STATES OF JERSEY

DRAFT BUDGET STATEMENT 2019 (P.114/2018): SECOND AMENDMENT

Lodged au Greffe on 19th November 2018
by Senator S.Y. Mézec

STATES GREFFE

PAGE 2, NEW PARAGRAPH (f) –

After paragraph (e), insert the following new paragraph –

> "(f) to agree in principle that from year of assessment 2020 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 2019.".

SENATOR S.Y. MÉZEC

REPORT

> "*We* ***pledge*** *to simplify our Income Tax system by moving to one tax calculation, reducing the marginal rate of tax by 1% and allowing all taxpayers to claim tax allowances. We will propose this change in the 2019 Budget*." – Reform Jersey 2018 election manifesto: 'Working for a Fairer Island'.

The effect of this amendment is to abolish the "20 means 20" Income Tax calculation and put all taxpayers on the Marginal Relief calculation, but at a reduced rate from 26% to 25%, from the 2020 tax assessment year.

This will simplify our Income Tax system and deliver a tax-cut for the majority of taxpayers, whilst raising tax on the very highest-earners. It will also provide a reliable income-stream for much-needed investment in our public services to support our strategic priorities.

Reform Jersey would like to thank officers in the Treasury Department for providing impartial and objective advice, and for assisting us in producing modelling for our proposals.

The case for change

Reform Jersey has long maintained that the growing inequality we have faced over recent years is a trend which must be reversed. We welcome the inclusion of "reducing income inequality" as a key priority in the Government's Common Strategic Priorities.

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 got poorer, whilst the richest have got 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 earnings have flatlined[2]. In the decade between 2004 and 2014, the number of Islanders earning above £1 million a year quadrupled[3].

In 2017, an Oxera Report 'Assessing the distributional impact of key changes in taxes and contributions between 2006 and 2015'[4] demonstrated that taxes have increased on low- and middle-earners over the previous decade.

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[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%20Average%20Earnings%20June%202018%20report%2020180824%20SJ.pdf
[3] https://www.gov.je/Government/Pages/StatesReports.aspx?ReportID=1391
[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

We believe that this Budget is an opportunity to take a small step to reverse these trends.

Our proposals will see low-earners protected, middle-earners given a small break, and the highest-earners asked to contribute more at the end of a period where their wealth has increased significantly.

Some may argue in opposition that raising our historical top tax rate of 20% will lead to high-earners leaving Jersey. This often-repeated argument has no evidence to back it up.

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.

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, or 43,000 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%. This equates to just 3,500 taxpayers.

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

Approximately 94% 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, based on the proposed 2019 tax allowance levels.

- A single person with no children or mortgage would not pay any extra tax until they were earning £79,000 a year. Those earning less than that would get a tax-cut.

- A married couple each earning the average wage, with 2 children, will be £315 a year better off.

- A married couple with 2 children and a £300,000 mortgage would not see their tax liability increase until they were earning £274,000 a year.

- A retired married couple would not pay any extra tax until they were earning £162,000 a year.

Attached as the **Appendix** are charts which show, for 7 different household circumstances, what the change in their effective rate would be under these proposals.

