STATES OF JERSEY

DRAFT BUDGET STATEMENT 2014 (P.122/2013): FOURTH AMENDMENT

Lodged au Greffe on 19th November 2013
by Deputy J.H. Young of St. Brelade

STATES GREFFE

PAGE 2, PARAGRAPH (a) –

After the words "as set out in the Budget Statement" insert the words –

"except that –

(a) the higher child allowance (comprising the additional tax relief of £3,000 proposed in the draft Budget Statement and the existing £6,000 allowance making a total of £9,000) for the year of assessment 2014 due to taxpayers whose income for 2014 falls below the income tax exemption thresholds with children over the age of 17 in higher education, may, by agreement, be wholly or partly transferred to a relative (including grandparents) of the tax exempted taxpayer, who has provided financial support to a child relative under 25 years (including grandchildren) for higher education purposes and such relative shall then qualify for this income tax relief;

(b) the estimate of income from taxation during 2014 shall be decreased by £20,000 by reducing the *de minimus* limit on charitable donations on which the charity may reclaim the tax applicable from £100 to £50;

(c) mortgage interest relief shall be extended for the year of assessment 2014 on loans for purposes other than the acquisition and extension of the taxpayer's principal personal residence so that it is available for home improvement works and home energy efficiency measures carried out by local contractors subject to limits on loan interest eligible for these additional purposes, interest limits to be based on a loan of £30,000 for home improvements and a loan of £20,000 for energy efficiency measures;

(d) health insurance premiums paid shall qualify for relief from income tax for the year of assessment 2014;

(e) the estimate of income from taxation during 2014 shall be decreased by £1,000,000 by zero-rating or exempting from Goods and Services Tax from 1st July 2014 any expenditure on the installation and maintenance of energy conservation measures (including plant, equipment and materials) from local suppliers and contractors;

(f) the estimate of income from taxation during 2014 shall be decreased by £200,000 by zero-rating from Goods and Services Tax from 1st July 2014 on the purchasing, importation and leasing of Ultra Low Emission vehicles (vehicles falling within the definition of the UK Office for Low Emission Vehicles, currently an emission level below 75g/Km of CO_2)."

DEPUTY J.H.YOUNG OF ST. BRELADE

REPORT

(a) Higher Child allowance of an additional £3,000

Many years ago, our income tax system used to give gave tax relief to taxpayers for payments made under deeds of covenants for further education purpose, but this has long been withdrawn. The Minister's announcement of an additional higher child allowance was much welcomed as the cost of supporting young people through higher education continues to increase. This is partly due to increases in tuition fees and partly reduction in grant support as a result of the Minister for Education, Sport and Culture's changes to grant rules.

The additional allowance is a targeted relief and is planned to benefit marginal rate taxpayers. It will increase the income threshold above which marginal tax is paid, and will most benefit marginal rate taxpayers with earnings at the upper end of the marginal tax band (in some household circumstances up to £190,000), and will also move some standard rate taxpayers down into the marginal tax band, reducing the effective tax rate they pay. It will not, however, benefit taxpayers paying the standard tax rate or those households whose income falls below the tax exemption threshold.

The effect of the higher rate allowance reflects the already wide disparity of treatment between the marginal and standard rate groups of taxpayers. The recent Fiscal Policy Panel report included an analysis of the effect of the reduction in marginal rate band income tax also proposed in the 2014 Budget. Page 42 of their report says –

> "*Although the distributional impact of the tax cut (in marginal tax rate) is not a matter for the FPP, it is noted that it will mainly benefit those who pay the marginal rate of tax (the vast majority of income tax papers).* ***Those who benefit the most (both in percentage and money terms) are those at the high income end of the 27% rate and the margin of the 20% rate.*** *The desirability or otherwise of this distributional change is a matter for the States.*"

The Minister's commitment to a programme of modernising and simplifying Jersey's personal tax regime is welcomed; however, its changes will not take full effect until 2020. In the meantime, this amendment will extend the benefit of the higher child allowance to a wider group of families who provide financial support to the further education of our young people.

My amendment makes provision for households who are unable to benefit fully from the higher child allowance because their income tax allowances exceed their gross income, and they therefore fall below the tax exemption threshold. My amendment seeks to allow such households by agreement, to re-allocate all or the excess part of the higher child allowance which they cannot utilize, to a family member (including grandparents) who has provided financial support to their child relative under 25 years (or grandchildren) for higher education purposes. The cost of extending this allowance if the full amount of the allowances were re-allocated in every child in an exempt household is estimated at £538,000 per annum which will not arise until 2015. As this would bring some exempt households into the marginal taxpaying band, it would be recommended or permitted only to transfer the excess part of the higher child allowance.

