

# STATES OF JERSEY



## INCOME TAX: REPORT ON PERSONAL INCOME TAX ASSESSMENTS

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Lodged au Greffe on 18th October 2012  
by Deputy G.P. Southern of St. Helier

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STATES GREFFE

## **PROPOSITION**

**THE STATES are asked to decide whether they are of opinion –**

to request the Minister for Treasury and Resources to present to the States a report examining in full the case that personal income tax assessments should apply to individual earnings and not, as currently, to household earnings, and to do so no later than 30th September 2013 so that the report is available in time for proposals and amendments relating to this issue to be lodged for debate in the Budget 2014.

DEPUTY G.P. SOUTHERN OF ST. HELIER

## REPORT

When I lodged P.23/2011 – “Income Tax: introduction of higher rate” on 14th February 2011, it contained a paragraph which would have required the introduction of a system of individual income tax assessment to replace the present system of assessment of household earnings. The necessity for such a change had been highlighted by the Minister for Treasury and Resources’ fiscal strategy review process.

In his consultation paper prior to the budget debate, the Minister proposed 4 mechanisms to enable him to raise the sums he had targeted. The 4 possible options involved increases to –

- **Goods and Services Tax**
- **Social Security contributions**
- **Domestic property rates**
- **Income Tax.**

During the consultation conducted by the organisation ‘Involve’ during 2010, it became clear that the option to introduce a higher rate of income tax for higher earners was impractical. In terms of individual responses, some respondents had spotted the defect in the proposal on income tax. As Involve notes thus –

*“One aspect of the option that was considered unfair was the possible inclusion of joint incomes.”*

Under the current Income Tax Law, the treatment of married and unmarried couples is different. The introduction of higher rates for higher income bands would, in effect, discriminate against married couples. This made the proposal which was the subject of the consultation a non-starter.

As I wrote at the time in my report on P.23/2011 –

*“At no time during the consultation or since has the Minister or his deputies attempted to address this fundamental flaw. This alone rendered the consultation process, in my opinion, largely invalid.”*

*As a result of this basic flaw in the option presented, it became clear to those who were interested that progressive changes to income tax were not possible in the short term (to start in year of assessment 2011) to help deal with the taxation revenue “black hole” resulting from the recession and zero/ten. However, looking to the medium to long term, there can be no doubt that we must properly examine all options for raising tax, and not dismiss some as sacrosanct because of the political prejudice of the Minister for Treasury and Resources.”*

In short, the introduction of a higher rate of tax is impossible without being discriminatory under our present system.

In his comments on P.23/2011, the Minister for Treasury and Resources dismissed a higher rate out of hand, thus –

*“The option of increasing income tax rates was carefully considered during the Fiscal Strategy Review process. Based on all the information collected during this process it was decided that a higher rate of tax was not appropriate for Jersey.”*

On the separate issue of independent taxation, however, he had the following to say –

*“The first part of the proposition proposes that a system of independent taxation should be introduced, so that married couples are taxed separately on their individual income. The Treasury Department is currently conducting a review of the income tax system with the aim of modernising it and making it more efficient to administer.*

***It is possible that this review will recommend the introduction of independent taxation as part of a wider reform, and that many of the issues that currently prevent it will be resolved.***

*However, redesigning the Jersey income tax regime must be done with care to ensure that a modernised regime continues to meet Jersey’s needs. It will take time to properly consider all aspects of our personal tax regime to ensure that it is fit for purpose. A root and branch review of the whole income tax system cannot and should not be rushed, and could not be completed before the 2012 Budget is lodged in 5 months’ time, as this proposition would require.”*

When I lodged a similar proposition on 31st January of this year (P.11/2012) asking that legislation be brought forward in time for debate as part of Budget 2013, once again the Minister rejected the proposal. On this occasion he suggested that –

*“The Minister has already publicly committed to review the feasibility of independent taxation in Jersey within a clearly defined timescale;”.*

That “clearly defined timescale” turns out to be a “2 to 3 year period”.

We have already waited a whole year to see proposals, first promised for the Budget 2012, for changing the tax position of non-finance businesses. The Minister for Treasury and Resources has taken on a whole new team to get on with his “modernization” process. The question of independent taxation, which was first brought up in the fiscal strategy consultation in June 2010, will have had over 2 years under consideration. How long do we have to wait for results?

### **Financial and manpower implications**

There are no significant financial or manpower costs arising from this proposition, as the report could be prepared by existing staff from within the Department.