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**Sent by e-mail**

7<sup>th</sup> September 2022

Dear Deputy Mézec

**Re: Cost of living Mini-Budget Review**

I'm writing to you with regard to your cost of living review and in particular the "Anonymous 2" letter you received on 12 August 2022. I welcome feedback from members of the public about Social Security policy, but many of the statements made and examples given by the respondent are incorrect. Please consider the following information and examples which should answer the questions raised and clarify the policy intent and impacts on people of the proposed Social Security elements of the mini-budget.

**The respondent states "There is absolutely no assistance for small businesses here on Class 2 contributions, let alone with the mini-budget."**

Startup plan

We offer the Startup plan to people that have recently started a business. It means that they can pay a low monthly rate of contributions in their opening years which is typically two to three years. This is useful if the person's income is expected to be lower than their previous earnings when they start their business, because otherwise their class 2 contributions will be based on their higher earnings two years ago.

The monthly rate for 2022 is £198.50 per month, equivalent to class 2 contributions based on an annual income of £19,056. The person has full entitlement to contributory benefits and Social Security pension during this time.

After two years, when the business is more established and we know what the person's income was from two years ago, we recalculate the actual contributions and any balance is paid or refunded, as appropriate.

The startup plan is described in detail on the [Government of Jersey's website](#) and on the application form.

Our current information, forms and processes have been updated over the last few years following customer feedback and discussion with Jersey Business, and integrating contributions in to Revenue Jersey.

Mini-budget

The mini-budget includes a range of measures which supports most Islanders with the higher cost of living. This includes supporting small business owners according to their circumstances:

- Pay Social Security contributions - a temporary reduction of 2% in Social Security contributions from 1 October to 31 December 2022. A cut from 12.5% to 10.5% on earnings up to £57,168. Examples follow later.

Note that small business owners of pension age do not pay Social Security contributions and instead receive a Social Security pension. This will increase by 7.7% in October (the increase is based on RPI-pensioner June 2022).

- Pay income tax - an above inflation increase of 12% in Income Tax thresholds and allowances, including Child Allowances, Additional Allowance and Child Care Tax Relief, from 1 January 2023.
- Receive income support - Increasing Income Support components in January 2023 to reflect the September 2022 RPI figure.
- Don't qualify for income support but receive benefits to help with heating, health or other costs - doubling the Cost of Living Temporary Scheme (COLTS) from £20 to £40 per person per month, from August to December 2022
- Don't qualify for income support and do not pay income tax - Doubling the Community Cost Bonus from £258.25 to £516.50 in October 2022 and encouraging more eligible Islanders to take it up.
- Are above pension age, don't qualify for income support and do not pay income tax - Temporarily increasing cold weather payments to £70 a month from October 2022 to March 2023.

### **Proposed temporary 2% reduction in Class 2 contributions on earnings up to £57,168**

Key points from the examples below (these are the examples used by the anonymous respondent):

- Employees and self-employed with the same income, benefit from the same £ reduction in contributions.
- The £ reduction in contributions is limited to £95 per month for employees and self-employed with high incomes (above £57,168).

Example 1: Annual income of £35,000

Monthly contributions paid by employees and class 2 people, including self-employed, £

	<b>Current</b>	<b>Oct- Dec</b>	<b>Reduction</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Class 2</b>			
Total	365	306	58
<b>Class 1</b>			
Employee	175	117	58
Employer	190	190	0
Total	365	306	58

Example 2: Annual income of £65,000

Monthly contributions paid by employees and class 2 people, including self-employed, £

	<b>Current</b>	<b>Oct- Dec</b>	<b>Reduction</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Class 2</b>			
Total	612	517	95
<b>Class 1</b>			
Employee	286	191	95
Employer	326	326	0
Total	612	517	95

Example 3: Annual income of £500,000

Monthly contributions paid by employees and class 2 people, including self-employed, £

	<b>Current</b>	<b>Oct- Dec</b>	<b>Reduction</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Class 2</b>			
Total	1,020	924	95
<b>Class 1</b>			
Employee	286	191	95
Employer	734	734	0
Total	1,020	924	95

### **Why Class 1 contributions are based on current earnings and Class 2 contributions are based on income 2 years' previous**

The Social Security scheme is based on having certainty in earnings, business income and contributions paid so that we can determine a person's eligibility to any contributory benefits, and to pay the right amount promptly. The person also has certainty that they will be protected and they will know what and how much they are entitled to.

