STATES OF JERSEY

1(1)(K) CATEGORY RESIDENTS: REFERENDUM (P.130/2011) – COMMENTS

Presented to the States on 8th September 2011
by the Minister for Treasury and Resources

STATES GREFFE

COMMENTS

The Minister for Treasury and Resources opposes this proposition.

The Deputy appears to wish States Members to ask the public to endorse the decision they made less than 2 months ago when they approved P.114/2011 (Draft Income Tax (Prescribed Limit and Rate) (Amendment) (Jersey) Regulations 201-). On that occasion, Members voted emphatically in favour of amending the tax rates applied to individuals who come to Jersey as 1(1)(k) residents in the future.

The Minister for Treasury and Resources considers that a public referendum should be used for constitutional matters and not for setting tax policy. Jersey's population has delegated the authority to make decisions on its behalf to the States, and has a reasonable right to expect that their representatives are capable of doing so.

Changes made to the 1(1)(k) regime

The explanations given by the Minister for Treasury and Resources for making the changes in P.114/2011 do not need repeating, but are attached as Appendices to these comments. As set out in the report to P.113/2011, the changes to the tax regime were made in order to boost Jersey's economy by removing the disincentives for wealthy newcomers to invest in the Island.

The referendum proposed

It is unclear from the wording of the proposition what exactly is intended, and in particular there are some potentially important differences between what is proposed in parts (a) and (b). However, the Minister for Treasury and Resources assumes that –

- The Deputy does not wish the public to consider the existence of a special tax regime for 1(1)(k)s per se, only the changes introduced in P.114/2011 and approved by the States on 22nd July 2011. P.114/2011 changed the tax rates applied to individuals who come to Jersey as 1(1)(k)s in the future, but does not affect the position of 1(1)(k)s who are already in Jersey.

  P.114/2011 introduced a lower rate of tax for future 1(1)(k)s of 1% on income above £625,000, but the Deputy proposes that the public should be asked to consider whether rates of 1% on income above £650,000 should be abolished. The Minister for Treasury and Resources assumes that the Deputy meant to refer to incomes above £625,000 and not to £650,000.

- Despite proposing in part (a) that a "flat taxation rate" should apply to all taxpayers, the Deputy is not in fact proposing that the 92% of Jersey residents who pay tax at a rate less than 20% should have their tax rate increased to a flat rate of 20%. It is therefore assumed that the Deputy does not propose abolishing the current system of personal allowances and reliefs.

Financial and manpower implications

The Deputy predicts that abolishing the 1(1)(k) tax regime would result in a significant increase in tax revenues, although the proposition does not in fact suggest that the public should be asked their opinion on the regime in general, just those changes which have recently come into effect.

The reasons why abolishing the 1(1)(k) regime would not lead to a significant increase in tax revenues have been well rehearsed over the years, but in summary –

- The very wealthy are highly mobile. Jersey currently struggles to attract the number of new wealthy residents that it wants to. Increasing the tax rates charged on new residents will reduce the numbers who wish to move here and therefore the tax they pay.

- Increasing the rate of tax charged does not automatically mean that tax receipts will increase.

The main purpose for bringing in the changes to the tax regime which the States Members have already approved is to boost economic activity through encouraging more wealthy individuals to choose Jersey as a place to live and bring their business.

The Minister for Treasury and Resources urges Members not to support this proposition.