STATES OF JERSEY ORDER PAPER

Tuesday 7th & Wednesday 8th December 2004

SECOND SUPPLEMENTARY

D. PRESENTATION OF PAPERS

(a) Papers for information

Matters presented under Standing Order 6A(1)(a)

States Members' parking (P.199/2004): comments. *Finance and Economics Committee.*	P.199/2004. Com.(2)
Housing Rent Subsidy Scheme: disregard to long-term incapacity benefit (P.207/2004) – comments. *Employment and Social Security Committee.*	P.207/2004. Com.

J. COMMITTEE STATEMENTS

The President of the Employment and Social Security Committee will make a statement regarding childcare.

K. PUBLIC BUSINESS

Draft Income Tax (Amendment No. 24) (Jersey) Law 200- (P.205/2004): amendments. *Deputy G.P. Southern of St. Helier.* *(attached)*	P.205/2004. Amd. *(re-issue)*

M.N. DE LA HAYE
Greffier of the States

6th December 2004.

DRAFT INCOME TAX (AMENDMENT No. 24) (JERSEY) LAW 200- (P.205/2004): AMENDMENTS

PAGE 36, INSERT NEW PART –

For Part 3 substitute the following Part –

“PART 3

ADDITIONAL CHARGE OF TAX

11 Article 1A inserted

After Article 1 of the principal Law there shall be inserted the following Article –

‘1A Additional charge of income tax

(1) In addition to the income tax charged pursuant to Article 1 of this Law, income tax shall be charged for a year of assessment at the specified rate upon the amount of a person’s liability to tax for that year under that Article.

(2) The specified rate mentioned in paragraph (1) of this Article is –

(a) for the year of assessment 2006, 0.87%;

(b) for the year of assessment 2007, 1.75%;

(c) for the year of assessment 2008 and ensuing years, 2.63%.’

12 Commencement of Part

This Part shall have effect for the year of assessment 2006 and ensuing years.”.

DEPUTY G.P. SOUTHERN OF ST. HELIER

P.205/2004.Amd.
(re-issue)

REPORT

There can be no doubt that the fiscal measures taken in response to EU/ECOFIN directives concerning harmful tax practices will have the most far-reaching and dramatic effects on the Island’s fiscal structure for many decades. In particular, the zero/ten proposals have resulted in 2 major measures that give particular concern to both members and Islanders –

- The introduction of a Goods and Services Tax (GST), and
- the phasing-out of allowances (20% means 20%).

GST has been widely consulted on and is not being presented for consideration in the 2005 Budget, but in a separate debate in February 2005, along with certain other options. I believe this is a sensible and prudent approach.

However, the inclusion of the phasing-out of allowances as Part 3 of the Draft Income Tax (Amendment No. 24 (Jersey) Law 200- in the 2005 Budget measures is in our opinion premature and unwise. I am very concerned about the introduction of this measure on a number of grounds –

The change in approach to the withdrawal announced in June 2004 has led to confusion as to what, exactly, is being proposed. This confusion persists not only in the public domain, but in many members’ minds.

This measure has not been out to consultation, except in the very broadest outline, because detailed information of how it will affect individuals and families has not been made available either to members, or to the public at large until 10 days prior to the Budget debate, following a request from Deputy Bridge.

As a consequence, reaction from the public has only recently started to filter through to members as they realise just what the effect on their tax bills will be. In many cases, they are shocked by the harshness of the increases proposed. There is evidence that, in some cases, these rises could be described as punitive.

Principles

But further to these, and far more fundamental, are the reservations I have about the principles that underpin the "20% means 20%" proposals. Here I turn to the Committee's own advisors, OXERA, in their document of May 2002, where they state in section 7.1 (p.64) under the heading"Principles of Taxation" –

> *"A priority for tax policy is to raise an appropriate amount of revenue as **efficiently** and **equitably** (OXERA emphasis) as possible…Efficiency is important to avoid creating excessive market distortions, leading to disincentives to work and lower productivity, and to avoid using up excessive resources in the economy…"*

In simple terms, this boils down to 4 principles of taxation –

- Taxation should be fair and equitable, often based on ability to pay.
- Taxation should be able to be collected efficiently.
- Taxation should be economically efficient.
- Taxation should be simple and understandable.

I believe the Committee's 20/20 proposals fall down on all 4 of these principles.

Equity and fairness

We talk blandly of the principle of equity or fairness in taxation, and when we do, we cite income tax as the best example of a tax measure designed to be fair. The income tax system has been built up painstakingly over many years to be as equitable as possible by individualising people's tax bill to take their personal circumstances into account. There are 2 mechanisms for doing this –

- – graduated rates, and
- – a system of allowances.

These can be manipulated to ensure that those with low incomes are protected whilst those on high incomes pay proportionately more, in the name of fairness. As we know, the possibility of a higher rate has been ruled out. So that leaves only manipulation of allowances to get the required flexibility in the name of fairness. The Committee's aim is to make the higher pay more tax.

