STATES OF JERSEY

DRAFT BUDGET 2012 (P.159/2011): THIRD AMENDMENT (P.159/2011 Amd.(3)) – COMMENTS

Presented to the States on 7th November 2011
by the Minister for Treasury and Resources

STATES GREFFE

COMMENTS

The amendment requests the Minister for Treasury and Resources –

- Part (b): To present a long-term tax policy to the States no later than September 2013 which supports the simplification of Jersey's tax regime as set out in the draft 2012 Budget; and
- Part (c): Not to bring forward any further proposals to increase tax until a fully comprehensive and inclusive long-term tax policy has been agreed by the States.

Part (b): The Minister for Treasury and Resources has already committed in the draft 2012 Budget to prepare the principles of a long-term tax policy and to review those elements set out in the draft 2012 Budget statement. As such, he accepts the amendment, subject to a number of provisos set out below.

Part (c): The Minister for Treasury and Resources does not support this part of the amendment on the basis that –

- It is inappropriate for an outgoing States Assembly to seek to bind the ability of its successor to raise taxes for the first 2 years of its life;
- Given the current fragile economic position, it would be irresponsible to remove the ability of a Minister for Treasury and Resources to respond to sudden changes in the economic climate;
- If the States voted to reduce taxes in one area or to increase expenditure, the Minister for Treasury and Resources could not increase taxes to compensate, forcing the States instead to turn to increased spending cuts over those already planned as part of the Comprehensive Spending Review, drawing on reserves, increasing Social Security or borrowing.
- Each of these would represent a change in current policy, which should be debated by the States after sufficient research into the impact.
- Under the medium-term financial plan, if the States vote to increase spending, they must also approve a corresponding cut in expenditure or increased taxes. This amendment if approved would force the States to cut spending as the option of increasing taxes would not be available.

Comment

Part (b)

In many ways Jersey already has a long-term tax policy, on which the States has had the opportunity to vote on many occasions. Features of this policy include –

- A single low personal tax rate, with the effective rate rising as income increases.
- A simple company tax regime with an internationally competitive rate of tax while maintaining the ability to offer tax neutrality.
- A broad-based system of GST with a single low rate as a result of a minimum of exemptions.

That said, it is recognised that aspects of the tax law have become complex, whether by intention or otherwise. There have also been many requests to the Minister for

Treasury and Resources to consider using the tax system to deal with social issues and there is no coherent policy on that.

The recently appointed Tax Policy Unit has been tasked with identifying the principles underlying Jersey's long-term tax policy and, from that, to develop tax legislation to deliver those principles. Work on this has already begun, and preliminary indications are to be presented to the new Council of Ministers before the end of the year. As such, the Minister for Treasury and Resources considers it should be possible to present the States with a formal long-term tax policy by September 2013.

The Minister would however note the following –

1. Accepting this part of the amendment does not imply a commitment to undertake another full-scale Fiscal Strategy Review (FSR).
2. The Minister for Treasury and Resources does not consider that the reviews into tax policy which have been undertaken to date, namely the FSR and the business tax review, are in any way uninclusive or uncomprehensive.
3. The 2012 Budget statement sets out the areas which are immediate priorities, and which the Minister fully expects to see through. However, changes in the international environment, global and local finances and other unforeseen events may lead to these priorities being reassessed. The Minister for Treasury and Resources of the day needs to have the flexibility to respond to changing circumstances.
4. The 2012 Budget statement identifies those priorities that need to be reviewed. Having undertaken a full and thorough review, the Minister for Treasury and Resources must be able to act based on that advice in the best interests of the Island.

Finally, the Deputy suggests that a decision to increase GST is the "easy option". She later notes that States Members are not experts in economics. However, States Members should be able to rely on the advice of those economic experts who have advised on the Jersey tax system during the FSR. Their advice was that that GST is the "best" tax from an economic perspective, in that it distorts economic activity the least and is least damaging to business.

Part (c)

The Minister for Treasury and Resources opposes this part of the amendment.

If adopted, this part would prevent the Minister for Treasury and Resources of the next States Assembly from raising taxes for at least the next 2 years.

It is not appropriate for an outgoing Assembly to tie the hands of its successor in this way. The future Minister for Treasury and Resources and the new States must have a free hand to act as they see fit.

Finances

If this part of the amendment were approved, the incoming Assembly would be unable to increase States revenues for at least two-thirds of its term of office, regardless of the economic climate then prevailing. The global recovery is fragile at best, and a doubledip recession cannot be ruled out, a point acknowledged by the Fiscal Policy Panel (FPP). Removing the Minister for Treasury and Resources' flexibility to respond to sudden changes in our financial position would be dangerous for our short-term and long-term stability.

If the States voted to reduce taxes in one area, the Minister for Treasury and Resources could not increase another to compensate. Effectively, any funding shortfalls would have to be met through increased spending cuts, calling on our reserves, increasing Social Security or borrowing. There are difficulties with each option –

- Achieving significant spending cuts in the short term will be more difficult following the implementation of medium-term financial planning, since the States will commit to its expenditure for 3 years at a time.
- The FPP counsels against diminishing reserves at this time, and States policy is clear that the Strategic Reserve is provided for significant structural changes, not temporary events.
- The ability to fund shortfalls through increases in Social Security is limited, as funding is ring-fenced for purposes set out in the Social Security Law. The only other option would be to reduce the cost of supplementation funded from central revenues.
- Jersey has resisted the temptation to borrow to fund current deficits to date. This is one of the reasons for the relative resilience of Jersey's public finances during the ongoing global economic turmoil. Members will be aware of the difficulties faced by other territories, large and small, as a result of the public debt they carry. Borrowing to fund ongoing revenue deficits can quickly become uncontrolled debt.

Adopting any of these options would represent a significant change in States policy. A change of this magnitude should only be undertaken as a result of careful consideration and research. Adopting this part of the amendment would mean that if a Minister for Treasury and Resources needed to fund a deficit through one of the above, the change would be rushed, unconsidered, and with a minimum of reflection on the long-term impact for Jersey.

Under the medium-term financial plan, if the States vote to increase expenditure they must also increase taxes or reduce expenditure in other areas to compensate. If this part of the amendment were adopted, the States would effectively be barred from turning to taxes and would be forced to reduce expenditure.

Financial implications

There are no immediate financial implications from adopting this amendment. However, if the States were to vote to reduce taxes or increase spending in one area, the Minister for Treasury and Resources would be prevented from increasing other taxes to compensate. This would lead to a fall in revenues.

The Minister for Treasury and Resources urges Members to reject this amendment.

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

These comments were late in distribution due to the Minister for Treasury and Resources having had limited opportunities to consider his response and to consult with the Council of Ministers, following the States' decision to sit in the week commencing 31st October 2011.