STATES OF JERSEY

Jersey

DRAFT COVID-19 (SOCIAL SECURITY – REDUCTION OF CONTRIBUTION RATES) (JERSEY) REGULATIONS 202-

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Lodged au Greffe on 27th July 2020
by the Minister for Social Security

STATES GREFFE

REPORT

Proposal

The Council of Ministers proposes to temporarily reduce Social Security contributions for 9 months to increase the take-home pay for approximately 55,000 workers and self-employed Islanders.

This is part of the £150 million fiscal stimulus support package the Council of Ministers announced in July to help the economy – help people and businesses – to recover as quickly as possible from the effects of the Covid-19 pandemic and social restrictions.

The details of the proposal are –

- Reduce Social Security contributions by 2% for 9 months from 1st October 2020 to 30th June 2021.
- For employees – a 4% employee contribution rate (instead of 6%) on earnings up to £4,558 per month.
- For the self-employed – a 10.5% contribution rate (instead of 12.5%) on business income up to £4,558 per month.

Social Security contributions on earnings and business income up to £4,558 per month are paid into the Social Security and Health Insurance Funds. This proposal reduces the contributions which are paid into the Social Security Fund but does not affect the income paid into the Health Insurance Fund.

The employer contribution rates will remain the same.

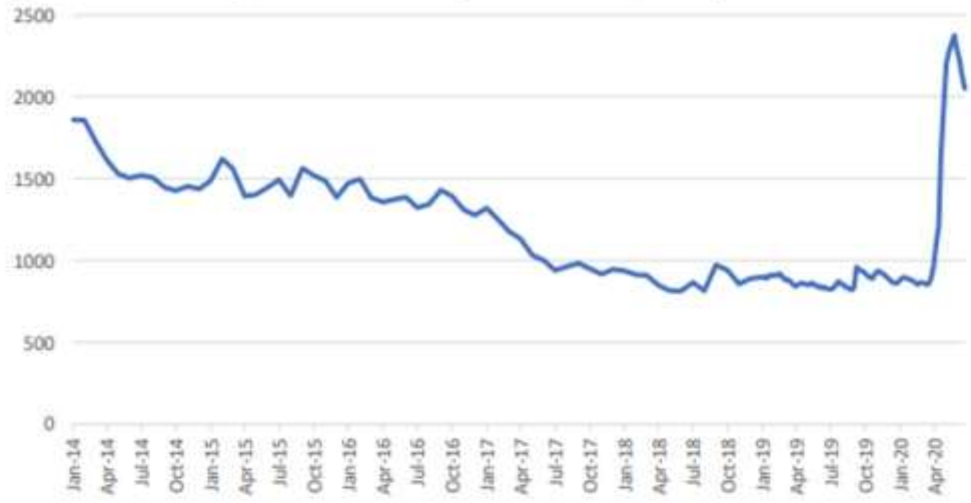
Regulations

The Regulations refer to different contribution % amounts than described in the proposal. This is because the proposal describes the total contributions that employees and self-employed people will see (Social Security and Health Insurance Fund), while the Regulations make changes only to the contributions which are paid into the Social Security Fund.

Helping people and businesses to recover quickly with fiscal stimulus

The short-term and immediate impact of the Covid-19 pandemic on the economy has been significant. There were 1,950 people registered as unemployed at the end of June 2020, compared to 820 people registered the year before (1,130 more). Almost 3,500 businesses declared that they have suffered a loss in revenue of 30% or more compared to an equivalent trading month through the Co-Funded Payroll scheme. The Fiscal Policy Panel has forecast that output in Jersey’s economy will fall by 6% this year.

Figure 1 – Number of registered ASW excluding CRESS claimants, January 2014 – 21 June 2020



At the start of the global pandemic the Government implemented several support measures including the deferral of GST and Social Security contributions, and the Co-Funded Payroll Scheme.

As we move out of the most restrictive phase, it is important to stimulate the economy. Doing so will help to reduce any damaging long-term consequences to people, businesses and government finances. This is in line with Fiscal Policy Panel advice.

On 10th July 2020, the Council of Ministers set out its fiscal stimulus support package, including the temporary cut in Social Security contributions –

- Direct payments to low-income households: £1.3 million.
- Every islander to receive £100 to spend in the local economy: £11 million.
- Reduction to employee and self-employed Social Security contributions: £26 million.
- Extended time to repay GST and Social Security deferrals: £40 million reduction to revenue in 2021.
- A Fiscal Stimulus Fund: £50 million.
- The abolition of Prior Year Basis payment of tax: £18 million.

