STATES OF JERSEY

DRAFT BUDGET STATEMENT 2018 (P.90/2017): THIRD AMENDMENT

Lodged au Greffe on 14th November 2017
by Deputy S.Y. Mézec of St. Helier

STATES GREFFE

PAGE 2, NEW PARAGRAPH (e) –

After paragraph (d) insert the following new paragraph –

> "(e) to agree in principle that from year of assessment 2019 the 20% personal income tax rate should no longer be available (except for HVRs, for whom no change is proposed) and personal income tax should instead be charged at a rate of 25% (with all personal income taxpayers being entitled to the allowances/reliefs which are available to marginal rate taxpayers when calculating the amount of income taxable at the rate of 25%) and to direct the Minister for Treasury and Resources to bring forward the necessary legislative changes for debate by the Assembly during 2018.".

DEPUTY S.Y. MÉZEC OF ST. HELIER

REPORT

The effect of this amendment is to abolish the "20 means 20" Income Tax calculation, putting all taxpayers on the Marginal Relief calculation, but at a reduced rate from 26% to 25%, from the 2019 tax assessment year.

The aim of this amendment is to make our tax system more simple and fair, whilst raising revenue to provide a reliable income-stream for much-needed investment in public services.

Reform Jersey believes that this change will give a much-needed break to the 'squeezed middle' of Jersey taxpayers, whilst asking those with the broadest shoulders to contribute more. This is a political outlook which has featured in all of our election manifestos, and so this proposition is in line with the mandate given to our members from the voting Public.

It is our view that the revenue raised should be directed to the Higher Education budget to subsidise the university tuition fees of Jersey students, as an alternative to any proposal which will see students take on potentially tens of thousands of pounds of debt, which will hold back their futures and have further negative economic consequences. This will be followed in a separate standalone proposition, which States Members will have the opportunity to debate, but we hope that this amendment will be considered in this light.

Distributional analysis

Every taxpayer who currently pays an effective tax rate of 0% will continue to pay 0%. A small number of taxpayers will be taken out of Income Tax altogether.

Every taxpayer who currently pays a tax rate between 1% and 19% will see their tax liability **reduce**. This amounts to around 2/3 taxpayers.

Those at the lower end of '20 means 20' will see their tax liability reduce, as they become eligible for tax allowances that they were previously not entitled to, which will reduce the amount of their income which is taxable.

Only those at the very top of the income spectrum in Jersey will see their tax rates increase progressively to a modest 25%.

There are no implications for taxpayers who pay under the 2(1)(e) regime (formerly 1(1)(k)).

Over 90% of taxpayers will see their tax rates either reduce or remain the same.

The following scenarios show the impact of these changes on various household examples, but based on the current 2017 tax allowance levels. If the Assembly chooses to adopt the proposals in the Budget to increase tax allowances, then these examples will become more generous (except the pensioner example which will remain the same).

- A single person with no children or mortgage would not pay any extra tax until they were earning £72,000 a year. Those earning less than that would get a tax cut.

- A family with 2 children, with both parents earning the average wage, will see their tax liability reduce by £365 a year.

- A family with 2 children and claiming £10,000 of child care tax relief would not pay any extra tax until they were earning £210,000 a year. Those earning less than this would receive a tax cut.

- A retired married couple would not pay any extra tax until they were earning above £156,000 a year.

Attached as **Appendix 1** are charts which show for 5 different household circumstances what the change in their effective tax rate would be under these proposals.

The exact points at which different households are affectively adversely will change year on year depending on how the government adjusts tax allowances. However, it is clear that the level at which a household will see their tax liability increase is very high.

The case for change

Since the financial crisis of 2007/8, several economic trends have become apparent which will have negative long-term impacts on Jersey if they are not addressed.

The poorest people in Jersey have gotten poorer, whilst the richest have gotten richer. Growing inequality is not good for a healthy economy. This is not a trend we can allow to continue if we wish to have an Island where everyone benefits from the prosperity we generate.

The Income Distribution Survey 2015 showed that the poorest quintile of Jersey society saw their incomes fall by 17% in the preceding 5 years[1]. In the last decade, real terms wages have not increased[2]. In the decade between 2004 and 2014, the number of Islanders earning above a £1 million a year quadrupled[3].

It is fine for Jersey to have a greater number of high-earners and people who are extremely successful in business. But it is not fine to tolerate worse economic circumstances for the vast majority of Islanders.

Throughout this term of office, support for the poorest people in Jersey has been cut, and access to what were previously universal benefits has been cut for middle-earners. These policies will only have made the standard of living worse for countless Islanders when the odds were already stacked against them. We can either accept that this will continue into the future, or we can take action to reverse it, improve the economic standard of living for the majority of Islanders, and find the funds to invest in universal public services for all Islanders to benefit from.

