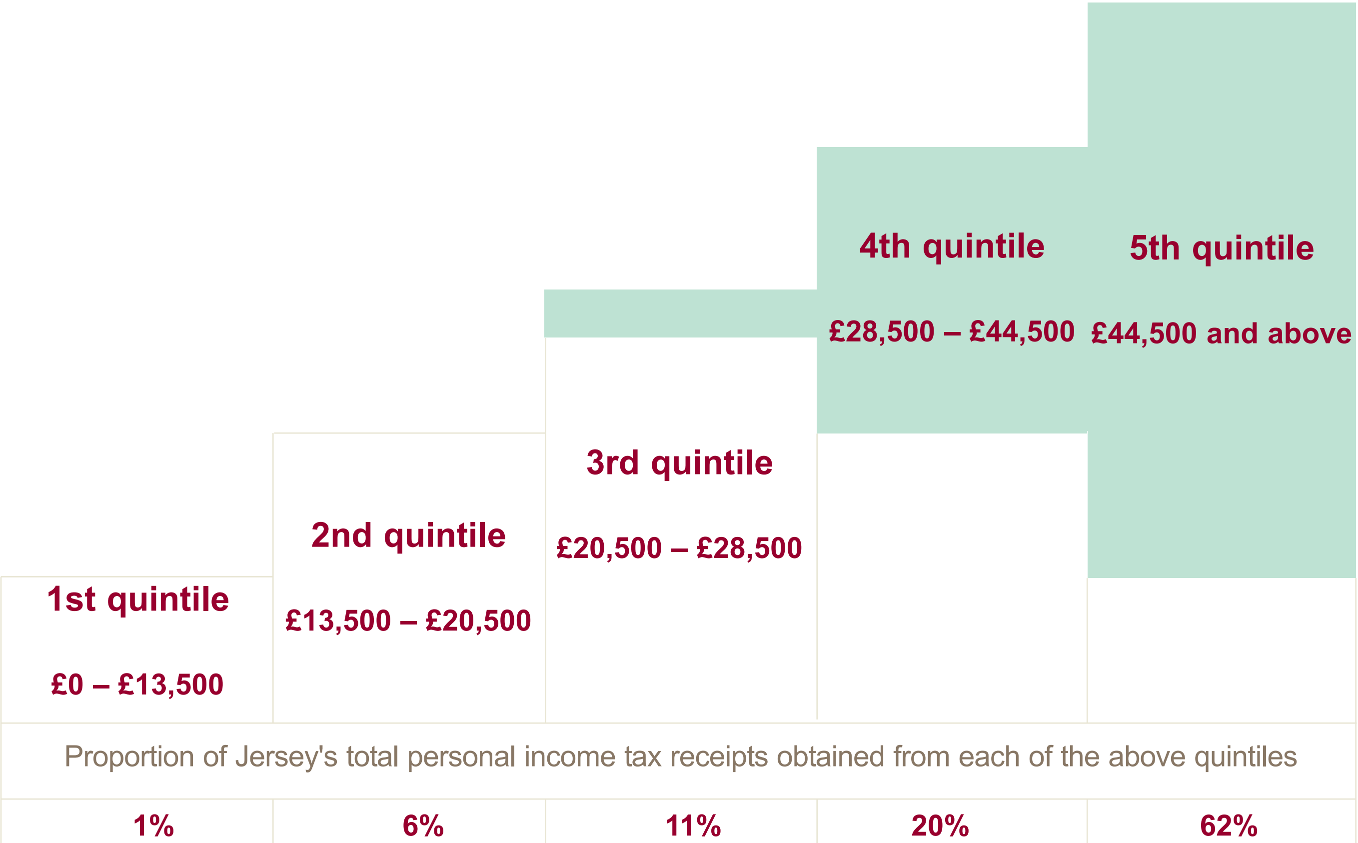
Percentage contribution to total taxation revenue by type of tax

Tax/revenue	Direct tax %	Social contributions %	Indirect tax %
EU15	35.4	28.1	36.5
OECD average	36.3	25.4	38.3
USA	44.4	26.1	29.5
UK	37.9	17.0	45.1
Jersey current	65.8	22.2	12.0
Jersey post tax changes	56.1	23.0	20.8

Conclusions -

Jersey gets far less than most others from Indirect Taxes (GST ; Impots Duty: Stamp Duty ; etc)
Jersey gets roughly the same as others from Social Security Contributions
Jersey gets far more than most others from Direct Taxes (Income Tax ; Corporate Tax)
By being out of balance, Jersey's position is more vulnerable

4. Distribution of Jersey households liable to income tax



These bar charts indicate the following information:

1. **Eighty percent of households have an annual income of £44,500 or less**

2. **Contrary to popular belief, the middle range of household incomes lies with the range £20,500 to £28,500 p.a.**

3. **There are relatively few "high income households", and the yield from higher rates of tax on some parts of this group would not be very great (e.g. a rate of 30% on household incomes over £80,000 p.a. would bring in £11 million, but only if no such households left the Island)**

4. **The area shaded green gives an indication of the impact of "20% means 20%":**
   A few households in the third quintile representing single persons with no children, life assurance or mortgage commitments
   Rather more households in the fourth quintile, again principally single persons with few commitments
   The majority of those affected by "20% means 20%" are contained within the fifth quintile.

