



## **Corporate Services Scrutiny Panel**

### **Prior Year Basis Tax Reform Review**

## **Witness: The Minister for Treasury and Resources**

Friday, 16th October 2020

#### **Panel:**

Senator K.L. Moore (Chair)

Deputy S.M. Ahier of St. Helier (Vice-Chair)

Connétable R. Vibert of St. Peter

Connétable K. Shenton-Stone of St. Martin

#### **Witnesses:**

Deputy S. Pinel of St. Clement, The Minister for Treasury and Resources

Senator I.J. Gorst, Assistant Minister for Treasury and Resources

Mr. R. Bell, Treasurer of the States

Ms. C. O'Brien, Deputy Comptroller of Revenue

[13:13]

#### **Senator K.L. Moore (Chair):**

Welcome and good afternoon. This is a Corporate Services Scrutiny Panel hearing in relation to the prior year tax reform. We welcome the Treasury team this afternoon. We will start with introductions, if we could. I am Senator Kristina Moore, the chair of the panel.

#### **Deputy S.M. Ahier of St. Helier (Vice-Chair):**

Deputy Ahier, vice-chair.

#### **Connétable R. Vibert of St. Peter:**

Richard Vibert, panel member.

**Connétable K. Shenton-Stone of St. Martin:**

Constable Karen Shenton-Stone, panel member.

**The Minister for Treasury and Resources:**

Deputy Susie Pinel, the Minister for Treasury and Resources.

**Treasure of the States:**

Richard Bell, Treasurer.

**Assistant Minister for Treasury and Resources:**

Ian Gorst, Assistant Minister for Treasury and Resources.

**Deputy Comptroller of Revenue:**

Cora O'Brien, Deputy Comptroller of Revenue.

**Senator K.L. Moore:**

We apologise for the slightly late start to this hearing, by the way. We were just getting technically set up but hopefully everybody can hear us and see us now loud and clear. Minister, let us start first with a little background. You stated on numerous occasions that Government had been trying to implement the prior year tax move for some years but previous attempts have been unsuccessful. What is your sense of why that desire from Government has never been achieved to date?

**The Minister for Treasury and Resources:**

There has not, with due respect, been previous attempts because it was considered that it would be a very difficult move to make. What prompted it, it is in the Government Plan that we were going to do it in 2022 but we brought it forward because, as we have said, it is sort of moved by the COVID pandemic, inasmuch as people who are on a 2020 income as opposed to a 2019 income might have trouble paying their 2019 debt on the basis that their income might be much lower than it was in 2019. That is what pushed it forward a bit, but it was always going to happen. I think we are the only jurisdiction that has this dual tax system, which is complicated, time-consuming, people do not understand it. We all need to be on one system so that is why we are moving.

[13:15]

**Senator K.L. Moore:**

In an answer to a written question in 2016 a previous Minister for Treasury and Resources stated: "As some people plan for this eventuality, for example, by increasing the effective rate of tax they pay in the run-up to retirement so that they pay off their previous tax year's liability and start to pay

off their current year's tax liability at the same time. Many do not - or cannot - afford to take action." So what, in your mind, has changed particularly in light of the COVID pandemic and the issue that you, yourself, appear to acknowledge that about a third of taxpayers have struggled financially due to the COVID pandemic?

**The Minister for Treasury and Resources:**

I do not think I said a third have struggled.

**Senator K.L. Moore:**

That is what we know statistically from consultation that has taken place about the third.

**The Minister for Treasury and Resources:**

I think we have to be careful with the third and two-thirds because two-thirds of people are on prior year basis and a third are on current year basis. That is not a third are struggling.

**Senator K.L. Moore:**

A third of people generally have expressed they have experienced financial difficulty due to COVID, and I think that is borne out in your consultation, albeit of the two-thirds of taxpayers who paid a prior year at the moment, a third of them expressed some difficulty financially.

**The Minister for Treasury and Resources:**

What we have proposed, and of course you will be aware that we are going to present the draft regulations before the date on 3rd November so that everybody can see what the proposals are, to allow people either 5, up to 5 or up to 10 years' worth of repayment so it gives people a lot of time to prepare. At the moment, of course, people tend to prepare to pay off their P.Y.B. (prior year basis) before they retire because obviously then their income obviously drops. That is the case at the moment. So we are hoping to allow the flexibility to do that.

**Senator K.L. Moore:**

Are there any other tax reform measures that are being considered in the forthcoming future?

**The Minister for Treasury and Resources:**

The one that the panel know about is moving to independent taxation but that has always been on the cards. It has been delayed by a year because of doing the P.Y.B., C.Y.B. (current year basis), there is not the resources or the time or the wherewithal to do both of them at the same stage but we are going through that.

**Senator K.L. Moore:**

Why was P.Y.B. prioritised over independent taxation?

**The Minister for Treasury and Resources:**

Largely because we brought it forward from 2022 to 2021 because of the COVID situation to help people who are on a lower income.

**Assistant Minister for Treasury and Resources:**

Could I just add in there, this is the only direct tax matter that we are considering but of course you will be aware, Chair, that there are the Social Security matters, which do not fall under Treasury's remit but if we are to make changes to the supplementation that will have knock-on effects to contribution rates of social security. There are the other areas that Cora is working on in response to proposals coming out of the O.E.C.D. around corporate tax matters. So there is nothing direct, as the Minister said, but there are other bits of Government; that is my bit and Social Security's bit as well.

**Senator K.L. Moore:**

Thank you. Do we have any indication yet as to the level of the increase in social security contributions that are being considered?

**The Minister for External Relations:**

I do not think we have any indication yet. It would depend on how much we wish to vary the taxpayer's contribution to the supplementation grant.

**Deputy S.M. Ahier:**

The prior year basis tax reform proposition was originally portrayed as a fiscal stimulus measure to benefit Islanders in response to COVID and would provide a short-term cash boost to those most financially affected by the Government's lockdown measures and that this is due to many Jersey household incomes having been badly affected by the coronavirus pandemic. However, the responses to the Government's consultation on prior year basis, although limited, indicates that 58 per cent of respondents were unaffected by lockdown. Minister, can you clarify roughly how many prior year basis taxpayers have been financially affected by lockdown measures?

**The Minister for Treasury and Resources:**

Probably a question for Cora. I do not have those figures in front of me. You are asking specifically for ...?