Re-aligning our Income Tax rate is something which we believe is long overdue.

[1] https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20Income%20Distribution%20Survey%20Report%202014-15%2020151112%20SU.pdf
[2] https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20AverageEarnings2017%2020170824%20SU.pdf
[3] https://www.gov.je/Government/Pages/StatesReports.aspx?ReportID=1391

The Oxera report which examined impact of tax changes over the last decade[4] showed that middle-earners have seen a steady rise in the amount they are contributing in tax.

Attached as **Appendix 2** are the charts from the Oxera report showing how different household types have been affected by tax rises over the last decade.

This proposition allows for the States to decide to simplify our tax system, make it more progressive.

The case against

No doubt the central argument against this proposal will be that raising the top level of Income Tax for the wealthiest Islanders will cause an exodus out of the Island and ultimately a reduced tax-take.

We believe that there is no evidence to support this view and that it is an unpatriotic argument to make.

If it were the case that tax rises on the very wealthiest lead to immediate mass-scale emigration of high-earners, then Jersey's high-earners would have all left years ago. In reality, we have never had so many high-earners here.

There are many jurisdictions across the world which have lower Income Tax rates than Jersey. In fact, not only does Jersey not have the lowest Income Tax rates in Europe, but we do not even have the lowest Income Tax rates in the Channel Islands.

Other small jurisdictions similar to Jersey have raised their Income Tax rates for high-earners in recent years and not faced the economic consequences that some predict would happen in Jersey. One example is Singapore, who have just raised their top rate of Income Tax from 20% to 22%.

Jersey is an appealing place for high-earners to live, not just because of low personal taxation, but because of our corporate tax system, with most businesses paying 0%, the economic and regulatory infrastructure for our leading industries, and the quality of life (environment, weather and safety, etc.). All of these things will remain under our proposals.

What the States should be more worried about is the prospect of middle-earning professionals leaving the Island because they are not able to access the public services which their families depend on. A key example is the stories we have heard of families leaving Jersey to move to the UK in time for their children to qualify for the UK Student Loan scheme, because if they stayed in Jersey they would not be able to afford to send their children to university. These problems will get worse unless something is done to address it.

[4] https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20Assessing%20the%20distributional%20impact%20of%20key%20changes%20in%20taxes%20and%20contributions%20between%202006%20and%202015%2020170317%20VP.pdf

Financial and manpower implications

To implement this change, there would need to be changes in legislation to remove reference to the 20% tax calculation. There would also be administrative changes, but none of these are insurmountable.

As the main tax calculation formula will essentially remain unchanged, the infrastructure used to work out taxpayers' liabilities will continue to be used.

There is an effect that these changes will have on the LTC calculation, as it is based on the current Income Tax calculation; however, we note that LTC is up to be reviewed shortly. This will provide an important opportunity to decide the future of LTC and how it is best charged, to whom, and at what levels.

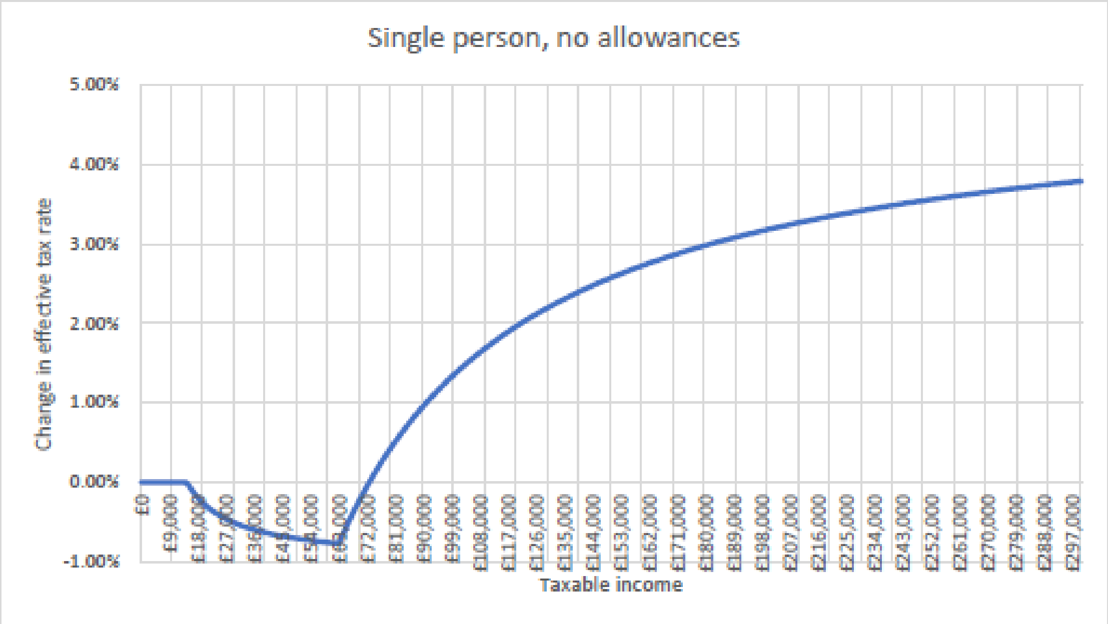
The Treasury has confirmed that they estimate the changes to Income Tax will raise an extra £6 million in Income.

