STATES OF JERSEY

GOVERNMENT PLAN 2020–2023 (P.71/2019): TWENTY-FIRST AMENDMENT

Lodged au Greffe on 12th November 2019
by Senator S.Y. Mézec

STATES GREFFE

PAGE 3, PARAGRAPH (h)(ii) –

After the words "from the Funds" insert the words ", except that the proposed increase in the Long-Term Care ('LTC') Charge shall not be implemented and the cap on LTC contributions shall be abolished, so it is applied at 1% across the board for all taxpayers, reducing the estimated closing balance on the Long-Term Care Fund in 2020, as shown in Summary Table 8(iii), by £19.7 million".

SENATOR S.Y. MÉZEC

Note: After this amendment, the proposition would read as follows –

THE STATES are asked to decide whether they are of opinion −

to receive the Government Plan 2020–2023 specified in Article 9(1) of the Public Finances (Jersey) Law 2019 ("the Law") and specifically –

(a) to approve the estimate of total States income to be paid into the Consolidated Fund in 2020 as set out in Appendix 2 – Summary Table 1 to the Report, which is inclusive of the proposed taxation and impôts duties changes outlined in the Government Plan, in line with Article 9(2)(a) of the Law; and

(b) to approve each major project that is to be started or continued in 2020 and the total cost of each such project, in line with Article 9(2)(d), (e) and (f) of the Law and as set out in Appendix 2 – Summary Table 2 to the Report; and

(c) to approve the proposed amount to be appropriated from the Consolidated Fund for 2020, for each head of expenditure, being gross expenditure less estimated income (if any), in line with Articles 9(2)(g), 10(1) and 10(2) of the Law and set out in Appendix 2 – Summary Tables 3(i) and (ii) of the Report; and

(d) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in 2020 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 4 to the Report; and

(e) to approve the proposed amount to be appropriated from each States trading operation's trading fund for 2020 for each head of expenditure in line with Article 9(2)(i) of the Law and set out in Appendix 2 – Summary Table 5 to the Report; and

(f) to approve –

(i) the establishment of a "Climate Emergency Fund", in accordance with the provisions of Article 6 of the Law, as set out at Appendix 3 to the Report; and

(ii) the estimated income and expenditure proposals for the Climate Emergency Fund for 2020 as set out in Appendix 2 – Summary Table 6 to the Report; and

(g) to approve the amounts to be transferred from one States fund to another for 2020 in line with Article 9(2)(b) as set out in Appendix 2 – Summary Table 7 to the Report; and

(h) to approve the estimated income and expenditure of the Social Security, Health Insurance and Long-Term Care Funds for 2020 set out in Appendix 2 – Summary Tables 8(i), (ii) and (iii) to the Report, with –

(i) the estimated income to be raised from existing social security contributions defined in the Social Security Law and the proposed changes to contribution liability; and

(ii) the estimated expenditure to be paid to support the existing benefits and functions defined in the Social Security Law, the Health Insurance Law and the Long-Term Care Funds and new benefits, if any, to be paid from the Funds, except that the proposed increase in the Long-Term Care ('LTC') Charge shall not be implemented and the cap on LTC contributions shall be abolished, so it is applied at 1% across the board for all taxpayers, reducing the estimated closing balance on the Long-Term Care Fund in 2020, as shown in Summary Table 8(iii), by £19.7 million; and

(i) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2020–2023, as set out at Appendix 4 to the Report.

REPORT

"*We will abolish the tax cap on the Long-Term Care charge so that all Islanders pay the same rate, rather than allow the wealthiest Islanders to pay a lower rate*."

– Reform Jersey election manifesto, 2018

The effect of this amendment is to cancel the proposed increase in the Long-Term Care ("LTC") Charge from 1% to 2%, instead maintain the rate at 1%, but abolish the cap entirely so that it applies as a 1% across the board for everyone equally.

The Long-Term Care Fund was set up to provide support for adults with long-term high-level care needs. To fill this Fund, the LTC Charge was created, essentially as a new tax, collected by the Income Tax Department, and calculated based on a percentage on top of a taxpayer's Income Tax liability. It began to collect revenue for this Fund in 2015, and it was envisaged from the outset that the basic rate would have to gradually increase to ensure the Fund could meet the needs of Islanders.

The rate has already been increased once, and this Government Plan seeks to raise it again to 2% to ensure that the Fund remains in a healthy state for years to come.

However, from the introduction of LTC, an upper earnings cap (pegged to that of the Social Security Contributions cap) has existed, which has meant that there is a maximum contribution anyone will pay. This has the effect of making LTC a regressive tax, in that as the taxable base increases, the tax rate decreases. This enables those with the highest incomes to have a lower effective rate of LTC than middle-earners, and some low-earners too. In fact, a person earning £1 million per year can be paying a lower effective rate of LTC than someone earning £30,000 per year. This is not equitable and goes against one of the States' accepted principles on taxation that taxes should be "fair".

