STATES OF JERSEY

DRAFT BUDGET STATEMENT 2013 (P.102/2012): SECOND AMENDMENT

Lodged au Greffe on 20th November 2012
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PAGE 2, PARAGRAPH (a) –

After the words "as set out in the Budget Statement" insert the words –

> "except that, in relation to existing taxation measures, the prescribed limit for the purposes of Article 135A(3B) of the Income Tax (Jersey) Law 1961 (which concerns persons granted 1(1)(k) housing consent) shall be increased for the year of assessment 2013 from £625,000 to £643,750".

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

This amendment simply inflates the sum set out in P.114/2011, Income Tax (Prescribed Limit and Rate) (Amendment) (Jersey) Regulations 2011, by the June 2012 Retail Price Index figure of 3%.

In this continuing time of recession, 3% is the figure chosen by the Minister for Treasury and Resources to up-rate income tax exemptions in order to give a little relief to some income tax payers at the lower end of the earnings spectrum.

With earnings running below inflation (private sector 1.8%; public sector 0.3%), in 3 of the last 4 years, all sectors of our community, pensioners, workers, and those who are unemployed, are suffering from the damaging effects of the recession. Public sector workers, for example, have seen the value of their wages reduced by over 8% in the past few years and, over the term of the MTFP, will see the value of their wages cut by a further 2.5% by 2015.

The time has come for those with the broadest shoulders to take their fair share of the burden. This amendment spreads the load to the wealthiest of our residents, those with 1(1)(k) status.

P.114/2011 formalised and simplified the way in which 1(1)(k)s, or high-net-wealth (HNW) individuals, arrange their tax in Jersey. Essentially, they pay 20% on the first £625,000 of income wherever it may be earned, and a further 1% on any remainder. Their contribution to the Jersey tax revenue stream is at least £125,000. This arrangement remains an attractive one to HNW individuals, with some 7 applicants being approved for 1(1)(k) status and 5 actually purchasing a Jersey property in the first 3 quarters of 2012.

Unfortunately this contribution, being a fixed sum, is eroded by inflation, and over time will become less and less valuable unless it is indexed. For example, £1,000 in the year 2000 would only have the purchasing power of £652 today. I understand that this has been a problem in the past.

In order to simply maintain the value of the contributions of these HNW individuals, they should be indexed to the RPI. In this first year of indexing, that means additional tax at a rate of 19% on the additional £18,750 taxable at the higher rate. An individual's contribution is thereby raised by £3,562.50 to £128,562.50.

The amendment applies to all 1(1)(k)s who were granted their housing consent on or after 22nd July 2011, when the new tax rules came into force. All 1(1)(k)s who have taken up residence in the Island on the back of these consents would therefore potentially be affected.

However, they will only be affected to the extent that they have income exceeding £625,000 in 2013, and beyond. For current applicants, the expected annual minimum tax contribution from 1(1)(k)s has been set by the Minister for Housing at £125,000, but this is not set by the tax law. The tax law is the mechanism for collecting that tax, but cannot compel a 1(1)(k) to pay more tax if his income does not exceed £625,000.

By the end of Q3 of 2012, 6 new 1(1)(k)s had taken up residence in the Island, and would therefore be affected by the tax rules set out in P.114/2011. If all of those individuals had income of at least £643,750, then the maximum additional income tax arising in 2013 would be £21,375 (i.e. 6 x £3,562.50), assuming no additional people becoming resident for this purpose in the meantime. This cannot be guaranteed as it is possible that not all of them will have this much income.

The new sum of £643,750 would obviously apply to future HNW individuals who take up residence in Jersey in 2013. Beyond that, if the States were to accept this amendment, I would expect the Minister for Housing or, in future, the Chief Minister, through the Population Office, to continue the indexing of the above threshold to RPI.

Whilst the initial sums generated in this first year of indexation are relatively insignificant, over time the majority of HNW individuals will have their contributions index-linked, and this would generate a substantial sum. For example, indexation at 3% applied this year across the total of around £13.5 million raised from all 1(1)(k)s would have produced an additional £139,000 of tax revenue.

Financial and manpower implications

The financial return to the States is as described in the proposition. There are no manpower requirements.