STATES OF JERSEY

DRAFT MEDIUM TERM FINANCIAL PLAN ADDITION FOR 2017 – 2019 (P.68/2016) – TWELFTH AMENDMENT

Lodged au Greffe on 13th September 2016
by Deputy S.Y. Mézec of St. Helier

STATES GREFFE

DRAFT MEDIUM TERM FINANCIAL PLAN ADDITION FOR 2017 – 2019
(P.68/2016) – TWELFTH AMENDMENT

PAGE 3, PARAGRAPH (c) –

After the words "Health Charge" insert the words ", which does not include an upper limit,".

DEPUTY S.Y. MÉZEC OF ST. HELIER

REPORT

This amendment is lodged on behalf of, and supported by, Reform Jersey.

The purpose of this amendment is to remove the proposed upper earnings cap for the Health Charge.

Figures provided in written question 9542 and further figures from the Treasury provided to me indicate that a further £2.6 million could be raised if the 1% charge was levied without an upper earnings cap, with £1.3 million raised in the first year when it will be 0.5%.

In section 4, when discussing the Health Charge, the distributional analysis of the MTFP proposals lays out the following principles –

> **4.1 Benchmarking of Options**
>
> When considered the potential options available to raise the additional revenue required from the health charge the Council of Ministers benchmarked them against the five criteria against which revenue raising measures should be benchmarked (as identified in 2010 Fiscal Strategy Review), namely:
>
> - Fairness
> - Economic Efficiency
> - Competitiveness
> - Administration costs
> - Revenue Stability
>
> Furthermore, when considering the potential options, the Council of Ministers have kept in mind the long term tax policy principles agreed by the States Assembly in the 2015-2018 Strategic Plan, namely:
>
> Principle 1: Taxation must be necessary, justifiable and sustainable
>
> Principle 2: Taxes should be low, broad, simple and fair
>
> Principle 3: Everyone should make an appropriate contribution to the cost of providing services, while those on the lowest incomes are protected
>
> Principle 4: Taxes must be internationally competitive
>
> Principle 5: Taxation should support economic, environmental and social policy
>
> As part of the process of considering the "fairness" of the potential options, the Council of Ministers have specifically considered the distributional impact analysis of the potential options across the income spectrum.

4.2 Distributional analysis – preferred options

Having considered the potential options in detail, it appears that there are two options which are receiving more detailed consideration from the Council of Ministers: (i) a new income based charge which mirrors the long term care ("LTC") contribution and (ii) an increase in GST. The distributional impact of these two proposals is shown and discussed below.

Option (i): the introduction of a new income based charge which mirrors the LTC contribution

For a single person a 1% income based charge mirroring the LTC contribution would be broadly progressive across the whole income distribution but would have the following distributional impacts:

- there would be no impact on those people with incomes below the exemption limits
- for those on the marginal tax rate the effective rate would gradually rise as to 1% income raises (progressive for these income levels)
- for those on the standard tax rate of 20% the effective rate would be 1% for all incomes (subject to the next caveat) (proportional for these income levels)
- for those on the standard tax rate of 20% and above the £164k cap utilised for the LTC contribution the effective rate would gradually fall as a proportion of income as income rises (regressive for these income levels).

The inclusion of "fairness" being a criterion on which taxes should be measured was due to my successful amendment to the Strategic Plan (fifth amendment).

The Distributional Analysis provides Figure 38 (**Appendix 1**) which shows the impact of the Health Charge on incomes up to £200,000 a year.

However, I have obtained from the Treasury a version of this graph stretching up to incomes of £1,000,000 a year (**Appendix 2**).

As can be clearly seen from these graphs, the structure of the charge breaches the benchmarking and principles outlined in the 2015 – 2018 Strategic Plan in that it is manifestly unfair. It cannot be right that a person earning £200, 000 should be paying the same tax rate (0.8%) as a person earning around £36,000. The tax at the upper end of earnings serves merely to protect the highest earners. It is clearly regressive, in that the greater the earnings above the cap, the lower is the effective rate of tax.

After a year where the government has chosen to cut £10 million of support for the poorest and most vulnerable people in Jersey, despite the Income Distribution Survey's findings that income inequality in Jersey is getting worse, it cannot be morally justifiable to then proceed to ask those in our community who are most capable of contributing to be exempted from the full brunt of tax rises.

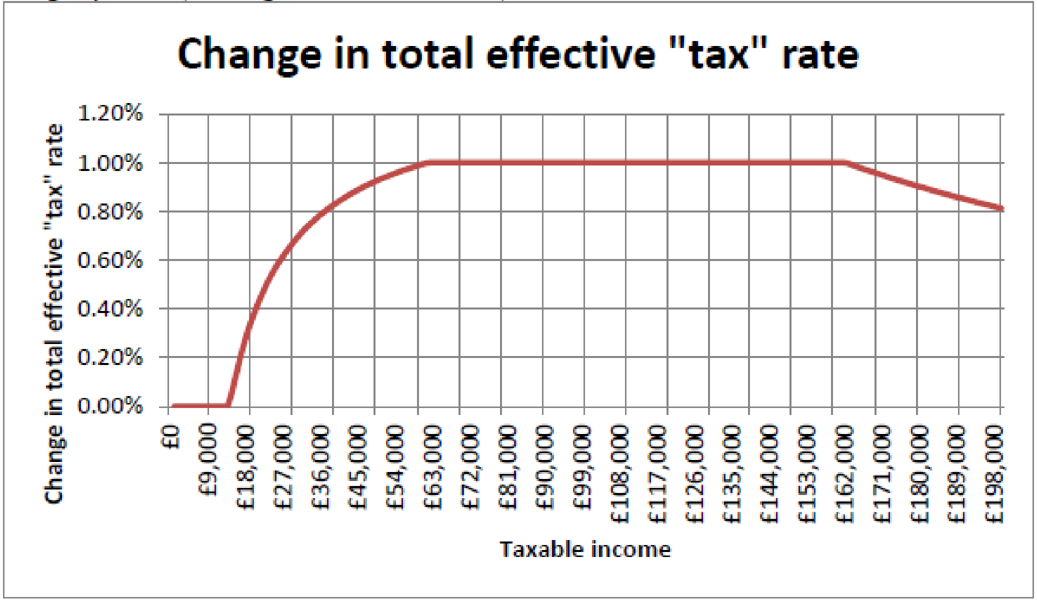
In lodging this amendment, I maintain my outright opposition to the introduction of the Health Charge (which is really a stealth tax). However, I hope that a majority of States Members will agree that if the charge is to be introduced, it should apply to all income, rather than the wealthiest Islanders being exempted.

