STATES OF JERSEY

DRAFT BUDGET STATEMENT 2016 (P.127/2015): AMENDMENT (P.127/2015 Amd.) – COMMENTS

Presented to the States on 14th December 2015
by the Council of Ministers

STATES GREFFE

COMMENTS

Summary of key points

- The Council of Ministers opposes the amendments put forward by the Deputy of Grouville to the Budget proposals regarding changes to the age-enhanced exemption thresholds.
- The Budget proposals support the strategic priority of delivering sustainable public finances in the face of an ageing demographic. It does this in a structured manner which avoids taxpayers experiencing a major change in their tax position.
- In particular, no taxpayer will pay more tax in 2016 as a consequence of the proposal to maintain the age-enhanced exemption thresholds at 2015 levels.
- The age-enhanced exemption thresholds are much higher (more than £8,000 in the context of a married couple and more than £4,000 in the context of a single person) than the "Relative Low Income" threshold identified in the Household Income Distribution 2014/15.
- The high level of the age-enhanced exemption thresholds means that just under 50% of individuals aged 65+ are exempt from income tax; the Deputy's amendments do not help those individuals who are exempt from income tax.
- With "pensioner RPI" last reported at -0.6% (September 2015), there is a clear argument that the age-enhanced exemption thresholds should not be increased, as the cost of living is currently falling for those aged 65+.
- There is no strong policy rationale for the age-enhanced exemption thresholds, and the U.K., Guernsey and the Isle of Man are all seeking to remove equivalent additional allowances which are based solely on the age of the taxpayer.
- The Budget proposals improve the fairness of the income tax system by bringing the proportion of tax payable by working-age taxpayers into closer alignment with those aged 65+.

The comments below relate to both parts of the amendment proposed by the Deputy.

Sustainable public finances

Taxpayers aged 65+ are entitled to higher exemption thresholds than working-age taxpayers. The cost of this enhancement is currently about £4 million per year; in other words if those taxpayers aged 65+ were simply entitled to the standard exemption thresholds, income tax receipts would increase by approximately £4 million.

Every year the cost of this enhancement is growing, primarily because of the ageing demographic and the fact that this is increasing the size of the cohort of eligible claimants each year. For example, in 2013 there were almost 700 taxpayers aged 64, the majority of whom would become entitled to the age-enhanced exemption threshold in 2014. This will result in the cost of the enhancement growing by about £300,000. With this trend continuing, over a 3-year period, the additional cost to working-age taxpayers would be approximately £1 million.

It is clear that the cost of the enhancement is significant and growing, and needs to be addressed as part of any plan to deliver sustainable public finances.

The 2016 Budget starts the process of managing this cost in a structured manner, whilst preventing taxpayers from experiencing a major change in their tax position. Indeed, no taxpayer will pay more tax in 2016 as a consequence of the Budget proposals relating to the age-enhanced exemption thresholds.

In particular, the Budget proposals are not 'imposing an additional tax' on those taxpayers aged 65+. Those taxpayers aged 65+ claiming the age-enhanced exemption threshold will continue to benefit by £403/£806[1] per year, or about £34/£67 per month, in comparison to working-age taxpayers.

Furthermore, this issue is not unique to Jersey, and other countries are taking action to address the growing cost of the additional tax allowances given to older people –

- the U.K. only provides an additional £60 of personal allowance to taxpayers born before 6th April 1938, grandfathering this additional personal allowance so that the cohort of eligible claimants cannot increase;

