STATES OF JERSEY

DRAFT BUDGET STATEMENT 2009 (P.158/2008): FOURTH AMENDMENT (P.158/2008 Amd.(4)) – COMMENTS

Presented to the States on 1st December 2008
by the Minister for Treasury and Resources

STATES GREFFE

COMMENTS

Summary

The Minister for Treasury and Resources opposes both parts of this amendment.

This amendment is, according to the Deputy, designed to take into account the advice of the Fiscal Policy Panel (FPP). It is in fact, totally contrary to the latest recommendation of the FPP which is –

> "*There should be no further withdrawals from the Consolidated Fund to fund discretionary expenditure increases or tax reductions until the extent of the economic slowdown and the underlying strength of the fiscal position are clearer*."

The FPP noted that in the Business Plan the States agreed a significant, permanent increase in States spending, yet the recent increases in States Income may prove to be temporary. In these circumstances the FPP recommends that the States should not further erode its financial position by increasing spending or reducing taxes.

The amendment to further increase exemption thresholds from 5% to 6.4% would permanently reduce States income by £1.7 million a year, and would be of no benefit whatsoever to low earners who do not pay tax.

The proposal to delay 20 means 20 by a year would be a £3.8 million tax give away to the highest 24% of earners in Jersey. It would be a regressive tax measure, of no benefit to those on low to middle incomes.

It is highly likely that neither of these amendments, together amounting to £5.5 million will be affordable in the medium term, so these tax reductions now would almost certainly result in even greater tax increases in the future.

PART 1

The Minister for Treasury and Resources opposes this amendment.

The Deputy’s amendment appears to be aimed at providing further support to Islanders, recognising the downturn in the economic cycle, the effect of the agreed measures from the fiscal strategy and the recent higher food and fuel prices. However, it targets the additional support only to those taxpayers suffering Income Tax at the marginal rate. Persons not liable to Income Tax, or those paying under “20 means 20”, would be unaffected by this amendment.

The question to be asked is how much support is required. The States originally provided for the effect of the GST on the less well-off by adding £2 million to Income Support as well as providing a new Winter Fuel allowance. In the recent States Annual Business Plan 2009, a package of measures was approved to increase the Winter Fuel Allowance and begin an energy efficiency programme, including energy advice and home insulation grants amounting to £1.2 million per annum In addition, an extension of the transitional relief within the income support scheme was agreed at a cost of an additional £5.75 million over the next 5 years.

In terms of income tax exemptions, these have been raised by 14% in the last 3 years, including this year’s proposals, at a cost of over £16 million.

Finally, the States agreed P.138/2008 in September this year which provided an additional £5.8 million to help mitigate the effect of GST and higher prices on food and fuel for those on low and middle incomes.

The basis for this Amendment seems to be that the increase of 5% in the tax thresholds proposed in the budget for 2009 may not be sufficient. It is a fact that the RPI figure for September 2008 was 6.4%, but all commentators now suggest that inflation has peaked and the September figure is not indicative of future levels. What is also important to bear in mind is that the proposal of 6.4% is for income tax exemptions for 2009, and for the majority of taxpayers this will affect tax to be paid in 2010, when inflation is expected to be much lower.

We are currently forecasting small deficits beyond 2009 and we are warned by the Fiscal Policy Panel that all the risks to our financial position are on the downside. We are also advised that no further discretionary expenditure or tax reductions should be made until the extent of the economic slowdown and the underlying strength of our fiscal position are clearer. Even when such expenditure is required, it should fulfil all relevant criteria, including that of being temporary in nature.

These are undoubtedly difficult times, but the States has made a significant contribution to assist those on low and middle incomes over the past couple of years. Consequently, States members should seriously consider how a further structural tax cut of £1.7 million can possibly be justified at this stage.

For the above reasons, Members are strongly urged to reject this amendment.

PART 2

The Minister for Treasury and Resources also opposes this amendment.

The second part of the Deputy's amendment is targeted at those taxpayers on the standard 20% rate, typically middle to high earners. The 20% means 20% proposals provide the progressive element within the Fiscal Strategy. Taken in conjunction with the Goods and Services Tax, it means that Jersey's overall tax arrangements remain broadly progressive, with those on middle and higher incomes contributing somewhat more than the less well off.

Members may need to be reminded that in broad terms, 25% of households pay no Income Tax whatsoever, the next 50% suffer Income Tax at the Marginal Rate, and only the top 25% of households actually fall within the "20 means 20" tax band.

The estimate of the cost of the proposed amendment in income tax revenues foregone from those higher earners is £3.8 million.

It is also important that we now have certainty and stability in our Tax Code, following what has been 5 years of quite remarkable change, of a complexity and character never seen since Income Tax was first introduced into Jersey in 1928. We should not tinker with the Tax Code in anticipation of changes in economic fortune which may or may not happen. Much business and consumer confidence has been derived from our determined and robust approach to deliver those measures which were identified at the outset, and now is not the time to be taking a backward step, even for one year.

I would repeat the advice from the Fiscal Policy Panel, reiterated in their latest update, that no further discretionary expenditure or tax reductions should be made until the extent of the economic slowdown and the underlying strength of our fiscal position are clearer. I would also remind States members that we are currently forecasting small deficits beyond 2009, which would increase by £3.8 million in 2010 with this proposal, and we are warned by the Fiscal Policy Panel that all the risks to our financial position are on the downside.

The Deputy is quite correct that the financial effects of his amendment would not be felt until probably late in 2010, since it refers to the 2009 year of assessment. By that stage those taxpayers affected by "20 means 20" will have already experienced the first 2 years of the tax, the years in which most revenue will be collected. The Deputy recognises this in his introduction.

However, the advice from the Fiscal Policy Panel is that in the event of the Island facing recessionary pressures, if and when that may occur, additional funding is best directed to those with least discretionary spend, i.e. the less well-off. On those grounds alone, this amendment is misguided.

For the above reasons States members are strongly urged to reject the amendment.