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WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES
BY DEPUTY G.P. SOUTHERN OF ST. HELIER
ANSWER TO BE TABLED ON TUESDAY 9th DECEMBER 2014

Question

Despite the fact that the shortfall in 2014 and 2015 tax revenues of some £75 million was partly put down to the mistaken expectation of a rise in interest rates, leading to growth in financial services profits, (Long Term Revenue Planning Review, R.136 /2014, page 11) what justification, if any, can the Minister give for a predicted increase in 2016 income tax revenues of 5% from £455 million to £475 million; to what extent is this estimate dependent on a rise in interest rates and what evidence does the Minister have that interest rates will rise significantly in the short term?

Answer

The figures referred to are the Income Tax Forecasting Group’s May 2014 forecast for income tax revenues. They are based on the latest economic developments locally and internationally, and the most recent Fiscal Policy Panel growth forecasts for Jersey’s economy.

The central income tax forecast is for £444m in 2014, £455m in 2015 and £475m in 2016. This forecast is lower than the central forecast in the MTFP by £31m in 2014 and £45m in 2015. This is mainly because the economy has performed less well than expected in 2012 and 2013 as a result of a much weaker than anticipated global economy and the unexpected depth and length of the euro crisis. In particular, this has meant that earnings and employment growth has been weaker than expected in Jersey with the consequence that personal tax has not recovered in line with previous expectations.

The estimated increases in income tax revenue in 2016 referred to by the Deputy are based on Jersey’s economy returning to modest growth and in particular, continuation of the real earnings growth (1% above RPI) and employment growth (1.1%) seen in 2014.

The interest rate expectations used in the forecast are based on the market expectations published by the Bank of England in its quarterly Inflation Report. The expected rise in interest rates does lead to an increase in corporate tax revenue but this is smaller than the increase in personal tax that could arise if the economy performs as assumed.