STATES OF JERSEY

MEDIUM TERM FINANCIAL PLAN 2016 – 2019 (P.72/2015): SECOND, EIGHTH AND NINTH AMENDMENTS (P.72/2015 Amd.(2), (8) AND (9)) – COMMENTS

Presented to the States on 5th October 2015
by the Council of Ministers

STATES GREFFE

JOINT COMMENTS ON AMENDMENTS (2), (8) AND (9)

Deputies G.P. Southern of St. Helier, S.Y. Mézec of St. Helier and M. Tadier of St. Brelade propose that a higher rate of income tax be introduced in 2016 for individuals whose income is greater than £100,000 per annum to offset the financial impact of not proceeding with the proposed benefit changes and resulting savings in the Social Security Department.

The Council of Ministers strongly opposes Amendments (2), (8) and (9) and urges States Members to oppose these Amendments.

Summary of Council of Ministers' Comments

For ease of reference, the Council of Ministers is presenting a single Comment regarding the proposed increases in income, tax which should be considered by States members alongside the Comments on Social Security benefit proposals in each of the Amendments (2), (8) and (9).

Income Tax Principles

- The top rate of 20% personal income tax rate forms the bedrock of the Jersey tax system; an unchanging element of the Island's tax regime for more than 60 years.
- This has sent out a clear message to an increasingly globalised world that Jersey provides certainty and stability.
- The rate ensures Jersey is regarded as characterised as a low tax jurisdiction.
- Were this reputation for certainty and stability broken, it is likely it would take many years to rebuild the secure and solid foundations on which Jersey's post-war stability has been built.
- An increase in the top rate of personal income tax rates would contradict the long-term tax policy principle that Jersey must be internationally competitive; this principle was re-affirmed by the States as part of the recent Strategic Plan debate.
- If a relatively small number of higher-earners choose to relocate as a consequence of a tax rate increase, you would need a significant number of additional taxpayers paying the average tax bill to maintain overall tax revenues.
- When looking at the Island's competitive position, it is necessary to compare the Island to the other international finance centres, not the U.K. and other major European countries. The top rates of tax in these jurisdictions are outlined below –

Jurisdiction	Top rate of personal income tax
Guernsey	20%
Isle of Man	20%
Cayman	0%
Hong Kong	17%
Singapore	20%
BVI	8% (payroll tax)

- If the Island's tax position becomes uncompetitive, it will be more challenging to attract wealth generators to come to the Island and establish/grow businesses which create high-quality employment opportunities and greater tax revenues for the Island.

- Also, as much of the high value industry in the Island is highly mobile, increasing the personal tax rate risks individuals choosing to leave the Island and take their businesses (plus the corresponding employment opportunities) elsewhere.
- The proposal ignores the significant contribution to tax revenues already being made by those with the highest income.
- For the 2013 year of assessment: (i) the 10% of taxpayers with the highest incomes paid 51% of the Island's personal income tax; and (ii) the 20% of taxpayers with the highest incomes paid 69% of the Island's personal income tax. Whilst for the 2013 year of assessment the 40% of taxpayers with the lowest incomes paid 3% of the Island's personal income tax.
- The tax proposal contained in the proposition misunderstands the operation of the Island's personal tax system.
- It is not clear how this new higher rate of tax would interact with the marginal rate tax system; due to the allowances and reliefs available at the marginal rate, taxpayers can have an income in excess of £100,000 yet still pay tax at the 26% marginal rate; would their tax rate be reduced on the element of their income above £100,000? In light of the fact that the Deputy is seeking this higher tax rate to be in place by the 2016 year of assessment, this issue should have been considered and addressed in the Amendment.
- The tax proposal contained in the Amendment also assumes a move to independent taxation (i.e. the information is based on splitting married couples/civil partnerships into 2 separate individuals); this is not how our personal tax system currently operates. As has already been highlighted in the independent taxation feasibility study, a move to independent taxation is highly complex, with many interacting elements, which will potentially result in winners and losers who need to be identified and the impact on them quantified. The intention remains to move towards a system of independent taxation over the longer term, but it cannot be in place for the 2016 year of assessment.
- **There have been several debates about higher rates of tax in Jersey in recent years, all of which have been rejected. The arguments have not changed since those debates and are repeated in the Comments above.**

Sustainable Public Finances and Prioritisation and Re-allocation of Resources

The Deputy is proposing to maintain certain of the existing benefit provisions by increasing taxes.

- The Council of Ministers has prioritised the proposals in the MTFP on the strategic priorities of the States.
- The package of measures presented in the MTFP has been proposed to re-prioritise resources by reducing spending in some areas to invest in other higher priority services of Health and Education, and also to fund important capital projects and to invest in economic growth and improving productivity.
- Each department has considered its priorities and submitted requests for additional funding alongside a spending review which requires savings and efficiencies across the States.

- The Amendment proposals are presented as a package and the States' first strategic priority is sustainable public finances. This is a principle that should be maintained when considering these proposals.

Financial and manpower implications

These three Amendments (2), (8) and (9) together propose to raise £9.6 million per annum in Income Tax, and not to make the benefit changes from Social Security.

The first priority of the States' Strategic Plan is sustainable public finances, and members are encouraged to consider the proposals as a package with the decision to maintain benefits, otherwise the implications could be an increase in spending and projected deficit of £9.6 million in 2019 or cumulatively almost £40 million for the period of the MTFP.