

# STATES OF JERSEY



## **GOVERNMENT PLAN 2021-2024 (P.130/2020): FOURTH AMENDMENT (P.130/2020 AMD.(4)) - COMMENTS**

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**Presented to the States on 11th December 2020  
by the Council of Ministers**

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**STATES GREFFE**

## COMMENTS

**The Council of Ministers opposes this proposal and urges States members to reject the Amendment.**

### Conclusions

- The headline 20% tax rate has been a critical foundation of the Island's successful economy for decades, Ministers are wary about making changes to this structure without fully understanding the impacts upon the competitive standing of our economy amongst similar jurisdictions, particularly in these highly uncertain times.
- A 5 per-centage point increase in income tax for the top 10% of people who pay income tax (who contribute around half of personal income-tax receipts) represents a 25% increase in their taxation. It is difficult to model the impact on the behaviours and choices of existing islanders or how this may affect the decisions of businesses considering a move to Jersey.
- Work on the structural aspects of the personal tax review should be completed before any decisions on rates are made.
- A specific proposal of this proposition – and a transitional step to Independent Taxation - was for married couples/couples in civil partnerships to be given joint access to personal tax information. This change is included in the current Finance Law.

### Background

- Around 5% of taxpayers contribute about a third of personal income tax receipts; around 10% contribute about half of the receipts; and around 20% contribute about two thirds. The 20% of lower-income households who do pay tax contribute around 2% of receipts. It is estimated that around a third of adult islanders/taxpayer-households do not pay tax on account of the tax exemption thresholds.
- The top 12% of taxpayers currently pay 50% of all personal income tax and this relative reliance on a small group of individuals is likely to increase significantly under the terms of the amendment. Any behavioural change amongst even a proportion of this group could significantly reduce the States' revenues. This risk requires careful consideration and consultation - particularly with Jersey businesses and the finance sector, in order to ascertain how the proposals may impact the supply of skilled labour to the Island.
- The net gain of £7.5 million represents a very small percentage increase (less than a 2% increase) in personal income tax revenues considering the fundamental nature of the change being proposed and the potential impact on the competitive position of the Island's tax system.

- As part of this review, P119/2019 was debated in February 2020, and the States Assembly gave overwhelming support to the introduction of a system of Independent Taxation and reform of married-man's taxation.
- It remains the Government's intention to introduce a system of Independent Taxation from 1 January 2022.
- A system of Independent Taxation requires careful consideration of the transition of lower-income households who may otherwise be significantly disadvantaged by the new system.
- Structural issues exist. Firstly, the removal of the Prior Year Basis of paying taxes considerably smooths the way towards Independent Taxation. Secondly, it remains to be decided how child-related allowances and reliefs currently given through the tax system should be made in future and for which further data modelling and consultation is required. Thirdly, consideration of the role of Marginal Relief will need to be addressed within a scheme of Independent Taxation.
- Only when these structural issues are resolved can questions of rates be considered. Otherwise, we risk changing the rate of personal income tax again when other, precursory, questions around Independent Taxation are settled.
- This proposition may also impact the yield of Long-Term Care contributions. LTC contributions mirror the tax system (up to the income cap that applies for LTC purposes), so changes to the income tax system will automatically result in changes to LTC contributions, and in particular, a loss LTC revenue from taxpayers paying marginal rate tax.

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

These comments were submitted to the States Greffe after the noon deadline as set out in Standing Order 37A due to final due diligence and checking taking place.