# STATES OF JERSEY

# DRAFT MEDIUM TERM FINANCIAL PLAN ADDITION FOR 2017 – 2019 (P.68/2016) – THIRD AMENDMENT

**Lodged au Greffe on 12th September 2016**
**by Deputy G.P. Southern of St. Helier**

**STATES GREFFE**

**PARAGRAPH (a)(i) –**

After the words "**Summary Table B**", insert the words "except that the Social Security Department's proposed net revenue expenditure shall be reduced by £8.3 million in 2018 and £16.8 million in 2019 in respect of a reduction in the level of the States Grant to the Social Security Fund".

**PARAGRAPH (a)(ii) –**

After the words "**Summary Table C**", insert the words "except that Central Allocation – Pay, PECRS and Workforce Modernisation shall be increased by £800,000 in 2018 and £1.8 million in 2019" in respect of increased States employer contributions.

**PARAGRAPH (c) –**

Replace paragraph (c) with the following –

"(c) to approve in principle the increase in the social security employer's contributions (including class 2 contributions) between the standard earnings limit and the upper earnings limit by 2% in 2018 and a further 2.5% in 2019 to raise a total of £7.8 million in 2018 and £18.0 million in 2019, with the necessary proposition to be brought forward by the Minister for Social Security so that it can be debated by the States Assembly in time for the increases to be implemented;".

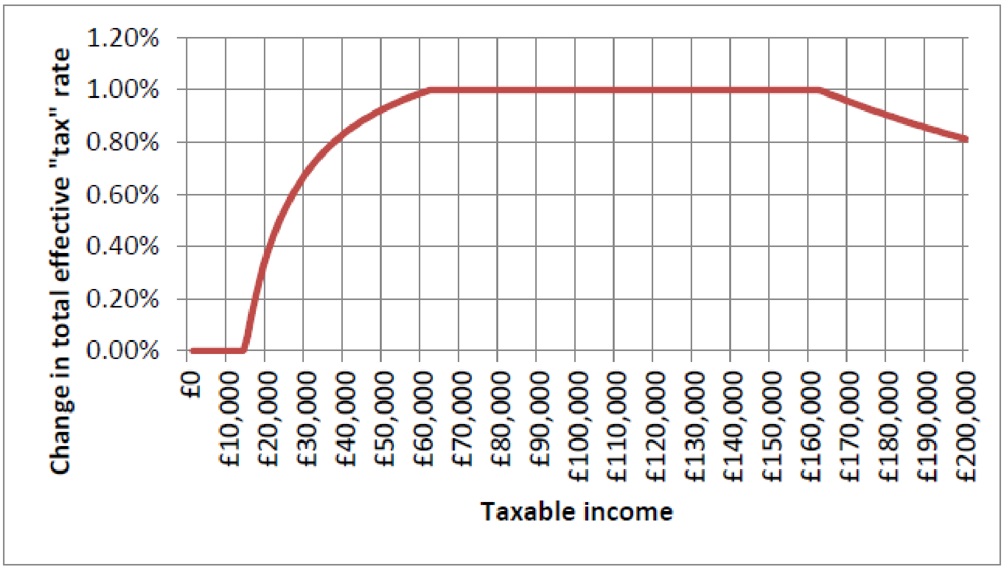
DEPUTY G.P. SOUTHERN OF ST. HELIER

## REPORT

Taxation policy in Jersey has long had the aim of protecting the seriously wealthy from tax. For the last decade it has had the twin aim of reducing the tax on business and transferring that burden to personal tax. Hence the advent of zero/ten has reduced company tax from some £400 million to £80 million over the past 10 years, whilst personal tax has done the reverse. This has been the clearly expressed intention of a series of Ministers for Treasury and Resources.

Similar principles have been applied to Social Security contributions, and most recently to the Long-Term Care ("LTC") charge, and the health charge (and possibly the hospital charge, which may soon be created) whereby all are based on taxable income as defined by income tax. Thus, Figure 33 in the Draft Medium Term Financial Plan Addition for 2017 – 2019 (P.68/2016) ("MTFP Addition") demonstrates the nature of the proposed charge, which is progressive over the range of earnings between £15,000 and £60,000 for an individual of working age, then becomes proportional (1%) over the range £60,000 to £164,000. Above this level, it becomes regressive (the greater the earnings, the lower the rate of tax).

**Figure 33 - Case study 1: individual – working age**




Despite the Minister for Treasury and Resources' commitment to keeping the headline rate of tax at 20%, the addition of LTC and health charges (so-called) at 1% increases the tax payable by middle-earners to 22%, with every probability of further rises in future years. The ordinary taxpayer in the "squeezed middle" who has seen increases in tax under the 20 means 20 rules may rightly complain about these further increases on several grounds –

- that the highest earners (above £164,000) pay proportionally less than those below;
- that no attempt has been made to recover lost tax revenues from companies who benefitted from the reduction in company income tax under zero/ten changes.

The first of these is dealt with in Deputy S.Y. Mézec of St. Helier's amendment to the MTFP Addition (P.68/2016 Amd.(12)). This amendment attempts to address the second issue.

It does so by addressing the rates of Social Security contributions. Class 1 contributions are made up of 2 parts: 6% of earnings from the employee, and 6.5% of employees' earnings from the employer, both of which are capped at the Standard Earnings Limit ("SEL"), currently set at £49,500.

For those earning above the SEL in 2013, no additional contributions were paid above the cap. For the majority of earners whose income falls below the SEL, there is a third source of contributions, namely supplementation, which comes from tax revenues. In 2013, supplementation made up £68 million towards the total of £185 million of contributions. Since then, supplementation has been capped at £65 million.

In 2014, an additional rate of 2% was introduced on employers' contributions between the SEL and the Upper Earnings Limit ("UEL"). This produced around £7.5 million of additional contributions, reducing the need for supplementation by the same amount.

This proposal takes the additional rate further in order to reduce supplementation. It has the advantage of eliminating completely the need for an additional tax to fund health improvements. It has 2 further advantages in terms of redistributing the tax burden –

- It does not fall on the shoulders of "middle Jersey"
- It will be paid only by those employers with employees earning over £50,000 per annum.

This therefore does respond to the demand of many, especially those on middle incomes, that businesses who have had their tax bills reduced by zero/ten pay their fair share of taxation.

The proposed health charge was supposed to raise £15 million at a 1% rate to be spent on health improvement. The core of this change to contributions – raising contributions from some employers from 2% to 4% in 2018, and to 6.5% in 2019, will produce near identical amounts, which can be used to reduce the supplementation bill and direct this funding to health services.

**Financial and manpower implications**

The financial implication of this amendment is set out in the report. There are no manpower implications arising.