



Deputy Sam Mézec, Chair
Corporate Services Scrutiny Panel
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By email

24 April 2023

Dear Chair

Independent Taxation

Further to the briefing on Independent Taxation provided to the Panel on 16 February 2023, I thought it might be helpful to address the points raised by Deputy Farnham relating to the mandatory element of Independent Taxation.

In my recent letter to you, I highlighted the extensive public consultation and engagement that has been undertaken since October 2017, and how that engagement has determined the way forward, including the introduction of mandatory Independent Taxation as opposed to alternatives, such as household taxation or a slightly modernised form of married couples' taxation.

Principles of Independent Taxation

I think it is important to remember that the decision to propose to the Assembly that Independent Taxation should be mandatory delivers on public commitments to provide equality across genders and ages through a policy that has been developed carefully, over several years, by consecutive Ministers and in response to Islanders' preferences.

The argument in favour of making Independent Taxation optional, as was suggested by Deputy Farnham – possibly for a specified group of taxpayers (pensioners) – is understandable and no doubt well-intentioned but, in my view, it is fundamentally flawed.

Maintaining two systems

Mandatory Independent Taxation would remove the complexity that comes with having two separate regimes. All tax returns would be processed in the same way, regardless of an individual's marital status.

Any move to 'grandfather' or make Independent Taxation optional for all those currently in the married couples' tax system would create complexity for years to come. The youngest married couples in the tax system are in their 20s, so it is not unreasonable to expect another 60+ years of juggling two systems and handling the additional customer enquiries that will inevitably arise.

Jersey-specific customisations, such as married taxation, have led to significant ongoing additional costs to maintain the tax system. Simplification would reduce costs, but more crucially would increase the capacity for Revenue Jersey to do more: offering better and targeted customer service for those groups who need it and providing new services faster.

Allowing 'combined tax returns' to continue would require relatively little up-front system development work, as some of that work has already been completed to allow existing couples to opt-in to Independent Taxation in the years of assessment 2022 and 2023.

However, the real costs of running two systems in parallel would come further down the line:

- Two IT systems would need to be maintained. Every system update (approx. four per year) would require twice the amount of resource in the testing team, not to mention at least double the supplier development costs.
- Revenue Jersey officers would need to be trained on two separate forms of taxation for the foreseeable future.
- All communications issued by Revenue Jersey would need two versions, or each communication would need to be caveated to explain that some rules are different for certain groups of taxpayers. Revenue Jersey has recent experience of how unclear messaging increases call volumes and footfall, diverting officers from core assessing and compliance work.
- Maintaining a Jersey-specific add-on element to the more usually adopted (worldwide) personal taxation rules would significantly limit the options, and increase costs, when the existing tax system needs to be replaced in future years.
- It may also cause unnecessary complexity as we seek to move to more digital Government, with each person having their own digital identity for the purpose of accessing Government services. On the other hand, the move to mandatory Independent Taxation would help ensure that the forthcoming online tax accounts can adhere to data protection rules.

Example: introducing the current year basis of payment

Let me give you an example of when maintaining two systems at the same time created real difficulties for Revenue Jersey and its customers. In 2006, the current year basis (CYB) of payment of tax liabilities was introduced at the same time as the introduction of the Income Tax Instalment System (ITIS). CYB applied only to those taxpayers who arrived in Jersey, or who started paying income tax, after 31 December 2005. All existing taxpayers remained on a previous year basis of payment (PYB).

For around 15 years, Revenue Jersey wrestled with two payment bases. Each IT system upgrade had two elements to it; each set of letter templates had two versions; in public communications, the department had to caveat that the rules were different depending on the taxpayer's payment status, bringing confusion to otherwise straightforward messages. It was only with the Covid pandemic that the opportunity arose to align all taxpayers on the same payment basis. Tax administration has become simpler as a result of the move to CYB for all taxpayers, but the Treasury debt team will be collecting the residual 2019 liability for many years to come.

In delivering Independent Taxation, we have an obvious motivation to learn from the challenges of the past.

Stage 1 of Independent Taxation

We must not forget that there are already married couples and civil partners who have been mandatorily included within Independent Taxation since the first stage of the legislation came into force on 1 January 2022.

That cohort of newly married couples and new arrivals join those who have volunteered into Independent Taxation. If Independent Taxation is not made mandatory, careful consideration will need to be given to those couples, including whether to offer a return to married taxation and how the compensatory allowance would work (the draft legislation would only permit the compensatory allowance to couples in the tax system before 1 January 2022).

Many of those who have volunteered into Independent Taxation would have made that decision on the basis that Independent Taxation would become mandatory, at which point the compensatory allowance would be made available for those who need it.

'Grandfathering' married taxation for pensioner couples

There has been a suggestion that the optionality could be limited to older taxpayers, perhaps to pensioner couples. It is true that this approach would limit the accessibility of married taxation to a more manageable group that will naturally decline in size over time.

Creating a bespoke system for a smaller proportion of the overall population is more inefficient still. It also misses the key objective to bring equality to the tax system regardless of one's marital status. A voluntary element would lead to higher one-off and ongoing financial costs, as detailed above. While I would hope that cases would be few, we cannot discount that some spouses may be coerced into continuing with married taxation as a means of exerting control over them and their finances.

In some cases, a spouse who has never completed a tax return cannot be indefinitely shielded from that obligation. They may have to do so if their partner, who has dealt with the combined tax return, passes away and they become liable to file a return as the surviving spouse. This unfortunate scenario happens to widows, widowers and surviving civil partners every year.

Support for customers

Nevertheless, I believe Deputy Farnham has raised a valid issue about the unsettling effect these changes may have on a minority of couples. The same concerns have been raised at the Personal Tax Community Helpdesk events, which have taken place in Parish Halls and other locations across the Island since September last year. Revenue Jersey officers have looked at the data to help understand how those challenges can be addressed.

Data from 2021 shows that there are 5,000 or so pensioner couples in the income tax system. In around 70% of those couples, one of the spouse's/partner's income is forecast to be consistently below the current personal tax threshold. That means work could be undertaken to remove them entirely from the requirement to file before Independent Taxation is made mandatory.

That exercise would leave a group of pensioners to whom additional customer support can be targeted, if it is required. The support would build on the more user-friendly online facilities and on the Parish Hall events.

As indicated above, Revenue Jersey has regular experience in handling inexperienced filers, in the unfortunate circumstance of the death of a spouse, for example. Newly widowed customers are asked to file a tax return, so this scenario is not unique to Independent Taxation, although the timing and scale will be different.

Conclusion

I hope I have demonstrated my understanding of the issue that was raised and also given the Panel clarity about my views and why I consider that we must introduce a mandatory move to Independent Taxation. I am also committed to ensuring that there is additional customer support available for taxpayers who may need it after the move.

On a related note, I understand officers sent an annotated version of the draft law on 15 March 2023. A near-final draft will be available in due course. It is our aim to lodge and debate the draft law before the summer recess.

If you require any further information, please contact me.

Yours sincerely

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

Deputy Elaine Millar
Assistant Minister for Treasury and Resources

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