

STATES OF JERSEY



BUDGET 2005: FIFTH AMENDMENTS

**Presented to the States on 7th December 2004
by Deputy G.P. Southern of St. Helier**

STATES GREFFE

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In the estimate of income from Income Tax –

Reduce the estimate by £2,938,000 by increasing –

- (a) the single person's tax exemption threshold from £11,020 to £11,380;
- (b) the married person's tax exemption threshold from £17,680 to £18,260;
- (c) the tax exemption threshold increment in the case of a single person aged 63 or more from £1,280 to £1,320;
- (d) the tax exemption threshold increment in the case of a married person aged 63 or more from £2,570 to £2,650;
- (e) the maximum child care relief from £6,150 to £6,350.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

I have brought this amendment to protect those taxpayers on lower incomes from the full effect of the freezing of exemptions in this budget. The effect of this amendment is to increase small income exemptions (applicable to those taxpayers on relatively low incomes) by 3.3%.

Members will be aware that the Finance and Economics Committee's proposal to freeze allowances for a fifth year in succession will have the effect of increasing the tax paid by all those on marginal rates who have received a pay rise over the past year. It will also bring a small number of low earners into taxation who have previously not paid tax. Over the years of freezing exemptions the number of non-taxpayers has been steadily reduced to stand currently at 27%. Since my proposal gives indexation in line with the average earnings index (AEI), which stands at 3.3%, it should effectively maintain the status quo.

Over the past five years (including last year) the Finance and Economics Committee has succeeded in bringing an ever greater number of those on low incomes into income tax. The recent Income Distribution Study (IDS) revealed that 24% of the Jersey population of both people (20,290) and households (8,520) exist below the E.U. and U.K. accepted thresholds of low income after housing costs (AHC). These are households with average annual pre-benefit incomes of £13,500. We have to question whether we wish to bring these 20,000 people into taxation. Are we to follow the U.K. and hand out benefits with one hand, only to take them back with the other? Shall we end up with a massively bureaucratic system of tax credits, such as exists under New Labour?

I believe that the time has come to stop this search for increased tax from those on ever lower incomes.

The freezing of allowances is in effect a stealth tax in that by doing nothing the comptroller of Income Tax brings more low earners into taxation and results in higher tax bills for those on marginal rates. These are the low to middle earners. The overall effect of freezing these exemptions is to increase revenue from this section of society by some £4 - 5 million.

Conveniently, this amendment extends to the pensioners, and protects them from increased tax bills by restoring the index linking for those aged 63+, because Jersey pensions rise each year by the June AEI (3.3%). It is important to protect pensioners who are particularly vulnerable to this process in that they are unlikely to be able to claim other allowances (children no longer dependant, mortgage paid off). They are also over-represented in the lowest income groupings according to the recent Income Distribution Study. Over one third of pensioners are found in the bottom income quintile and over half (more than 7,000 pensioners) in the bottom 2 quintiles.

Although average incomes are low for both single pensioners and pensioner couples in comparison with their non-pensioner equivalents, without additional allowances many pensioners end up paying income tax. Last year the pensioners got some partial relief through Senator Vibert's amendment. I believe it is time to restore the full value of the additional exemptions for pensioner households.

Finally, I have proposed increasing child care allowance by 3.3% also, which is also a recognized high cost area and one which does cause hardship problems.

If the amendments are adopted the tax exemption thresholds for persons over 63 would be as follows –

| | |
|----------------|---------|
| Single person | £12,700 |
| Married person | £20,910 |

Financial and manpower implications

There are no additional manpower requirements. The loss in income tax revenue has been estimated by the Comptroller to be £2,938,000.