STATES OF JERSEY

TAXATION OF HIGH VALUE RESIDENTS (P.127/2016): COMMENTS

Presented to the States on 17th January 2017
by the Minister for Treasury and Resources

STATES GREFFE

COMMENTS

The Minister for Treasury and Resources recognises the aims of Deputy G.P. Southern of St. Helier in bringing forward his proposition, and is supportive of the principles underlying that proposition. However, these aims and principles are even better met by the States agreeing to the recommendations contained in the recent report from December 2016 on the HVR regime. The Minister will be bringing forward the necessary legislative changes required to give effect to those recommendations later this year.

Before commenting on the specifics of the proposition, the Minister for Treasury and Resources would like to remind Members of the numerous benefits to the Island arising from the High Value Residents ("HVRs") regime, including –

(i) The regime attracts HVRs to relocate to the Island, with corresponding economic benefits, which were externally estimated to be worth as a minimum between £50 million and £70 million in 2010.[1]

(ii) The 34 HVRs who had relocated under the post-July 2011 regime paid £3.8 million[2] of income tax in respect of the 2014 year of assessment; this represented more than 1% of the total personal income tax paid in the Island.

(iii) HVRs contribute to the Island's revenues in a broad range of ways (i.e. not just the payment of income tax); these include the payment of Stamp Duty, GST, Social Security contributions, Long-Term Care contributions, property rates, etc. Hence their overall contribution to tax revenues is much larger.

(iv) The Council of Ministers has already taken steps to raise additional revenue from HVRs by increasing the amount of Stamp Duty payable on properties worth more than £3 million in the 2017 Budget and agreeing to increase the registration card application fee paid by HVRs.

(v) The contribution made by HVRs extends far beyond the taxes they contribute; they support charities, churches and various institutions, societies and sporting associations, both financially and through their time and expertise.

(vi) Increasingly importantly, they are influencing the development of our economy by establishing businesses and employing staff in Island.

In light of these benefits, the Minister for Treasury and Resources and the Council of Ministers are committed to maintaining the HVR regime in the future. However, they are also committed to making improvements to the HVR regime where necessary, and in this regard they have already endorsed the recommendations in the Report entitled 'Post-Implementation Review of Jersey's High Value Residents Regime Applicable since July 2011' ("the Report") presented to the States on 13th December 2016 (*see:* http://www.statesassembly.gov.je/AssemblyReports/2016/R.130-2016.pdf).

[1] "Review of 1(1)(k) regime for the States of Jersey", Withers LLP and Panopticon Policy – October 2010.

[2] In the year of arrival, each HVR is expected to pay the £125,000 expected annual minimum income tax contribution appropriately time-apportioned (e.g. if an HRV arrives on 1st December they would be expected to pay a minimum of 1/12th of £125,000 in that year of assessment).

The Report found that although the HVR regime is meeting its policy objectives, some improvements could be made to improve the regime for the benefit of the Island. Two of these improvements specifically relate to the issues identified in the Deputy's proposition.

Proposition part (a)(i): effectively increase the expected annual minimum income tax contribution to £150,000 for 2017

The Minister for Treasury and Resources and the Council of Ministers have already endorsed the recommendation within the Report to increase the expected annual minimum income tax contribution from £125,000[3] to £145,000[4] for the next cohort of HVRs. This increase is to be proposed to the States Assembly in the Budget 2018, and takes account of inflation over the 7 years that will have elapsed since the £125,000 sum was set. The Report outlines that an increase to £145,000 has a rational basis; increasing the contribution from future HVRs whilst maintaining the Island's competitive position.[5]

To amend the expected annual minimum income tax contribution for the 2017 tax year in January 2017, as proposed by the Deputy, would, in effect, have a retrospective impact on those HVRs who are part-way through their application process. The Tax Policy Unit recommends that the change to £145,000 should commence in 2018, so that current and future applicants have a clear understanding of what is expected of them in advance and throughout the application process.

Proposition part (a)(ii): annual revalorisation of the expected annual minimum income tax contribution

The Minister for Treasury and Resources and the Council of Ministers have already endorsed the recommendation made within the Report that the expected annual minimum income tax contribution should be periodically uprated so as to ensure this sum is not eroded over time by inflation. The recommendation is that this re-evaluation is done on a 5-yearly basis – subject to ensuring that the regime remains internationally competitive.

It is **not** recommended that such a re-evaluation be done on an annual basis. This is because to amend the expected annual minimum income tax contribution so frequently would create uncertainty around the regime, which would have a detrimental impact, not only in terms of its attractiveness to internationally mobile HVRs, but also from the practical perspective of *Locate Jersey* being able to effectively market the regime.

A HVR may be considering a number of jurisdictions, and it would be difficult for *Locate Jersey* to market the regime effectively if the expected annual minimum income tax contribution was constantly changing. Being able to give a clear and consistent message about what Jersey offers is key to the success of the HVR regime.

[3] Equating to £625,000 of income taxed at 20%.
[4] Equating to £725,000 of income taxed at 20%.
[5] See paragraph 4.3 of the Report.

Furthermore, there would be an annual administrative cost associated with calculating the updated expected annual minimum income tax contribution, communicating that change and amending the relevant legislation.

Minimum Annual Tax Charge

Members should also be aware that the recommendations within the Report go beyond the changes proposed by the Deputy in his proposition by seeking, now that it is considered legally feasible, to make the expected annual minimum income tax contribution legally enforceable for future HVRs through the introduction – from 2018 – of a Minimum Annual Tax Charge payable by way of the Income Tax Return. This will mean that those HVRs who do not have sufficient income to meet the expected annual minimum income tax contribution will still be required to pay their expected contribution to public revenues.

As outlined above, the Minister for Treasury and Resources recognises the aims of the Deputy and is supportive of the principles underlying the proposition. However, these aims and principles are even better met by the States agreeing to the recommendations contained in the Report. The Minister will be bringing forward the necessary legislative changes required to give effect to those recommendations later this year so that they take effect from 2018. **The Minister for Treasury and Resources therefore recommends that Members reject all parts of this proposition and instead support the necessary legislative changes required to give effect to the recommendations in the Report when they are brought forward later this year.**

Statement under Standing Order 37A [Presentation of comment relating to a proposition]

These comments were submitted to the States Greffe after the noon deadline as set out in Standing Order 37A due to the Minister's wish to prepare information which is as comprehensive and informative as possible for Members.