**Deputy S.M. Ahier:**

How many prior year taxpayers have been financially affected by lockdown measures?

**Deputy Comptroller of Revenue:**

I think at the minute that is a very difficult question to answer because we do not have any tax returns from prior year basis taxpayers for 2020. So the best indication we have on that is the reflection in the survey of the third the Senator mentioned earlier; a third of prior year basis taxpayers who responded to the survey are in financial difficulties, albeit that that was only 2,300 who completed the survey. But I think that probably is a significant proportion of people, albeit it is a sample of 2,300, we would not have that data on the population of P.Y.B. taxpayers until the end of the year.

**Deputy S.M. Ahier:**

Under the Income Tax Law is there not a provision to agree a settlement programme for those who are in financial difficulty?

**The Minister for Treasury and Resources:**

Absolutely.

**Deputy S.M. Ahier:**

Written submissions are provided to the panel, so hardworking Islanders who have managed during the pandemic will now be placed into debt due to this proposition. In your opinion, is this fair and equitable for those Islanders?

**The Minister for Treasury and Resources:**

I think what we have to be clear, this is a tax liability that people would have to pay their previous year's tax so we are not going to be penalising anybody; they have the opportunity to pay their previous year's tax and what we are offering is because it is a move, and it is quite a dramatic move and it is quite complicated, I completely understand the misunderstanding from some people, but it still has to be paid. What we are offering is the flexibility to freeze it, if they wish to, for ... it could be 4 years until 2025, and then to pay it back over another 5 or 10 years or up to 10 years, if that is what people require. There will also be the option of an affordability test if people cannot do that.

**Assistant Minister for Treasury and Resources:**

It is important to remind ourselves that under the Minister's plan a debt currently under the framework, and we look forward to what Scrutiny is going to say to us about payback, and the other consultation work that the Minister is carrying out, it is important to remember that the debt is not crystallised until the end of that framework period. The end of that framework period is still to be finalised for all of the reasons you are undertaking a review. We want to listen to what your review says, what Islanders have to say about it, but we will not be crystallising a debt at the point that if the States approve this proposal the debt is crystallised at the end of that framework period.

**Deputy S.M. Ahier:**

But is it not true that currently people can not pay that prior year basis until the day they die?

**The Minister for Treasury and Resources:**

Yes, you are quite correct. Some do, and I asked for the figures, and very, very few leave it to that point because I asked the same question myself. So generally speaking, yes, they can. They are given a 2-year warning, I think is correct, looking at Cora. A 2-year warning that they are expected to pay that debt and some of them do just leave it.

**Deputy Comptroller of Revenue:**

So the biggest part of the debt on retirement is the last year of income where in your first year of retirement you are catching up on that from a lower income. So the normal position is that people would be given roughly 2 years to pay that and many of them have already paid it in advance. Some people, a small number, do approach the Comptroller for payment arrangements but over the course of retirement most people have paid off that big sum. They will of course always have some prior year liability because pensioners are on prior year basis itself, but they do not have that big lump sum from the last year of income. Very few are still owing that at the time of death.

**Treasurer of the States:**

If I just clarify that? The biggest impact is not at that point of end of life. The biggest impact is for the majority of Islanders - the majority of Islanders who are employed - is when they move on employment, hence being a pensioner. When we were commenting about the impact of that, particularly with income, if you spread it over a number of years, but that is compared to the entire bill having to be paid. If you have not taken measures to spread it over just 2 years, that is a large impact as well, so at the moment the biggest impact I think are the drivers. The drivers are not too dissimilar from when people or from when Sage methods decided to move the system to a current year basis for all new taxpayers. The majority of course would be getting all Islanders with children who need to work or for the first time as adults. The argument is the same as the arguments now as well. But there are 2 particular issues. One is managing what is quite a large tax liability in a year when your income falls; the pension income from what is usually entire employment income. The wealthy Islanders or people who are not necessarily living off earnings from employment, that is a different scenario. But the other one being that often Islanders, in this case working people, with all of the facts provided, in the first place would be potentially illegal and I think the complication becomes because unlike accidental and/or new current year basis, the complication has meant it is a difficult one to address - they are all difficult ones to address - is that the prior year basis category are paying tax already on this.

**Deputy S.M. Ahier:**

On release of the Government Plan 2021-2024, it transpires that the proposed prior year basis reform is to fund the debt incurred during the response to COVID. Why was the Minister not upfront with Islanders from the beginning on the motivation of the reform being brought forward?

**The Minister for Treasury and Resources:**

I do not think being upfront is the correct way of saying things. I think we have always been very clear inasmuch as we are in a very fast-moving situation and I think we have been as transparent as we possibly can be in informing the public, certainly Scrutiny, in what we are doing on the basis that things change from one hour to the next. The reason for suggesting - the Treasurer said it is not written in stone but suggesting - that we have a ring-fenced fund from the prior year basis repayments, which could be over 15 years, to be put into a fund that would pay back the already incurred £400 million debt to the end of the year is what is proposed. That is why we need to have some way of repaying what we have already incurred.

**Assistant Minister for Treasury and Resources:**

I think, Minister, it is fair to say that as we were developing the Government Plan, and you were looking at the increase in expenditure that Ministers wanted, you were looking at the budgeting for costs of COVID, and you are obviously also later this year and then next year looking at the cost of the hospital. It became quite apparent to some Ministers that you needed to find a way of some of the costs you have already spent during this pandemic ... it cannot, and I am of the view it would not, have been right to borrow that money over the long term. So here what we are, in effect, saying is not that prior year taxpayers are paying for COVID but it would be very sensible, as the Minister said, to ring-fence it so that you could pay back those debts earlier. Alternatively, you would have all of the benefits, as the Minister and Treasurer have just explained, you would put it into general revenues and you would still have a very long-term debt to pay back the costs of the pandemic. So I think it is perfectly reasonable to come with a mechanism that says we are going to ring-fence it, which means that we can pay it back in a shorter period - some Ministers argued for an even shorter period of payback - and giving the economy some time, perhaps 5 years under this methodology that the Minister is proposing, to recover and yet at the same time you do not saddle the cost that has currently been incurred, which you have to pay back in some way, for 40 years, like you will be doing for the hospital. So, there has been a little bit of confusion about we are doing this measure to pay back COVID.

