STATES OF JERSEY

REPORT ON THE PETITION TO EXEMPT TAX ON THE OLD AGE PENSION

Presented to the States on 18th October 2024
by the Minister for Treasury and Resources

STATES GREFFE

REPORT

Preamble

This Report has been presented by the Minister for Treasury and Resources to support the States Assembly's in-committee debate of the Petition of Mr Paul Troalic, "Exempt States old age pension from tax". The Report also discharges the commitment of the Minister's predecessor to review the issues around the taxability of the old age pension in response to Deputy Barbara Ward's written question WQ.154/2022.

Summary of key points

- Jersey's high tax thresholds (£20,000 for single individuals in 2024) mean that pensioners do not pay income tax if the old age pension is their only source of income. Around 50% of pensioners do not pay income tax.
- Exempting the old age pension from tax is unaffordable (estimated cost at least £21 million per year on 2022 values).
- Without significant reductions in public spending, this could only be funded from the Social Security Fund, meaning current and future taxpayers and pensioners would be in a worse financial position than the current generation of pensioners. This represents inter-generational unfairness.
- The proposal would form an untargeted tax cut for tax paying pensioners (including the wealthiest pensioners) but would do nothing to help those on the lowest incomes, who are already outside the income tax net.
- Different households with the same level of income would see large discrepancies in their tax bills based on age and working status.
- The petition associates the payment of contributions with the payment of a pension (only), but contributions also fund a wide range of benefits.
- The old age pension (and other benefits) are subsidised by direct tax support via the States Grant.
- The Jersey position broadly mirrors that in the other Crown Dependencies, the UK, and in many other jurisdictions, where the pension is taxable.

Introduction

1. In Jersey, as in most similar jurisdictions, income tax is charged on pension income. Article 62 of the Income Tax (Jersey) Law 1961 provides that tax under Schedule D shall be charged on "any payment of a pension".[1]

2. An individual resident in Jersey, whether retired or not, is only liable to pay income tax once their income exceeds the single person's threshold. In 2024 that threshold is £20,000. For married couples and civil partners, the threshold is £32,050 (plus the second earners' threshold of £7,950 if it is due).

3. Jersey's high tax thresholds mean that those on the lowest incomes are shielded from paying income tax. Around 50% of all pensioners in Jersey do not pay income tax, and no pensioner whose income is solely the old age pension pays income tax.

4. The income tax paid on the old age pension was estimated to be at least £21 million in the year of assessment 2022, which represents the lower end of the estimated reduction in revenue if the measure was adopted. This tax is paid by pensioners whose incomes exceed the amounts described in paragraph 2.

The petition

5. The petition was created by Mr Paul Troalic on 30 May 2024 and is set out as follows:

   All employed persons are obliged by law to pay social security contributions. Contributions are not deducted from gross pay for taxation purposes. At pensionable age such pensions received are again liable to tax. This amounts to double taxation and such pensions should be exempt from taxation.
   The Gov.je website states that 'Any pension or annuity income that you receive is taxable when you're entitled to it.'
   I believe this amounts to double taxation. Contributions to pension schemes are quite different as they represent deferred taxation.
   The UK Government is about to make pension income exempt from taxation as part of their manifesto.

6. By 1 October 2024 the petition had attracted 5,256 signatures. It will expire on 30 November 2024.

The Minister's response

7. On 3 July 2024, after the petition had reached over 1,000 signatures, the Minister for Treasury and Resources posted her response. The following sections outline the Minister's position on the matter.

[1] Article 62(1), Income Tax (Jersey) Law 1961

Differences between the old age pension and a private pension

8. Social security contributions made into the Social Security Fund are very different from contributions into private pension schemes. Accordingly, they are treated differently for tax purposes.

9. Governments across the world incentivise their working age populations to make additional provision for their old age to supplement any State-sponsored insurance scheme providing an old age pension. A common incentive is income tax relief for paying into a private pension. Payments into a private pension are commonly relieved from tax when they are paid in (usually with some limits or caps) and taxed when the pension income is paid out on retirement.

10. Social security contributions paid by working people are not the same as private pension contributions. They are a sum of money paid into the Social Security Fund to provide a range of benefits for Islanders, including the old age pension, but also other benefits. These benefits include short- and long-term incapacity allowances, carer's allowance, parental grants, and many other benefits. The Health Insurance Fund also receives allocations from social security contributions, to support the wellbeing of Islanders by subsidising GP visits and the cost of prescriptions.

11. The petition wrongly implies that contributions are a form of retirement savings scheme. Social security contributions can be better thought of as a form of insurance, for financial support that Islanders might need at any point in their lives. Indeed, the founding principles of most social security schemes around the world is about providing insurance against inability to work.

