STATES OF JERSEY

DRAFT BUDGET STATEMENT 2013 (P.102/2012): SECOND AMENDMENT (P.102/2012 Amd.(2)) – COMMENTS

Presented to the States on 3rd December 2012
by the Minister for Treasury and Resources

STATES GREFFE

COMMENTS

Deputy G.P. Southern of St. Helier is proposing that the amount of income on which 1(1)(k) residents pay income tax at 20% in 2013 should be increased by 3% in line with RPI. Although not in the amendment itself, he calls for annual increases in line with RPI to be adopted.

The Minister for Treasury and Resources is not unsympathetic to maintaining the real value of the minimum contribution. However, as the new regime has been in place for less than one tax year, the Minister doesn't recommend and cannot agree to a change at this time.

As is normal practice when a new regime has been implemented, it will be reviewed to make sure it has been effective in achieving its objectives. That cannot be done until we have sufficient information, and the regime has not been in place long enough to have that information. The Minister will review the effectiveness of the regime during next year and look at ways of achieving the same objective.

The Minister considers the following points to be relevant to this proposition –

- In a highly competitive environment, Jersey is already more expensive than its competitors for new High Net Worth Individuals. The wealthy have a significant amount of choice in where they locate. Jersey needs to ensure that it can continue to attract them and their businesses.

- The amount of tax charged is not the only factor influencing these decisions, but it is an important one.

- Introducing an automatic annual increase in the minimum tax expected from 1(1)(k)s could very quickly make the Island's tax offering uncompetitive.

- The stability of the tax regime is also important. The last changes to the regime were made less than 18 months ago. Making another change so soon after the last would give the impression of instability and uncertainty.

- The minimum contribution required by High Net Worth Individuals applying for housing consent after July 2011 was already increased from £100,000 to £125,000 in July 2011.

- However, the Minister understands the desire to ensure that the value of the tax contributed by 1(1)(k)s is not eroded over time. With that in mind, he is proposing to review the regime once it has been in place for long enough for meaningful conclusions to be formed.

Comment

The way in which Jersey set the minimum tax contribution it expected from 1(1)(k) residents in the past has meant in some cases that the value of that contribution has been eroded over time.

It was in part to address this that the review of the 1(1)(k) regime was undertaken in 2010 and 2011. The outcome of that review was that the Minister for Housing increased the minimum annual tax contribution expected from new 1(1)(k)s from £100,000 to £125,000. The second way identified to increase revenues from the 1(1)(k) regime was to increase the number of new applicants for the regime. In response to that, the States agreed, in July 2011, to change the tax regime applying to new 1(1)(k)s so that they are taxed on the first £625,000 of their income at 20% and at 1% on income above that. (Income derived from property letting or dealing activities is always taxed at 20%.)

The third aim of the tax changes was to encourage wealthy newcomers to invest in Jersey, by removing the barriers that the previous tax regime had created.

Competition

Many other jurisdictions, including the UK, recognise the benefits that attracting wealthy immigrants bring, and offer special tax regimes to encourage them. In order for Jersey to successfully attract High Net Worth Individuals and their businesses to the Island in this environment, it must be able to offer a competitive tax regime.

Jersey is already among the most expensive of its immediate competitors for High Net Worth residents, based on the amount of tax required from them –

Territory	Tax contribution
Jersey	Minimum of £125,000
Isle of Man	Maximum of £115,000
Guernsey	Maximum of £100,000*
Switzerland	Open to negotiation, can be fixed as low as £35,000
Monaco	£Nil

*The Guernsey cap of £100,000 applies to individuals whose prime sources of income are outside the Island, which applies to most High Net Worth Individuals.

As can be seen, most of Jersey's competitors apply a maximum amount of tax to High Net Worth residents, which is higher than Jersey's minimum amount expected. Making Jersey even more expensive at this time, even by a relatively minor amount, may help to influence decisions about where to relocate.

Tax is not the only factor influencing decisions about where to relocate, but it is an important one. The States is also seeking to attract entrepreneurs who will relocate their business to Jersey and create new opportunities for growth and development.

International perception

Another factor which is important to prospective 1(1)(k)s is the stability of the tax regime.

Jersey introduced a new tax system for 1(1)(k)s less than 18 months ago. Before it has been in place for even a full tax year, it is too soon to understand what impact the new regime has had, and how successful it has been.

We need to welcome High Net Worth Individuals with a clear and stable offer. In difficult economic times it is more important than ever to convince High Net Worth Individuals that Jersey is the right choice for relocation and encourage them to provide much needed capital stimulus in the local economy.

Making another change so soon after the last may give the impression that Jersey's tax system is unstable and unpredictable.

Total contribution of 1(1)(k)s

The overall contribution of 1(1)(k)s to Jersey's economy is not confined to the income tax they pay. 1(1)(k)s contribute to the local economy through stamp duty on the properties they buy (over £1 million in the first 9 months of 2012 alone), employing local staff, investing in local businesses and spending on-Island. The new regime was specifically designed to encourage more of this type of investment.

The basis of calculation

While the principle that the annual minimum contribution should be uplifted periodically is accepted, the use of RPI as the basis is not. As the Deputy himself notes in his report on his amendment, incomes in the past years have risen much less than the rate of inflation. This is particularly the case for those living off investment income, where the average rates of return have fallen sharply and are now at a near-historic low.

Tax is charged on a person's income. However, the amount of a person's income is only indirectly affected, if at all, by the rate of inflation.

If for example, an individual committed to pay £100,000 in 1990 plus an annual increase for inflation, he would now be expected to pay £231,000. In order to generate this level of tax, his income would have had to have increased in that 22 year period from £500,000 to £1,155,000. While £1 spent in 1990 would now buy one third less, it is not clear that incomes in the same period can be expected to have increased by 131%.

It is not clear that RPI is an appropriate measure for increasing the minimum tax contribution, as it can mean that the minimum quickly becomes out of step with competitors.

Commitment to review

The Minister is conscious that the value of the tax contribution made by 1(1)(k) residents should not erode over time.

It can take up to 12 months after a first "in principle" consent is issued before the 1(1)(k) becomes resident in Jersey, and depending when in the year they arrive, it can be another 18 months before their first tax return is submitted. It is important that a review of this type is carried on with the full information. The Minister proposes to review the success of the current policy once sufficient time has passed to allow the system to bed down, and enough data to be gathered to form meaningful conclusions.

Financial implications

The Deputy recognises that the additional revenues raised from his amendment would be negligible, at a maximum of £21,375 in 2013. However, if making the change he seeks makes it more difficult to attract new 1(1)(k)s and their wealth to the Island, Jersey could lose more revenues in future.

The Minister for Treasury and Resources urges Members to reject this amendment.