[13:30]

No, we are saying we are doing this measure for all of those reasons but it makes sense then, rather than just putting that into general revenues, and when my colleague Ministers - as they do, Minister - are knocking on your door asking for more money year on year, we say: "No, you cannot have that

money, Minister, because we are using it because we have already spent this money.” Therefore, we need a ring-fenced approach to try to ensure that down the line, whatever repayment terms are settled on, we have got that money ready. That, of course, also gives us the flexibility for repayment terms because you do not need to have a set amount of money coming in every year to pay off that sort of debt. It is not like our personal arrangements with the bank. The Government can structure it in a different way.

**Deputy S.M. Ahier:**

Minister, do you consider it to be fair and equitable to prior year basis taxpayers who are being asked to disproportionately pay the COVID debt?

**The Minister for Treasury and Resources:**

This is something that has been in the media - and I am quite aware from whence it came - and it is not asking people to do that whatsoever. It is just a matter of the prior year status tax liability, which obviously we need to reclaim because people have to pay their tax, is just going to be ring-fenced as opposed to going into the general coffers. That is all. It was just to give people some assurance. It is two-thirds of taxpayers who are on a prior year basis but everybody will be generally paying off the COVID debt because it is an Island debt, so everybody will be paying it. It is just that we suggested that we might ring-fence that money to pay that off over a long period of time, because obviously we are not going to get a flood of £330 million in in the first week. It will be over a period of years, as we have suggested.

**Deputy S.M. Ahier:**

At the public hearing with the Chief Minister on 13th October, the panel were advised that if the proposition is not approved by the States Assembly then the plan is for G.S.T. (goods and services tax) to increase to 7 per cent or 8 per cent or an increase in personal income tax and these would be permanent increases. Could you clarify if this is the agreed strategy and when was it agreed?

**The Minister for Treasury and Resources:**

I was at the meeting with the Chief Minister when he said that and this is just ... it is not agreed. It was just an option to say that we have estimated to the end of this year a £400 million debt due to the COVID pandemic. It has to be paid somehow. So what we are saying is that a way around this to pay it is to use the P.Y.B. payments over a period of time. So it will not pay it off immediately, to be put into a ring-fenced fund, which in its own right could accrue interest on it, and pay it off over the period of years but the money comes in to pay it off. But the alternative, of course, which is I think what the Chief Minister was alluding to, is if we did not do this then there would have to be an increase somewhere to pay it off.



**Deputy S.M. Ahier:**

So will you personally be proposing an increase of G.S.T. to 7 or 8 per cent?

**The Minister for Treasury and Resources:**

Well, no, because we are hoping that this will go through the States and be agreed, in which case that it is the way forward, otherwise we will have to look at an alternative.

**Deputy S.M. Ahier:**

Thank you, Minister.

**Assistant Minister for Treasury and Resources:**

But as you know, Deputy, as the Minister said, Treasury has at its disposal basically 3 levers. You can increase tax or charges, put those all into the same basket; you can reduce expenditure, that is one basket; or we are in a very fortunate position to be able to think about using reserves. So on any number of those mechanisms, should the States not agree this proposal, the Minister for Treasury and Resources will go away and appropriately consider and consult and come back to the States with the normal decision-making process.

**Connétable K. Shenton-Stone of St. Martin:**

How does this proposition align to the Government's strategic priority to improve Islanders' well-being and mental health? For example, studies have shown people in debt have higher rates of mental health problems, like depression and anxiety, that can lead to a number of issues. Why are you exposing two-thirds of Islanders to the pressures of debt at this time of uncertainty and especially bearing in mind that we are in the midst of a pandemic?

**The Minister for Treasury and Resources:**

If I may turn that question on its head completely; it is not exposing two-thirds of Islanders to increased debt. The liability of paying your previous year's tax is there anyway. It is not something we have just introduced. You owe that amount of money to the Government coffers. So people would have to do it anyway and the reason we brought it forward by only a year is to help people, not to hinder, who may have had a drop in income in 2020 - and there is quite a considerable amount that have - as opposed to 2019. So they would be paying 2019 tax liabilities that would be higher than what they would be expected to pay in 2021 for 2020. So it is in order to help people who have suffered, and I think there are quite a few who have, from the pandemic.

**The Connétable of St. Martin:**

People have emailed or spoken to me, that is not how they see it.

**The Minister for Treasury and Resources:**

Also there is flexibility, as we said before. Of course, the Treasurer has made the flexibility in this proposal or proposition to pay back over a period of years, so it is not putting anybody in a difficult situation.

**The Connétable of St. Martin:**

I think I will have to disagree with that. But how does this sit alongside the commitment to sustainable well-being as set out in the Government Plan 2020-2023? I feel that a lot of people are very, very anxious about this and they have planned ahead for their P.Y.B. and to be told that it has changed is causing people anxiety.

**The Minister for Treasury and Resources:**

If people have planned ahead ... and I think the majority of people do. They plan to have a repayment scheme by the time they retire, because that is when most people, as the Treasurer said earlier, get affected by this when their income level drops. If people have planned ahead, well, then that is what they will carry on doing, so I do not see that it is causing undue anxiety. It has been on the table for a very long time to change.

**The Connétable of St. Martin:**

What consideration has been given in this proposition as to how this could disproportionately affect families with children and, therefore, not comply with the Government's strategic priority of putting children first?

**The Minister for Treasury and Resources:**

Yes. That is a good question and we have a table, which I think was sent round yesterday, about the proportion of people in the age brackets, 20 to 29, 30 to 39, and most of the P.Y.B. taxpayers are not in that bracket because C.Y.B. was introduced in 2006, so 14 years ago. So most of the younger generation - being careful about age discrimination here - will be on current year basis tax anyway. So it is the older ones in the 40 to 49 and 50 to 59 who will be affected by this.

**Senator K.L. Moore:**

But if I may, Minister, that bracket of people generally still have children and also we have had a number of submissions from families whose children are about to go to university in the very period when they will be requested to pay the tax. That additional liability at an expensive point in their lives and they still have mortgages to pay as well as their child going to university, or maybe more than one child, is causing financial stress and concern about this proposal.