Reform Jersey 2017 Income Tax Policy Document, pages 3–5

Income Tax Curves

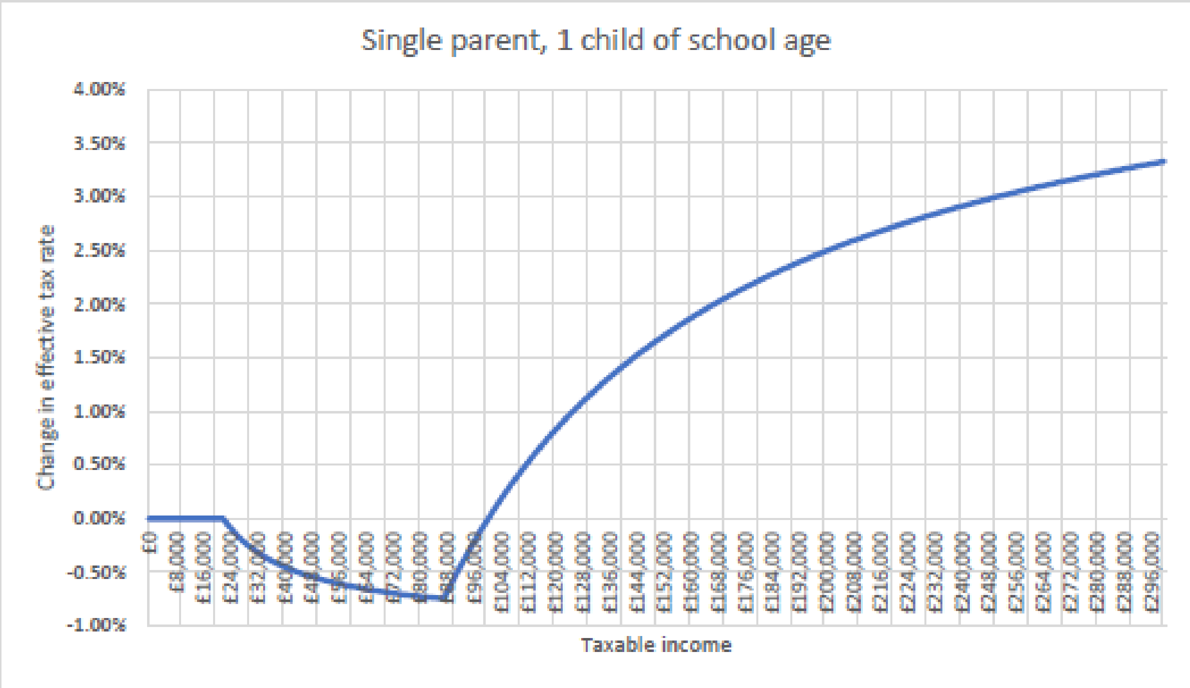
All taxpayers taxed on marginal rate calculation method at 25% tax rate