So is this a fair way to raise additional tax? The data reveal that the tax increases for some of the individuals and families affected are between 19% and 29%, at the top end. For example, a single person without dependants or a mortgage the rise in tax payable starts at £25,000 (below the average wage) and £40,000 (a reasonable professional salary). Details for the types of family chosen by the Finance and Economics Committee to illustrate how the system works are given in Appendix 1. Members will note that the absolute additional tax figure given only at the top end of the scale serves to mask the substantial percentage increases lower down the scale. The IOD shares these reservations.

Examination of the graphical and tabular examples in the Appendices will reveal that the people who are most affected are the middle earners, whilst the rises for very wealthy are proportionately less. To claim that this measure is progressive, as the president does, is simply untrue. The IOD concur with my reservations.

In terms of economic efficiency one has to question whether the Committee's measures damage incentives for individuals to better themselves or promote entrepreneurship? I believe, along with the IOD, that these proposals will do the exact opposite.

Complexity

Further concerns must be expressed about the complexity of the proposals. The President often states that keeping the tax system simple is high on his agenda. Certainly whenever a higher rate is mentioned, for example, the simplicity of the single rate is always raised. One has to ask whether the withdrawal of allowances obeys the President's simplicity rule. It does not. It is almost impossible to understand. The essential details required to enable both members of this house and members of the public to make up their minds about "20 means 20" were released only 10 days ago. In the light of this, one has also to ask if there a single member of this House who can say they fully understand the impact this will have on their constituents. Again I believe not. Once again, I believe that the IOD shares my concerns. What is more, I am convinced that the scheme's complexity will lead to administrative inefficiency and additional costs.

Members may start to examine the possibility that if the IOD and I can manage to come to similar conclusions about the Committee's proposals, it could be because we are correct.

The absence of any assessment of interaction with the housing/mortgage market is a further concern. House prices are currently broadly static. Last year we capped mortgage tax relief. This proposal will further remove mortgage tax relief from those on middle-to-high incomes. The question must be asked – will this be the step that produces house price collapse and negative equity? The Committee have produced no evidence on this serious issue.

There is also concern that the Student Grant contributions system and the "20% means 20%" proposals target families over similar income ranges. What will be the extent of the impact on the family budgets of those families with mortgages and children at university? The Committee have not addressed this question.

Surcharge

So what is the alternative that I present? My amendment proposes that we abandon the punitive, unfair, inefficient and complex method that is the Finance and Economics Committee's 20/20 proposal, and replace it with a surcharge.

The ECOFIN surcharge on all tax bills, named after Council of Economic and Finance ministers of the EU (ECOFIN) is a far simpler method of raising £10 million. It is one that is far simpler for the public (and politicians) to understand; and one that spreads the load proportionately over all taxpayers instead of only some.

In simple terms, every person's tax bill (including companies) will be calculated using the exact system in place today, and then be subject to the ECOFIN surcharge. To raise £10 million, the rate would be 2.63%. To mimic the phasing-in of "20% means 20%", it, too, can be phased in over 3 years from 2006, thus–

Year	*Rate*	*Additional tax*
2006	0.87%	£3.3 million
2007	1.75%	£6.65 million
2008	2.63%	£10 million

To illustrate its effect, we only have to examine some projected tax bills using the maximum proposed rate of 2.63% –

Tax bill 2005	£100	£1,000	£10,000	£100,000	£1,000,000
Total tax 2008	£102.63	£1,026.30	£10,263	£102,630	£1,026,300

Spreading the load over every current taxpayer produces a rise in tax that is far more reasonable. It is manifestly fair and proportionate. It is also flexible, in that, should tax revenues improve in the future, the surcharge can easily be reduced, and vice-versa.

Financial and manpower considerations

There are no additional financial or manpower implications for the States arising from these amendments.

APPENDIX

SINGLE No children No mortgage

Extra tax START	£25,000				
MAX at	£42,500	MAX	INCREASE	2008	16%
				2007	11%
				2006	5.5%
Salary	£37,500		INCREASE	2008	13.5%
				2007	12.6%
				2006	6.3%
Salary	£30,000		INCREASE	2006	6.75%
Salary	£100,000		INCREASE	2008	6.6%
				2007	4.2%
				2006	2.1%

MARRIED No children No mortgage Wife earning

START	£48,000	MAX	£85,550		19.8%

SINGLE PARENT 1 child £120,000 Mortgage

START	£38,800				
MAX	£94,000	MAX	INCREASE		26%
BUT EVEN AT £60,000 SALARY			INCREASE	2007	18%
				2006	16%

MARRIED 2 children £120,000 mortgage Wife earning

START	£59,500				
MAX	£129,370	MAX	INCREASE	2008	23%
				2007	15.5%
				2006	7.7%
SALARY	£100,000		INCREASE	2007	19%
				2006	11%
SALARY	£80,000		INCREASE	2006	13%

MARRIED 2 children £200,000 mortgage Wife earning

START	£64,000				
MAX	£146,000	MAX	INCREASE	2008	25%
BUT EVEN AT £80,000 SALARY			INCREASE	2006	11%