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QUESTIONS TO BE ASKED OF THE PRESIDENT OF THE FINANCE AND ECONOMICS COMMITTEE ON TUESDAY, 4th NOVEMBER 2003 BY DEPUTY G.P. SOUTHERN OF ST. HELIER

Question 1

In the light of the decision to reduce the "benchmark" of a £250,000 annual tax bill for 1(1)(k) residents to what has been described as a "six figure sum" by the President of the Housing Committee, will the President inform members -

(a) How many 1(1)(k) residents paid personal or company tax in 2002?

(b) What was the total tax paid by these 1(1)(k) residents in 2002?

(c) How the "benchmark" figure has changed throughout the period since the legislation was enacted?

(d) To what extent has the "benchmark" been negotiable?

Answer

(a) 136.

(b) £10.7 million in tax was paid in 2002 by 1(1)(k) residents either in a personal capacity or through their companies and trusts.

(c) Regulation 1(1)(k) was effective from December 1970. There are no precise financial limits set out in these regulations but the policy requirement at that time was that a tax contribution of £2,000 was expected of a potential 1(1)(k) resident. In September 1972, the tax contribution was increased to £3,000 per annum, in May 1973 to £4,000 per annum and in July 1973 to £10,000 per annum. In the 1980's the fixed sum was abandoned but, in practice, there was an expectation of a tax contribution of at least £16,000 - £20,000 per annum. More recently, that expectation had increased to £250,000 per annum with the addition of Jersey RPI plus 2 per cent on an ongoing year by year basis. However, in the last 3 years or so, the U.K. Stock Market has suffered a significant decline, albeit with a rise in the last few months, and interest rates are at a 40 year low, so the tax contribution expected of a potential 1(1)(k) resident has been reduced accordingly to reflect these market realities.

(d) As the previous answer illustrates, the 'benchmark' has changed from time to time and it can be varied according to particular circumstances. It must also be remembered that it is not just the tax contribution that 1(1)(k)'s make that is so important. Many 1(1)(k)'s also provide employment opportunities for local residents, use restaurants and shops, and many have made, and continue to make, substantial donations to local charities.

Question 2

(a) Does the President accept that the data revealed in Table 9 of the Jersey Income Distribution Survey 2002, summarised below, demonstrates that our current tax and benefit system fails to compensate for the high cost of housing in the island?

Composition of household weekly income by quintile group (after housing costs)

	Bottom 20%	Top 20%	Ratio (top / bottom)
Pre-benefit income	£245	£1,703	6.9
Net income (after housing costs, benefits & tax)	£154	£1,361	8.8

(b) When examining the impact of taxation on low income households, what measure of relative low income does the Committee intend to use?

Answer

(a) Deputy Southern received an answer to a very similar question on 21st October 2003.

It would be misleading in my view to set targets for welfare policy based just on estimates of statistical averages for particular household groups in the Island.

The statistics which have been included with this question represent one source of information on relative incomes between groups of households. However, there are other data which might equally be used.

Members will appreciate that the States spends a considerable amount of money each year on rent subsidies. The system favours low income households and should more than compensate for the relatively high cost of housing.

Through the rent subsidy system, households on the lowest incomes should pay no more than 20 per cent of that income in rent.

(b) Members should be aware that there is no single and agreed measure of 'relative low income' available for any jurisdiction. It is for each jurisdiction to reach its own conclusions with respect to issues such as these.

The Finance and Economics Committee for its part will undertake a careful assessment of the distribution of gross and net incomes in the Island. It will do so in close consultation with other Committees, and in particular is working with the Employment and Social Security Committee in developing a strategy for tax and benefits.

The Committee is determined to ensure, in close consultation with the States and with residents in the Island, that future changes in tax and spending will be introduced in the most equitable way possible for everyone in Jersey.

Question 3

In response to a question on 21st October 2003 the Vice-President stated that "A major priority of the Committee will be to ensure that the overall package (of taxes)…. would be progressive with respect to levels of household income".

Will the President inform members whether this aim will be made more difficult by the inclusion of a sales tax?

Answer

Deputy Southern received a full answer from the Vice-President of the Committee to a very similar question on 21st October 2003.

I would not anticipate that the aim of the Committee would be made more difficult by the inclusion of a sales tax from amongst the various options for reform of the Island's tax structure. Indeed, it would be more likely to create a balanced package.

It is worth noting that many of those developed countries which have introduced a sales tax of some type have also achieved progressive systems of taxation. This includes the United Kingdom, France and Germany.

If the Assembly decided that a sales tax should be included as part of a future reform package then it would be for the Finance and Economics Committee, in close consultation with other Committees, to ensure that the overall package would indeed be progressive.