STATES OF JERSEY

MINI-BUDGET 2022 (P.80/2022): AMENDMENT (P.80/2022 AMD.) – COMMENTS

Presented to the States on 13th September 2022
by the Council of Ministers

STATES GREFFE

COMMENTS

The Council of Ministers opposes this proposal and asks States Members to reject the amendment.

The amendment would introduce a higher personal income tax threshold of £20,512 for those taxpayers aged 75 or over <u>and</u> where that taxpayer does not have income exceeding £25,000.

While the Council of Ministers fully appreciates the intent of the Deputy's proposal, it would be unfair to re-introduce age-based discrimination back into the personal income tax system. Age-based discrimination was previously a feature of Jersey's income tax system but has been withdrawn gradually over recent years on the grounds of fairness, which is one of the underlying policy principles of Jersey's tax system. An age enhanced allowance leads to different treatment of taxpayers based purely on their age. It means other groups of Islanders, who may be in receipt of equally low incomes, such as lower income families and disabled individuals, would not be entitled to the additional relief. The amendment would also create a tax cliff-edge in two respects. Firstly, it would be available only to those aged 75 or older, meaning those of pensionable age but under 75 would not be entitled to the enhanced threshold, even where they might have a lower income.

The second cliff-edge would occur when an individual has £1 of income above £25,000, at which point they would be liable to pay £510 additional tax (£548 when LTC is included). These scenarios are generally best avoided in tax systems because they can create perverse incentives, especially for those who have the means to plan their income. When considering this amendment, States Members should also consider these additional points:

- It would reintroduce considerable complexity into the income tax system – when that complexity has recently been removed deliberately over a period of years.
- Although it is possible for the proposal to be implemented for the year of assessment 2023, the financial effect for pensioners would not be felt until the 2023 tax return is filed and processed, which would be in January 2024 at the earliest.
- The increase in the threshold based on age is also untargeted because it fails to recognise that some over-75 year olds with incomes of £25,000 or lower might have large capital assets (such as bank deposits, shareholdings, property) that do not generate much taxable income.
- Our ageing population means that such an age allowance would become increasingly expensive in the coming years and would need to be funded.

Although the Council of Ministers asks States Members to reject the amendment for the reasons stated, it is mindful of lower-income pensioners who are subject to tax but who do not receive other financial support. In particular, Ministers are mindful of representations that have been made by Islanders concerned that pensions are perceived to be subject to double taxation. To address those concerns, the Minister for Treasury and Financial Services has asked Revenue Jersey to review the matter in its 2023 programme of work.

In the meantime, the Council of Ministers understands the amendment but believes that those groups of lower-income pensioners are better supported by adopting the third amendment to the mini-budget, lodged by Deputy Feltham, as amended by the Council of Ministers.

Financial and manpower implications

The amendment states that there would be an estimated cost of £1.6m. However, this does not reflect the tax value, which would be c.£430,000 (i.e. £1.6m at the marginal rate of tax of 26%).