(b) Tax Relief on Lump Sum Donation to Local Charities

For many years Jersey has had a successful scheme which allows local charities to benefit from repayment of tax suffered by local taxpayers making lump sum donations subject to certain conditions. The cost of administering this tax repayment scheme is an important consideration. Charities are required to submit an annual schedule of donations received, together with the documentation, and can do so more frequently, but not more than monthly. In 2012, £786,725 tax was repaid to 151 charities.

On 17th April last year, the Minister for Treasury and Resources, in answering a question from Deputy S. Pinel of St. Clement said: *"I want to support the philanthropic sector in Jersey. The arrangements we have are slightly different to that of the United Kingdom; it is that charitable donations are not given but then the charity benefits from the 20 per cent tax concession, so it is a slightly different arrangement up to a cap of £500,000, as I think it is. I am certainly going to be looking further at boosting with the Chief Minister the philanthropic and third sector. The third sector is vital; we need to give it resource, we need to give it encouragement and certainly we need to encourage local Islanders to give and certainly I am not proposing any changes to our arrangements, in fact I want to improve them."*

In this year's Budget, the Minister is proposing to amend Article 87B of the Income Tax (Jersey) Law 1961 to relax the requirement for the taxpayer making the donation to 3 years' prior residence; however, the minimum donation to qualify for this scheme is still set at £100. The Law was altered to reduce the minimum sum to £100 from £250 in 2001, but has remained unaltered since that time.

I believe in these stringent times the old saying "watch the pennies and the pounds will look after themselves" applies. Thirteen years later, in the middle of the post-credit-crunch recession, there is a strong case for assisting charities by reducing this *de minimus* limit on individual donations to £50, which my amendment proposes.

It is anticipated by the Income Tax Department that the total cost of the reduction in the *de minimus* limit of individual donations to £50 is unlikely to exceed £20,000.

(c) Extension to the purposes of Mortgage Interest on Main Residence qualifying for tax relief

For many years, all Jersey taxpayers were entitled to tax relief on the amount of interest payments paid on loans. This was later limited to interest in acquiring or extending a dwelling-house in Jersey which the taxpayer occupied as their main residence, and became subject to a cap on the capital value of the loan of £300,000. Tax relief on interest paid on loans in excess of this amount was reduced accordingly. In 2007, this relief was removed under the introduction of the 20 means 20 means policy which phased out tax allowances and reliefs over the 5 year period ending in 2011.

However, as clearly explained in the Explanatory Note which accompanied that Law change, tax relief is still given –

"Although the reliefs are being phased out, the amounts which would otherwise have qualified for the relief are still relevant to the calculation of a person's total income for the purposes of calculating the tax exemption threshold applicable in his or her case and of calculating the marginal rate. Hence, the reliefs are not abolished entirely in 2011 but restated so that they are still taken into consideration for the purposes of the tax exemption threshold and marginal rate."

Effectively, this means those taxpayers paying at marginal rate of tax, currently 84% of taxpayers, still enjoy the benefit of mortgage interest relief. According to the information published in the Medium Term Financial Plan 2013 – 2015 (page 185) in 2014, relief of £52.4 million is allowed to marginal taxpayers, resulting in tax reduction of £14 million. Standard rate taxpayers receive nil in tax relief, clearly illustrating the effect of the present two-tier tax structure.

The current requirement of Article 90AA of the Income Tax Law, which restricts mortgage tax relief for interest paid to the construction of a physical extension to the main residence, is too limiting. It rules out tax relief on the cost of carrying out building improvements and refurbishments of dwellings, including the installation of energy-saving measures such as insulation, secondary glazing, loft insulation, solar panels, and micro generation.

The Environment Scrutiny Panel report on the draft energy policy identifies the need to introduce incentives to encourage householders to invest their own resources to carry out energy conservation measures. There are approx 40,000 dwellings in Jersey (22,500 are owner-occupied); the draft energy plan aims for energy improvement works to be carried out to 6,300 homes by 2020; i.e. at a rate of 1,000 a year. Extending tax relief on loan interest to fund such works would be many times more cost-effective than direct grants.

In addition, approximately 1,000 projects receive building consent every year; the majority are for small-scale works. Extending tax relief to loan interest for small-scale capital works would have a positive economic impact. Extending tax relief to interest on loans to fund small capital domestic projects carried out by the local building industry such as I have proposed would be expected to have an early benefit, even though it would apply to work done to the homes of marginal taxpayers only. Unlike major capital schemes with long lead-in times, such smaller capital projects must also carry less risk of leakage from our economy, which the FPP accepted was a significant risk.

