STATES OF JERSEY

REPORT ON THE PETITION TO EXEMPT TAX ON THE OLD AGE PENSION

Presented to the States on 7th November 2024
by the Minister for Social Security

STATES GREFFE

REPORT

This report has been presented by the Minister for Social Security to provide additional information to support the States Assembly's in-committee debate of the Petition of Mr Paul Troalic to "Exempt States old age pension from tax".

In addition to the information provided by the Minister for Treasury and Resources on this matter (R.164/2024), this report provides information on issues relating to the Social Security Fund, Long Term Care Fund and tax funded benefits.

Social Security Fund

As explained in R.164, employee contributions into the Social Security Fund make up one element of the total income into the Fund. There are also contributions from employers and an annual grant from tax funded revenues. Contributions from employees represent around 45% of the total contributions received into the Fund each year.

The Minister for Treasury and Resources suggests that the only way that an annual reduction of £21 million income in tax funded revenues could be dealt with, would be through the Social Security Fund, i.e. by reducing the value of the States Grant into the Fund by that amount. The Grant has an annual value of around £90 million and an ongoing reduction of over £20 million a year in perpetuity would have serious long-term consequences for the Fund.

To sustain the Fund and the payment of old age pensions with a permanent reduction in income, consideration would be needed in terms of:

- reducing the value of the old age pension to adjust to the lower Fund income; or
- increasing contributions into the Fund from today's employers and employees to make up the shortfall in the Fund income - this would require very roughly a 1% increase in contribution rate
- Or some combination of both of the above.

Each of these would require a change to the Social Security Law.

Long-Term Care Fund

The estimate of lost income due to the exemption of old age pension income from the Income Tax system is set at £21 million a year. In addition to the loss of income into the Consolidated Fund, there would also be a reduction in income into the Long-Term Care Fund.

Contributions into the Long-Term Care Fund are based on a 1.5% contribution rate against taxable income, and use the same calculations in respect of marginal deductions. As Income Tax has a headline rate of 20%, a reduction in tax income of £21 million would lead to a proportionate reduction in Long-Term Care contribution income of just over £1.5 million per year.

Pressure on long-term care costs is increasing from year to year as a direct consequence of the increasing number and proportion of older people in the population. The current contribution rate of 1.5% will need to rise in the next few years to cover these increasing costs. A reduction in income of about £1.5 million a year will bring forward the point at which a contribution rise is required. This will increase the cost to working age contributors and pensioners who have an Income Tax liability.

Eligibility for means tested benefits

A number of means tested pensioner benefits are available to pensioner households that do not have an Income Tax liability. These are in addition to Income Support benefits which are available to all low-income households, based on household income (rather than tax liability). These benefits are paid from the Consolidated Fund.

Means tested pensioner benefits in this category include:

- Pension Plus
- Cold Weather Bonus
- Christmas Conus

Analysis of Income Tax data for 2021-2023 suggests that there are over 3,000 individual pensioners who may fall below Income Tax liability if their Social Security old age pension was exempt from Income Tax.

These individuals would become eligible for some or all of the pensioner means tested benefits, depending on their household situation and their level of savings.

The value of benefits available will depend on the individual circumstances of the pensioner but could provide a total value of up to approximately £650 per person per year. This would require additional funding of up to £2 million per year.

Pensioners who are eligible for the Pension Plus scheme are also included in the:

- Health Access Scheme (HAS):

HAS provides subsidised GP visits. The cost of this scheme is met from the Health Insurance Fund and adding 3,000 pensioners to this scheme could require additional funding of up to £500,000 a year.

- Community Cost Bonus:

This means tested bonus is not restricted to pensioners but is widely claimed by pensioner households. The eligibility criteria include a household income tax liability of no more than £2,735 in the previous year. As such it is already available to pensioners with income some way above the income tax threshold. Removing old age pension income from income tax liability will reduce the taxable income of almost all local pensioners and will allow additional pensioner households to claim the Community Cost Bonus which is currently paid at a little over £500 a year. An estimate of the number of households likely to fall into this category has not yet been calculated.

In summary, a decision to exempt old age pension income from overall tax liability would need to take into account the requirement to provide additional tax funding to support the additional costs associated with a significant increase in the number of pensioner claims to means tested benefits.