1. Single person - entitled to exemption threshold but no other allowances

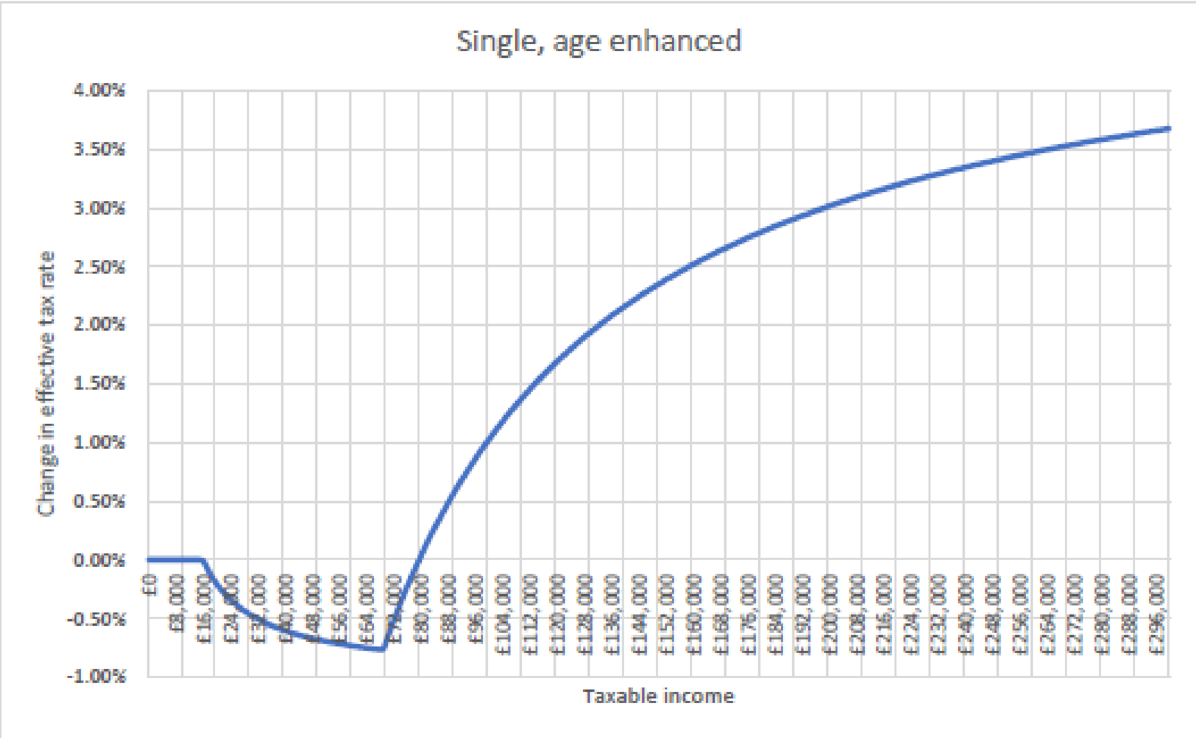


2. Married couple - entitled to exemption threshold and second earner's allowance

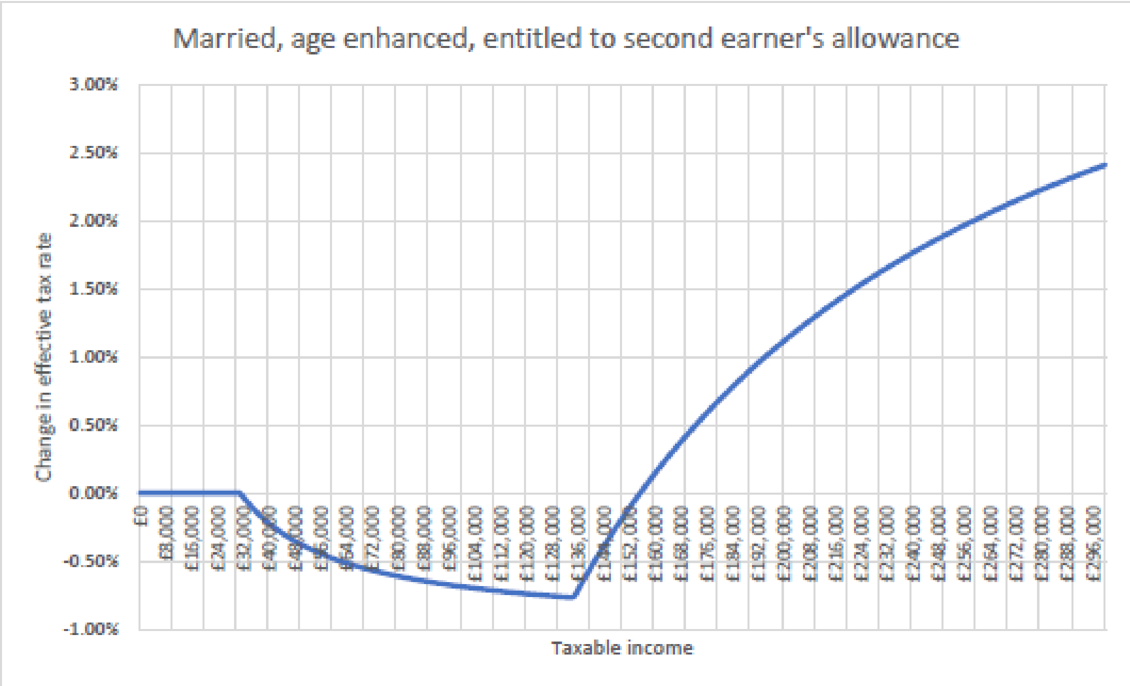
3. Single parent - entitled to exemption threshold, 1 school age child tax allowance and additional personal allowance



