

**WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES
BY DEPUTY S.Y. MÉZEC OF ST. HELIER
ANSWER TO BE TABLED ON TUESDAY 1ST NOVEMBER 2016**

Question

Will the Minister provide estimates, by income quintile, of the proportion of total income that earners in each quintile pay in GST?

Answer

Alongside the Medium Term Financial Plan Addition 2017-2019 the Council of Ministers lodged a document entitled “Distributional analysis of the MTFP proposals” which was compiled by the Chief Economic Adviser.¹ Section 4.4 of this document considered the distributional analysis of changes in the rate of GST and has been reproduced below for the benefit of Members:

4.4 GST Distributional Analysis

There are several different ways to analyse the distributional consequences of GST. In particular, one can look at two different approaches:

- the proportion of **gross income** taken in GST
- the proportion of **expenditure taken** in GST

Using data from the Household Expenditure Survey (HES) it is possible to calculate how much households spend on GST by the level of their income.

However, looking at GST as a proportion of gross income is not be the only way of considering this. Other taxes may already reduce household income, and these may affect households differently. For example, one way to reduce the proportion of income taken from the lowest quintile in GST would be to raise the rate of other taxes on this quintile. This would reduce the money that these household have to spend, and thus reduce the amount of the GST as a proportion of income (although not necessarily disposable income).

Looking purely as a proportion of income, even disposable income, while important, does not necessarily tell the whole story. In particular, it shows a snapshot of spending and income patterns in the population at a particular moment in time, and may be misleading given the variability of income over a lifetime: those with low incomes now may be the young or elderly or temporarily out of work who will be, or have been, amongst higher income groups at other times. As the IFS notes, “*given that households can smooth consumption over their lifetime, expenditure is a better proxy for lifetime resources than current income.*”²

So under this measure, GST looks more regressive in part because those with high incomes tend to have high savings, and so appear to escape the tax. However, savings must be spent at some point, and they will be subject to the tax when they are. For example, people tend to spend more than their income when they are young and when they are old, while in-between they pay down debt and accumulate savings. Over the course of a lifetime, income will be broadly equal to expenditure (unless of course a large inheritance is left, but then the tax will be paid by the receiver when it is spent).

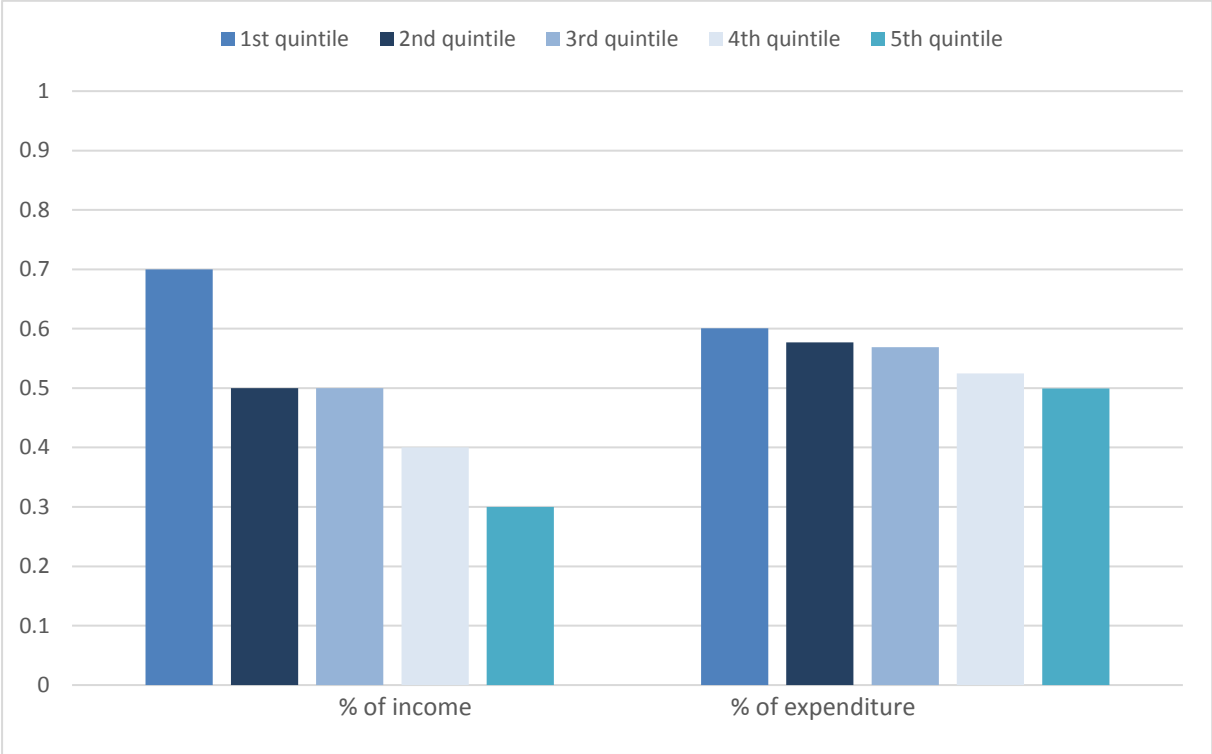
¹ See: [http://www.statesassembly.gov.je/AssemblyPropositions/2016/P.68-2016Add\(2\).pdf?_ga=1.3361330.344120006.1464706065](http://www.statesassembly.gov.je/AssemblyPropositions/2016/P.68-2016Add(2).pdf?_ga=1.3361330.344120006.1464706065)

² Brewer, Browne & Phillips (2008) The Distributional Effects of the 2008 Pre-Budget Report. P.68/2016.Add(2)

Looking at GST as a proportion of spending instead of income, addresses this concern to the extent that the latter is a better reflection of household’s perceptions of their own lifetime spending ability. As to be expected, this measure shows GST as less regressive than as a proportion of gross income.

Estimates of these two measures are shown below based on the 2014/15 household expenditure and income distribution surveys.

Figure 40: Increase of 1% in GST as a share of income and expenditure across the income distribution



Source: States of Jersey Statistics Unit/Economics Unit calculations

While the degree varies slightly by the measure chosen, GST is mildly regressive. This is mainly due to the effect on those households on the lowest incomes, which spend a larger proportion of their income on essential items such as food, domestic energy and so on.³

³ For example, according to the HES, an average household in the lowest 20% of incomes spends 14% of their income on food, while an average household in the top 20% of incomes spends just 8%.