**The Minister for Treasury and Resources:**

I understand that, but what we have to get clear here is this is not an additional tax. It is a liability that people have from a prior year and if you are looking at current year basis taxpayers they would be paying that anyway. So, people with children and mortgages will be paying that out of their earnings currently.

**The Connétable of St. Martin:**

The age of child-bearing has gone up. They are mainly 30s up, so it does affect a huge amount of them, a large proportion of parents.

**Assistant Minister for Treasury and Resources:**

I think the point the Minister has kept making is that: is moving to C.Y.B. a good thing? Generally I think it is. I come from that generation where I did not agree with I.T.I.S. (income tax instalment scheme) in the first place. I always think money is better in my own pocket than the Government's, but that battle has been lost. Okay, moving on.

**Senator K.L. Moore:**

We need to be really clear what the issue is here.

**Assistant Minister for Treasury and Resources:**

The issue is the payback, is it not, and the concerns that some Islanders have about how it will affect them directly? This is exactly the reason why the Minister, rather than laying regulations at the same time as agreeing that we would move, wanted to engage with Islanders, engage with your review, and you are pulling out exactly those things that obviously the Minister and myself and officials are being contacted about. You have got the other extreme of people who are already prepared to pay their tax liability and they are thinking about taking a lump sum from their pension. So all of these things around ... you can have a framework, which is what we started with, with the 5 years, paying back over the 10 years, but we recognise absolutely, for all the reasons you say and the Minister said, that we need flexibility in that framework to be able to deal with the issues for families who have got university costs or the person coming up to retirement that can draw on their pension. That is why we are taking this extra time to be able to rightly consider those and find a way through. The fallback position is, as Cora said, for those in real difficulty there is already a process in place to help them manage any tax liability in the future, but the liability does not arrive until ultimately, or the debt, until the end of the framework period. So the first thing we would say to Islanders is: "Please do not be concerned about that now. We are going to find a way to help you manage this change because overall the balance of the change is a positive thing."

**The Connétable of St. Peter:**

I think that is the bit that worries me. It is the “please do not worry” because 80 per cent will be fine; 20 per cent may have lost their jobs. They may lose their job 3 years into the 10-year repayment, for instance. I suppose what I would like to see is some clear guidelines on how we deal with the 20 per cent who might have problems, and that is the bit that sort of concerns me at the moment, that we do not know what that is. I will not take up any more time.

**The Connétable of St. Martin:**

Following on from that, prior to COVID the Jersey Opinions and Lifestyle Survey in 2019 reported that 30 per cent of families found it quite difficult or very difficult to cope financially and 3 per cent felt it across from the previous year. So are you confident that everybody will be able to pay?

**Treasurer of the States:**

Is that 30 per cent of taxpayers or 30 per cent of Islanders, 30 per cent of families?

**The Connétable of St. Martin:**

Thirty per cent of families, yes.

**Treasurer of the States:**

So, 30 per cent of Islanders do not pay tax and that is important for the contextual understanding. It is worthwhile bearing in mind that this is an indicative piece of work that has been around for an awfully long period of time. It would have already been brought forward but the period was not ... Then you have got this view, which the current system is geared up for, in terms of dealing with individuals and their ability to pay, many people this year, and I think someone else has commented, or perhaps even next year. That was a very genuine reason to bring this forward and the reason we have brought it forward outside and ahead of the Government Plan is because if there was a payment of account ... in actual fact data in the Government Plan is right towards the back end of December, which would make it very difficult to achieve. We were keen to ensure that we moved as quickly as we possibly could on this. We did the consultation, in answer to your last question and this question, and we did focus groups to iron out in respect of the repayments key issues around what we were doing. That work, all the consult work, and any sort of work, seeing some things, we will be into that, it was suggested we need the Minister to set some additional flexibility and asked for that, and in particular the younger age group that the chair has talked about. I am sure the Minister does recall the ages of both my younger children.

**The Minister for External Relations:**

But we are the very category the Constable is talking about.

**Treasurer of the States:**

I do not mean that from a perspective of her ability. So we are going through that. We have put the default position there between 10 years and 5 years to pay it for the year, 5 years apiece, that is 4 years by the time it comes in. If we take the other side (Inaudible). There will obviously be flexibility (Inaudible) would be fairer. So we are going through that process in terms of focus groups to see how we need to address affordability issues that relate to any particular group or people in their circumstances or indeed whether that is what we need to change so that we put more options in for paying. You hear the Minister saying we hear from people who in certain respects are seeking us to do this. It is highly likely that I would pay it out of my pension. Traditionally it has been many pensioners ... (Inaudible) to me at that point and indeed we do have something in the Government that makes sure that we try and make sure everybody comes to it, but often I do not think it is appreciated that this comes in until further down the line. As you get into your 60s, you might realise it is fair.

[13:45]

So it might be that you give people the flexibility that the Minister is talking to. Instead of saying: "I do not want to pay it 10 years in advance, I want to pay it when I (Inaudible) and I want to pay it through these means" and if they identify the means then it might be one area to look at some flexibility. So we are ironing out that flexibility. It is set down for 10 years as the default. We have then gone into the focus groups to try and work it through. As I said, the reason we are moving at that pace is genuinely because we can see the problems that are arising and, therefore, we need to get it done well before the year ends.

**Senator K.L. Moore:**

Minister, can I just ask if the department is still in the process of ironing out flexibility and trying to determine how they can achieve that? Is it likely that the regulations will be before the Assembly prior to the debate?

**The Minister for Treasury and Resources:**

The draft regulations will be, because we are still taking account of the focus groups and obviously the Scrutiny Panel.

**Senator K.L. Moore:**

Will the focus groups be finished by then?

**Deputy Comptroller of Revenue:**

Yes. The focus groups are finishing within the next week or so but I think the plan is to publish the regulations before the debate.

**The Minister for Treasury and Resources:**

The draft regulations.

**Treasurer of the States:**

But if we build in some flexibility there might be something that needs to be adjusted, and that is what I said, the regulations, or maybe the intent, of course require the agreement of the Assembly and no doubt the Scrutiny Panel would also make them the subject of the review. That would have to be agreed by March and that would have to be a decision of the Assembly not a decision of the Minister.

**Senator K.L. Moore:**

Thank you. Can I just ask what economic advice has been received by the Treasury in relation to the impact that the repayments will have on the local economy?