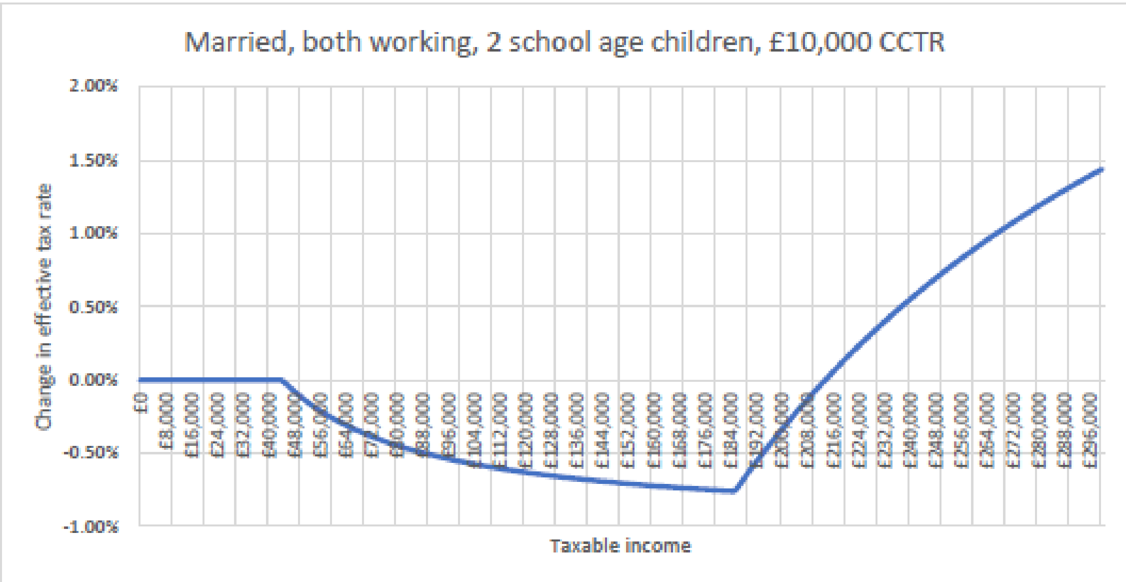
4. Single person - entitled to age enhanced exemption threshold but no other allowances



5. Married couple - entitled to age enhanced exemption threshold and second earner's allowance



6. Married couple - entitled to exemption threshold and second earner's allowance, also 2 school age child tax allowances and £10,000 of child care tax relief (this is the "curve" that was provided in yesterday's meeting)



APPENDIX 2

Oxera Report: Assessing the distributional impact of key changes in taxes and contributions between 2006 and 2015 (pages 38–44)

6 Combining taxes and contributions: income tax, Social Security, LTC contribution and GST

We now consider all of the taxes and contributions together: income tax, Social Security, LTC contribution and GST. Income tax in 2015 includes '20 means 20' (including the changes to MITR), lower marginal rate tax, higher exemption thresholds, an increase in child allowances, and the change in relief for pension contributions. It does not include the impact of the removal of relief for PMI and LA premiums (because only a minority of taxpayers were claiming each of these in 2006), or the introduction of enhanced childcare (because it is assumed that childcare costs are £3,000 per child, in line with the average).

A recap of the household characteristics is presented in the Figure 6.1.

Figure 6.1 Overview of illustrative households

H1	H2	H3	H4	H5	H6	H7
Single	Single	Married	Married	Married	Married	Single
	1 child		2 children	2 children (one in higher education)	pensioners	pensioner
No mortgage	£200k mortgage	£300k mortgage	£300k mortgage	£100k mortgage	No mortgage	No mortgage

Note: Images sourced from www.freepik.com.

Figure 6.2 to Figure 6.8 below compare the taxes and contributions in 2015 to that of 2006 for each household. The principal features of these graphs are explained below.

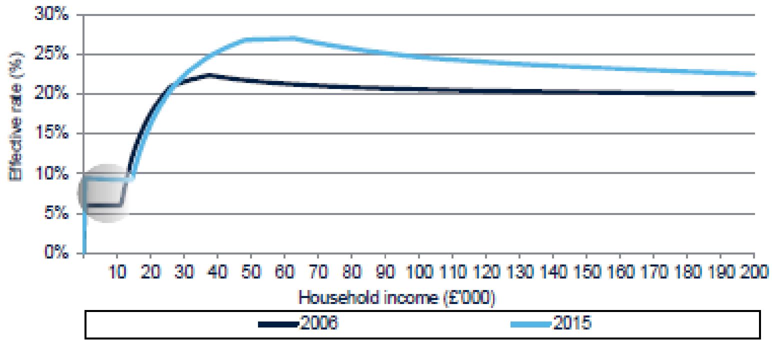
In each case the level of effective tax at the lowest end of the income range increased between 2006 and 2015. This is principally due to the introduction of GST, which is assumed to account for approximately 3.5% of income at the lower end of the income spectrum.

The second feature of the graphs is the fact that the flat part of the chart (for example, up to about £15,000 in Figure 6.2) is generally longer in 2015. This is a result of the higher exemptions available at the marginal rate in 2015, and is most prominent in Figure 6.6 because H5 benefits in particular from the substantial increase in child allowances for a child in higher education (which increased from £5,000 to £9,000 for marginal rate tax payers). As a result of this, some marginal rate tax payers pay a lower effective rate of taxes and contributions in 2015 than in 2006, at the same level of income.