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

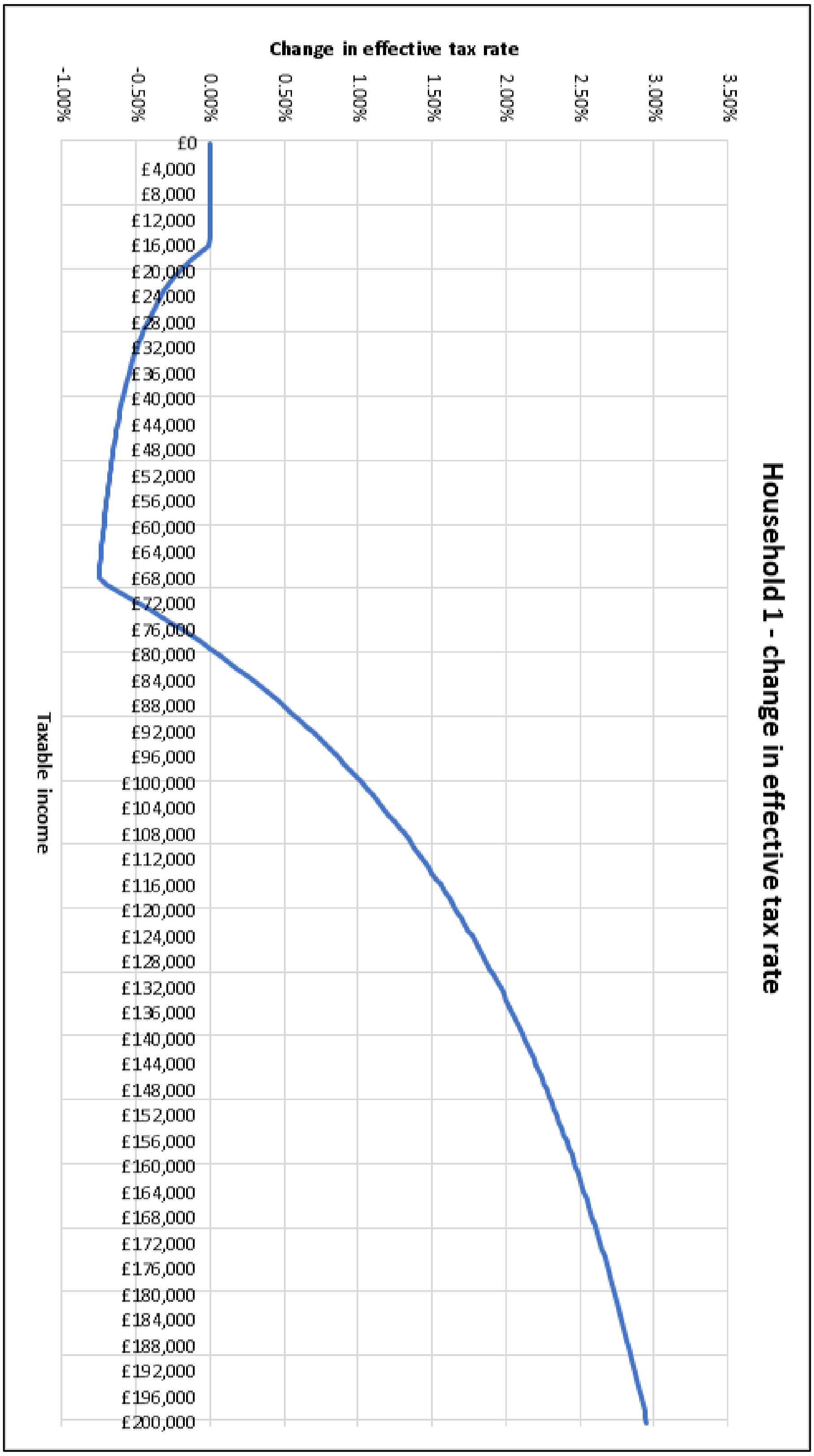
Financial and manpower implications

To implement this change, there would need to be changes in legislation to remove the reference to the 20% tax calculation. There would also be administrative changes, but the Treasury Department advise that none of these are insurmountable and do not impact on ongoing work.