The graph attached as **Appendix 1** demonstrates how the LTC is regressive.

In 2017, Oxera produced a report[1] analysing the changes in tax liability for Islanders in different household circumstances and different incomes over the previous decade. It showed that with the introduction of LTC, GST and changes to Income Tax, Islanders were paying more tax, with those on middle incomes proportionately paying the greatest increases, with the highest earners not paying more at the same proportions.

Statistics Jersey produces a regular Average Earnings Index[2] which has shown that real terms earnings have been frozen for a decade. The Income Distribution Survey[3] demonstrated that income inequality had grown in Jersey, to the point where it has become worse than the UK. The average Islander's standard of living has not been improving, and their financial pressures (including tax burden) play a crucial role in that.

[1] https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20Assessing%20the%20distributional%20impact%20of%20key%20changes%20in%20taxes%20and%20contributions%20between%202006%20and%202015%2020170317%20VP.pdf

[2] https://www.gov.je/Government/Pages/StatesReports.aspx?ReportID=4851

[3] https://www.gov.je/news/2015/pages/incomedistributionsurvey2015.aspx

In recognition of these facts, Reform Jersey and others campaigned during the election for the next government to make "reducing income inequality and improving the standard of living" one of its key priorities.

Many States Members will have run for election pledging to keep taxes low and not to ask ordinary Islanders to pay more, until efficiencies or other pre-conditions are realised. Some States Members (including Reform Jersey members) pledged to actively oppose tax rises unless they are focused at the wealthiest Islanders.

This amendment allows Members to support an option which keeps the Long-Term Care Fund healthy for several more years into the future, whilst asking the wealthiest Islanders to contribute more. This will enable us to protect the standard of living by protecting the viability of this essential service, and reduce inequality by protecting low- and middle-earners from a tax rise, by instead asking those with the broadest shoulders to carry more of the burden. It also provides some breathing space to allow our tax system to settle, as work will have to be undertaken to facilitate independent taxation, which may have a disruptive effect on many taxpayers.

It is the case that one day in the future the LTC Fund will need more income to stay at a balanced level. According to Treasury projections (provided as **Appendix 2**), this rise could be delayed by 6 years by simply asking all Islanders to contribute at the same proportion, rather than continuing to provide an unjustified, unfair and uneconomic break to those who least need it.

Those on the highest incomes will feel a rise in their tax liability of less than 1%, and will feel it far less than the current proposals to double the rate being paid by low- and middle-earners, many of whom will feel it and find it will have a negative effect on their personal finances.