Beyond the point at which exemptions exceed income (i.e. where the lines begin to climb), the figures below show a slightly steeper line for 2015 than 2006. This is because of the introduction of the GST and LTC contribution, which in 2015 is at a marginal rate 0.65% of income at this point in the figures. However, the impact of GST and the LTC contribution is partially offset by the reduction in the marginal rate of income tax from 27% to 26% as well as the increase in exemptions, as discussed in the next paragraph.

The upwards slopes of the lines for each household vary—in general, the higher the level of exemptions applicable (shown by the length of the flat part of the chart), the more slowly the line will rise. This is because additional tax paid at the marginal rate as income rises is a smaller portion of total income, the higher the level of exemptions.

Figure 6.2 H1: effective rate (all taxes and contributions)

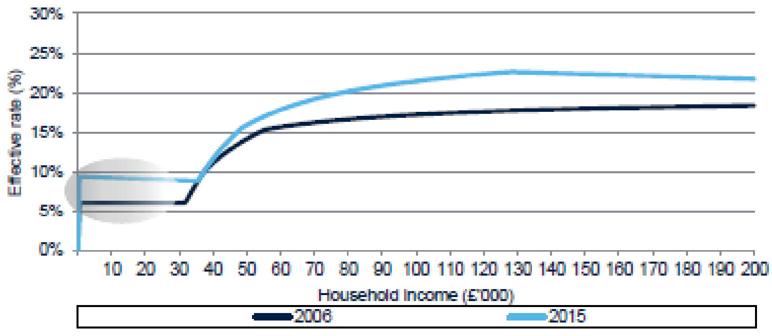


Note: The shaded area indicates that GST paid for households at the lower end of the income scale will be offset (in full or in part) by income support and/or food costs bonus receipts (see section 5 'Goods and Services Tax').

Source: Oxera analysis.

Each of the lines for 2015 in the figures below also show subtle 'kinks'. These relate to the switch from marginal to standard rate tax and the SEL on Social Security payments. The cap on Social Security payments and the LTC contribution, and the reducing profile of GST as a percentage of income, together lead the effective tax rate to reduce slightly at the highest levels of income. This is most pronounced for H1, as shown in Figure 6.2.

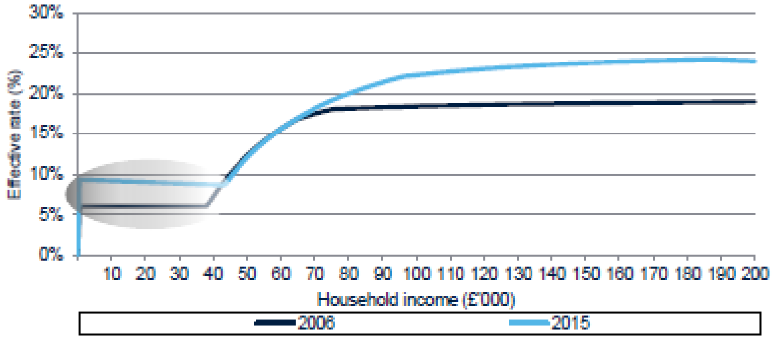
Figure 6.3 H2: effective rate (all taxes and contributions)



Note: The shaded area indicates that GST paid for households at the lower end of the income scale will be reduced (in full or in part) by income support and/or food costs bonus receipts (see section 5 'Goods and Services Tax').

Source: Oxera analysis.

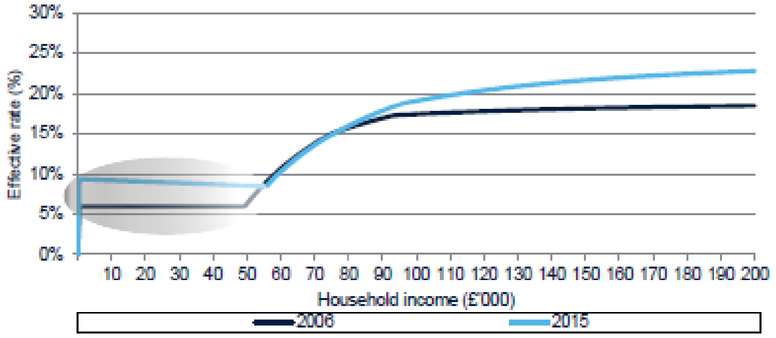
Figure 6.4 H3 effective rate (all taxes and contributions)



Note: The shaded area indicates that GST paid for households at the lower end of the income scale will be reduced (in full or in part) by income support and/or food costs bonus receipts (see section 5 'Goods and Services Tax').

Source: Oxera analysis.