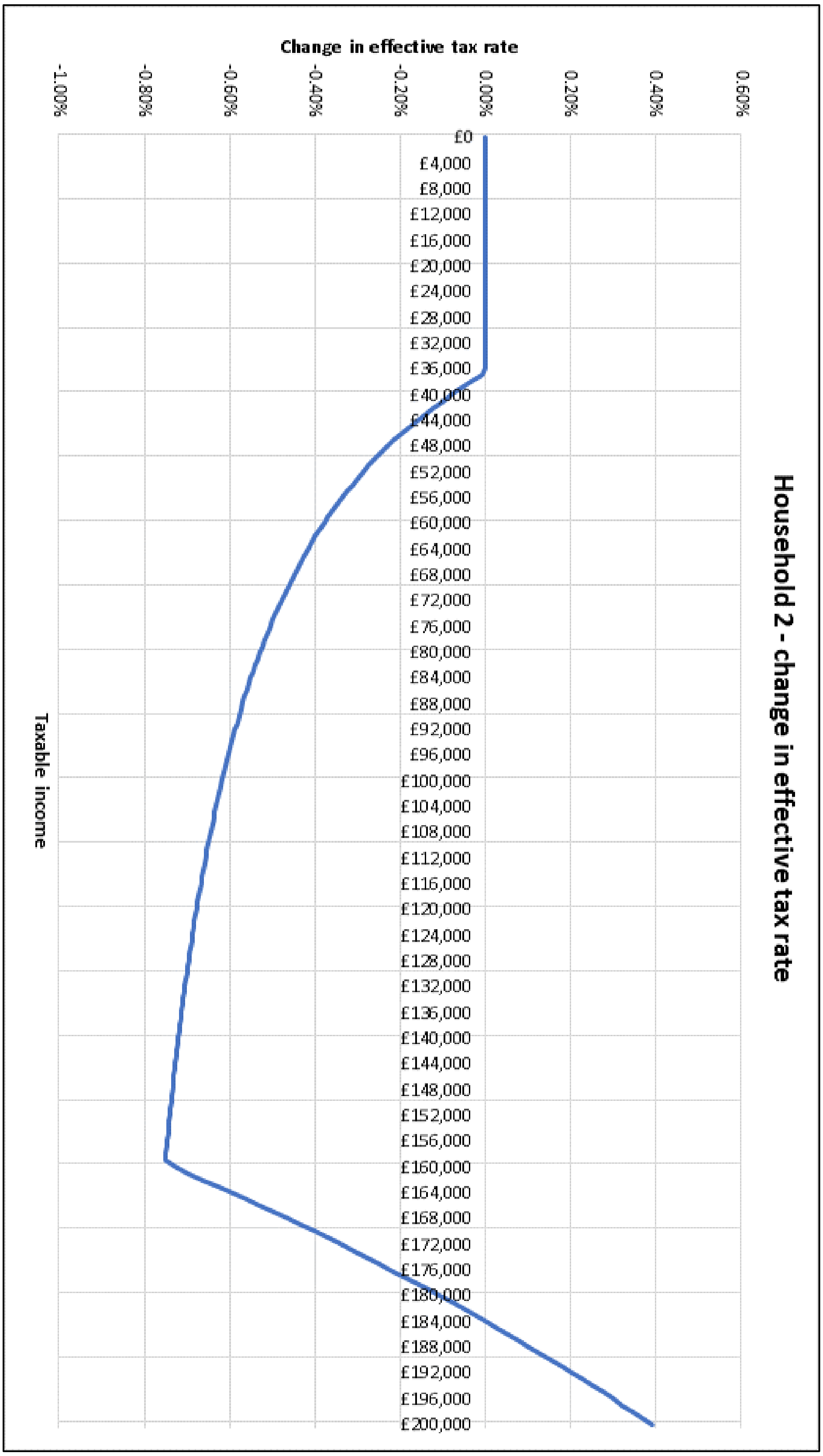
The Treasury has confirmed that they estimate that the changes to Income Tax will produce a net gain of £7.5 million in income.

