QUESTIONS TO BE ASKED OF THE PRESIDENT OF THE FINANCE AND ECONOMICS COMMITTEE ON TUESDAY 2nd MARCH 2004, BY DEPUTY G.P. SOUTHERN OF ST. HELIER

Question 1

The zero/ten tax package proposed by the Committee rejects both payroll tax and company property tax as mechanisms to recoup the resulting loss of revenue.

Would the President –

(a) outline what measures the Committee proposes to generate some revenue from business, or

(b) explain to members why the Committee has departed from previous policy of generating some income through alternative company tax measures?

Answer

(a) Currently 43% of States' revenues come from business, compared to 17% of total tax revenues in the U.K. Under the Committee's proposals the finance industry will continue to pay tax at 10%. Furthermore, measures are planned to enable us to raise tax from the shareholders of other companies, in proportion to their share of the profits of those companies. As a result of these measures, businesses will still be paying a considerably greater proportion of total taxes in Jersey than in most other countries, including the U.K.

(b) The Committee's policy has been, and remains, to generate as much tax as possible from business, consistent with encouraging it to stay in Jersey, rather than locate elsewhere. The Committee wishes to retain the Island's prosperity and full employment, and so has discounted measures such as a payroll tax or a corporate property tax, which, it believes, will increase businesses' costs and lead to jobs, and indeed whole businesses, being moved to lower cost jurisdictions.

It also wishes to reduce the Island's reliance on direct taxation, particularly corporate taxation, for such a high proportion of its revenue.

Question 2

Would the President inform members whether, as a result of the Committee's tax proposals –

(a) Island residents will pay more tax and non-island residents will pay less?

(b) workers will pay more tax and companies will pay less? and,

(c) middle-to-high earners will pay more tax and the truly rich will continue to pay less?

Answer

(a) I do not deny for a moment that as a result of these changes Island residents will need to pay more tax in order for the Island to respond to competitive pressures. If we increase the burden on businesses, the finance industry will leave Jersey for those more competitive jurisdictions. This would result in high unemployment, lower incomes, plus taxes rising by far more than the Committee's proposals.

Conversely, however, it is not true that non-Island residents will pay less tax. As non-Island residents they currently pay tax in their home jurisdictions, not Jersey, and that will continue to be the case.

(b) As I have said in the previous answer, all residents will have to pay slightly more tax. The alternative is that many of them would not have jobs, and those who would keep their jobs would earn less and pay more in taxes. The rate of tax for the finance industry will reduce from 20% to 10%. This is because the Isle of Man, Guernsey and other competitors are moving, or have already moved to 10%. If we do not match this, the finance industry could leave quite quickly. The finance industry will still pay approximately £100m in tax, a substantial contribution to our revenues.

(c) Under these proposals middle to high earners, including very high earners and 1(1)(k)'s, will pay more tax. The goods and services tax will ensure that all residents on the Island, whatever their income, will contribute more tax than they do at present. Approximately 1% of Jersey households have incomes of more than £150,000 a year and these households currently pay 17% of all personal income tax. They also have higher spending power, and can be expected to contribute more, both directly and indirectly, to the revenues to be raised from a goods and services tax.

Question 3

Concerning the proposal to gradually reduce allowances for those households earning between £80,000 and £150,000, will the President explain to members –

(a) how the concept of 'household income' will work when husband and wife can opt to be taxed separately?

(b) how many steps will be introduced and at which points in the range of incomes they will be placed?

(c) what measures the Committee will put in place to avoid creating an "income-trap", whereby those who can, might take steps to reduce their income to avoid entering the next band of reduction in allowances? and,

(d) the Committee's reasoning in introducing a progressive element over this range, whilst allowing regression at higher salaries, and whether this is considered to be fair?

Answer

(a) There is no tax advantage at all in a married couple electing for separate assessment compared to not electing for it. The total tax bill paid is exactly the same in both circumstances because the total income for both parties is taken into account. The same principle will apply for the withdrawal of tax allowances and there will be no advantage at all to a married couple who elect for separate assessment insofar as the withdrawal of tax allowances are concerned. The Committee does recognise, however, the distinction between a married couple and two single people living in the same household, and as part of the proposals to phase out allowances for higher earners, the Committee intends consulting on a radical reform of personal taxation aiming at fair and consistent treatment of all taxpayers, with the possible end result of individual tax assessments for everybody.

(b) Whilst a number of income steps will be likely, perhaps even as low as £1,000 each, but probably somewhat higher, the Committee wishes to hear the public's views on its proposal to phase out income tax allowances for higher earners before designing a detailed scheme. It could be that the public have alternative and better suggestions.

(c) The Committee believes that its proposals will not create an income trap.The element of the proposal to phase out allowances between £80,000 to £150,000 is designed to ensure that such an income trap does not occur. As an example, for a family earning between £80,000 and £150,000 with two children and a mortgage of £120,000, for each additional £1,000 earned the effect of the proposal to withdraw allowances is to increase the tax paid by an additional £69 - from £200 (i.e. 20%) to £269. Therefore the effect of the proposal is to raise their marginal rate of tax from 20% to about 27%.

(d) The changes to the tax system are progressive overall. Within the income range of the phasing (i.e. £80,000 to £150,000 for a couple) the marginal rate of tax will be higher than the current 20%, and the average effective rate of tax will also be higher than it is now. Above £150,000 the marginal rate of tax will revert to what it is now (i.e. 20%), but the average effective tax rate will still be higher than it is now, because it will truly be 20%. Making 20% mean 20% for those on high incomes maximises the progressive potential of an income tax structure having a maximum average effective rate of 20%.

Question 4

Would the President inform members whether the zero/ten proposals, in making no mention of 'user pays' charges as a means to replace the lost tax revenues, means the end of this concept?

Answer

No; the concept of 'user pays' has not been abandoned, but it is not part of the Committee's proposals to create a framework capable of generating £80-£100 million.

Question 5

Will the President inform members whether the Committee will be giving urgent consideration to measures to tax those whose income is wholly or largely unearned?

Answer

Those whose income is wholly or largely unearned, including pensioners living off investment income, are already liable to tax at 20% (subject to their personal allowances) and will remain so.