STATES OF JERSEY

EXPENDITURE PROPOSALS FOR 2012 AND 2013 AND DRAFT BUDGET STATEMENT 2011 (P.157/2010): THIRD AMENDMENT (P.157/2010 Amd.(3)) – AMENDMENT (P.157/2010 Amd.(3)Amd.) – COMMENTS

Presented to the States on 7th December 2010
by the Council of Ministers

STATES GREFFE

COMMENTS

The Council of Ministers opposes this amendment as it is currently drafted.

This amendment proposes that if Deputy's Green's amendment to exempt food and domestic energy from GST is approved by the States, all adjustments to the income tax system that had been designed to compensate for the introduction of GST in 2008 should be rolled back, in addition to the withdrawal of additional income support and GST bonus measures.

This would involve reducing the income tax exemption thresholds to recover 2 increases, of 3.5% and 2% respectively, in 2008 and 2009, as well as not implementing the 1.1% increase proposed in this Budget.

Summary

The Council of Ministers recommends that States members reject this amendment for the following reasons –

1. It is not considered appropriate to remove income tax reliefs that were introduced in earlier years.

2. The effect of this amendment would be to increase the tax liabilities of the middle 70% of earners in Jersey, including 1,500 individuals who do not currently pay any income tax.

3. The increase proposed for 2011 is not intended to compensate for the increase in GST, but to increase the exemption in line with earnings so that people do not suffer a real term reduction in their income.

Comment

GST was introduced in 2008. A range of measures were introduced at around the same time which were intended to shield the less well-off from its full impact. These included the introduction of income support, the GST bonus, and the increase in income tax exemption thresholds.

Deputy Green accepts that if his proposal were approved by the States, it would be appropriate to adjust the level of income support and the GST bonus provided to reflect the lower GST payable on food and domestic energy. Senator Ferguson believes that the third arm of the compensatory measures should also be removed.

In total, the States voted for the following measures to compensate the less well-off for the introduction of GST –

- Increased income tax thresholds by an extra 3.5% from 3% to 6.5% for 2008 in the 2008 Budget at a then cost of £4 million.

- Included protection from GST for those on the original income support scheme at a cost of £1.75 million.

- An allowance for those households between the income support scheme and income tax system known as the GST bonus scheme at a cost of £0.4 million.

- The Le Fondré proposition P.138/2008 to further increase income support by £3 million, double the GST Bonus Scheme at a cost of a further £0.4 million, and provide an increase in income tax exemption thresholds from 3% to 5% in 2009 at a cost of £2.4 million.

In total, this equated to a total financial benefit from those on low to middle incomes of £12 million, twice the estimated cost of exempting fuel and food from GST in 2008.

Price and wage inflation since 2008 has increased the value of the adjustments to the income tax exemption thresholds to approximately £8.5 million.

Exemption thresholds

As previously noted, exemption thresholds have been adjusted twice to specifically compensate lower earners for the impact of the introduction of GST. The first of these was an increase of 3.5% in 2008, followed by an additional 2% in 2009. An increase of 1.1% is proposed by the Minister for Treasury and Resources for 2011, but this does not specifically relate to GST.

Reversing the 3.5% increase in 2008, the 2% in 2009 and the 1.1% proposed for 2011 would reduce the exemption thresholds as follows –

	2010	**2011 as originally proposed**	**2011 as amended**
Single person	£12,650	£12,790	£11,988
Single person (aged 63+)	£14,110	£14,270	£13,378
Married couple	£20,280	£20,510	£19,234
Married couple (aged 63+)	£23,220	£23,480	£22,024

Individuals affected

This would have the effect of making 1,500 people pay tax who do not currently do so. It would increase the tax paid by 650 middle-earners who would fall out of the marginal 27% rate band and into the full 20 means 20 regime. The tax liabilities of the approximately 70% of taxpayers who currently pay tax at the marginal 27% rate would also increase.

As a matter of policy, it is not considered appropriate to remove an income tax relief that had been introduced in an earlier year. Reducing the income tax exemption thresholds in this manner would increase the tax bills of all but the very lowest and very highest earners in the Island.

Financial implications

The amendment would result in an additional £10 million of revenue for the States in 2012.