APPENDIX

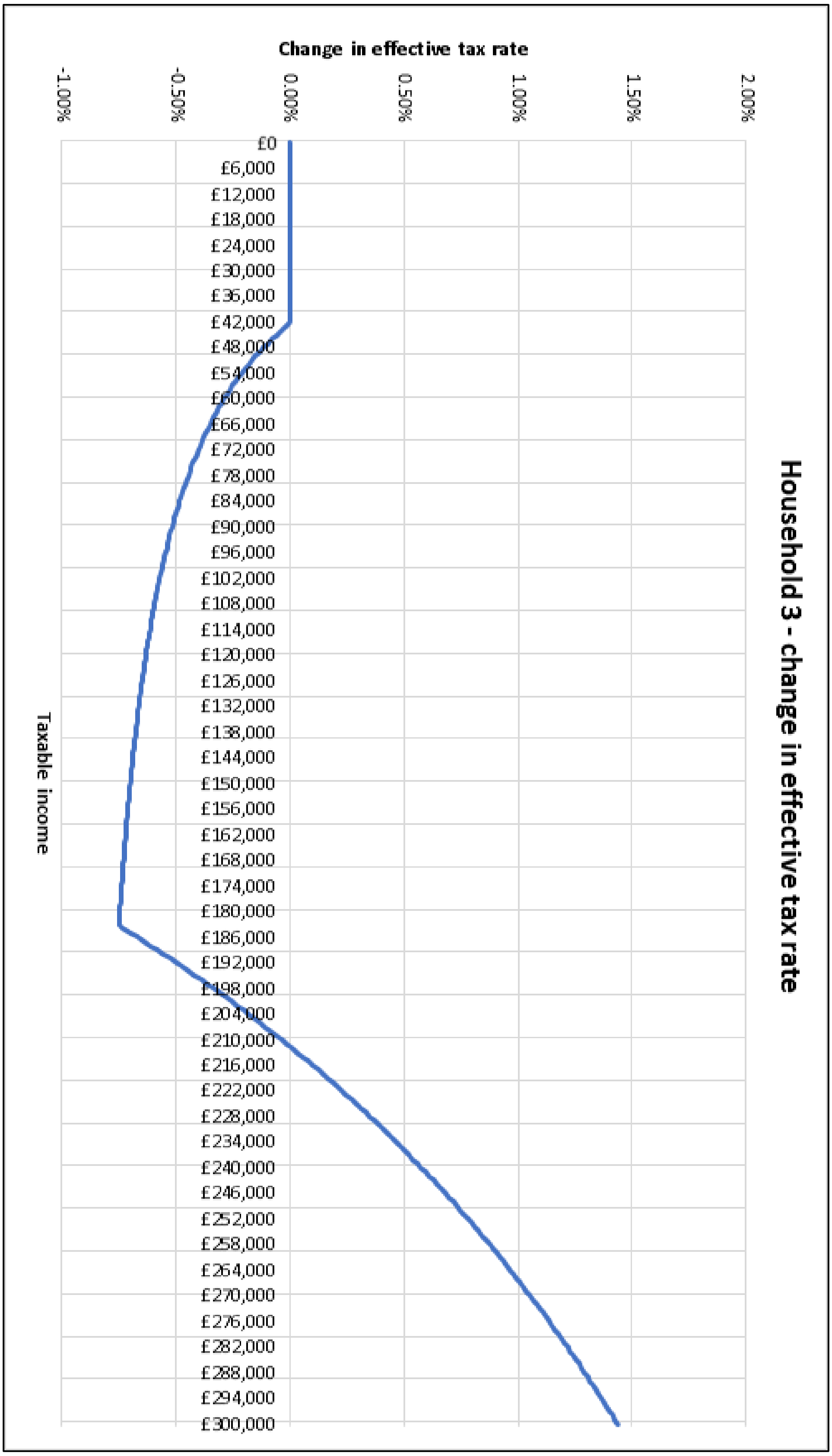
Household 1 – single, working-age, no mortgage