The reduction in Social Security contributions are part of the package because they are –

- **Timely** – taking effect in the small window of time when we need to stimulate the economy to help it to recover as quickly and as fully as possible.
- **Targeted** – by increasing take home pay across working households.
- **Temporary** – The regulations have a fixed end point so they do not provide help for longer than is necessary.

It is also important for the effectiveness of a fiscal stimulus package to combine several different approaches to increase spending in the economy through people and businesses.

A full description of timely, targeted and temporary is included in an **Appendix** to this report.

Financial implications

The temporary reduction in Social Security contributions would reduce contribution income into the Social Security Fund by about £26 million during 2020 and 2021.

APPENDIX

Timely, targeted ad temporary

Fiscal stimulus should be Timely, Targeted and Temporary. It should take effect quickly, aim to maximise spending in the domestic economy and should be ended to avoid promoting structural budget deficits and creating permanent distortions or subsidies in the economy.

There is a broad consensus across the economics profession that a well-designed fiscal stimulus that has the greatest impact with the least long-run cost should be Timely, Targeted and Temporary – the "three T" principles.

Timely

Following the significant disruption to the economy and the strain it has put on household and business finances, there is a risk of Jersey faces a prolonged period of reduced demand. While it is not yet clear if this will last for a number of years (as with the financial crisis) or a shorter period, it is quite likely that it will continue over the remainder of this year and into much of 2021.

Policy should take effect quickly to support aggregate demand and economic activity when the economy is operating below potential output or full employment, with the spare capacity to absorb the extra demand without promoting higher inflation. Poorly timed fiscal stimulus can exacerbate rather than mitigate the business cycle, if stimulus is enacted too slowly it may fail to prevent output and incomes falling further and may arrive after the economic recovery has begun.

However, the risks here are not symmetric and it is far better to have done too much too quickly rather than too little too late. Once a recession takes hold it can be difficult to recover confidence in the economy and it can have effects e.g. bankruptcy, redundancy and scrapping that have a permanent as compared with a temporary effect on the economy. The principle of timely should be seen as forward-looking and implementing stimulus even in advance of falls in output and employment.

The real importance is that resources e.g. tax cuts or spending are delivered quickly but there are also operational constraints. Monetary policy can change very quickly e.g. overnight but fiscal policy may require legislation often in the context of a typical annual budget cycle. The key point is not so much about decision-making per se but mobilising the resources to support demand. To ensure fiscal stimulus is timely and forward-looking measures outside of the typical budget cycle may be necessary. In addition, a credible advance commitment to stimulus, perhaps conditional e.g. a commitment to uprating with inflation, can be important to support confidence.

Targeted

In considering the circular flow of income in the economy there are 3 typical transactions that reduce demand in the domestic economy that are sometimes referred to as leakages: tax, savings and imports. Effective stimulus should therefore seek to minimise the impact of all 3. A further key consideration is the extent to which stimulus might generate inflation rather than a real increase in output.

Tax

Taxation is considered to be a source of leakage that reduces money available in the rest of the economy so tax levels will therefore constrain fiscal stimulus policies. Conversely, tax cuts can stimulate demand by increasing incomes that can be spent on goods and services or by increasing profits made by firms allowing for an increase in wages and dividends.

Savings

The benefit of stimulus is constrained by the extent of savings. Households on lower incomes save much less than those on higher incomes. Fortunately, the objectives of helping those who need protection from the downturn the most e.g. the poor and achieving the maximum stimulus in added output for any budgetary cost are complementary. The households most in need of support, from a welfare or equity perspective, are those most likely to spend tax cuts and boost aggregate activity.

Imports

In terms of imports this reflects the fact that they are a payment to other countries for goods and services and so represent a leakage from the domestic economy. Imports are necessary and in an island economy such as Jersey the substitution of domestic output for imports is more difficult. Stimulus measures that promote output in particular industries or demand for some goods and services may run the risk of transferring resources through import costs 'off-island'.

Inflation

Another aspect of targeted relates to the capacity in the economy and the sectors within it to absorb stimulus without higher inflation. In sectors where demand is low fiscal stimulus can promote output and employment with low inflation, in sectors where output is close to full capacity stimulus will have a high deadweight cost and may also prompt higher inflation. Stimulus specific to certain sectors or good and services should be carefully considered. For example, government expenditure on capital programmes draws heavily on the domestic construction industry, so there may be capacity constraints in accelerating capital expenditure.

Temporary

The sustainability of the public finances and sound fiscal policy should remain paramount in considering stimulus. For typical downturns when aggregate demand is below potential output stimulus can act to smooth the cycle, moving government resources from when the economy is 'above-trend' to 'below-trend'. This means running a deficit or borrowing in recessions and then running a surplus or saving in booms, and hence active fiscal policy or stimulus must be explicitly temporary. Stimulus should be withdrawn as the economy recovers or monetary policy becomes more effective to manage aggregate demand. However, a lesson from the last crisis is that it is important not to withdraw stimulus too early and that monetary policy including quantitative easing is much less effective at stimulating aggregate demand. For example, there is currently emerging in Europe a much stronger emphasis on fiscal policy to mitigate the current slowdown and support stronger growth and inflation in the Eurozone.