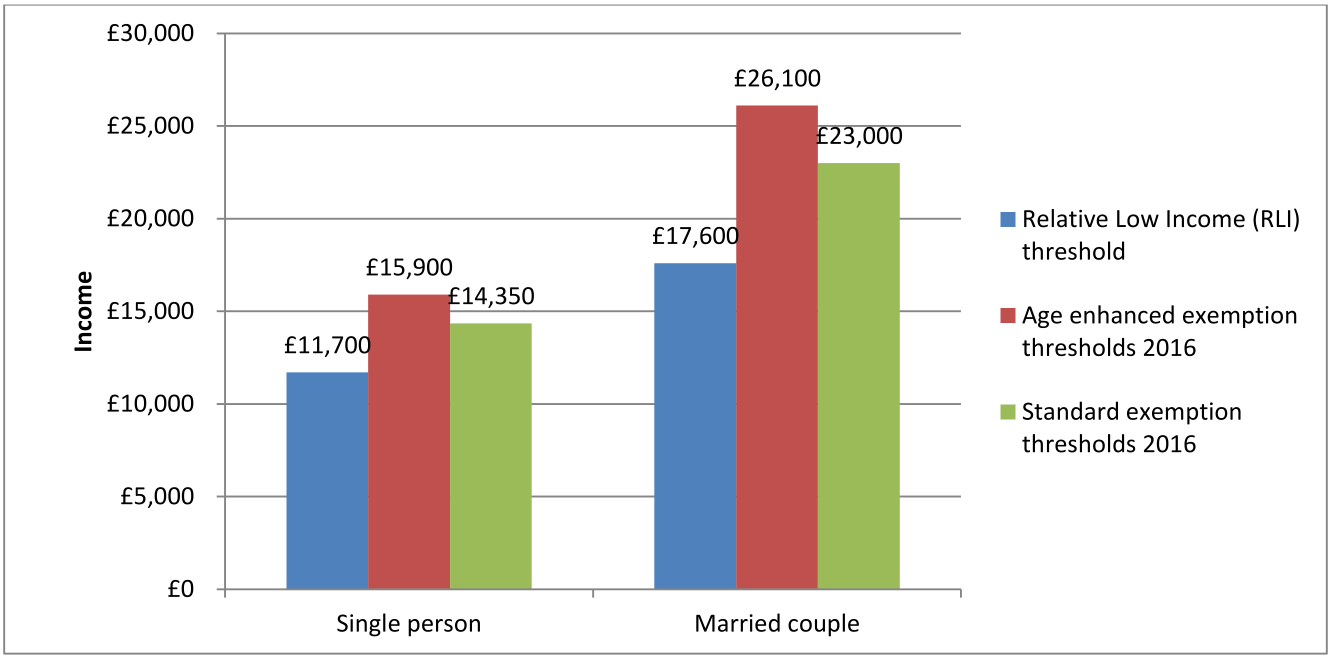
- the Isle of Man has already reduced the age allowance given to taxpayers aged 65+ from £2,020 to £1,000, with a stated intention to remove it completely by 2016/17; and

- the States of Guernsey has resolved, between 2015 and 2025, to maintain the enhanced personal tax allowance given to taxpayers aged 64+ at the current level, until such time as the personal tax allowance for working-age taxpayers reaches the same level.

