
STATES OF JERSEY



ADDENDUM TO THE IFG FORECAST FOR SPRING 2021

Presented to the States on 21st September 2021
by the Minister for Treasury and Resources

STATES GREFFE

Income Forecasting Group

**Addendum to the IFG forecast for
Spring 2021**

Updated economic assumptions

Since the IFG finalised its forecast in July, based upon the Fiscal Policy Panel's (FPP) Spring economic assumptions, the FPP has produced an updated set of economic assumptions.

The economic assumptions are included in the FPP's letter¹ available at www.gov.ie/fiscalpolicypanel and are set out in **Figure 1** below.

Figure 1 – FPP Economic Assumptions August 2021

<i>% change unless otherwise specified</i>	2020	2021	2022	2023	2024	Trend 2025+
Real GVA	-9.3	2.2	2.8	3.3	1.6	0.6
RPI	1.3	3.0	3.6	2.6	2.5	2.6
RPIY	1.2	3.0	3.5	2.5	2.4	2.5
Nominal GVA	-8.0	4.8	6.2	5.7	4.0	3.1
Gross operating surplus (including rental)	-17.7	6.1	10.2	9.2	5.2	3.2
<i>Financial services profits</i>	-27.5	4.0	14.4	16.9	7.5	3.4
Compensation of employees (CoE)	0.5	3.8	3.2	3.0	3.0	3.1
<i>Financial services CoE</i>	1.5	3.5	3.5	3.5	2.8	3.4
<i>Non-finance CoE</i>	0.0	3.9	3.0	2.7	3.0	2.9
Employment	-2.4	1.1	1.0	0.8	0.9	0.4
Average earnings	1.1	2.6	2.2	2.1	2.1	2.7
Interest rates (%)	0.2	0.1	0.2	0.5	0.5	0.6*
House prices	6.1	5.0	4.0	3.0	2.0	2.7
Housing transactions	-3.8	5.0	3.5	3.0	2.5	1.5

* Bank Rate forecast for 2025 only

Figure 2 – FPP Economic Assumptions change since April 2021

<i>% change unless otherwise specified</i>	2020	2021	2022	2023	2024	2025+
Real GVA	+0.4	+0.2	+0.7	+1.3	-0.7	0.0
RPI	0.0	+0.9	+1.0	+0.1	0.0	0.0
RPIY	0.0	+1.0	+1.0	+0.1	0.0	0.0
Nominal GVA	+0.3	+0.6	+1.9	+1.3	-0.7	0.0
Gross operating surplus (including rental)	-0.3	-1.2	+3.0	+2.7	-1.6	0.0
<i>Financial services profits</i>	0.0	0.0	+6.4	+6.9	-4.5	0.0
Compensation of employees (CoE)	+0.7	+1.9	+1.1	+0.3	0.0	0.0
<i>Financial services CoE</i>	-0.5	+2.5	+0.8	+0.6	-0.3	0.0
<i>Non-finance CoE</i>	+1.5	+1.5	+1.2	+0.2	+0.1	0.0
Employment	-1.1	0.0	+0.1	+0.2	+0.5	0.0
Average earnings	0.0	+1.8	+1.0	+0.1	-0.4	0.0
Interest rates (%)	0.0	0.0	+0.1	+0.1	-0.1	-0.2
House prices	+1.6	+3.0	+1.8	+0.6	-0.6	0.0
Housing transactions	0.0	0.0	0.0	0.0	0.0	0.0

¹ FPP Economic Assumptions August 2021 -

<https://www.gov.ie/SiteCollectionDocuments/Government%20and%20administration/ID%20FPP%20Economic%20assumptions%20August%202021.pdf>

The economic assumptions are for much stronger growth in nominal terms in the initial years of the forecast, but this is moderated somewhat by much higher inflation in the initial years – a phenomenon currently being experienced in most advanced economies. Stronger nominal growth in the economy will result in stronger growth in tax revenues, all other things being equal. This is because taxes are of course collected on nominal incomes.