But generally, stimulus measures should therefore be designed to stimulate the economy but without a commitment to an ongoing or recurring cost. Permanent fiscal measures are structural and should be seen as part of the political settlement in good times as well as bad. There are political challenges with reversing tax cuts or spending increases although inflation can be used to lower over time the real value of some stimulus measures and hence ensure they are effectively temporary. There are also benefits with a stable and predictable tax and benefit system that means there are costs with changing the rates and allowances within them. This means that measures that are explicitly temporary with a credible commitment for exit e.g. projects should be prioritised over open-ended ongoing commitments.

Finally, it is also important that stimulus measures that are designed to help manage the adjustment in the economy do not become permanent compensation or subsidies that distort the allocation of resources. For example, a permanently lower exchange rate or higher oil price will impose real costs on the economy as a supply shock, it is important that the higher price promotes a change in behaviours e.g. consumption and the reallocation of resources in the economy.

EXPLANATORY NOTE

The Covid-19 (Social Security – Reduction of Contributions Rates) (Jersey) Regulations 202-, if passed, would, between 1st October 2020 and 30th June 2021, reduce the Class 1 and Class 2 employee contribution rate by 2% below the standard earnings limit provided under Schedules 1A and 1B respectively to the Social Security (Jersey) Law 1974.

Jersey

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DRAFT COVID-19 (SOCIAL SECURITY – REDUCTION OF CONTRIBUTION RATES) (JERSEY) REGULATIONS 202-

Made	*[date to be inserted]*
Coming into force	*[date to be inserted]*

THE STATES make these Regulations under Article 2 of the Covid-19 (Enabling Provisions) (Jersey) Law 2020[1] –

1 Interpretation

In these Regulations "Schedule" means a Schedule to the Social Security (Jersey) Law 1974[2] and expressions used in these Regulations are construed in accordance with that Law.

2 Temporary modification of Class 1 monthly contributions

Despite paragraph 3(1) of Schedule 1A (Class 1 factors and contribution rates), the amount of an employed person's primary Class 1 contributions in respect of the monthly earnings of an employment is the aggregate of the following amounts –

(a) 0.8% of the person's earnings that do not exceed the standard monthly earnings limit, which amount is allocated to the Health Insurance Fund; and

(b) 3.2% of the person's earnings that do not exceed the standard monthly earnings limit.

3 Temporary modification of Class 1 supplementation

Despite paragraph 4(3)(a) of Schedule 1A, the contribution threshold is the sum of –

(a) 3.2% of the lower monthly earnings limit; and

(b) 5.3% of the lower monthly earnings limit.

4 Temporary modification of Class 2 monthly full rate contributions

Despite paragraph 3(1) of Schedule 1B (Class 2 factors and contribution rates), the amount of a person's full rate Class 2 contributions payable in any month is the aggregate of the following amounts –

(a) 2% of the standard monthly earnings limit, which amount is allocated to the Health Insurance Fund;

(b) 8.5% of the standard monthly earnings limit; and

(c) 2.5% of the amount that is the difference between the standard monthly earnings limit and the upper monthly earnings limit.

5 Temporary modification of Class 2 monthly reduced rate contributions

Despite paragraph 4(1) of Schedule 1B, the amount of a person's reduced rate Class 2 contributions payable in any month is the aggregate of the following amounts –

(a) 2% of the person's earnings that do not exceed the standard monthly earnings limit, which amount is allocated to the Health Insurance Fund;

(b) 8.5% of the person's earnings that do not exceed the standard monthly earnings limit; and

(c) 2.5% of the person's earnings that exceed the standard monthly earnings limit but do not exceed the upper monthly earnings limit.

6 Non-derogation

Nothing in these Regulations is to be read as derogating from the requirement under Articles 5 and 8 respectively of the Social Security (Jersey) Law 1974[3] for Class 1 and Class 2 contributions to be calculated according to Schedules 1A and 1B respectively to that Law, unmodified by these Regulations, after 30th June 2021.

7 Citation, commencement and expiry

(1) These Regulations may be cited as the Covid-19 (Social Security – Reduction of Contribution Rates) (Jersey) Regulations 202- and come into force on 1st October 2020.

(2) These Regulations expire on 30th June 2021.

ENDNOTES

Table of Endnote References

1	*L.2/2020*
2	*chapter 26.900*
3	*chapter 26.900*