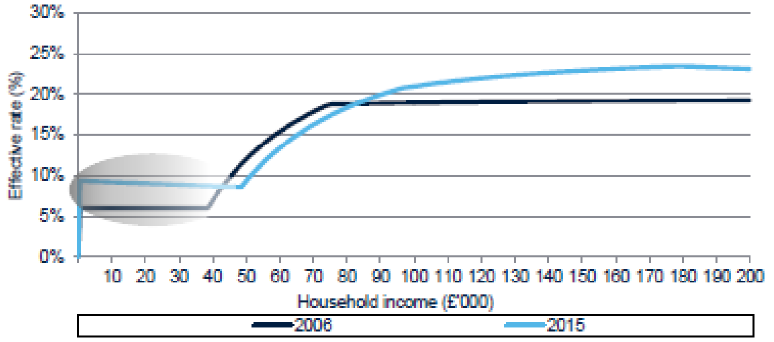
Figure 6.5 H4: effective rate (all taxes and contributions)



Note: The shaded area indicates that GST paid for households at the lower end of the income scale will be reduced (in full or in part) by income support and/or food costs bonus receipts (see section 5 'Goods and Services Tax').

Source: Oxera analysis.

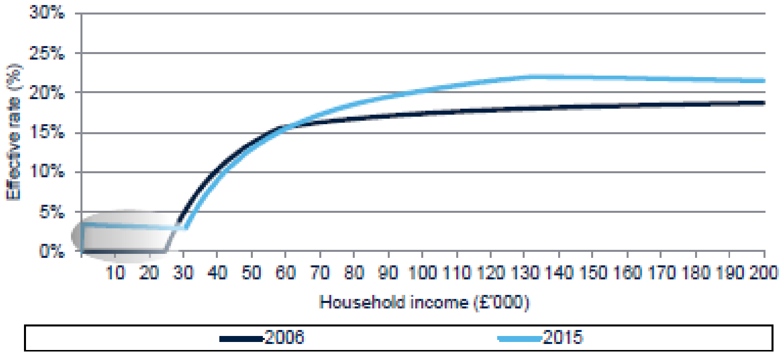
Figure 6.6 H5: effective rate (all taxes and contributions)



Note: The shaded area indicates that GST paid for households at the lower end of the income scale will be reduced (in full or in part) by income support and/or food costs bonus receipts (see section 5 'Goods and Services Tax').

Source: Oxera analysis.

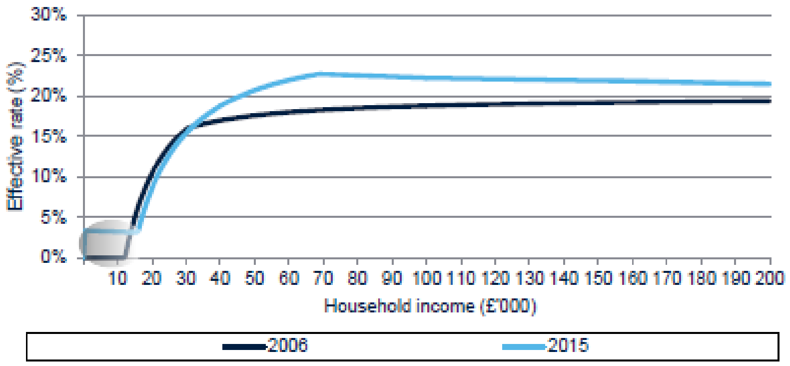
Figure 6.7 H6: effective rate (all taxes and contributions)



Note: The shaded area indicates that GST paid for households at the lower end of the income scale will be reduced (in full or in part) by income support and/or food costs bonus receipts (see section 5 'Goods and Services Tax').

Source: Oxera analysis.

Figure 6.8 H7: effective rate (all taxes and contributions)

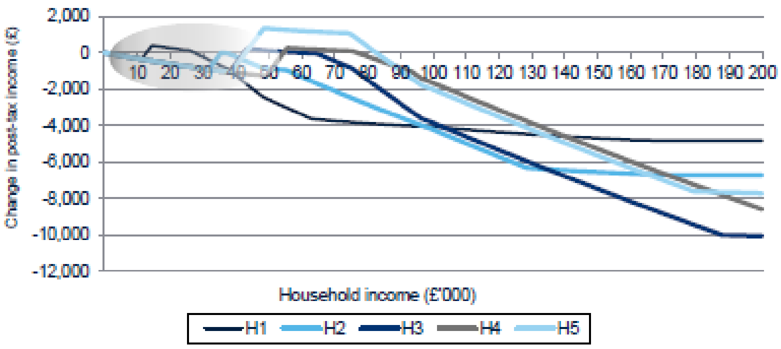


Note: The shaded area indicates that GST paid for households at the lower end of the income scale will be reduced (in full or in part) by income support and/or food costs bonus receipts (see section 5 'Goods and Services Tax').

Source: Oxera analysis.

Figure 6.9 to Figure 6.12 show the change in post-tax income between 2006 and 2015, as well as the changes in the effective rate over this period.