On the basis of the latest economic data and intelligence gathered during their recent visit, the FPP's judgement is that the economic downturn in 2020 was less sharp than previously estimated and the recovery is likely to be more rapid.

The FPP letter summarises the forecast as follows:

- *The recovery in financial services profits has been brought forward somewhat, with strong growth in 2022 and 2023, reflecting the updated market expectations of earlier (albeit modest) increases in Bank Rate and the Panel's judgement on the impact interest rate rises will have on banking profits.*
- *A temporary period of inflation running significantly above trend, gradually falling back during the course of 2022.*
- *A more rapid rise in average earnings, in response to temporary labour shortages and high inflation. However, the forecast for high inflation would mean that earnings fall in real terms over the forecast, particularly in the non-finance sectors.*
- *A faster recovery in employment growth in 2023 and 2024.*
- *House prices rising more rapidly in the initial years of the forecast, reflecting the ongoing buoyancy of the property market and low interest rates.*

Overall impact on IFG forecast

Figure 3 below shows a summary of the revised forecast incorporating the updated economic assumptions. The variation to the previous forecast agreed in July is shown in **Figure 4**.

Figure 3 – Summary of Spring forecast with updated economic assumptions from August 2021

Updated Forecast (£'000)	2020	2021	2022	2023	2024	2025
Personal income tax	473,000	511,000	545,000	581,000	609,000	641,000
Corporate income tax	120,000	96,000	99,000	109,000	123,000	130,000
GST	93,900	99,700	103,600	105,800	107,800	110,000
Bad debts	(3,235)	(6,000)	(6,000)	(3,000)	(3,000)	(3,000)
Impôts duties	74,298	73,652	71,026	72,825	73,247	73,645
Stamp duty	36,949	43,915	41,737	42,265	43,671	45,040
General tax revenue	794,912	818,267	854,363	907,890	953,718	996,685
Other Government income	64,924	104,436	65,390	67,034	68,806	70,231
Total States income	859,836	922,703	919,753	974,924	1,022,524	1,066,916

Columns may not sum due to rounding

Figure 4 – Change to forecast using updated economic assumptions from August 2021

Changes to forecast (£'000)	2020	2021	2022	2023	2024	2025
Personal income tax	3,000	8,000	16,000	19,000	17,000	13,000
Corporate income tax	-	-	-	4,000	10,000	7,000
GST	-	2,000	2,500	2,800	2,800	2,800
Bad debts	-	-	-	-	-	-
Impôts duties	-	-	504	1,174	1,247	1,190
Stamp duty	-	671	1,214	1,461	1,348	1,404
Change in general tax revenue	3,000	10,671	20,218	28,435	32,395	25,394
Other Government income	-	40,000	262	314	322	363
Total change	3,000	50,671	20,480	28,749	32,717	25,757
<i>Variance (%)</i>	<i>0.4%</i>	<i>6.3%</i>	<i>2.5%</i>	<i>3.3%</i>	<i>3.5%</i>	<i>2.7%</i>

Columns may not sum due to rounding

Impact of new assumptions on individual forecasts

Personal income tax

As would be expected, the significant increase to the forecast for the components of nominal GVA have resulted in a significant increase to the forecast for personal income tax. This is because the forecast is largely driven by the rate of increase in the components of nominal GVA – compensation of employees and gross operating surplus.

