

# STATES OF JERSEY



## **DRAFT BUDGET STATEMENT 2014 (P.122/2013): FOURTH AMENDMENT (P.122/2013 Amd.(4)) – COMMENTS**

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**Presented to the States on 2nd December 2013  
by the Minister for Treasury and Resources**

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**STATES GREFFE**

**COMMENTS**

**Draft Budget Statement 2014 (P.122/2013): fourth amendment**

**(a) Higher Child Allowance**

After the words “as set out in the Budget Statement” insert the words –

“except that –

- (a) the higher child allowance (comprising the additional tax relief of £3,000 proposed in the draft Budget Statement and the existing £6,000 allowance making a total of £9,000) for the year of assessment 2014 due to taxpayers whose income for 2014 falls below the income tax exemption thresholds with children over the age of 17 in higher education, may, by agreement, be wholly or partly transferred to a relative (including grandparents) of the tax exempted taxpayer, who has provided financial support to a child relative under 25 years (including grandchildren) for higher education purposes and such relative shall then qualify for this income tax relief;

<b>Recommendation</b>	<b>Summary of Key Points</b>
Strongly Opposed	<ol style="list-style-type: none"> <li>1. The amendment, whilst well intentioned, effectively reintroduces the same issues as existed with the deed of covenant scheme that was abolished in 1994.</li> <li>2. Contrary to move towards simplification of the income tax system.</li> <li>3. Potential for tax relief to be claimed and granted in the absence of any financial support being provided.</li> <li>4. Application of the legislation would be administratively complicated for the small number of taxpayers who may benefit from this proposal.</li> </ol>

**Cost: £538,000.**

1. The good intentions for the proposed amendment are understood and accepted. On the surface this amendment was regarded as attractive until further analysis was carried out.
2. The higher child allowance was introduced in 1994 as compensation for the abolition of deeds of covenant that parents entered into to help their children through higher education.

3. The deed of covenant scheme was abolished as there was evidence that some parents were not making payments in accordance with the scheme rules; however, claims for tax repayments under the scheme were still being made.
4. The Deputy's amendment makes provision for households who are unable to benefit fully from the higher child allowance because their income tax allowances exceed their gross income, and they therefore fall below the tax exemption threshold to allow such households, by agreement to reallocate all or the excess part of the higher child allowance which they cannot utilise, to a family member (including grandparents) who has provided financial support to their child relative under 25 years of age for higher education purposes.
5. The proposed scheme under this amendment could create similar issues to those encountered with the deed of covenant scheme that was abolished.
6. The proposal is complex, will be difficult to administer and could be subject to abuse.
7. Unfortunately there are a number of additional concerns –
  - Terms such as household, family member and financial assistance would need to be clarified in legislation.
  - It could simply be used as a tax planning mechanism in absence of evidence to demonstrate provision of financial support.
  - There would be an increased administrative burden for the Taxes Office, in that Officers would need to be able to establish how much financial support was provided by grandparents/relatives.
  - Potentially, the transfer of excess of the enhanced child allowance could be higher than the amount of the financial support given.
  - The allowance could be relinquished to more than one relative.
  - It opens up the possibility of surrendering allowances in general terms.

**(b) Tax Relief on Lump Sum Donations to Local Charities**

- (b) the estimate of income from taxation during 2014 shall be decreased by £20,000 by reducing the *de minimus* limit on charitable donations on which the charity may reclaim the tax applicable from £100 to £50;

<b>Recommendation</b>	<b>Summary of Key Points</b>
Accepted	<ol style="list-style-type: none"><li>1. Charity will benefit from more donations and the associated tax rebate.</li><li>2. Limited administration issues for Taxes Office.</li><li>3. Supports the proposed new Charitable Purposes Law.</li></ol>

**Cost: £20,000.**

1. It is proposed to reduce the requirement for a taxpayer making a donation to a local charity to have been resident in the Island for 3 years. The minimum donation to qualify for the Lump Sum Donation Scheme is currently £100.
2. The Deputy's amendment sets to reduce the *de minimus* level at £50.
3. It may be that individuals who had in the past donated £100 to charity may reduce their donation to £50 because of the lower limit.
4. Alternatively, it may be that those same individuals would split their donation into 2 x £50, thereby benefitting 2 local charities who would receive, in addition to the donation, a tax rebate of £12.50 each.
5. There would be limited administration issues for the Taxes Office in this proposed amendment.
6. The proposed new Charitable Purposes Law is proposing to extend the definition of charity to include sporting bodies, clubs and associations. Reducing the *de minimus* limit from £100 to £50 will make charitable giving to these bodies more affordable, which will give them greater scope for funding opportunities.