I propose a limit of the tax relief on interest paid on loans of a maximum of £30,000 for home improvements works, and a maximum of £20,000 for home energy efficiency works.

Based at 5% interest rates and these capital limits, the total interest relief for home energy efficiency measures to 1,000 homes would be £1.0 million resulting in a cost of £275,000; and the total interest tax relief for improvements to 750 homes would be £310,000, making a total of £585,000. If the number of loans exceeded these estimates or the interest rate increased above 5%, the cost in 2014 would rise *pro rata*.

(d) Tax Relief for private health insurance premiums

The Health and Social Services Strategic Policy report includes this commitment from the Council of Ministers: "*By the end of 2014, proposals for sustainable funding for health and social services will have been produced*."

If Jersey succeeds in this objective, we will be an exemplar for the western world. The cost of secondary health care increases exponentially, in response to increasing longevity of our population, public expectations, new drugs and clinical interventions made possible by science and technological developments and pressures from the medical profession. Many believe that the best governments can do is to manage the supply of health services while maintaining clinical standards. Others would see this as a cynical view; however, there is a very high level of uncertainty about the costs of secondary health care in the future. Therefore I believe the potential contribution to funding secondary health care that is made by private health insurance, should not be ignored. The Health and Social Services White Paper in 2012 reported that almost 50% of the population in Jersey has private health insurance; and during its consultation, members of the public thought tax relief should continue to be available for those with private health insurance, yet the White Paper reached no conclusions on the restoration of tax incentives for private health insurance.

For decades, successive governments, both elsewhere and in Jersey, have used tax relief on premiums to encourage citizens to take out health insurance. The merits are obvious: policyholders and their families (who are already paying for the public health system through their taxes) can get access to private medical facilities. In doing so, this reduces pressure on a public health system that has a limited capacity to deliver the health services required. If private health services are also provided within our own hospital, the public costs can be significantly reduced by a direct recovery of direct costs and a share of overhead costs.

Given the obvious benefits, experience has shown that the decision in 2011 to withdraw health insurance tax relief in Jersey has been counter-productive and should be reconsidered. Anecdotal evidence suggests that the numbers of people having private health insurance has declined since tax relief was removed. In hindsight, it cannot have been right withdrawing tax relief on health insurance premiums paid personally by individual taxpayers, whilst private health insurance provided to employees as part of a remuneration package has continued to be tax-free under 'Benefits in Kind' rules. This decision has discriminated against retired people and families with young children not employed by the finance industry where this tax free benefit is the norm. Withdrawing the tax relief makes no financial sense, as over the medium- to longer-term, benefits for our health service exceed the cost of the tax relief.

My amendment seeks to restore the tax relief on private health insurance premiums for all taxpayers.

The cost of restoring this tax relief is estimated as £1.4 million for marginal rate taxpayers and £0.8 million for standard rate taxpayers, totalling £2.2 million. The total annual cost of our hospital services in 2012 was £108 million, after taking account of substantial income from private patients.

The tax relief is more than justified by the additional savings which will follow.

(e) GST Zero rating of expenditure on the installation and maintenance of energy conservation measures from local suppliers and contractors

Indirect taxation is frequently used elsewhere to reinforce important public policies by the selective application of the tax, using exemptions and differential ratings of certain classes of goods or services. In Jersey, when GST was introduced, only a few exemptions were made, and few supplies and services were zero-rated, in the interests of simplicity and avoiding excessive administrative costs.

The following are presently exempt from GST in Jersey –

- buying, selling or renting accommodation
- exports
- the supply of international services where the benefit is received in a country outside Jersey.

The following are zero-rated for GST in Jersey –

- financial services
- insurance
- postal services
- medical supplies
- medicines on prescription
- supplies by charities
- registered child care
- some burial and cremation services
- school fees

Unlike income tax allowances which take longer to take effect, GST changes will have almost immediate effect. In the present economic circumstances we should not continue to be fixed against introducing any GST exemptions. GST will raise £82 million in 2014 and there must be scope to extend this list of zero-rated items to support important public policies. Just as GST can be reduced on desirable items for policy reasons, so could it be increased on less desirable goods and services to compensate for any loss of income?

In the UK, a low rate of VAT is applicable to the installation of energy-saving materials, which presently attract grant aid for low-income groups. Energy conservation projects carried out by UK businesses attract 100% capital allowances corporate tax liability. These are just two of many incentives used in the UK to encourage energy conservation. Similar schemes apply in Ireland and other European countries.