Figure 5 – Changes to personal income tax forecast

£m	2019	2020	2021	2022	2023	2024	2025
Personal tax							
July 2021 forecast	483	470	503	530	562	593	628
New FPP economic assumptions	0	+3	+8	+16	+19	+17	+13
August 2021 forecast	483	473	511	545	581	609	641
<i>Change since October 2020 forecast</i>	<i>0</i>	<i>+3</i>	<i>+8</i>	<i>+16</i>	<i>+19</i>	<i>+17</i>	<i>+13</i>
October 2019 forecast	475	497	524	550	576		
<i>Change since October 2019 forecast</i>	<i>+8</i>	<i>-24</i>	<i>-13</i>	<i>-5</i>	<i>+6</i>		

Some columns may not sum due to rounding

The FPP assumptions have the following impact on the forecast:

- Incorporating the increased inflation forecasts, and assuming that exemption thresholds grow by the lower of RPI inflation and wage increases, results in a decrease to the forecast of £2m in 2022, £4m in 2023 and £5m in 2024 and 2025.
- The increased forecast for financial services profits results in a forecast for an additional £3m in 2022, £6m in 2023, £5m in 2024 and £2m in 2025. Growth in financial services profits is one of the variables used to forecast taxable earnings, to reflect the potential tax impacts of bonuses in the financial services sector.
- The increased forecast for earnings, employment and compensation of employees results in an additional £3m in 2020, £8m in 2021, £14m in 2022 and £16m-£17m for the remainder of

the forecast. The increase in 2020 is due to the lower-than-expected outturn for employment growth in 2020, which leads to an assumption that the aggregate value of allowances will be lower while aggregate earned income does not change as this is assumed to grow in line with earnings reported through ITIS.

- The FPP's revised assumptions for interest rates and house prices have a small impact on the tax forecast; as they have an impact on projected investment income and mortgage interest tax relief.

Corporate income tax

The majority of corporate tax is collected from the financial services sector, and therefore the significant upward revisions to financial services growth in the early part of the FPP forecast will result in an increase in the tax forecast.

The change to the FPP's assumptions on financial services profits increases the forecast for corporate tax from financial services by £4m in 2023, £9m in 2024 and £7m in 2025.

The changes to the FPP's assumptions on inflation and aggregate company profits results in a small increase in the forecast for corporate tax from other sectors – around £0.5m in 2024 and 2025.

Figure 6 – Changes to corporate income tax forecast

Corporate tax (£m)	2020	2021	2022	2023	2024	2025
July 2021 forecast	120	96	99	105	113	123
New FPP assumptions	0	0	0	+4	+10	+7
August 2021 forecast	120	96	99	109	123	130

GST

The FPP's assumptions for compensation of employees, the main determinant of GST receipts, have risen along with a higher growth path assumed for the retail price index. This has raised the forecast for GST receipts by approximately £2m in 2021, £2.5m in 2022 and £3m from 2023 to 2025.

Figure 7 – Changes to GST forecast

GST (£m)	2020	2021	2022	2023	2024	2025
July 2021 forecast	93.9	97.7	101.1	103.0	105.0	107.2
New FPP assumptions	0.0	+2.0	+2.5	+2.8	+2.8	+2.8
August 2021 forecast	93.9	99.7	103.6	105.8	107.8	110.0

Impôts duty

Impôts duty on alcohol, tobacco and fuel are all assumed to increase by RPI plus additional Government Plan measures. The FPP increase in RPI for 2021 to 2023 therefore provides an increase to the forecast for impôts duty of £0.5m (0.7%) in 2022 and c.£1.2m (1.7%) in each of the years 2023 to 2025.

Stamp duty

House prices continue to rise throughout Q1 of 2021, with the number of transactions being comparable to the same period in 2019 and 2020. The FPP have therefore increased the assumptions for house prices in the earlier years of the forecast, reflecting the continued buoyancy of the property market and low interest rates. This has resulted in an increase of £0.7m (1.5%) in 2021 increasing to c.£1.4m (3.6%) for each of the remaining years of the forecast.

Other Government income

With an increase in RPI for each of the years 2021 (+0.9%), 2022 (+1.0%) and 2023 (+0.1%), there is an increase in the forecast for Island Wide Rates. The partial sale of the JT business provides an estimated £40m dividend in 2021, with a subsequent decrease in future years.

