

# **STATES OF JERSEY**



## **BUDGET 2006: SEVENTH AMENDMENT**

---

**Presented to the States on 30th November 2005  
by Deputy G.P. Southern of St. Helier**

---

**STATES GREFFE**

BUDGET 2006: SEVENTH AMENDMENTS

---

PAGE 2 –

(a) *In the estimate of income from Income Tax –*

Reduce the estimate by £1.7 million by increasing –

- (a) the single person's tax exemption threshold from £11,020 to £11,240;
- (b) the married person's tax exemption threshold from £17,680 to £18,030;
- (c) the tax exemption threshold increment in the case of a single person aged 63 or more from £1,280 to £1,310;
- (d) the tax exemption threshold increment in the case of a married person aged 63 or more from £2,570 to £2,620;
- (e) the maximum child care relief from £6,150 to £6,270.

(b) *In the estimate of income from Income Tax –*

Increase the estimate by £1.7 million by –

Imposing a higher rate of income tax of 22% on income over £100,000 for those taxpayers whose total income exceeds that sum.

DEPUTY G.P. SOUTHERN OF ST. HELIER

## REPORT

I have brought this amendment to protect those taxpayers on lower incomes from the full effect of the budget. The effect of this amendment is to increase small income exemptions (applicable to those taxpayers on relatively low incomes) by 2% in line with the September 2005 RPI. Members will be aware that the Finance and Economics Committee's proposal to freeze allowances for a seventh year in succession, with a partial indexing in 2003, will have the effect of increasing the tax paid by all those on marginal rates who receive a cost of living increase in the year. It will also bring a number of those on relatively low earnings into taxation. The overall effect of freezing these exemptions is to increase revenue from this section of society by some £1.7 million.

Over the past 7 years the Finance and Economics Committee has succeeded in bringing an ever greater number of those on low incomes into income tax. The 2002 Income Distribution Study (IDS) reveals that 24% of the Jersey population of both people (20,290) and households (8,520) exist below the E.U. and U.K. accepted thresholds of low income after housing costs (AHC). These are households with average annual pre-benefit incomes of £13,500. Do we really wish to bring these 20,000 people into taxation? Shall we actually give benefits with one hand, only to take it back with the other? I believe that the time has come to stop this search for increased tax from those on ever lower incomes.

The measures outlined in this budget, and the many of the possibilities that are under consideration, are largely regressive in their effects.

The rise in impôts duties – clearly regressive in terms of tobacco and alcohol duty, in that spending on these items will constitute a greater proportion of the budget of those who are the least well-off. Additional duty on petrol will increase transport costs and (in all probability) inflation, which will hurt those least able to afford it.

Freezing income tax exemptions is clearly a regressive measure designed to bring a new tranche of the relatively low-paid into taxation. It affects those on low to middle incomes far more than those who are better-off. The Comptroller of Income Tax estimates that the freezing of income tax exemptions and allowances over the years 2001 and 2002 raised an extra £10 million in revenue. Of this, £8 million came from those on marginal rate, i.e. those on lower incomes. He estimates that freezing income tax exemptions again in 2006 will generate an extra £1.7 million.

With a Goods and Services Tax (GST) in whatever form seen as the only mechanism for raising additional revenue, there are no progressive measures under consideration at all. GST is undeniably a regressive tax, which would most hurt those who currently do not earn enough to pay tax, the poorest on the Island. This regressive nature is reflected in the additional £2 million compensation in the proposed income support scheme. And yet, the freezing of exemptions has greatest impact on a similar group of people, those just below the current tax threshold who will begin to pay income tax for the first time, and those just into tax, who will see their tax bills soar.

I believe that we have to consider progressive taxation measures to solve our long-term problems in generating sufficient revenue to meet our needs. They will not be the only solution, but they must form part of the solution. In the short term, I believe we cannot continue to increase the burden on those who are less well-off at the expense of the better-off. This is the inevitable consequence of freezing income tax exemptions and allowances for another year. This proposal does not propose a cut in revenue, but a redistribution of the tax burden. In order to raise the £1.7 million required to compensate for the uprating of income tax exemptions, as outlined in part (a) of the proposition, my calculations indicate that a new rate of 22% needs to be levied on incomes over £100,000.

According to OXERA in 2002, there were some 200 households with personal annual incomes over £250,000, and fewer than 100 with personal annual incomes over £500,000. In discussing the possibility that some of these households might simply leave the Island, the OXERA report admits that there is no precise data on the potential mobility of Jersey residents, but suggests that the relatively rich will be the most mobile. They point out, however, that even under a scenario of much larger tax rise (up to 39% on incomes over £100k), a household on £120,000 annual income would still be almost £10,000 better off than in the U.K. Under the proposals contained in this proposition, a household on £120,000 income would pay an additional £400 in income tax.

For those who might think that this is a dangerous step to take, having heeded the oft-repeated mantra of those

whose immediate response to any talk of truly progressive taxation is issue warnings of an exodus of the wealthy from our shores, I quote from a letter from the former chief advisor, Colin Powell sent on 23rd April 2004 on this very subject to John Whiting as part of his investigation into taxation policy –

*“If a higher tax charge is imposed on those with high incomes, most of the island’s wealthy residents can be expected to stay... .. In the past, individual wealthy residents have said to me that they would be prepared to pay 25% tax rather than the present 20% and if the island reduced it’s entry requirements, there are probably many who with that rate of tax would still want to come and live here for the overall quality of life.”*

### **Financial and manpower considerations**

There are no financial implications. The proposition is revenue neutral. It is not thought that there would be any long-term manpower implications arising from this proposition.