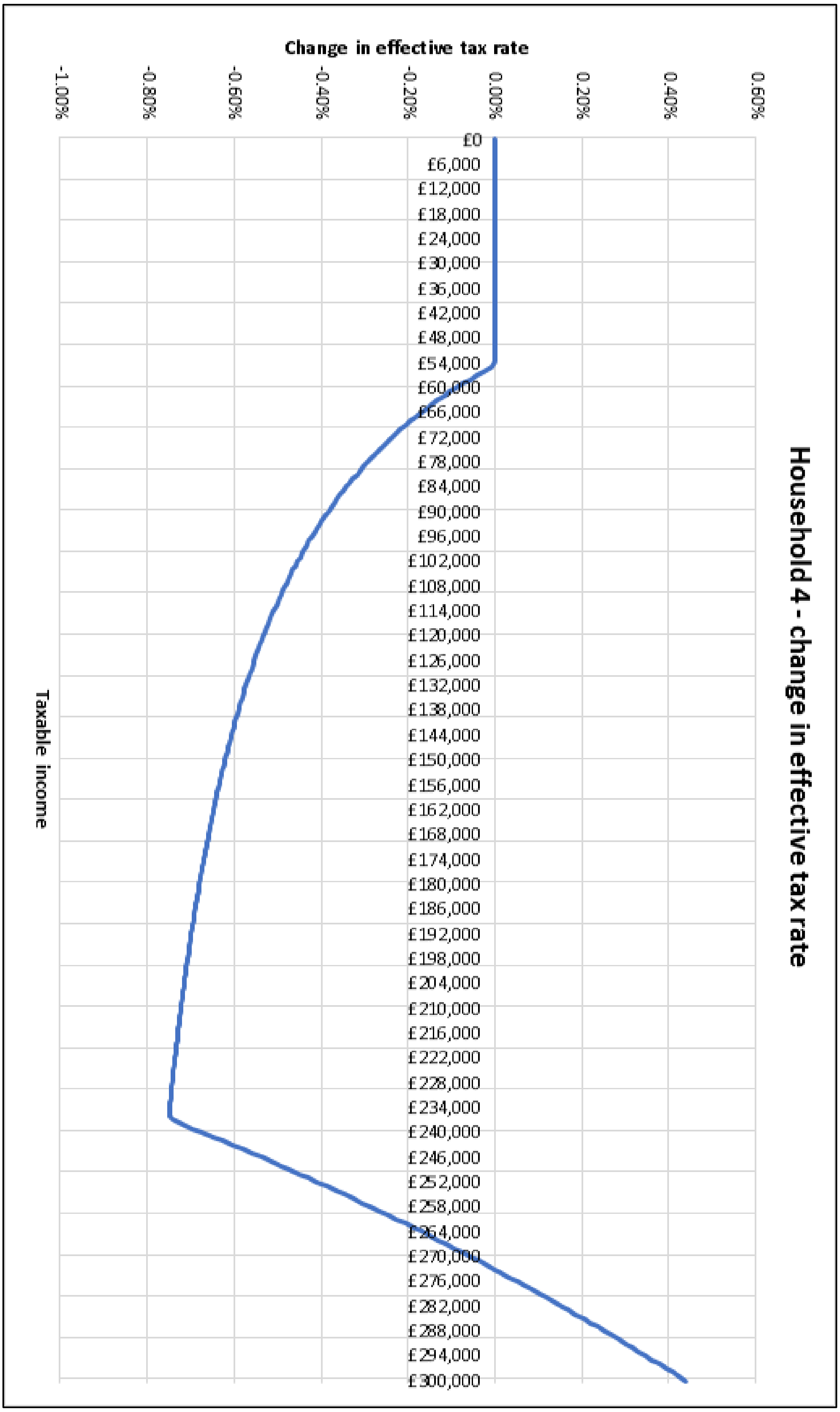
Household 2 – single, 1 child, £200k mortgage