Overall forecast

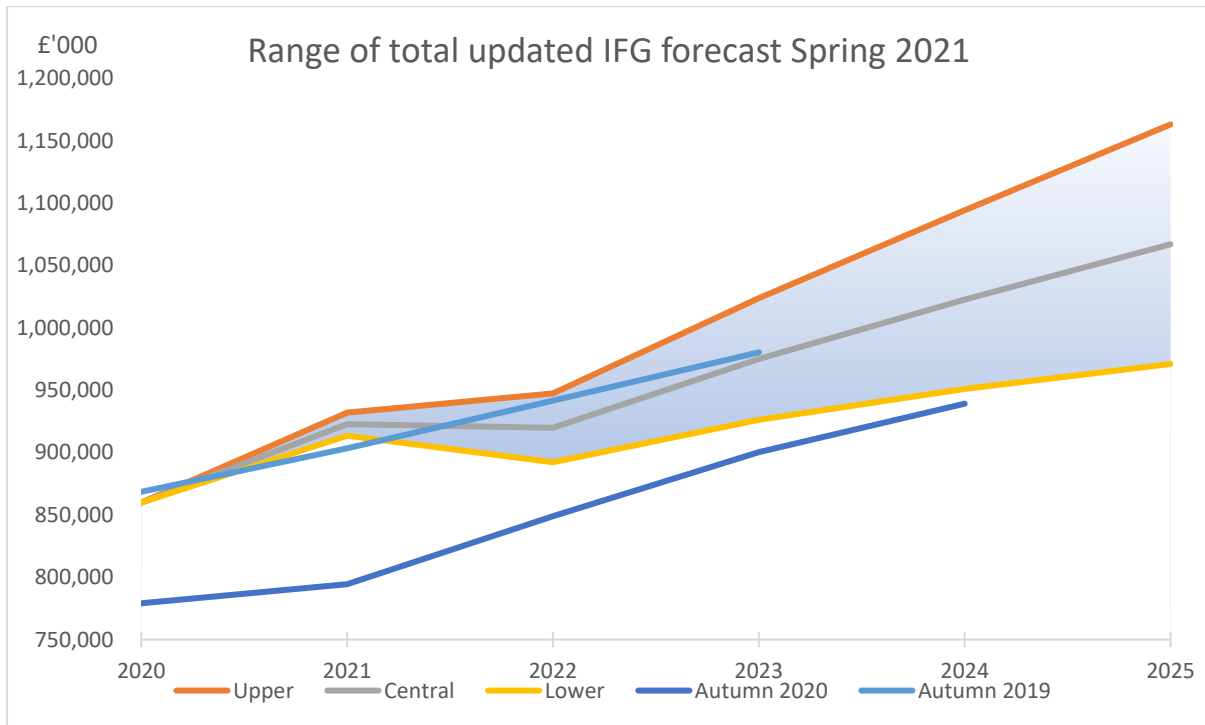
Figure 11 – Central forecast with updated economic assumptions