How old age pensions and benefits are funded

12. Although these contributions pay for old age pensions and a wide basket of benefits, it is also important to note that employee social security contributions are not the only payments into the Social Security Fund.

13. Old age pensions and benefits are funded from multiple sources: by Islanders' own social security contributions, by contributions from employers, and from direct tax support through the States Grant.

14. The States Grant is an annual payment of general tax revenues into the Social Security Fund. It is sometimes called 'supplementation' because it subsidises the contributions for Islanders who earn less than the standard earnings limit (£65,400 in 2024) so that they can maintain their contributions record, which entitles Islanders to benefits such as sickness pay. Three-quarters of Islanders receive this support from Government to 'top up' their contributions records – and nearly all Islanders will benefit from the States Grant at some point in their working lives. This support allows Islanders to build up their entitlement to the old age pension and other benefits.

15. Although there is no direct income tax deduction for employee social security contributions, Government support is being provided in an alternative way through

the States Grant – funded by general taxation. This allows a higher and more sustainable level of benefits to be paid out. Without the tax support from the States Grant, all payments from the Social Security Fund, including pensions, would be either lower, or not sustainable.

Income tax and the old age pension

16. The petition correctly states that pension and annuity income is taxable when a person becomes entitled to it.

17. It is notable that Jersey's personal income tax thresholds mean that around 50% of pensioners do not pay income tax on any of their income. Those who do pay tax are only taxed on the excess over the tax threshold (£20,000 for single individuals and £32,050 for married couples and civil partners in 2024). Any Jersey pensioner whose only income is the old age pension will not pay any income tax.

18. In 2024, the current full rate old age pension is £271.81 per week. This equates to £14,134 per year (disregarding the anticipated October increase) meaning that if the old age pension is a person's only source of income, that person will not be liable to pay income tax. Indeed, a pensioner could receive up to a further £6,000 of income (approximately) before they have to pay any income tax.

19. For married couples receiving a pension based on the contributions of the husband, the maximum rate is £451.22 per week. Again, this means the annual income of £23,463 falls well below the married person's income tax threshold of £32,050.

Exempting the old age pension would not benefit lower income households

20. Exempting the old age pension from income tax would only benefit pensioners who pay income tax. It would do nothing for the half of pensioners (those with lower incomes) who do not already pay tax.

21. The tables in paragraph 26 demonstrate that single pensioners do not begin paying tax until their income exceeds the current single threshold of £20,000. This effectively means that the proposal is a targeted tax cut for single pensioner households with annual incomes above £34,100 (i.e. the single person's threshold plus the old age pension). There would be considerable tax savings for single pensioner households with incomes up to £100,000.

22. Similarly, there would be significant tax cuts for married pensioners with household incomes above £55,000. The tables in the Appendix show that a married couple with an annual income of £75,000 would have an effective tax rate of just 7%.

23. The resulting loss in taxation would result in other groups, such as younger families, having to pay more in tax or social security contributions, to maintain the Social Security Fund and allow the current pension and benefits to be maintained.

24. To reiterate, none of this £21 million tax giveaway would go towards pensioner households with the lowest incomes.

Comparing two households with the same income – if the pension was exempt

25. Not only would this be an untargeted tax cut, but if the old age pension was exempted from income tax it would result in perverse tax outcomes for households with the same income.

26. The two tables below show the difference in tax treatment between single person households with the same income – the second table showing the outcome if the old age pension was exempt from income tax.

Annual income 2024	Single person's tax – pensioners and working age	Effective tax rate
£20,000	Nil	0%
£30,000	£2,600.00	9%
£40,000	£5,200.00	13%
£50,000	£7,800.00	16%
£75,000	£14,300.00	19%
£100,000	£20,000.00	20%

Table 1: Current income tax liabilities and effective tax rates for single households – 2024

Annual income 2024	Single pensioner tax if old age pension is exempted	Effective tax rate
£20,000	Nil	0%
£30,000	Nil	0%
£40,000	£1,525.16	4%
£50,000	£4,125.16	8%
£75,000	£10,625.16	14%
£100,000	£17,125.16	17%

Table 2: Income tax liabilities and effective tax rates for single households if the old age pension was exempt from income tax – 2024

27. The tables assume that the single pensioner is receiving the full rate old age pension (but exempt from income tax) and that neither person is entitled to any allowances or reliefs other than the single person's threshold of £20,000. A similar table showing the differences in treatment for married couples is shown in the Appendix of key facts.

28. The rationale for introducing such large disparities in tax treatment between households with the same income levels would need to be extremely robust.

29. The most recent household expenditure survey shows that average weekly spending is highest for couples with dependent children (£1,365) and lowest for single

pensioners (£423). Pensioner households spent the lowest proportion of income on housing, fuel and power as many have no mortgage costs.[2] Broadly speaking, the proposal to exempt the old age pension would, in many cases, relieve households with the lowest levels of expenditure.