If the scheme were to be based on estimates of earnings and business income, we would have to estimate eligibility to any contributory benefits and pay them on that basis. Later, when we know what earnings and business income is, we would need to "catch up" and pay any contributory benefits we did not pay but should have and recoup any contributory benefits we paid but would not have done had we known the actual income in the first place.

For employees - employers tell us earnings and collect contributions each month. This is certain, so the scheme knows eligibility for contributory benefits at any time, and we can pay them the right amount quickly.

For self-employed and non-employed people – to get the same certainty, we need to look back to the income situation two years' before. We normally use the person's income tax return to confirm the income, which is finalised and available after two years.

The disadvantage of this is that if income significantly changes (up or down) from year to year, the class 2 contributions will significantly change two years later. This is a side effect we manage as best we can with class 2 people, but it is necessary to have the advantage of clear and correct entitlement and payment of any contributory benefits.

The scheme compromises using actual income two years' ago with the Startup plan, to help remove a barrier to people setting up their businesses, recognising that income can be low in the early years of a new business, following previously high earnings.

Income tax is better suited to using estimates of income and balancing payments and refunds from year to year, because the payment of income tax does not relate to the provision of any services or benefits.

### **Effective income tax and contribution rate for a self-employed person earning £58,000 a year**

12.3p of every pound earned by this person goes towards class 2 Social Security contributions if they are below pension age.

A self-employed person with an income of £58,000 will pay class 2 contributions of:

- 12.5% up to £57,168; and
- 2.5% on the £832 above this.
- Which is a total of £7,167 for the year (12.3% of the income).

The amount of income tax the person pays will depend on their circumstances and the exemption threshold and any allowances they are entitled to. The person will be able to claim a proportion of the class 2 contributions as an expense in their accounts (the proportion that is equivalent to the employer part) reducing their income tax liability.

### **Start-up plan "double charging on earnings"**

When we calculate class 2 contributions, we look at the income two years' previous (including any earnings) against the current earnings limits (which are also annual amounts), to get a fair reflection of income for the year to base the contribution calculations on. This also makes it more likely that the person will have a high enough income to get full entitlement to contributory benefits and the Social Security pension.

However, this does mean a person starting a business could pay contributions in two years' time referring to their earnings as well as their business income.

Whilst it might seem unfair that the pay contributions referring to the same earned income in two different years, there will also be two years' of business income that are never used in the calculation of contributions. For example, if the person returns to employment, then contributions are covered from that point by their earnings, and the previous two years of business income are not referred to any contributions calculations. Another example is when the person reaches pension age, their last year of contributions will be based on their income two years' previous. Once they are pension age they do not pay Social Security contributions any more.

## **Provision for maternity for self-employed**

Self-employed people have the same access to parental financial support, including the contributory parental benefits as employed and non-employed people. Their entitlement is based on their contribution record and more details are provided on the Government of Jersey's website [here](#).

The family friendly employment legislation applies to the rights and responsibilities of employees and their employers. A self-employed person, by the nature of working for themselves and not having an employer, determines their own working arrangements and extent of parental leave.

I understand the challenges that all parents face in balancing work and family when becoming new parents and sympathise with the particular difficulties self-employed parents have. I would welcome any views on how we could make this easier.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'E. Millar', written in a cursive style.

**Deputy Elaine Millar**  
Minister for Social Security