STATES OF JERSEY

TAXATION OF HIGH VALUE RESIDENTS

Lodged au Greffe on 24th November 2016
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

(a) to agree in principle that the Income Tax (Prescribed Limit and Rate) (Jersey) Regulations 2013 be amended to –

(i) increase the prescribed limit for the purposes of Article 135A(3) of the Income Tax (Jersey) Law 1961 from £625,000 to £750,000, so that the new limit can apply to tax assessments in 2017, and

(ii) increase the prescribed limit annually by the Retail Price Index or the Average Earnings Index, whichever is the higher, starting in 2018; and

(b) to request that the Minister for Treasury and Resources bring forward revised Regulations to give effect to these changes.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

In these straightened times which have seen the Island's economy fall into structural deficit, with the consequent rises in taxation and reduction of public services, leading to large-scale redundancies and the imposition of a 2-year pay-freeze on States employees, it is time to redress the balance in taxation.

When the average income of the lowest quintile was shown by the Income Distribution Survey to have dropped by 17% in nominal terms (-30% including inflation), this government increased rents on social housing and cut £10 million from benefits. Increases in tax have been concentrated on the "squeezed" middle-earners.

This proposition does 2 things –

- It asks High Value Residents ("HVR") to pay more tax for the privilege of living here – up from £125,000 to £150,000; and
- It seeks to ensure that this sum is not eroded over time by inflation.

These measures are only to apply to new wealthy applicants seeking entitled status. It does not seem fair to apply this change retrospectively to those already here. It does not appear as a budget amendment for the same reason, although I wish it to be considered by the Assembly in the light of the budget, as it is a tax-raising measure.

The only mention in the Budget of the HVR tax regime comes in a short paragraph on page 30. This promises a review of the measures introduced in 2011 in advance of the 2017 Budget debate. At the time of writing, unfortunately this has not been made public. Who knows what this report will contain?

Paragraph (b): index-linking

When I last introduced a measure to index-link the HVR limit (P.102/2012 Amd.(2) – *Draft Budget Statement 2013 (P.102/2012): second amendment*), my proposal was met with some agreement. In his Comments (P.102/2012 Amd.(2)Com.), the then Minister for Treasury and Resources, Senator P.F.C. Ozouf, stated –

> *".... the Minister understands the desire to ensure that the value of the tax contributed by 1(1)(k)s is not eroded over time. With that in mind, he is proposing to review the regime once it has been in place for long enough for meaningful conclusions to be formed."*

In the debate he was far more forthcoming as to his intentions –

> *"Where I do agree with Deputy Southern, and I am willing to say again publicly, that I want over time that minimum contribution to be maintained in real terms."*
>
> *"I do agree that I want in time to bring forward a proposal to maintain that minimum tax contribution and I will do it before the next Budget…".*

We have had a further 3 Budgets and one change of Minister for Treasury and Resources since then, but perhaps we can hope to see some movement in this, if not through this proposition, then through action on the back of the promised review. To illustrate how significant the question of indexing is, one has just to consider that £1,000 in the year 2000 would only have the purchasing power of around £600 today. To put it another way, the assumption of 3% inflation for 2018, if it were applied to the whole £12 million tax revenues from HVRs, would produce a further £360,000 in tax.

Paragraph (a): raising HVR limit

To support the maximisation of revenue from high net worth migrants, the then Minister for Treasury and Resources outlined his proposals on 6th December 2010, as follows –

> *"I did say that I committed that I would be looking at ways of increasing the revenue from 1(1)(k)s and as a first step I believe that we can increase the minimum contribution for all future applicants without harming our competitive position. For that reason, I have asked the Minister for Housing to increase the minimum tax contribution for future 1(1)(k) category consents to £125,000 for all new entrants with immediate effect.".*

This proposition proposes a further increase in the HVR contribution to £150,000. The question which needs addressing therefore, is whether it is safe to do so, or will such an increase put applicants off? We wait to see what conclusions appear in the review of the 2011 scheme, but there are indicators that the market is healthy, and it may be safe to make a further move to increase the contribution rate.

In the debate on this topic in 2012, mention was made of some 7 applicants being approved in the first 9 months of 2012, with 5 actually relocating and purchasing properties. In answer to a question (9345) from Deputy S.Y. Mézec of St. Helier in April 2016, the Minister for Treasury and Resources referred to 8 new HVR arrivals in 2014. The 2015 figures released in 2016 by the Minister for Economic Development, Tourism, Sport and Culture show large increases, with 136 new enquiries, leading to 22 relocations and a further 20 approvals being granted.

These figures would seem to indicate that the potential HVR market is in a very healthy state indeed. There is scope to increase contribution rates, I believe.

Financial and manpower implications

As outlined above, there is a potential additional £25,000 contribution from each High Value Residency taken up. Whether or not paragraph (a) is agreed, the value of contributions will be maintained in real terms by paragraph (b). There is no material manpower impact from either part of the proposition.