STATES OF JERSEY

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INCOME TAX: INTRODUCTION OF HIGHER RATE

Lodged au Greffe on 9th September 2003
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 a higher rate of income tax should be set on income over £100,000 for those taxpayers whose net income after allowances, exemptions and reliefs exceeds that sum, in order to raise additional revenue; and

(b) to charge the Finance and Economics Committee to bring forward the necessary legislation to give effect to this proposal as part of its Budget 2004 proposals.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

In rejecting my previous proposal P.6/2003 to introduce a higher rate of income tax in order to make our tax system truly progressive, members made it abundantly clear that they were not in favour of directing the additional revenue to those taxpayers who were in the lower to middle income brackets.

One of the messages I took away from that debate was that any additional revenue produced by changes to the tax structure must be put to meeting the spiralling costs of service provision on the Island. This measure is designed to do just that. Having considered the increasing volume of information concerning the extent of the fiscal problem we are facing, and especially in the light of the alternative propositions for raising additional revenue, I have opted to raise the target for this progressive fiscal measure from £5 million outlined in P.6/2003 to £10 million.

I believe that we have to consider progressive taxation measures to solve our long-term problems in generating sufficient revenue to meet our needs. They will not be the only solution, but they must form part of the solution. In the short term, I believe we cannot continue to increase the burden on those who are less well off at the expense of the better off. We have been told repeatedly by the Finance and Economics Committee that we must all be prepared to shoulder the extra fiscal burden which is required if we are to emerge from the deficit situation we are in. And yet, at the time of writing, we have largely seen only regressive measures such as user-pays charges and cuts to rental support.

In the debate on P.6/2003 of 10th June of this year, I outlined the case for the introduction of progressive tax rates, which stems from the wide-ranging options presented in the OXERA paper of June 2002. The general arguments are to be found in the Appendix, but the key point deserves to be highlighted here –

> "*The limits at which tax avoidance would become a serious consideration do not seem to be approached, at least within the range of generating £50 million per annum of tax revenues. Thus, within quite large limits, the choice of large-scale structure of the tax burden seems to be largely political, not economic.*"

According to OXERA, there were some 200 households with personal annual incomes over £250,000, and fewer than 100 with personal annual incomes over £500,000. In discussing the possibility that some of these households might simply leave the Island, the OXERA report admits that there is no precise data on the potential mobility of Jersey residents, but suggests that the relatively rich will be the most mobile. They point out, however, that even under a scenario of a much larger tax rise (up to 39% on incomes over £100k), a household on £120,000 annual income would still be some £9,000 better off than in the U.K. Under these proposals, which will entail a higher rate of 26 pence in the pound, a household on£120,000 income would pay an additional £1,200 in income tax.

In the debate of 10th June on taxation policy, various members of the Finance and Economics Committee gave a range of assurances that moves to progressive fiscal measures were under active consideration. Thus, the Vice-President, in a contribution which may have swung the debate that afternoon, said –

> "I can confirm that the Finance Committee is doing what members are asking, we are having a debate about personal tax rates."

> "… later this year, options for longer-term tax and spend arrangements will be presented. This may include proposals for higher rates of tax… "

> "I, as a member of the Committee, would not rule out a higher rate of tax."

He had taken his lead from his President, earlier on that day –

> "I repeat my commitment that our overall tax strategy should be mildly progressive …… the better-off should shoulder a greater proportion of the tax burden than the less well-off."

At the time of writing, I have not seen any attempt to put these fine words and sentiments into action. When this proposal comes to the States, it will be because I still consider that insufficient movement on this front has been made.

In all the discussion of what we might do to clear the current and projected deficits generated by our tax and spending policies, the possibility of progressive measures has been largely ignored. Throughout 2003, the measures that have been brought forward for consideration, and in some cases introduced, have largely been regressive in their nature. User-pays charges, reductions in support for low-paid tenants, freezing income tax exemptions and the raising of impôt duties, all have a disproportionate effect on those on low wages. The introduction of progressive measures such as this may ultimately enable us to avoid the introduction of yet further regressive measures such as sales tax or VAT.

Financial and manpower considerations

This measure will increase income tax revenue by £10 million in a full financial year. The introduction of a higher rate of tax will require some law drafting time and some time to rewrite the income tax computer program, but makes no long-term demands on additional manpower.

APPENDIX

The report into the future of Jersey's tax and spending policies presented to the Finance and Economics Committee in May 2002 by the Committee's financial advisors OXERA, clearly identifies several means of generating additional income to meet our current and projected deficits in Chapter 7 'Addressing the problem on the income side'. In concluding this chapter, the authors are equally clear when they say –

> "*…there are many ways in which the additional tax burden could fall, both within the large structure (neutral, progressive or regressive, etc.) and relatively advantaging (or disadvantaging) particular groups. The limits at which tax avoidance would become a serious consideration do not seem to be approached, at least within the range of generating £50 million per annum of tax revenues. Thus, within quite large limits, the choice of large-scale structure of the tax burden seems to be largely political, not economic.*"

The chapter starts by pointing out that a priority for tax policy is to raise an appropriate amount of revenue as efficiently and equitably as possible. The 2 equity principles that are commonly applied to tax policy are –

the user pays (or benefit) principle;
the ability-to-pay principle.

The authors point out that only under the latter principle can the social goal of helping those with less material wealth and fortune be met without the need for large-scale reform of the benefit system. In this decade of the eradication of poverty, this is a significant point.

In discussing the distributional aspects of an increased tax burden, the report outlines the main dimension, as follows –

Progressive tax – raised largely from the relatively well-off
Neutral progressive – all taxpayers subject to the same percentage in their existing tax bill
Neutral regressive – all taxpayers subject to the same percentage point increase in their effective tax rate
Regressive – each earner is subject to the same actual increase

In addition they point out "in general, tax structures operate to increase the tax contributions in both the absolute amounts and as a proportion of income as income rises (i.e. tax rates increase as personal income rises)". This is the norm in most jurisdictions.

Jersey, on the other hand, has a single tax rate of 20% no matter how large one's personal income is. Its progressive nature is the result of the use of small income exemptions and the use of the 27% marginal (or entry) rate.