**(c) Extension to the purposes of mortgage interest on main residence qualifying for tax relief.**

- (c) mortgage interest relief shall be extended for the year of assessment 2014 on loans for purposes other than the acquisition and extension of the taxpayer's principal personal residence so that it is available for home improvement works and home energy efficiency measures carried out by local contractors subject to limits on loan interest eligible for these additional purposes, interest limits to be based on a loan of £30,000 for home improvements and a loan of £20,000 for energy efficiency measures;

<b>Recommendation</b>	<b>Summary of Key Points</b>
Opposed	<ol style="list-style-type: none"><li data-bbox="667 853 1410 920">1. The proposal would be better dealt with under a grant system.</li><li data-bbox="667 954 1410 1021">2. The tax system should not be encouraging people to take on debt for a tax advantage.</li><li data-bbox="667 1055 1410 1189">3. Energy efficiency is already encouraged by the States through an annual grant of £1 million in support of the Department of the Environment's energy efficiency service.</li></ol>

**Cost: £585,000 (per Deputy Young).**

The proposed amendment to the Income Tax Law would allow tax relief on interest paid on loans to a maximum of £30,000 for home improvement works and a maximum of £20,000 for home energy efficiency works.

Home energy efficiency works

1. The States of Jersey already encourages energy efficiency through a grant of £1 million per annum in support of the Department of the Environment's energy efficiency service. To date, this grant has been used to support low-income families and pensioners by ensuring their homes are provided with improved insulation and other energy efficiency measures where appropriate. For the forthcoming 5 years, the draft energy plan "Pathway 2050" outlines a programme of work to expand these initiatives into the "able to pay" market, which will support all Islanders in making energy efficiency improvements. Ministers believe that the continuation of this grant is a better way to encourage home energy efficiency in Jersey, rather than through providing additional interest tax relief.

2. Whilst the States will always encourage homeowners to make their property energy efficient, a grant system would be preferable to a system that may encourage people to take on debt to secure a tax advantage.
3. High administrative burden for the Taxes Office due to compliance checks on the validity of claims.
4. The proposal would be better dealt with under a grant system, as some quality control would be involved; in addition, a grant system would benefit those individuals who do not pay income tax.

Home improvement works – why the proposal is not supported

1. It would only benefit those individuals with a capacity to borrow.
2. Home improvement not clearly defined.
3. Local contractor not defined.
4. There is already a provision in the legislation for the cost of tax relief on extensions, e.g. dependant relative accommodation.

**(d) Tax relief for private health insurance premiums**

(d) health insurance premiums paid shall qualify for relief from income tax for the year of assessment 2014;

Recommendation	Summary of Key Points
Strongly Opposed	<ol style="list-style-type: none"><li>1. Do not want to reverse the policy principal made under “20 means 20”.</li><li>2. Likely to favour those persons most able to afford private medical insurance.</li></ol>

**Cost: £2.2 million.**

1. The Deputy’s proposed amendment seeks to restore the tax relief on private health insurance premiums for all taxpayers.
2. No clear factual evidence to indicate a decline in medical insurance being related to withdrawal of tax relief.
3. In fact there are a significant number of employees who are covered under their employer’s group medical insurance scheme.
4. The proposal does not seek to support the long-term policy of simplifying the tax system; this is not supported by re-introducing or introducing allowances.
5. The States’ decision on capital spending to build a new hospital for the Island will benefit all rather than allowing a targeted relief for those individuals who can afford private health insurance.
6. Likely to benefit those with higher incomes.
7. This would reverse the policy principal made under “20 means 20”.
8. Re-introducing allowances does not support the long-term policy principal to simplify the tax system.