**Treasurer of the States:**

We have been working with the chief economic adviser. We have not gone to an outside organisation to ask for economic advice.

**Senator K.L. Moore:**

He is a very busy person.

**Treasurer of the States:**

He is not the only one, but he is a very busy person. But we are also cognisant and that was ... the original proposal said 2023. The F.P.P. (Fiscal Policy Panel) changed that until 2024. Even that takes more money out of the economy and ...

**Senator K.L. Moore:**

Yes, but that is the public finances. We are talking about and are concerned about the book in every household in the Island and the impact reduced disposable income has on the local economy.

**Treasurer of the States:**

The economic advice is driven by the impacts on people's livelihoods and the deficit to that point, knowing about the books at that point. If the economy is in a situation and therefore livelihoods are in a position that it was going to add to that balance ...

**Senator K.L. Moore:**

But there will be a restraint in the local economy due to a reduced level of disposable income at that point when you are requesting people to make the repayments.

**Treasurer of the States:**

The ultimate point that we are concerned about, beyond the point at which the economy ... if the economy was balanced by 2024, that suddenly balanced the books, they are together, they are not separate.

**Deputy Comptroller of Revenue:**

Just to make a small point, which is that if the Minister did not make this proposition then it would have an impact on people immediately. If their incomes are dropping and their I.T.I.S. effective rates are going to go up next year, that is an immediate downside. That is also part of the equation that we are trying to take into consideration. The hope is that by the time people start to repay the debt the economy will be in a better position for them.

**Senator K.L. Moore:**

Before we move on to the next section, there is one other question that we have not touched upon yet, which is the fairness aspect. It has been mooted by some that placing the burden of repaying the COVID debt on prior year taxpayers and allowing the current year taxpayers to not face that burden is an unfairness.

**The Minister for Treasury and Resources:**

I think I have already answered that and it is not at all a question - and I would say the media have got this out of context - of the prior year basis paying the COVID debt. It is purely what we have thought was a good suggestion is to ring-fence the prior year debt money to help pay off the COVID debt.

**Senator K.L. Moore:**

Yes, but you are calling it in at an earlier stage. Really you should take it off the ...

**The Minister for Treasury and Resources:**

No, we are not calling it in at an earlier stage. We have already said, and this will come out in the regulations, that it could be 5 or 10 years to allow people to pay it off.

**Senator K.L. Moore:**

But it is earlier than some people were expecting.

**The Minister for Treasury and Resources:**

It is a liability that people owe the Government and the unfairness does not come into the equation because the current year taxpayers, which are a third of all taxpayers, are paying into the Government coffers anyway. If we did not have a ring-fenced situation, we would have to find another way of paying off this debt. So, as you alluded to earlier, Chair, the Chief Minister mentioned it could be a possible increase in G.S.T., which would hit everybody. So we are trying to be totally fair in the way that we are trying to ring-fence this money to help deal with the debt over a number of years.

**Deputy S.M. Ahier:**

Islanders paying tax liability on a prior year basis may suggest that they do so under contractual terms. Is the Minister mindful that there may be some who will take legal action against the Government if they feel that they have been unwillingly entered into new terms?

**The Minister for Treasury and Resources:**

No, I do not think people would. It is a very complicated and not understood system that we have, as I alluded to in one of the first answers, to have a dual taxation system. We should all be paying the same and I do not think there is a legal ... I do not know if Cora wants to add.

**Deputy Comptroller of Revenue:**

I think just like we would in any other proposition that the Minister puts forward, we have taken advice from law officers on this measure and the normal human rights legislation, et cetera, and our advice was that it falls squarely within those, so we take comfort from that fact.

**Assistant Minister for Treasury and Resources:**

But anything that a Minister does can be challenged appropriately. That is part of living in a democracy, that we make laws and make orders and citizens have the right to use the legal system.

**Deputy S.M. Ahier:**

Is there is a contingency fund for legal costs if they come about?

**Assistant Minister for Treasury and Resources:**

Only in the same way that the Law Officers' Department is fully funded and they have an appropriate budget allocation to deal with any challenges the Minister might face.

**Deputy S.M. Ahier:**

Thank you. Some of the proposed options mentioned are repayment over 5 years, possible interest free and repayment over 10 years with a minimal interest charge. Could you clarify the options for



us and can you define what “possible interest free” means and what minimal interest is and how the rate would be set?

**The Minister for Treasury and Resources:**

I think we have moved on from those comments. There is no interest now.

**Deputy S.M. Ahier:**

No interest.

**Treasurer of the States:**

Depending on how the regulations change, it is no longer the proposal of the States to require the payment of interest, depending on further down the line the regulations and whether the majority of the day (Inaudible) to the Assembly. It is the Assembly who decides on the regulations (Inaudible).

**Deputy S.M. Ahier:**

Could you also clarify if the options, once approved, will be available to every taxpayer moving from prior year basis to current year basis or will there be an eligibility criterion?

**Deputy Comptroller of Revenue:**

The legislation that has been lodged is for a move for all prior year taxpayers on to the current year basis. It is not eligibility based. It is a one-off move for everybody.

**The Connétable of St. Peter:**

Minister, in the proposition you highlight a benefit for those pensioners who are dependent upon returns from the stock market. Could you clarify how under the proposal a retired person with no income apart from a pension would be expected to pay a full year’s prior year basis liability?

**The Minister for Treasury and Resources:**

I think this has been alluded to by the Treasurer that as you approach retirement - and we have, of course, gone into the figures with considerable attention - most people realise they are going to be retiring or moving on to a pension and make their plans accordingly to pay off the prior year basis. Very, very few do not do that. So they would not incur a massive amount and, of course, as the Treasurer said, 30 per cent of people do not pay tax anyway, so if they are not eligible for tax they will not be affected by the move. I do not know if you want to add something, Richard.

**Treasurer of the States:**

(Inaudible) at that point they would clear their taxes in advance

**The Connétable of St. Peter:**

We could consider asking them to sell assets to cover the prior year basis if they have got no other income other than their pension and their income has fallen considerably.

**Treasurer of the States:**

It would come back to the work that has been done to the enforceability work and focusing on those with fixed income, so they are in a very different situation to someone in their 30s who we take that prior year liability to fix at that point and does not rise in value. I am conscious of the fact that in some cases with pensioners, although as the Minister said not many pensioners it would apply to, that is why I am conscious that there are others on fixed incomes and trying to work between that flexibility (Inaudible) and that flexibility is that it could be the ability to (Inaudible) upwards. Subject to being on the right side of discriminatory measures, there may be the ultimate (Inaudible).