30. It should be noted that the States Assembly has in earlier years taken steps to remove age discrimination from Jersey's tax system: this would patently reinstate such discrimination.

Other jurisdictions

31. The tax treatment of social security contributions and the old age pension is not unique to Jersey. The position in Jersey broadly mirrors that in the other Crown Dependencies, the UK, and in many other jurisdictions.

32. The old age pension is taxable in each of the jurisdictions shown in the table below. However, thresholds are set so that those who receive only the old age pension are not required to pay income tax. Without considering additional entitlements (e.g. the enhancement for over 80s in Ireland), Jersey has the highest old age pension and tax threshold.

	Weekly pension	**Annual pension**	**Tax threshold**
Jersey	£271.81	£14,134	£20,000
Guernsey	£267.33	£13,896	£13,900[3]
UK (basic)[4]	£169.50	£8,814	£12,750
UK (new)	£221.20	£11,502	£12,750
Isle of Man	£241.50[5]	£12,558	£14,500
Ireland	€277.30[6]	€14,420	€18,000 (over 65)

Table 3: Summary of old age pension rates in comparable jurisdictions

United Kingdom

33. The petition states that the UK "is about to make pension income exempt from taxation". This is incorrect.

34. The Conservative Party had pledged to increase the tax-free personal allowance for pensioners each year in-line with the increase to the UK state pension, so that pensioners who receive only the UK state pension remain outside the tax net. This is already the position in Jersey. UK pensioners with other income, who therefore exceed the UK tax-free allowance, will be subject to taxation on their total surplus income above the threshold – in the same way as they are in Jersey.

[2] Household Expenditure Survey, 2021-2022.
[3] The personal allowance is gradually withdrawn from £80,000.
[4] Those who were employed between 1978-2016 also receive the Additional State Pension; this is not a fixed amount.
[5] An additional Manx pension supplement of £53 per week is available to those with 30 years of NICs.
[6] The pension rate is increased for those who are over 80 and those who live alone. Means tested increases are available for those receiving a social welfare payment for a dependent adult.

35. The UK state pension remains part of a person’s total taxable income – just like any other source of income for that person e.g. bank interest, private pension income, etc.

36. An equivalent policy to the Conservatives’ proposal is not necessary in Jersey because the personal tax thresholds far exceed the old age pension (even though the Jersey old age pension is higher than the UK state pension).

Revenue impact

37. Revenue Jersey has estimated that the cost of exempting the old age pension would have been at least £21 million in the year of assessment 2022, and at least £20 million in the year of assessment 2021.

38. The only way this reduction in revenue could be funded is through the Social Security Fund, meaning future pensioners could be deprived to fund current pensioners. As the Fund was depleted, action would need to be taken to increase contributions. The alternative would be to reduce public services other areas, possibly prejudicing other Islanders who need those services.

Appendix – Key facts

2024 single person tax threshold	£20,000
2024 married couple / civil partners tax threshold	£32,050 (plus £7,950 second earners' if applicable)
Full old age pension rate at September 2024 – single	£271.81 per week (£14,134 per year)
Full old age pension rate at September 2024 – married based on husband's contributions	£451.22 per week (£23,463 per year)
UK personal allowance 2024/25	£12,750
UK basic State Pension	£169.50 per week (£8,814 per year)
UK new State Pension	£221.20 per week (£11,502 per year)

- Estimated cost of exempting the old age pension from income tax – c.£21 million per year based on 2022 values. This could increase in future years as our population ages and pension values increase above inflation.
- Tables showing the difference in tax treatment between married couples with the same household income. It assumes that the pensioner couple in both tables is receiving the full rate old age pension based on the husband's contributions (and exempted from income tax in the second table). Both partners in the working age couple are working. Neither couple is entitled to any allowances or reliefs other than the applicable thresholds.

Total annual income 2024	**Married couple's tax – pensioners and working age**	**Effective tax rate**
£20,000	Nil	0%
£30,000	Nil	0%
£40,000	Nil	0%
£50,000	£2,600	5%
£75,000	£9,100	12%
£100,000	£15,600	16%

Table 4: Current income tax liabilities and effective tax rates for married households – 2024

Total annual income 2024	**Married pensioners' tax if old age pension is exempted**	**Effective tax rate**
£20,000	Nil	0%
£30,000	Nil	0%
£40,000	Nil	0%
£50,000	Nil	0%
£75,000	£5,066.62	7%
£100,000	£11,566.62	12%

Table 4: Income tax liabilities and effective tax rates for married households if the old age pension was exempt from income tax – 2024