2020 Outturn	Central forecast (£'000)	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
	Income Tax					
473,000	Personal	511,000	545,000	581,000	609,000	641,000
434,000	<i>Autumn 2020</i>	461,000	500,000	534,000	561,000	
120,000	Corporate	96,000	99,000	109,000	123,000	130,000
120,000	<i>Autumn 2020</i>	97,000	103,000	108,000	113,000	
593,000	Total Income Tax	607,000	644,000	690,000	732,000	771,000
554,000	<i>Autumn 2020</i>	558,000	603,000	642,000	674,000	
39,000	Variation	49,000	41,000	48,000	58,000	
7.0%		8.8%	6.8%	7.5%	8.6%	
	GST					
85,213	GSTx	87,100	91,000	93,200	95,200	97,400
8,687	ISE Fees	12,600	12,600	12,600	12,600	12,600
93,900	Total GST	99,700	103,600	105,800	107,800	110,000
78,210	<i>Autumn 2020</i>	84,610	90,910	94,510	98,310	
15,690	Variation	15,090	12,690	11,290	9,490	
20.1%		17.8%	14.0%	11.9%	9.7%	
	Bad Debts					
(3,235)	Bad Debts	(6,000)	(6,000)	(3,000)	(3,000)	(3,000)
(3,235)	Total Bad Debts	(6,000)	(6,000)	(3,000)	(3,000)	(3,000)
(9,000)	<i>Autumn 2020</i>	(6,000)	(6,000)	(3,000)	(3,000)	
5,765	Variation	-	-	-	-	
-64.1%		0.0%	0.0%	0.0%	0.0%	
	Impôts Duties					
8,499	Spirits	8,191	7,401	7,668	7,867	8,063
9,413	Wine	9,345	9,256	9,589	9,839	10,085
940	Cider	912	865	878	883	887
6,168	Beer	5,821	6,311	6,473	6,575	6,673
23,900	Tobacco	21,024	15,935	16,335	15,754	15,181
22,636	Fuel	24,611	27,728	28,438	28,885	29,312
431	Customs Duty	800	800	800	800	800
2,311	Vehicle Emissions Duty (VED)	2,948	2,730	2,644	2,644	2,644
74,298	Total Impôts	73,652	71,026	72,825	73,247	73,645
67,716	<i>Autumn 2020</i>	67,986	69,979	71,037	71,485	
6,582	Variation	5,666	1,047	1,788	1,762	
9.7%		8.3%	1.5%	2.5%	2.5%	

	Stamp Duty					
31,836	Stamp Duty	38,564	36,168	36,509	37,767	38,992
2,527	Probate	2,500	2,500	2,500	2,500	2,500
2,586	LTT	2,851	3,069	3,256	3,404	3,548
36,949	Total Stamp Duty	43,915	41,737	42,265	43,671	45,040
29,083	Autumn 2020	30,953	30,249	31,118	32,022	
7,866	Variation	12,962	11,488	11,147	11,649	
27.0%		41.9%	38.0%	35.8%	36.4%	
794,912	General Tax Revenue	818,267	854,363	907,890	953,718	996,685
720,009	Autumn 2020 incl GP measures	735,549	788,138	835,665	872,817	
74,903	Variation	82,718	66,225	72,225	80,901	
10.4%		11.2%	8.4%	8.6%	9.3%	
	Other Income					
13,286	Island-wide Rates	13,565	14,178	14,546	14,910	15,298
11,247	Other Income-Dividends	51,122	11,082	11,377	11,935	12,244
9,589	Other Income-Non-Dividends	9,169	8,404	8,511	8,495	8,368
30,802	Other Income>Returns from Andium and Housing Trusts	30,580	31,726	32,600	33,466	34,321
64,924	Total Other Income	104,436	65,390	67,034	68,806	70,231
59,069	Autumn 2020	58,866	60,779	64,560	66,264	
5,855	Variation	45,570	4,611	2,474	2,542	
9.9%		77.4%	7.6%	3.8%	3.8%	
859,836	Total States Income	922,703	919,753	974,924	1,022,524	1,066,916
779,078	Autumn 2020	794,415	848,918	900,224	939,081	
80,758	Variation	128,288	70,835	74,700	83,443	
10.4%		16.1%	8.3%	8.3%	8.9%	

* Some columns may not sum due to rounding

Figure 12 – Range of forecast with updated economic assumptions



£'000	2020	2021	2022	2023	2024	2025
Upper	859,836	931,930	947,346	1,023,670	1,094,101	1,162,938
Central	859,836	922,703	919,753	974,924	1,022,524	1,066,916
Lower	859,836	913,476	892,160	926,178	950,947	970,894
Autumn 2020	779,078	794,415	848,918	900,224	939,081	
Autumn 2019	868,433	903,319	941,584	980,232		