Financial and manpower implications

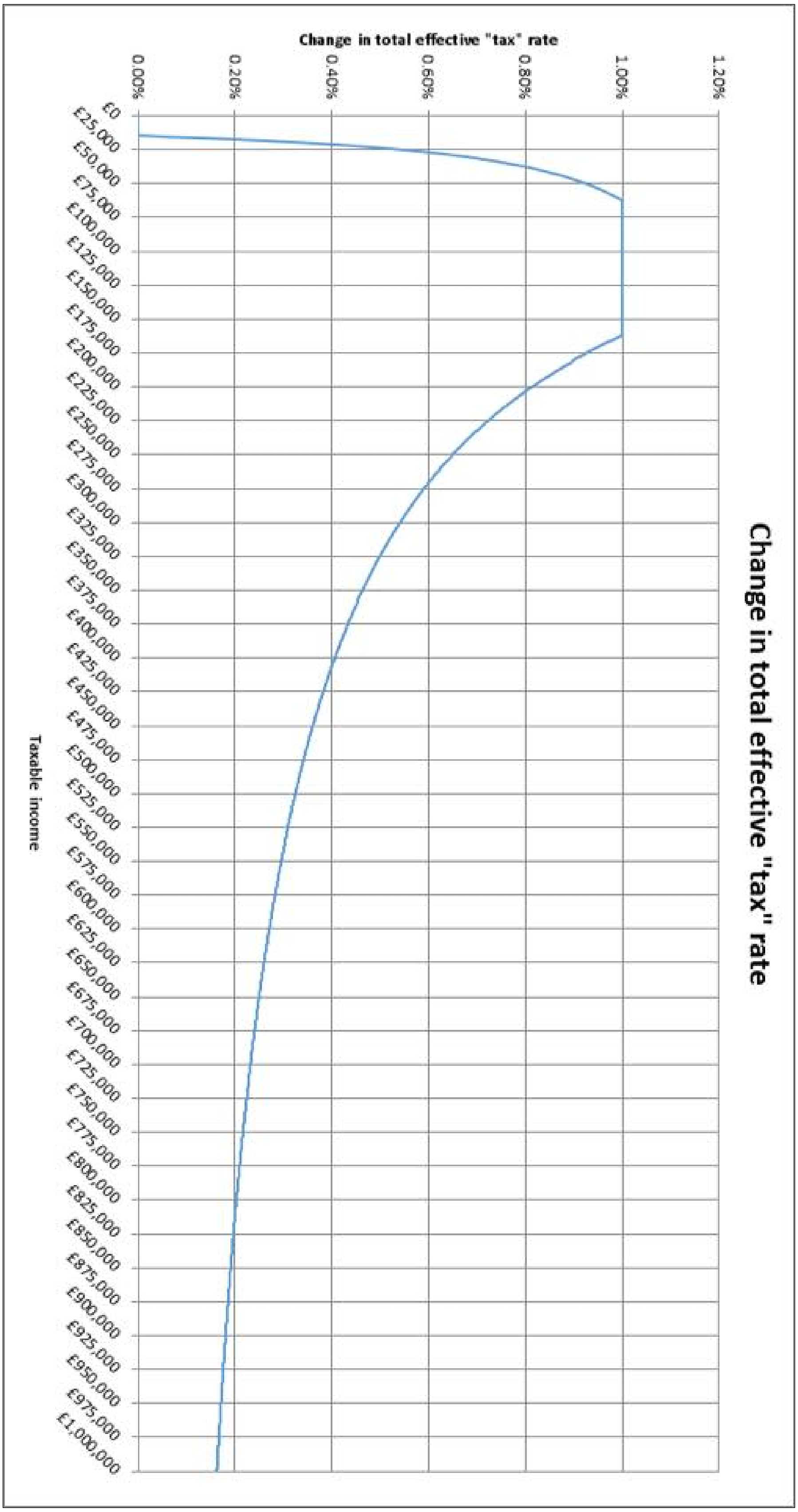
The financial consequences of this amendment are as described in the report. There are not believed to be any manpower consequences.

Figure 38: Change in total effective tax rate from introduction of a new income based charge which mirrors the LTC contribution at 1%

Single person, change in effective rate, % of income



APPENDIX 2


Change in total effective "tax" rate
Change in total effective "tax" rate
0.00%
0.20%
0.40%
0.60%
0.80%
1.00%
1.20%
Taxable income
£0
£25,000
£50,000
£75,000
£100,000
£125,000
£150,000
£175,000
£200,000
£225,000
£250,000
£275,000
£300,000
£325,000
£350,000
£375,000
£400,000
£425,000
£450,000
£475,000
£500,000
£525,000
£550,000
£575,000
£600,000
£625,000
£650,000
£675,000
£700,000
£725,000
£750,000
£775,000
£800,000
£825,000
£850,000
£875,000
£900,000
£925,000
£950,000
£975,000
£1,000,000