STATES OF JERSEY

INCOME TAX: INDIVIDUAL TAX ASSESSMENTS (P.11/2012) – COMMENTS

Presented to the States on 27th February 2012
by the Minister for Treasury and Resources

STATES GREFFE

COMMENTS

The Minister for Treasury and Resources opposes this proposition.

The Minister recognises the importance of modernisation of the tax laws, but cannot support this proposition for the following reasons –

- Married couples can already elect for separate assessment, which has the effect of deeming the wife's income to be hers and not that of her husband;
- He has already publicly committed to review the feasibility of independent taxation in Jersey within a clearly defined timescale;
- The proposition does not consider the potential costs to the States of Jersey or to the taxpayer; and
- The proposition suggests the reason why P.23/2011 – "Income Tax: introduction of higher rate" was rejected was because under the current tax regime, married couples are jointly assessed. This was not the case.

Referring to the first bullet point above, it should further be noted that of the approximately 20,000 married couples, only approximately 400 have elected for separate assessment.

It is essential that a comprehensive review of the impact of moving to independent taxation is completed. It is not possible, due to the complexity of the issue, to complete this within the timescale stated in this proposition and the other complex initiatives pending for the Taxes Office, on which see the financial and manpower section below.

The Minister for Treasury and Resources has already publicly committed to consider the feasibility of moving to independent taxation. In their comment on P.23/2011, the Council of Ministers confirmed that the Treasury and Resources Department was conducting a review of the income tax system with the aim of modernising it. The 2012 Budget Statement confirmed that independent taxation would be reviewed over a 2–3 year period. This 2–3 year timeframe is required to address the many complex issues involved.

The proposition does not seek to address some key issues –

- Firstly, which taxpayers would be affected by simply moving to independent taxation without a review of how the tax regime operates currently, particularly with regard to the operation of the tax exemptions thresholds? It could increase the tax liabilities of lower- to middle-income married couples. For example, in a household where spouse A has income of £35,000 and spouse B has income of £5,000, their tax bill would increase. This is because of the way in which the tax exemptions are currently utilised. With independent taxation, part of the exemption allowance is effectively lost. Conversely, a higher income household could benefit from a reduction in their tax bill: for example, where spouse A has income of £100,000 and spouse B has income of £20,000. This is because the lower income spouse would be able to utilise a tax exemption, as opposed to the household paying tax at a rate of 20%.

- If a tax-neutral solution cannot be found, which is a real possibility, which group of taxpayers should be protected at all costs? What cost to the States would be acceptable to achieve the aim of independent taxation?

This demonstrates the complexity of the issue and why adequate time is needed. The Deputy recognises that under the current law the treatment of married couples and unmarried couples is different, and work needs to be done to determine a suitable solution to equalise that treatment.

The introduction of independent taxation, in a fair and equitable manner, may require amendments to other parts of the tax regime. Hasty implementation may result in an additional cost or complexity for the taxpayer.

The proposition also does not consider the potential impact on the States revenue. Comprehensive research is required to ensure that the introduction of independent taxation would be a tax-neutral measure to both every taxpayer and the States if possible.

The proposition infers that the only reason that P.23/2011 – "Income Tax: introduction of higher rate" was rejected was because of the discriminatory impact it could have on married couples, compared to unmarried couples, as a result of Jersey not having independent taxation. This was not the case. The proposition to introduce a higher rate of tax was rejected for a more fundamental reason in that it was the right decision for the Island from an economic perspective.

The objective in this proposition of accelerating and reducing the timeframe required to consider the feasibility of independent taxation appears to be intended as leverage toward facilitating a future higher rate of income tax. This has already been determined not to be in the best interest of the Island's economic prosperity.

Financial and manpower implications of the proposition

The proposition recognises that there would be manpower and cost implications.

There are currently about 20,000 married couples who are jointly assessed. The introduction of independent taxation would require up to an additional 20,000 tax returns to be administered.

Administering an extra 20,000 taxpayers under an independent taxation regime is not simply a case of splitting a liability and issuing a separate piece of paper. It involves reviewing 20,000 additional returns and issuing 20,000 additional assessments.

In order to deal with an additional 20,000 returns and assessments, the Taxes Office would need to recruit approximately 15 additional trained staff. It would not be possible to do that in such a short period of time, and so the introduction of such a measure in anything other than a properly thought-through programme would create such a burden on the Taxes Office that it would have a significantly detrimental effect on its efficient operation, as well as displacing existing important projects.

The Minister for Treasury and Resources has publicly committed to the Taxes Transformation Programme – a major initiative that commenced in 2011 aimed at implementing a range of recommendations, including the introduction, in partnership with the Social Security Department, of the Long-Term Care Charge and, also, examining the costs and benefits of introducing self-assessment for corporate and personal taxpayers, which are likely to be a major cultural, administrative and operational challenge. So the Taxes Office has major initiatives facing it in the next few years. One of the focus areas is to look at changes to processes and systems with a view to improving efficiencies. In terms of manpower costs alone, it would be imprudent to expend additional costs on introducing a new regime in advance of completing this process, which may reduce those costs.

Conclusion

In summary, there is already a commitment in place to consider the feasibility of independent taxation. A comprehensive review is required to determine how this can be achieved with minimal adverse impact to any taxpayer group and the States Revenues. The existing timetable for review should not be accelerated at the expense of proper research and due diligence.

The Minister for Treasury and Resources urges Members not to support this proposition.