

STATES OF JERSEY



DRAFT BUDGET STATEMENT 2009 (P.158/2008): SECOND AMENDMENT (P.158/2008 Amd.(2)) – COMMENTS

**Presented to the States on 1st December 2008
by the Minister for Social Security**

STATES GREFFE

COMMENTS

Introduction

Deputy Ferguson has lodged amendments to P.158/2008 – Draft Budget Statement 2009 and to P.163/2008 – Income Support and GST food costs bonus: additional funding.

These 2 amendments form part of a single proposal– to reduce the amount available to the Income Support scheme by £486,000 and increase the amount available to marginal taxpayers by the same amount, from the total allocation of £5.8 million agreed in P.138/2008.

For the sake of clarity, the same comment is presented against both amendments, to provide Members with full information on the consequences of the proposals.

Existing measures to compensate for introduction of GST

It is important to differentiate between the steps that have already been taken to protect a wide range of local residents from the impact of GST and the aim of Deputy Le Fondré's proposition, P.138/2008.

As explained by Deputy Ferguson in her report, £1.75 million was allocated to increase Income Support components to fully protect Income Support recipients from the introduction of GST and was paid from May 2008. In addition, the GST rebate scheme provides a fixed annual benefit to households who do not benefit from the increased income support payments and do not pay income tax. The value of the rebate in 2009 was due to be just over £75, representing the annual average cost of GST on food items to an average family. The proposal in P.163/2008 is to use part of the allocation of the £5.8 million to increase this sum in 2009 to £150.

Whilst Income Support recipients benefited from the increases; and those neither paying tax nor in receipt of Income Support benefited from the introduction of the GST Bonus in 2008, equally marginal rate taxpayers benefited from an increase to tax thresholds of 6.5% in 2008.

Those marginal rate taxpayers will benefit by a further increase of 5% in the tax thresholds for 2009. The 5% increase in 2009 is made up of 3% in the original Treasury proposals, and an additional 2% funded from part of the allocation of the £5.8 million.

The only group of households who have not been compensated in some way for the introduction of GST are those households paying full rate income-tax.

Increased food and fuel prices

The main thrust of Deputy Le Fondré's proposition, accepted by the Assembly, was that –

“...steps should be taken to assist the public in dealing with the significant worldwide rise in food and fuel prices during recent months, and the consequential effect upon the basic cost of residing in Jersey.”

He also argued that –

“... it is also recognised that food and fuel do form a proportionately greater share of the expenditure of the poorer members of our Society.”

The allocation of the £5.8 million as proposed by P.163/2008 acknowledges these arguments and proposes that £3.4 million should be allocated to assist those below the income tax threshold, with £2.4 million allocated to assist those paying marginal rate income tax. These sums are not a compensation for GST, which has already been covered; they are an acknowledgement of the pressures put upon families with less disposable income to cope with the increasing prices of basic goods and services.

Impact upon families

The P.163/2008 proposals will improve benefits for approximately 4,200 Income Support households. These are households with the lowest disposable incomes. Over one third of these households are pensioner households, and a further 30% are families with children. By contrast, there are currently over 30,000 individuals and households liable for marginal rate tax. These households have higher incomes. The average additional benefit received by a taxpayer under Deputy Ferguson's amendment is less than £20 per annum, whereas the impact of Deputy Ferguson's amendment is to reduce the level of benefits across all income support households.

Using the examples provided in the report to P.163/2008, typical households in receipt of Income Support would be affected as follows –

<i>Household type</i>	<i>P.163/2008 Weekly additional benefit</i>	<i>Deputy Ferguson's proposals</i>	<i>ANNUAL loss as a result of Deputy Ferguson's amendment</i>
Pensioner, receiving a pension	£6.44	£5.32	£58.24
Pensioner couple, both receiving pensions	£10.36	£8.47	£98.28
Pensioner couple, both receiving pensions, one with high personal care needs	£17.36	£15.47	£98.28
Parent family, no earnings, one child, weekly maintenance	£7.10	£5.49	£83.72
Working family earning £400 per week – 2 adults, 2 children	£19.71	£16.84	£149.24
Working family earning £300 per week, 2 adults, one with a disability	£22.71	£19.84	£149.24
Single person, no earnings, 60% LTIA	£6.63	£5.51	£58.24
Single person, with disability, living with parents	£7.98	£7.21	£40.04
Single person	£1.47	£0.35	£58.24

From the table, it is clear that those most adversely affected by Deputy Ferguson's proposed changes are families with children and pensioner couples. Although pensioners and families make up 64% of the households that will receive extra Income Support, these households will bear 77% of the reduction in benefit suggested by Deputy Ferguson.

Conclusion

The transfer of £500,000 from Income Support beneficiaries to marginal rate taxpayers will reduce the benefits available to the poorest families in Jersey, hitting pensioners and families with children and will only provide a very small improvement to the tax position of middle income families.