5. Only three sort of tax can raise £50/£60 million p.a.

These are taxes on:

- Income
- Earnings
- Consumption

All take the same £50/£60 million out of the economy, and reduce personal spending power either by creating

- Higher prices
- Lower wages
- Fewer jobs

This money will come largely from the pockets of Jersey resident individuals and businesses

6. How does GST affect household incomes?

(a)	Broad based GST	3%	few exceptions
(b)	U.K. style GST/VAT	4.5%/5%	more exceptions than most

The Crown Agents report analysed the difference in total annual cost for various household groups between the proposed broad based 3% GST and a UK style VAT/GST at 5%. The differences are as follows:

Effect on households of UK style VAT at 5% compared to a broad based GST at 3%

Quintile:	1	2	3	4	5
Annual decrease or *(increase)* in the amount of tax borne	£7	*(£12)*	£8	£18	*(£20)*

Although the figures look surprising, the reason is that although a number of items, notably food, would not be liable under the UK system, households in each quintile spend quite a lot of money in other areas as well, and this spending would be taxed at the higher rate of 5%.

If a more complex GST system such as the UK style were to be introduced, the administration costs could be expected to double.

7. Yields of Tax Revenue from the Main Tax Raising Options

• INCOME TAX

Option	Yield (£ million)	Comment
Increase standard rate from 20% to 25%	£16m	Example: Households with taxable income of £30,000 pa would see their annual Income Tax bill increase by a maximum of £1,500 per year
Reduce allowances and exemptions by 25%	£30m	Example: married couple both working, with a household income of £50,000 pa, two children at school, with a mortgage of £200,000 would see their Income Tax bill increase by £1,835 pa Example: married couple both working, with a household income of £100,000 pa, two children at school, with a mortgage of £200,000 would see their Income Tax bill increase by £905 pa
Introduce a higher rate of 30% on income over £80,000 pa	£11m	Example: Households with a taxable income of £100,000 pa would see their annual Income Tax bill increase by £2,000 per year
Introduce a higher rate of 40% on income over £100,000 pa	£18m	Example: Households with a taxable income of £120,000 pa would see their Income Tax bill increase by £4,000 per year

Conclusion -

Increasing the 20% standard headline rate of Income Tax cannot on its own meet the tax revenue shortfall. Jersey will also compare unfavourably with other jurisdictions, including Guernsey and the Isle of Man

Introducing higher rates of income tax for higher earners risks not being able to attract workers with the skills the Island needs and may also lead to higher income earners leaving the Island, with the subsequent loss in tax revenue

[1] Paying interest @ 5.3%
[2] Paying interest @ 5.3%

• GST

Option	Yield (£ million)	Comment
Rate of 3% broad-based, few exclusions, including special treatment of Financial Services Industry (FSI)	£45m (inclusive of £5-£10m from FSI)	Simplest and most cost efficient form of GST for both government and business, which is why Crown Agents recommended it.
Rate of 3.5% to 4%, excluding food and children's clothing, but including special treatment of FSI	£45m (inclusive of £5-£10m from FSI)	Food is the most complex exclusion to administer but does little to help lower income groups. The lowest household quintile would only benefit by £12 p.a. if food were excluded. Children's clothing is almost as complicated. 21 of the 25 EU states have VAT on food and children's clothing (the 4 exceptions are UK & Ireland - food and children's clothing; and Malta & Cyprus - food).
GST rate of 5% with UK VAT exclusions, but including special treatment of FSI	£45m (inclusive of £5-£10m from FSI)	The UK system is viewed as inordinately complex because of the large amount of exclusions. It is not even fully compliant with EU VAT Directives. If we followed suit, costs of compliance and collection would double for government, and businesses would face many more administrative hurdles.

• CAPITAL GAINS TAX

Option	Yield (£ million)	Comment
UK style CGT	£5m	Such a tax raises minimal tax revenue, would require complex legislation and is cost inefficient to collect

• PAYROLL TAXES

Option	Yield (£ million)	Comment
1% rate on both employer and employee and retaining the current social security ceiling	£20m	This would have the effect of: Employer social security contribution rate increasing from 6.5% to 7.5% Employee social security contribution rate increasing from 6% to 7% Example: a worker on £30,000 pa would see an increase in social security contributions of £300 per year
2.5-3% rate on both employer and employee, and retaining the current social security ceiling	£55m	This would have the effect of: Employer social security contribution rate increasing from 6.5% to 9.5% Employee social security contribution rate increasing from 6% to 9% Example: a worker on £30,000 pa would see an increase in social security contributions of £900 per year
Lift cap on social security employer contributions	£11m	Example: A business paying a worker £50,000 pa would see an increase in employer social security contributions of £1040 per year
Lift cap on social security employee contributions	£10m	Example: a worker on £50,000 pa would see an increase in social security contributions of £960 per year

- **All of the above payroll tax options only tax earned income - unearned income, including that of the wealthy, is not affected**
- **If the social security ceiling is raised then social security becomes a tax rather than the social insurance scheme it is at present**

8. Administration Costs of Main Tax Raising Options

Administration costs per £ tax raised:

Tax	Cost per £ raised
Income tax	0.88 pence (2002) per £
GST @ 3%, broad-based, few exemptions	Approximately 1 pence per £
UK style VAT	Approximately 2 pence per £ (estimated)
Payroll tax (social security contributions)	0.3 pence per £
Capital Gains Tax (UK)	2.73 pence per £ (2002/03)

9. Latest Estimated Breakdown of Loss of Revenue from the move to 0/10%

Gross loss from sector	Magnitude of loss (£ million)
International Business Companies	£10m
Exempt Companies (possibly offset by increases in cost of registration)	£10m
Non-finance, non-resident business	£10-£12m
Non-finance, non-resident companies relocating for reasons not related to 0/10%	£10-£12m
Finance industry companies	£50-55m
TOTAL (before offsetting measures)	£90-£99m

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