

STATES OF JERSEY



DRAFT BUDGET STATEMENT 2014 (P.122/2013): THIRD AMENDMENT

**Lodged au Greffe on 19th November 2013
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 income tax exemptions for the year of assessment 2014 shall be increased by 2.2% and not by 1.5% as proposed in the draft Budget Statement.”

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

We are told that the focus of the 2014 Budget recommendations is to stimulate economic growth by, *inter alia* –

- Putting more money in the pockets of taxpayers through an increase in exemption thresholds.

The assumption is that most of this additional money in taxpayers' pockets will end up being spent in the local economy.

We have been further informed that –

“The practice in recent years has been to increase the exemption thresholds by reference to the lower of the RPI figure and the annual increase in earnings, although in both the 2012 and 2013 Budgets, thresholds were increased by slightly higher amounts.”

Because of the way our income tax system is organised there will be an immediate benefit to those, approximately 25% of taxpayers, who pay on a current year basis, but the majority, those whose tax is calculated on the previous year, will not feel the benefit until 2015. Current proposals are to introduce the Long-Term Care charge at 0.5% in January 2015, rising to 1% in 2016.

In deciding which form of indexation is appropriate, over recent times with RPI running above earnings, indexing linked to the RPI has maximised the benefit to taxpayers. However, this year, the June earnings figure has been greater than RPI.

In the June 2013 Report on the Index of Average Earnings, the Statistics Unit states –

“In June 2013 the average weekly earnings of workers in Jersey was 2.2% higher than in June 2012.

- *The latest annual increase is 0.7 percentage points higher than that of the previous twelve-month period (1.5% to June 2012).*
- *This latest increase in earnings represents the first time in four years that earnings have increased by more than prices (RPI).*
- *Average earnings in the private sector increased at almost twice the rate of that in the public sector over the twelve months to June 2013:*
 - *earnings increased, on average, by 2.4% in the private sector and by 1.3% in the public sector over this period.”*

The point here is that, if the thresholds are not indexed, then fiscal drag occurs, whereby increasing numbers of relatively poorly-paid workers are brought into paying income tax, and those whose earnings are just above the threshold will see their income tax bills increase steeply as their incomes rise a little.

To avoid or mitigate the impact of fiscal drag, the appropriate index is average earnings, not the RPI, since the amount of income tax paid is dependent, as the name implies, on income and not on prices.

Financial and manpower statement

There are no manpower consequences to this amendment. As set out above, the full impact of this change will not be seen until 2015 when it will provide a direct benefit to Jersey taxpayers of around £3.7 million.