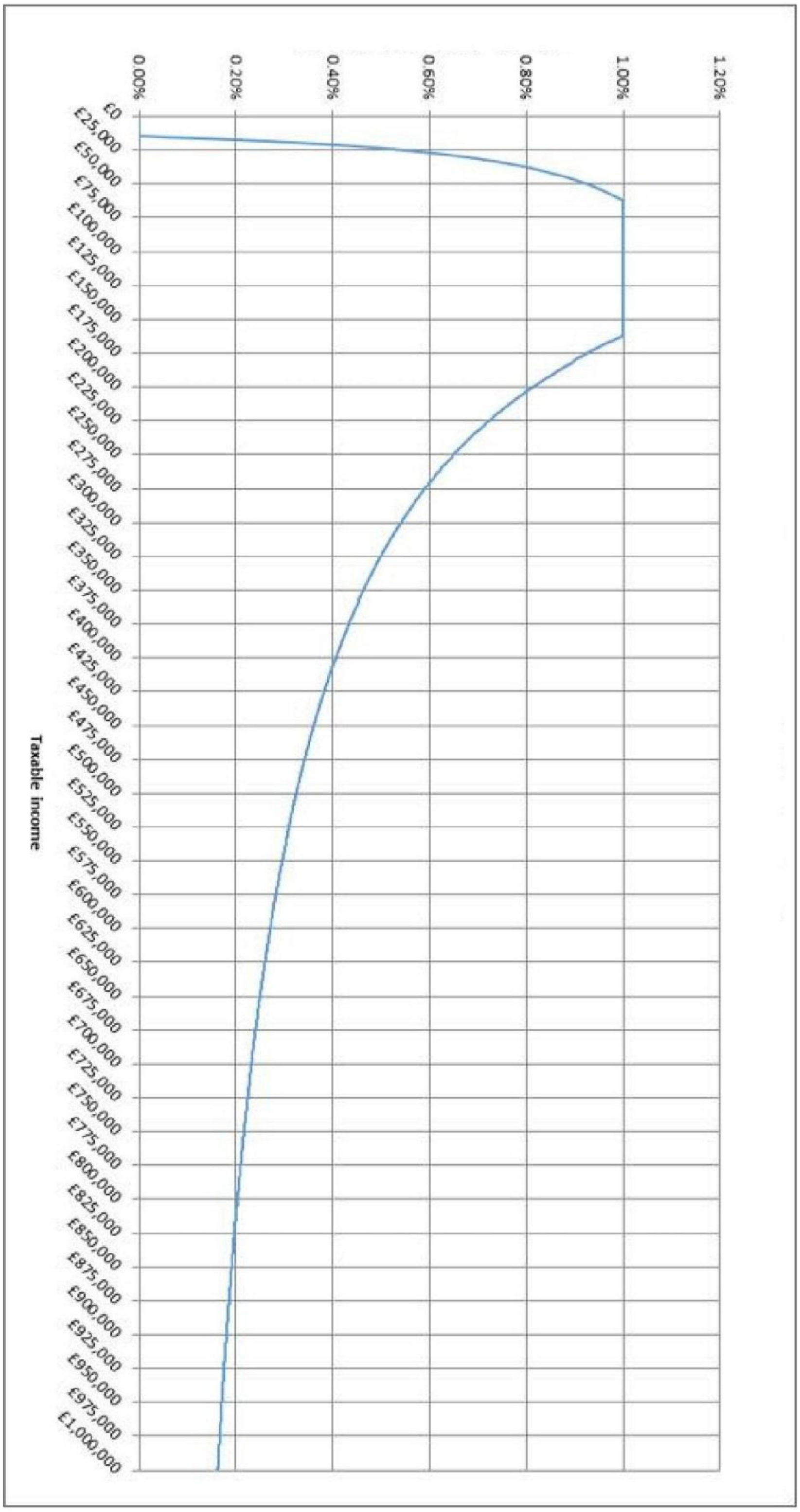
Financial and manpower implications

The Treasury estimates that abolishing the cap on LTC would raise an extra £4 million a year from the current situation. However, the amendment reduces the balance on the Long-Term Care Fund in 2020 by £19.7 million by combining this change with the cancellation of the proposed increase in the charge rate.

The cap is also set in legislation, so this would need to be changed to reflect the new position.

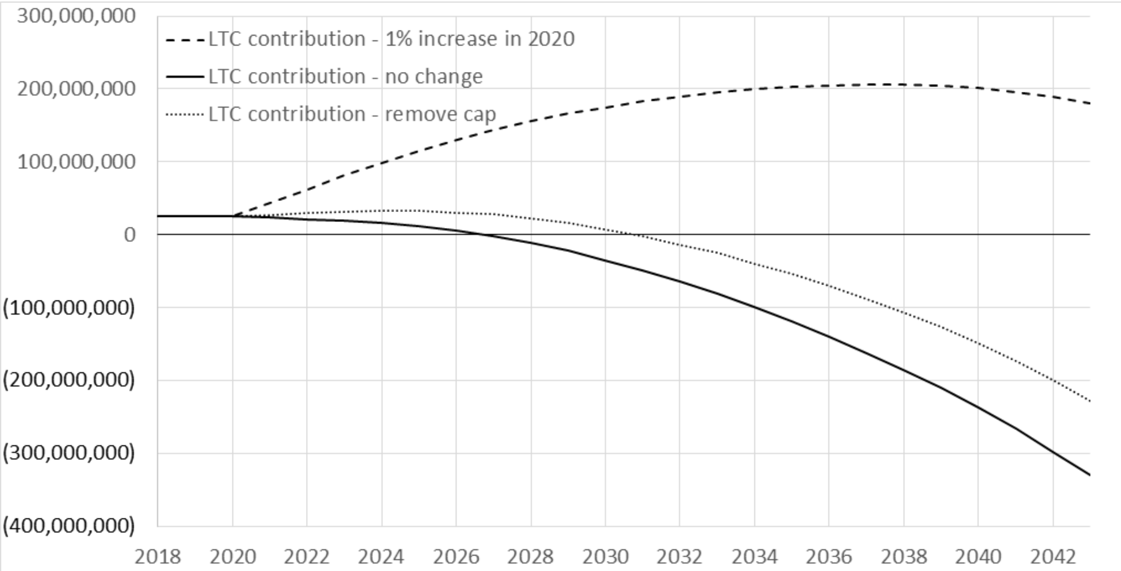
APPENDIX 1

This chart shows the effective rate of LTC for a single person who is not eligible for extra tax allowances.



APPENDIX 2

The following graph demonstrates the differences in the balance of the LTC Fund based on doing nothing, following the proposals in the Government Plan, or by adopting this amendment.



The following graph shows how long a rise in the LTC Charge can be put off, before the LTC Fund reaches the level of 6 months benefits spend.