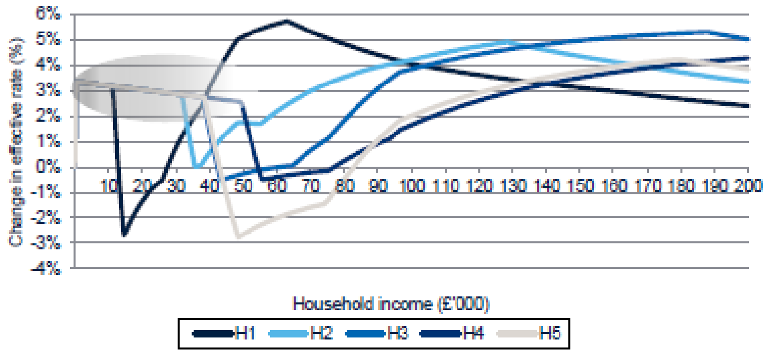
Figure 6.9 H1–5: change in post-tax and contribution income



Note: The shaded area indicates that GST paid for households at the lower end of the income scale will be reduced (in full or in part) by income support and/or food costs bonus receipts (see section 5 'Goods and Services Tax').

Source: Oxera analysis.

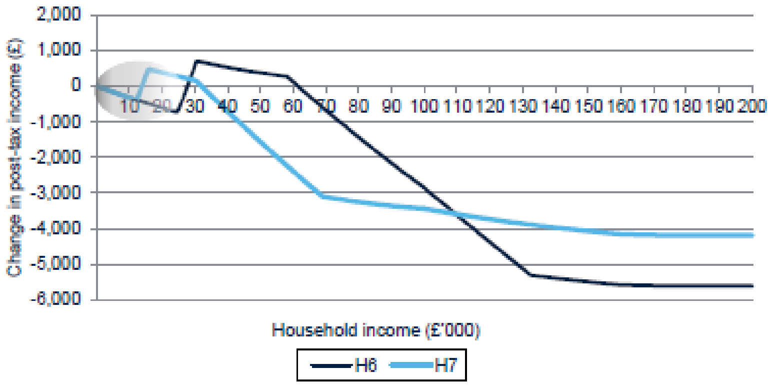
Figure 6.10 H1–5: change in effective rate, 2006–15



Note: The shaded area indicates that GST paid for households at the lower end of the income scale will be reduced (in full or in part) by income support and/or food costs bonus receipts (see section 5 'Goods and Services Tax').

Source: Oxera analysis.

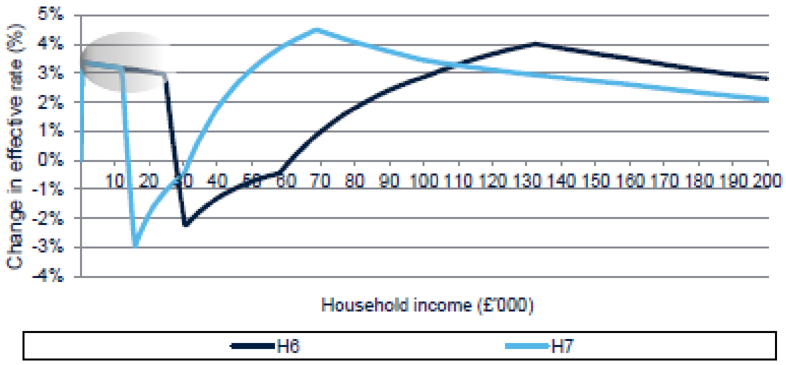
Figure 6.11 H6 and H7: change in post-tax and contribution income



Note: The shaded area indicates that GST paid for households at the lower end of the income scale will be reduced (in full or in part) by income support and/or food costs bonus receipts (see section 5 'Goods and Services Tax').

Source: Oxera analysis.

Figure 6.12 H6 and H7: change in effective rate, 2006–15



Note: The shaded area indicates that GST paid for households at the lower end of the income scale will be reduced (in full or in part) by income support and/or food cost bonus receipts (see section 5 'Goods and Services Tax').

Source: Oxera analysis.

As these figures illustrate, the overall impact of the changes to the taxes and contributions regime appears to have been an increase in taxes and contributions for households with an income over c.£100,000. The absolute value of additional tax paid generally increases with income level (which would be expected).

Below income levels of c.£100,000, there are some households, at some income levels, that would have seen a marginal reduction in their tax bill over this period, assuming their income did not change—for example, H5 with household income of between £40,000 and £90,000.

However, it is important to note the limitations of this comparison. As described in section 1.2 above, this report does not consider inflation, and so the results of this comparison between 2006 and 2015 should be treated with caution. What this chart really shows is what taxes and contributions payable in 2006 would have been if the tax rules were what they were in 2015 or vice versa.