**Deputy S.M. Ahier:**

The proposal states that everyone pays their long-term care contribution on a current year basis, which can be really confusing for people who pay tax on a prior year basis. Could you explain what this confusion is and do you have any data to support the claim?

**The Minister for Treasury and Resources:**

The confusion, as you quite rightly say, is people pay L.T.C. (long-term care) on a current year basis but, of course, as it stands at the moment, which is confusing, when people become of pensionable age they move to a prior year basis tax. So this is one example of why we want to move the whole thing on to a current year basis to avoid that confusion, and I agree.

[14:00]

**Deputy S.M. Ahier:**

But was there any actual evidence to support the claim?

**Deputy Comptroller of Revenue:**

We know from the queries that come into our helplines that people do sometimes struggle with the concept that there is a different base for their income tax versus the base for L.T.C. So they are paying on the previous year for income tax but they are paying on the current year for L.T.C. and that does create complexity and questions or concern.

**Treasurer of the States:**

Through the same office and the same process, so you have the 2 phases or 2 parts of your tax liability through the same process and (Inaudible).

**Deputy S.M. Ahier:**

Thank you. Will any income groups receive tax support or relief as a result of these measures? Have you any plans for any tax support or relief for any particular groups who will be paying current year basis or changing on to current year basis?

**Deputy Comptroller of Revenue:**

I think the supports are around the payment terms of the 2019 liability rather than a tax relief in the other sense of giving people a deduction from the tax they owe. The tax is still owed. It is really trying to find a way to manage that for people so that they can pay it. There are not any plans on the table at the minute to reduce the tax that is owed, just to try and manage the payment terms.

**Deputy S.M. Ahier:**

Thank you. During the quarterly hearing with Treasury and Resources on 14th September it was stated that mortgage lenders would be consulted to ascertain the impact of tax liability deferrals for applications. Can you provide an update on these consultations?

**Deputy Comptroller of Revenue:**

We sought a general statement or guidance from mortgage lenders and understandably they were not in a position to do that because I suppose their lending policies are confidential and there are competitive issues in divulging that. So we have had one or 2 direct responses from individual mortgage lenders who have said that ... they have answered the question in terms of they will use their normal procedures for income and expenditure judgments to kind of assess mortgages in the same way. So, I think again it is about making sure for people that the additional expenditures are managed in such a way so they do not impact negatively on applications for mortgages. It is quite a difficult question for them to answer, I think.

**Senator K.L. Moore:**

We have discussed on previous occasions the confusion around the Income Tax Department and some of the erroneous letters that have been sent out to members of the public, misallocated payments also. How much money is currently sitting in suspense accounts?

**Deputy Comptroller of Revenue:**

I would have to come back to you on that.

**Senator K.L. Moore:**

If I just acknowledge, we have also learnt recently that I think there are 21,000 annual returns still outstanding for 2018. In light of the system issues in the Tax Department, how able is the

department to make the calculations for 2020 to move all of those prior year basis on to a current year basis?

**Deputy Comptroller of Revenue:**

I think on the positive side we obviously had a very difficult year in the last 12 months but our assessing is well ahead of where it was this time last year and we have assessed at this point in time 12,000 assessments more than we had done this time last year. So that is kind of demonstrating that the new computer system is starting to bed in and some of the benefits are being realised. There is no question that there will be additional upfront work in the move of P.Y.B. taxpayers on to C.Y.B. For us, though, the benefits in the longer term are huge because many, many of the queries that we are getting at the minute are in relation to P.Y.B. taxpayers who either are not understanding or there are queries around the effective rates that they are getting or their circumstances change, their income drops or they retire or they move away or they get married and perhaps move from P.Y.B. back to C.Y.B. So that whole existence of 2 separate bases of taxation in the tax system is quite a drain on resources as it is. I think the answer is, yes, it is extra work in the short term but for Revenue Jersey it would definitely make life simpler for us administering the tax in the long term if it was passed.

**Senator K.L. Moore:**

Will there be any additional resource to make that move?

**Deputy Comptroller of Revenue:**

We are not anticipating additional resource. There will be costs in terms of systems because we would have to update the systems to bring this in so we could transfer the liabilities from 2019 to 2020, so there will be some costs around that but we are not budgeting for any additional staffing costs.

**Senator K.L. Moore:**

Thank you. For people who perhaps leave the Island, what will happen if they leave and have this debt outstanding?

**The Minister for Treasury and Resources:**

That would not be a change as such. They would still have to pay off their previous year tax liability.

**Deputy Comptroller of Revenue:**

I agree, Minister. I think that is the plan, although I am not sure that it has been fully agreed. Certainly our intention at the minute is that that position would not change, that the debt would be payable, as it currently is, on leaving. Part of the difficulty for P.Y.B. taxpayers who are leaving the

Island and going, for instance, to the U.K. (United Kingdom) is that they have that prior year debt and in the same year they are also paying the current year liability in the U.K. and doubling up.

**The Minister for Treasury and Resources:**

That is why we put in the suggested - of course it has got to be agreed by the Assembly - the freeze for it will be 4 years from next year so that people have time to adjust to new circumstances.

**The Connétable of St. Peter:**

Do you consider staff training will be necessary to enable the smooth transition to current year basis and will this be done inhouse?

**Deputy Comptroller of Revenue:**

Staff training would be necessary. We train our staff every year for the changes in the finance law but this would be particularly an operational measure. So from the very outset of this project we have been working very closely with operational colleagues to try to assess, if this were to be passed, what would the changes to the computer system be, what would be the impact on the front line staff who are answering the phones and the staff who are dealing with assessments. So the answer is, yes, there would be training needed. We have that well under control if it is to come about and we would be doing it from our internal resources, because that is really around the assessing and the computer system, so it is best that it is done internally.

**The Connétable of St. Peter:**

Would there be additional costs in respect to that training that you had not anticipated?

**Deputy Comptroller of Revenue:**

If there were they would be minimal because we do that training anyway. It might just be a bit more of staff time to attend the training sessions but it would not be a significant cost.