### **General comments on part (e) and part (f)**

1. Members are asked to refer to previous comments made, concerning both the introduction of new exemptions for GST and the desire to keep GST broad-based, low and simple (see Deputy Southern's first proposed amendment), and the preference of Ministers to deal with energy efficiency measures through a grant system rather than through the tax system (see Deputy Young's proposal to extend mortgage interest tax relief).
2. The proposition appears to misunderstand the distinction between items that are zero-rated and exempt. At page 7, the list of supplies shown as being exempt and zero-rated is not correct. They should be listed the other way round: what are headed as exempt supplies are in fact zero-rated, and those headed as zero-rated are in fact exempt. Further details can be found in the Goods and Services Tax (Jersey) Law 2007 – exempt rate supplies are listed under Schedule 5 of the Law, and zero-rated supplies are listed under Schedule 6.



**(e) GST Zero rating of expenditure on the installation and maintenance of energy conservation measures from local suppliers and contractors**

(e) the estimate of income from taxation during 2014 shall be decreased by £1,000,000 by zero-rating or exempting from Goods and Services Tax from 1st July 2014 any expenditure on the installation and maintenance of energy conservation measures (including plant, equipment and materials) from local suppliers and contractors;

Recommendation	Summary of Key Points
Strongly Opposed	<ol style="list-style-type: none"> <li>1. Would complicate GST legislation which is broad-based, simple and low.</li> <li>2. The proposal would be better dealt with under a grant system.</li> <li>3. No guarantee of price reduction passed onto consumers.</li> </ol>

**Cost: up to £1 million.**

1. The proposition appears to attempt to zero-rate or exempt the installation and maintenance of a specific list of energy-saving goods, but only when supplied and fitted by local suppliers/contractors.
2. The same goods would not be eligible for zero-rating if supplied in the same state and fitted as a DIY project or by a non-GST registered business.
3. The proposition appears to distinguish between installers who are local and those who are not. That, if adopted, would breach one of the OECD GST/VAT Guidelines, which precludes discrimination of an entity solely on the grounds that it is not established in the country in which work is performed. This removes one of the main reasons for adopting the proposition.
4. The Deputy has provided an illustrative list of eligible goods and expects the Taxes office to finalise it based on his intentions – so further work would be required.
5. Even if discrimination was not a problem, this form of exclusion is beginning to sound quite complicated and will create compliance and administration costs.
6. It would appear far more sensible to introduce some form of improvement grant system to reimburse property owners for part of the cost.

**(f) GST Zero-rating of purchase of Ultra Low Emission Vehicles (ULEVs) (<75g/kg CO2 emissions)**

(f) the estimate of income from taxation during 2014 shall be decreased by £200,000 by zero-rating from Goods and Services Tax from 1st July 2014 on the purchasing, importation and leasing of Ultra Low Emission vehicles (vehicles falling within the definition of the UK Office for Low Emission Vehicles, currently an emission level below 75g/Km of CO2).”

<b>Recommendation</b>	<b>Summary of Key Points</b>
Opposed	<ol style="list-style-type: none"><li>1. The proposal would complicate GST legislation, which is broad-based, simple and low.</li><li>2. VED Scheme <u>already</u> recognises the benefits of low-emission vehicles.</li></ol>

**Cost: £200,000.**

1. Currently these types of vehicles are not popular – unit sales in Jersey and elsewhere are low mainly due to high cost, and in the case of electric vehicles, requirements for charging.
2. It is doubtful that if GST were removed this would encourage the sale of many extra ultra-low-emission vehicles.
3. The VED Scheme already recognises the benefits of low-emission vehicles.
4. The Transport and Technical Services Department have also introduced incentives for such vehicles through a reduction in parking charges.

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**Statement under Standing Order 37A [Presentation of comment relating to a proposition]**

The Minister apologises to the Assembly for the lateness of these comments, which was due to extra work being done to make sure that these were as useful as possible to all States Members.