WRITTEN QUESTION TO THE PRESIDENT OF THE FINANCE AND ECONOMICS COMMITTEE BY G.P. SOUTHERN OF ST. HELIER

ANSWER TO BE TABLED ON TUESDAY 13th SEPTEMBER 2005

Question

"In response to a question asked on 10th May 2005, regarding the reduction of support for those on low incomes affected by GST from an estimated £9-£13.5 million to £2 million, the President stated that the differing figures were 'based on a completely different set of parameters'. Would the President give details of the change in parameters and show how they were used to produce the difference in figures and, furthermore, explain the rationale for the change?"

Answer

"The Finance and Economics Committee has never proposed a figure of £9-£13.5 million for additional Income Support to help to protect those on lower incomes from the effects of a Goods and Services Tax (GST). The Committee has, therefore, not reduced the proposed level of Income Support from £9-£13.5 million to £2 million, neither has it changed the parameters for the level of additional Income Support funding. The Committee's first, and only, proposal for Income Support was for £2 million in the Fiscal Strategy (P.44/2005) approved by the States on 13th July 2005.

As I stated in my answer on 10th May 2005, £2 million will enable all those who receive benefit under the proposed Income Support scheme to be fully insulated from the effect of a three per cent GST. This will be approximately 7,500 households and will comprise all sectors on low incomes, including pensioners, the disabled and single parents. The Finance and Economics Committee firmly believes that this is a realistic figure derived from detailed modelling exercises using data from the Employment and Social Security Department.

If the Assembly were of the view that more households than those who would receive Income Support should be protected from the effects of GST then this could be done. However, States members should be reminded that to do this would require a higher rate of GST than that of three per cent in order to raise the required tax yield, to meet the projected shortfall in tax revenues and to pay for the additional benefits.

As an example, research by Oxera in 2002 showed that if all of those taxpayers liable to income tax, but who did not pay any income tax due to Jersey's generous levels of income tax allowances and exemptions were to be compensated from the effects of GST, then this would cost between £10-£15 million. (Those are perhaps the figures to which the Deputy is referring). However, members should be aware that there are households with incomes of £70-80,000 per annum which are not paying income tax because of those allowances.

How much it would cost the States, (and hence the taxpayers of Jersey), to protect certain groups from the impact of GST depends crucially on what groups the States decides to protect; the bigger the group, and the bigger their current income, the higher the cost; the higher the cost, the more tax that those not protected would have to pay. There is no escaping this relationship. The essential point to note is that the more people who are protected over and above those currently in receipt of Income Support, the greater the rate of GST and the burden borne by everybody else.

The Committee firmly believes that those in receipt of Income Support under the proposed revised scheme should, quite rightly, be protected from the effects of GST. The scheme will achieve this through the indexation of the basket of items that make up the expenditure required for a decent standard of living in Jersey. That is why the Committee has made assurances that it will find additional money required to underwrite the Income Support scheme when GST is introduced."