**The Connétable of St. Peter:**

The computer system itself and the software, I think you would probably agree that further developments will be required by the suppliers in New Zealand, because we have to cover the move to C.Y.B. itself, then there is recording the 2019 liability in some way in the accounts and then, of course, we then have to, at some point, consider the repayments over 5 to 10 years. Is this something you have discussed with the suppliers and at the moment have you costed any additional work to the system?

**Deputy Comptroller of Revenue:**

Something as big as this, yes, we have discussed it with the suppliers. That is always on a kind of tentative basis because we do not know if it is going to happen, but we need to have raised it with the suppliers so that they can be thinking about what it might mean for the system, and we have been having those discussions about what would happen if it did go ahead. You are quite right that it would be quite a significant systems change. It is part of the reason why we really need this. If it is going to happen we really needed it to be lodged in September so that we would have enough time, if it was passed, to be able to sort of smoothly implement it for next year. So as well as the issues for taxpayers in the November payment, there were systems issues for Revenue Jersey.

**The Connétable of St. Peter:**

So, could we anticipate something being required in the budget for additional work on those systems, in the next year's budget?

**Treasurer of the States:**

No, we have not put that forward.

**The Connétable of St. Peter:**

In those discussions, do the New Zealand system team believe that they can implement these changes problem free?

**Deputy Comptroller of Revenue:**

We have been assured that if this is passed that they can implement it, yes, problem free, yes. There are always small things, but they have given us an assurance that it can be done.

**Senator K.L. Moore:**

We are aware that the RMS system does not have a training manual at the moment. Will staff be provided with one in order to implement further change?

**Deputy Comptroller of Revenue:**

So, at the minute there is a very significant programme of training on RMS. It is probably not a manual as such but all staff have approximately I think it is 12 or 13 sessions on RMS training, which they go through with our in-house trainer to make sure that they can operate it properly, and it is sort of done in one-day blocks. So this would have to be built in as an extra part of that session.

**The Connétable of St. Peter:**

If the proposition is passed, and I hope it is passed, relatively quickly we will be having to, in effect, ring-fence 2019 and apply payments to 2020 for all taxpayers. Have you done any testing at this point on how that will be achieved?

**Deputy Comptroller of Revenue:**

There is a project plan on that. There probably has been testing done in the background because there have been a lot of discussions between operational colleagues who I am not directly responsible for but I know from sitting in on meetings that there have been a lot of discussions about how this might be brought in, what aspects of RMS are going to be impacted by it, how that transfer is going ... I am not very technological myself but how that transfer of liability is going to be made. There is a huge amount of work that has gone into making that a seamless process, getting 2019 on to 2020 and getting I.T.I.S. rates updated for people next year and what that would look like. So there are 2 or 3 people under the direction of our assistant comptroller who are working on that as a priority piece of work if we get the green light for it.

**The Minister for Treasury and Resources:**

We have also done some figures, clearly, on the repayment basis, on the assumption, dare one say, that this is passed, to a table we can provide for people, which we will do before the debate obviously, as to what the repayments, if it were over 10 years, would be per month based on the average tax that would be due. We have got those figures.

**The Connétable of St. Peter:**

You mentioned a project plan, but I think my experience - and I used to be in that field - would be certainly at this stage we should be looking at running scenarios on a cloned system to anticipate the problems that we might have as we switch over. Are we doing that?

**Deputy Comptroller of Revenue:**

I can check the detail of that because I do not want to say something that I am not 100 per cent sure of. I will get further detail for you. I would be surprised if that is not happening because I know the intensity of work that has gone into it but I do not have day-to-day responsibility for it, so if I may I will come back to you with further detail.

**The Connétable of St. Peter:**

Thank you very much.

[14:15]

**The Connétable of St. Martin:**

Has pilot testing been completed and are the systems coping with adaptable and variable positions? Is there sufficient time for Revenue Jersey to reprogramme the systems?

**Senator K.L. Moore:**

Sorry, I think we have covered that already.

**The Connétable of St. Martin:**

Had you allowed more time to lodge the proposition, what consultation would you have undertaken?

**The Minister for Treasury and Resources:**

As I said in answer to an earlier question, this has been on the books for about 12 or 13 years now, this move, so it is nothing new and the reason it was brought forward was because of COVID to help out people who would be on lesser income in 2020 than 2019. We did a month's worth of consultation. We had feedback from the survey, which I think the Scrutiny Panel has had access to. We are running focus groups. I do not think more consultation is required. It is going to be a matter, as we have said fairly consistently throughout this, of being flexible to individual requirements, which is what we have said we will do. We have a freeze, if it is required, on the payments. Then there is a 5 or up to 10-year payable period. So we are just being as flexible as we can to help individuals move into the new position.

**The Connétable of St. Martin:**

Following on from that, the code of practice states that public consultation should: "Give enough time and relevant information to engage meaningfully. People need to be able to give intelligent consideration to the proposals." Do you think it was appropriate to conduct the survey during the middle of a pandemic and in the school holidays?

**The Minister for Treasury and Resources:**

I do not think one can use the word "appropriate" in the current situation because I think nothing is ideal at the moment. Systems, finances, everything is moving so very, very quickly that we have to adapt to that pace of change.

**The Connétable of St. Martin:**

Even when there are reasonable response numbers of the survey, did Islanders have enough relevant information to give intelligent consideration to this proposal?

**The Minister for Treasury and Resources:**

The survey was put forward by an independent group. It was not something that we constructed. So there were the questions, and they wanted to keep it fairly simple, I think about 6 or 7 questions, to keep it simple because tax, as you know, is very, very complicated. So I think it was a fairly straightforward and easy to understand survey and there was a month for people to fill it in and we are very grateful to the 2,300 people who completed it.



**The Connétable of St. Martin:**

I think quite a few people said that the survey questions have been closed, i.e. lacking in choice. Is it not good practice to allow respondents to indicate their own views before narrowing their options, because otherwise you can get the answers that you want?

**The Minister for Treasury and Resources:**

There was an open text availability at the end of the survey for people to put in their own comments, as you say, and I think, off the top of my head, there were about 1,400 people who filled in that open text.

**The Connétable of St. Martin:**

Why did the survey exclude some of the payment options that you previously discussed with this panel?