Jersey Household Income Distribution 2014/2015

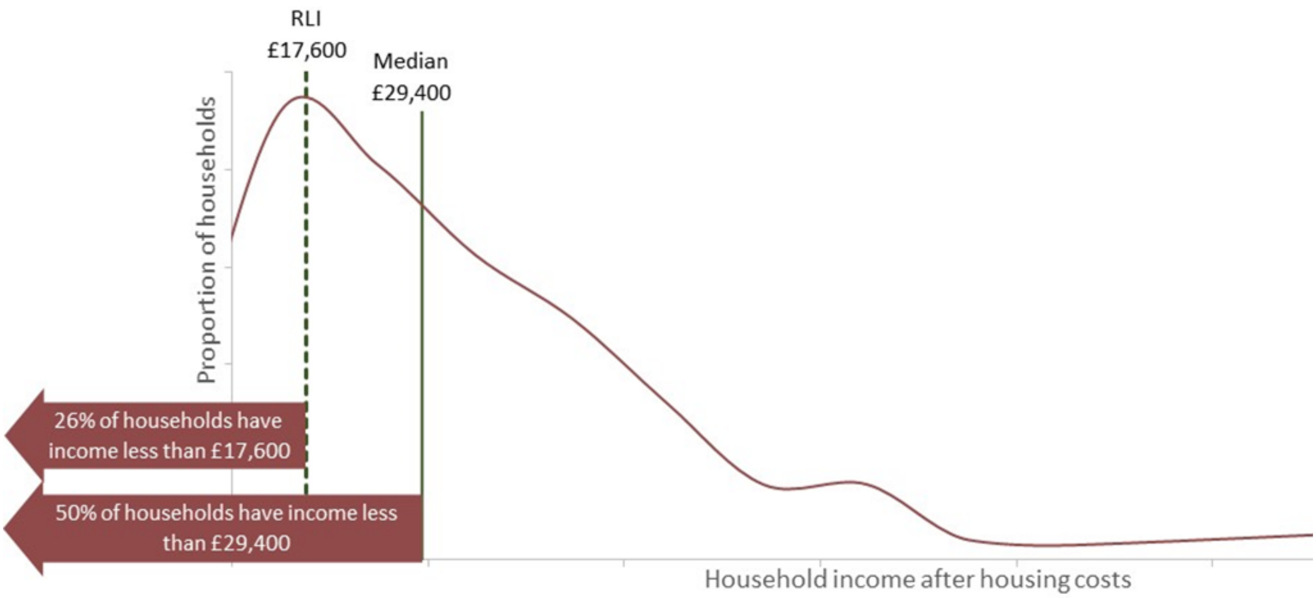
A major part of the Deputy's argument for amending the Budget proposals is that the age-enhanced exemption thresholds are set currently at a level below "Relative Low Income" ("RLI")[2]. The Minister for Treasury and Resources has spoken with the Deputy and explained that this analysis is incorrect, and the reality is that the age-enhanced exemption thresholds comfortably exceed the RLI figure of £17,600[3] identified in the Jersey Household Income Distribution 2014/2015 (by £4,200 in the context of single taxpayers and £8,500 in the context of a married couple), as is demonstrated in the following graph –

[1] Depending on marital status.
[2] In line with international definitions, if a household is in Relative Low Income ("RLI"), they are not in poverty; they are at risk of poverty or of social exclusion. Therefore, the impact of being within this group is not necessarily financial. It is not connected to material deprivation.
[3] £17,600 is the RLI for a couple; the equivalent RLI figure for a single person is £11,700.



No-one aged 65+ who has income below the relative low income threshold is subject to income tax.

In producing the amendment, the Deputy has erroneously made reference to the Island's median income rather than RLI. The difference between the two figures is highlighted in the graph below.



Other issues

- The Budget proposal is providing certainty to those aged 65+ – the age-enhanced exemption thresholds are not being reduced; nothing is being taken away, and those taxpayers currently eligible will remain so.

- The Budget statement outlines the intention to align the exemption thresholds over time, but there is no set timeline for achieving this alignment, providing the flexibility to adapt to changing circumstances, such as movements in RPI.

- It is incorrect to say that that once 'pensioners are tipped into the tax bracket, they are then taxed on all of their income'. The opposite is true. They are only taxed on their income in excess of the age-enhanced exemption thresholds.

- The high level of the age-enhanced exemption thresholds mean that just under 50% of individuals aged 65+ are exempt from income tax; the Deputy's amendment does not help those individuals who are exempt from income tax.

- With "pensioner RPI" last reported at -0.6% (September 2015), there is a clear argument that the age-enhanced exemption thresholds should not be increased, as the cost of living is currently falling for those aged 65+.

- The Social Security Department continues to provide benefits to older Islanders in addition to basic benefits such as the State Pension, including –
    - The benefits available through the Long-Term Care Scheme, 82% of claimants are 65 or over.
    - The 65+ Health Scheme supports lower-income pensioners, costing £250,000 a year, and there will be a £200,000 increase in funding for this from 2016.
    - The TV Licence Benefit Scheme provides free TV Licences to about 2,000 over-75s.
    - The Cold Weather payments and bonus mainly help lower-income pensioners.
    - Pensioners also benefit from the Housing Adaptation Grants, which assist with the cost of home adaptions to help people to continue to live independently.

These benefits are provided in addition to the significant investment in health planned over the period of the MTFP, which will ensure that pensioners are properly supported and cared for as they live increasingly longer.