The draft Energy Plan for Jersey identifies the requirement for an 82% reduction in energy emissions from homes and other buildings. The Scrutiny Report (S.R.12/2013) indicates the need for financial incentives to be introduced to encourage the take-up of energy conservation measures and the opportunity to develop this sector of our local construction industry.

My amendment seeks to zero-rate, for GST purposes, the installation and maintenance of energy conservation measures (including plant, equipment and materials) using local suppliers and contractors. Based on UK VAT rules with a few additions, the following list of items could be considered to fall within this definition; however, the

Income Tax Department would determine the list of zero-rated items based on the intention of my amendment, if it is adopted –

- energy efficient boilers
- secondary or double glazing
- low emission glass
- controls for central heating and hot water systems
- draught stripping
- insulation
- solar panels
- wind turbines
- water turbines
- ground source heat pumps
- air source heat pumps
- micro combined heat and power unit

In the case of the energy efficiency measures, if both my amendments (c) and (e) were adopted, i.e. GST zero-rating, together with the widening of the purposes for which mortgage interest relief can be granted from income tax, this would act as a stimulus to our local building industry and help this sector of our economy develop and expand this line of business, to the wider benefit of our community.

The Income Tax Department have advised me that: "if the UK scope were applied in Jersey, i.e. the installer would need to be GST-registered and installing the materials into solely private existing residences. New build already get zero-rate for the installations of such items, and are therefore excluded; and States/Parish and charity provided housing is also already relieved – the features suggest the cost would be relatively low perhaps up to £1 million."

(f) GST Zero-rating of purchase of Ultra Low Emission Vehicles (ULEVs) (<75g/kg CO2 emissions)

In the UK, there is a vehicle emission threshold which presently determines whether 100% capital allowances are given on vehicle purchases for corporate tax purposes, and at which lease rentals are restricted.

This threshold is 95g/km of carbon dioxide (CO2) or less. Only 2% of new cars sold in the UK during 2008–2009 met this emission threshold, but this had increased to 18% in 2012–2013. The House of Commons website lists a number of vehicle manufacturers' models which fall into this category, which can be accessed via the following link:
http://www.publications.parliament.uk/pa/cm201213/cmselect/cmtran/239/239we08.htm

In September 2013, the UK Government launched a new Ultra Low Emission vehicle strategy to reduce vehicle emissions to a lower threshold. An Ultra Low Emission vehicle (ULEV) emits extremely low levels of CO2 compared to conventional vehicles fuelled by petrol/diesel. They typically also have much lower or virtually nil emissions of air pollutants and lower noise levels. Since 2009, the UK Office for Low Emission Vehicles has considered ULEVs as new cars or vans that emit less than 75 grams of CO2 from the tailpipe per kilometre driven, based on the current European-type approval test.

Other definitions exist that suggest 50g CO2/km is a more appropriate threshold. Grants are also available in the UK.

The Environment Scrutiny Panel report on the draft energy policy identified that at present such vehicles are very expensive to purchase. Vehicles with emission levels below 120g/km CO_2 would incur no VED in Jersey as in the UK, but GST would still be payable.

Based on the principles of my previous amendment (e) on GST, my amendment is intended to encourage Ultra Low Emission Vehicles into Jersey by zero-rating only vehicles with CO_2 emissions below the present 75g/kg threshold from GST.

The Income Tax Department has advised me: "Currently the lowest banding for VED duty is 120g/kg. – whilst we have an idea of the number of vehicles imported into Jersey in this range (approximately 1,800) we do not know, of these, how many are below the 75g/kg level … assuming the proposition is aimed solely at electric and hybrid vehicles and based on the fact that per DVS figures there were 103 vehicles of this nature registered in Jersey in 2012 and making the additional assumption that this figure will increase as technology improves and vehicle costs decrease (to say 150 registrations per year) and that the average cost per vehicle is £25,000 then the total revenue cost would be approximately £187,500 (say £200,000).".

Financial and manpower implications

In summary, except for item (c) for which I have used my unconfirmed estimate, the Income Tax Department has advised the cost of my amendments to be as follows –

(a) worst case (maximum) cost £538,000;

(b) £20,000 in 2014;

(c) based on loan limits and estimated numbers of loans eligible for relief and 5% interest rate – £275,000 for energy efficiency measures plus £310,000 for home improvement loans – total £ 585,000;

(d) £2.2 million;

(e) £1 million in 2014;

(f) £200,000 in 2014;

TOTAL: £4.543 million

(equivalent to 0.8% of total income of £552 million from income tax and GST for 2014).