**Deputy Comptroller of Revenue:**

The discussion on the payment options is really developing and evolving and some of the situations and circumstances the Ministers have outlined here have come from the output of the survey and will come from the focus groups as well. So it is evolving, it is not fixed in time, and I think the Ministers are trying to listen to what Islanders are saying from those. There were formal sources of consultation, the survey and the focus groups, and then there were a number of discussions with business groups, et cetera, on impacts on employment. So we are trying to take all of those into account and it is kind of moving.

**The Minister for Treasury and Resources:**

That is one of the reasons we have separated the issues, inasmuch as putting forward the proposition for debate on 1st November is to agree a change on the prior year basis, the current year basis, but to give time, for exactly the reason you are asking, for people to come back on the regulations, which of course will have to be agreed by the States Assembly. So to get the agreement made, which then allows for people who are paying on account to have their November payment, which is due on 30th November, deferred, frozen, whatever they wish to do, if they wish to do it - they do not have to - to allow them to do it, hence the debate on 1st November. Then the regulations will then be placed before the Assembly with the input of the survey and the focus groups.

**The Connétable of St. Martin:**

With regard to the focus groups, could you please provide the panel with an update on the focus groups? Who has been included? How were Islanders selected? How many sessions have been held?

**Deputy Comptroller of Revenue:**

The focus groups are still ongoing. We used an independent company to run the focus groups. They really have designed the questions for the focus groups and they, according to their codes of practice, have made the selections about who would be involved in the focus groups. That has really been done independent of Government. The plan is that once the focus groups are completed that they will give us their overall assessment and recommendations and feedback of what has happened in them. It has been a very independent process, deliberately.

**Senator K.L. Moore:**

We will now move on to the final set of questions. I think we might need a bit more time, given our late start.

**Deputy S.M. Ahier:**

The proposals still allow for the January to July timeframe for tax returns. As the department will not receive the taxpayers' data until July at the latest, will not the taxpayer, in effect, begin the financial year of 2021 paying current year basis tax on an estimated basis?

**Deputy Comptroller of Revenue:**

It is always open to taxpayers to file their tax returns as soon as possible after the beginning of the year and, if this is passed, we would be running quite an intense communications campaign to encourage taxpayers to file their returns, because it is only when we get the filed returns that we will be able to know what the 2020 final liability is, which means that we can accurately then amend the I.T.I.S. effective tax rates in 2021. So the earlier the taxpayers can send us their returns - and if they can send them online that would be even better - the earlier they will get the benefit of the reduced I.T.I.S. rates if their income has fallen. If they do not get the chance to file early, they will still get the benefit but it is more likely that it is going to be more towards the second half of the year that their I.T.I.S. rates are amended. So it is in everybody's interests to try to file as early as they possibly can.

**Deputy S.M. Ahier:**

So for the first 6 months of 2021 the majority of people will still be paying on a prior year basis.

**Deputy Comptroller of Revenue:**

I would say that is not going to happen unless the majority of people do not send in their tax returns. The communications campaign is to try, in that period in January and February 2021, to get as many tax returns in from people as possible, especially if their income has fallen, but we would have

dedicated teams of people who would be turning around those assessments and getting those I.T.I.S. rates adjusted on the back of that as quickly as we possibly can.

**Deputy S.M. Ahier:**

Following on from that, has the department given any thought to changing the tax year in order to ensure tax payments are being accrued on an actual basis as opposed to estimated, as the tax year obviously in England is April to April?

**Deputy Comptroller of Revenue:**

The answer is we have not been thinking about moving April to April. To move the tax year would be ... I think a calendar tax year has lots of benefits. To move the tax year to April on the basis of this one-off issue to try and accelerate repayments I do not think is necessary because I think we will be able to deal with it perfectly well. If we were to move it to April it would delay ... if we were to move it to April then the year end would not be ending until April 2021 and we would not be able to start dealing with people's current year tax returns until even later in the year.

**Treasurer of the States:**

Also there is a 16-month tax year so there is a little stack that will effectively be around a 16-month tax year. Another 4 months it would move from one year into another year and create a whole set of internal problems in terms of allowances but that 16 months was managed for a year, for example, the complexity in it. It does not result in any ongoing issues in terms of the filing of tax returns are still done by individuals. Those individuals who need to get to the end of that period do so, those who leave it until the end of the date available will leave it to the end of the date available, if that is 6 months after the end of April or the end of March. So that does not necessarily resolve the issue of ...

**Assistant Minister for Treasury and Resources:**

It does not, but I think the question the Deputy was really asking was connected with his earlier question about are people going to still be on prior year for a good portion of 2021 and, as Cora said, people can either get their returns in early ... Cora will tell me whether it is still available but it used to be the case that if you knew your income was going to be reduced because something had happened during the course of the year or you had fewer hours or something like that then you asked to have your I.T.I.S. rate changed. So those are what we would expect and encourage Islanders to do, as you were indicating, so that they get the ... those that have suffered a detriment to income going into 2020 to contact the taxes office, either get their return in as soon as they can or just make the case that they require a reduced I.T.I.S. because they have had reduced income.

**Treasurer of the States:**

We are already, of course, administering one-third of taxpayers on a current year basis and they will come forward when and where, those who are already there. It is not moving from a prior year basis for everybody to a current year basis. We already have processes for current year basis taxpayers in place.

**Senator K.L. Moore:**

Well, there we are. It is almost on time and we have reached the end, so we are very grateful to you all for your answers. It has been thorough and helpful and we look forward to receiving the draft regulations as soon as possible and also the focus group findings. I imagine you will be amenable to sharing those with us.

**The Minister for Treasury and Resources:**

Yes.

**Assistant Minister for Treasury and Resources:**

I wonder, Minister, if it would be useful to ask the chair ... but of course it would be very useful when formulating those elements to have an understanding of enhancements that the panel might be wishing to seek to those repayment terms, perhaps in the way that the Constable was referring to about those with pensions, those with children at university, the pensions issue and things like that.

**Senator K.L. Moore:**

Yes. We hope to make some progress in the next week or so, so we will endeavour to as soon as we can but at the moment we are rather stretched. I know that the departments are equally stretched. At least you have got the Government Plan off your books. We will draw this hearing to a close and we can regroup at a fresh hearing at short notice.

**The Minister for Treasury and Resources:**

Thank you very much, Chair.

[14:29]