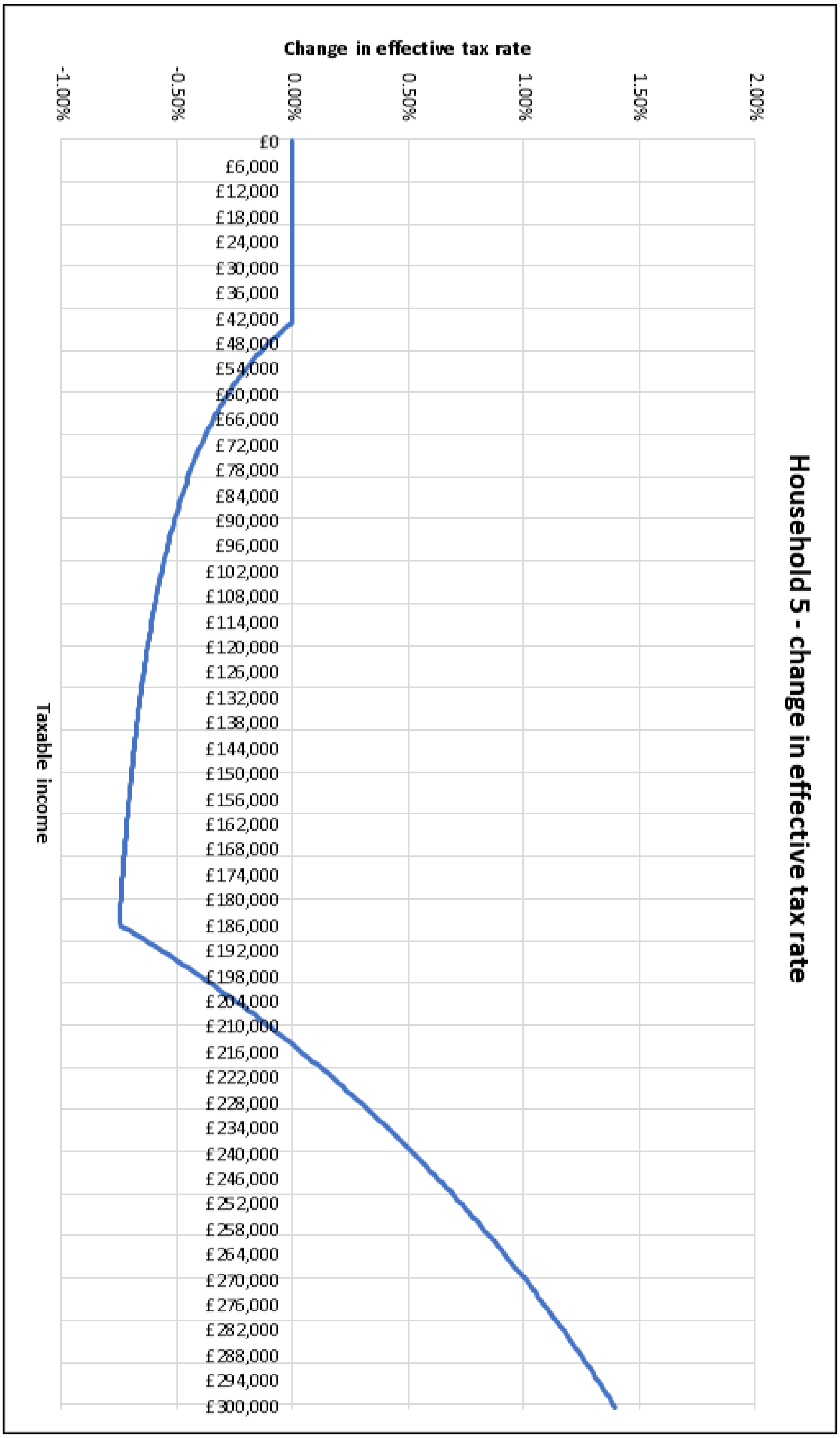
Household 3 – married, £300k mortgage



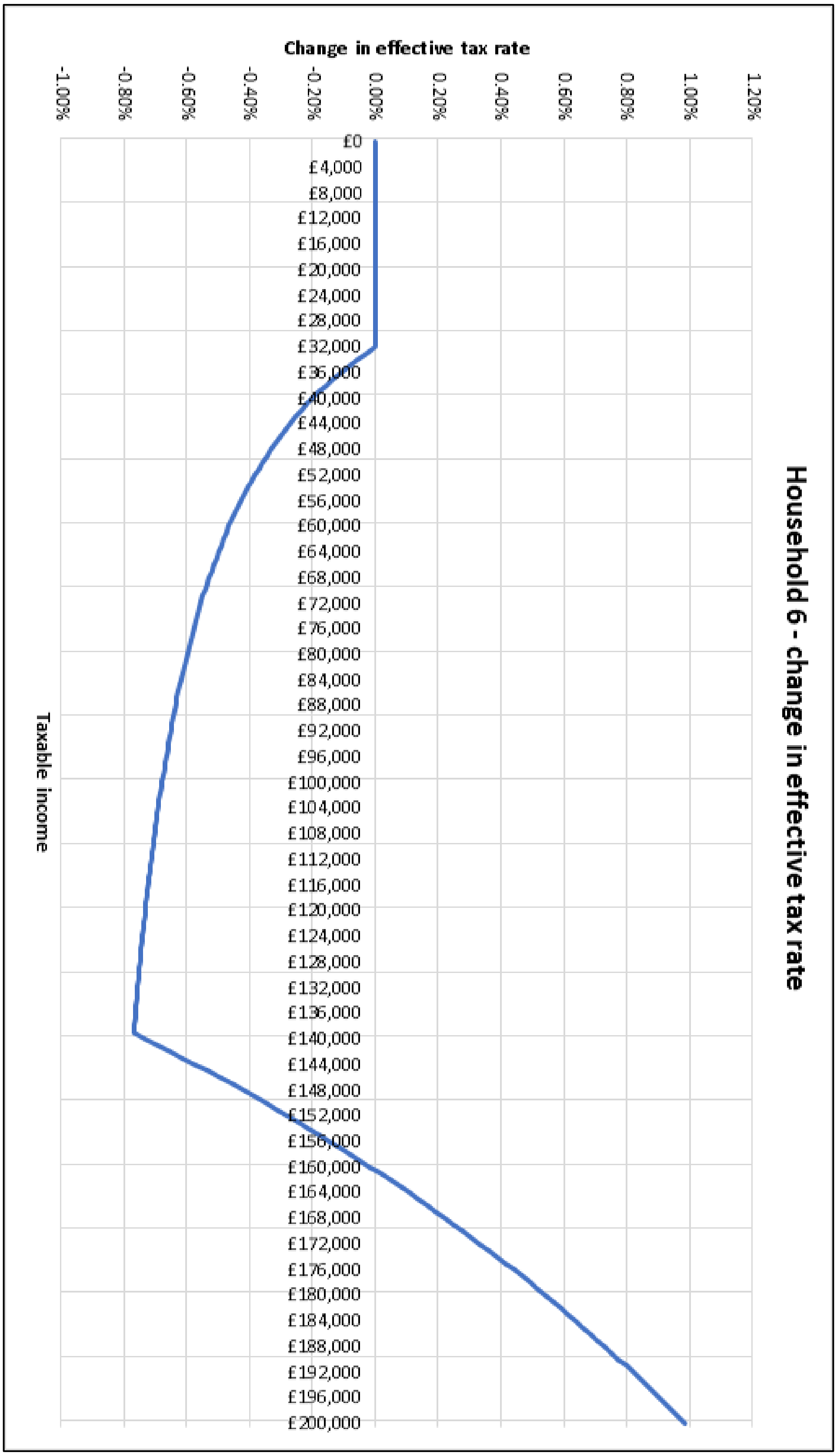
Household 4 – married, 2 children, £300k mortgage



Household 5 – married, 2 children (1 in higher education), £100k mortgage



Household 6 – married, pensioners



Household 7 – single pensioner