STATES OF JERSEY

BUDGET 2005: SIXTH AMENDMENTS (P.217/2004) – COMMENTS

Presented to the States on 7th December 2004
by the Finance and Economics Committee

STATES GREFFE

COMMENTS

The Finance and Economics Committee opposes this amendment in the strongest possible terms.

This amendment directly conflicts with the Committee's core principle of the 2005 Budget to limit the budget deficit.

The cost of this amendment in terms of lost tax revenue in 2005 is estimated to be £4.9 million. As no compensatory tax measures or savings in expenditure are offered to meet this lost revenue, this will translate directly into an increased deficit of an equivalent amount.

Furthermore were this policy to be continued in future years, (and, once introduced, it would be difficult to withdraw), the forecast deficits in every subsequent year would also grow by approximately the same amount.

By 2009, the end of the current financial forecast period and at the point immediately prior to the introduction of 0/10, the amendment, were it to be repeated each year, would increase the Island's accumulated deficit by approximately £24.5 million. To increase the forecast deficit in such a fashion would be quite irresponsible Moreover, it would undoubtedly increase inflation in the Island.

It would also appear that the effect of this amendment is misunderstood. The aim of the proposer is to help the poor of the Island, yet it has absolutely no benefit whatsoever for the poorest of the Island as they do not pay tax and so do not benefit from increasing the exemption limits.

What needs to be clearly understood is the distribution of taxpayers under the current taxation system. Approximately 50,800 people are liable to tax of which 14,000 are protected by our already generous exemption limits, a further 22,500 middle income earners are assessed at the marginal rate and the remaining 14,300 are assessed at the standard rate.

Of the 14,000 people who currently do not pay tax, only approximately 500 would benefit from this amendment and they would be those with the highest taxable incomes in that group, not the poorest. On the other hand, the amendment would also benefit the vast majority of those 22,500 on middle and higher incomes previously mentioned.

To use an example with the same characteristics as demonstrated in the Budget book (page xx), under this amendment, a married couple with 2 children and mortgage of £200,000 would benefit from this amendment only if their income was in the range £37,781 to £67,543. The Committee considers that this income range does not reflect the poorest section of the community.

To further emphasize who would benefit from this amendment, and those, including the poorest, who would not benefit, the Committee has taken the unusual step of including, to aid Members understanding, an Annex to this comment.

The proposer has not approached the Comptroller of Income Tax to discuss and ascertain whether his proposal addresses its intended aims, and does not appear to have fully understood its implications.
This amendment would do nothing for the poor of the Island, add to the inflation of the Island and render the Island's finances unsustainable at a cost, ultimately to future taxpayers, of almost £5 million in 2005 and in each and every year thereafter, and is therefore strongly opposed.

ANNEX

SECTION 1 – INTRODUCTION – TWO TIER TAX ASSESSMENT

The Island currently operates a two-tier tax assessment system. Individuals who are liable to tax have their income assessed using two methods.

(1) The marginal system, in which the liable income is taxed at the marginal rate of **27%**. Liable income using this method is calculated after the deduction of various **exemptions**.

(2) The standard system, in which the liable income is taxed at the rate of **20%**. Liable income in this method is calculated after the deduction of various **allowances**.

The lowest resulting tax liability is that which is charged.

Section 3 of this Annex provides a more detailed explanation of how this system protects those on lower incomes from high **effective** rates of tax. Further to this, included as Section 4 is the applicable section of the Income Tax Law.

SECTION 2 – WHO WOULD BENEFIT FROM THIS AMENDMENT?

As highlighted in the comment of the Committee this amendment would provide absolutely **no benefit whatsoever for the poorest of the Island** as they do not pay tax and so would not benefit from increasing the exemption limits.

What needs to be clearly understood is the distribution of taxpayers under the current taxation system. Approximately 50,800 people are liable to tax of which 14,000 are protected by our generous exemption limits, a further 22,500 middle income earners are assessed at the marginal rate and the remaining 14,300 are assessed at the standard rate.

The proposed measures would only assist approximately 500 of the 14,000 people in the lowest earning category that do not currently pay tax; and even they would be the better off in that category. The maximum tax saving these individuals could receive from this amendment is £305 each and most would benefit from less than this.

So who else will benefit? **This amendment would result in lost tax revenue to the Treasury of £4.9 million**. The overwhelming majority of which, £4.8 million or 98% of the total, would benefit, not the poorest of the Island, but existing middle income taxpayers whose bills are assessed at the marginal rate.

For a better understanding of who these people are the table below uses the Budget book taxpayer examples (page xx) and 4 additional pensioner examples to demonstrate the income ranges of those people who will benefit. Those with income below these levels would not benefit.

The Committee is of the view that these income ranges do not represent the most needy section of the community.

Characteristics of Taxpayer	Income range that would benefit from the amendment
Single, no children, no mortgage	£11,021 to £27,755
Single, 1 child, £120k mortgage	£24,381 to £41,115
Married, no children, no mortgage	£22,181 to £51,942
Married, 2 children, £120k mortgage	£33,541 to £63,302
Married, 2 children, £200k mortgage	£37,781 to £67,543
Married pensioners, no children, no mortgage	£24,751 to £62,395
Single pensioner, no children, no mortgage	£12,301 to £32,962

Married pensioners, no children, £120k mortgage	£31,111 to £68,755
Single pensioner, no children, £120k mortgage	£18,661 to £39,322

SECTION 3 – JERSEY TWO-TIER SYSTEM

Income Tax personal allowances in Jersey are quite low. In 2003 the single person's allowance is £2,600 and the married man's allowance is £5,200. Although there is also a tax allowance of one quarter of earned income, the earned income allowance, up to a maximum of £3,400 in 2003, this still makes a single person or a married man, potentially liable to tax on a comparatively low income.

To prevent liability to tax on low incomes, there are tax thresholds in existence, known as small income exemption limits. The exemption limit for a single person in 2003 is £11,020 and for a married man £17,680. For a married man with children, an addition of £2,500 can be made to the exemption limit for each child under 16, or, over 16 and in full-time education, or, if over the age of 17 and attending full-time at a further educational establishment, £5,000, depending on the income of the child. The exemption limit can be further increased pound for pound of wife's earned income, up to a maximum of £4,500. For a single parent with a child, the exemption limit of £11,020 can be increased by £2,500, or £5,000, for the child and an additional personal allowance of £4,500. Any bank or mortgage interest paid can be added to the exemption limits so increasing them even further.

Because of these generous exemption limits, increased as appropriate by child allowance, additional personal allowance, child care tax relief and bank or mortgage interest, it is only those with higher than average incomes who do not benefit from them.

Those whose incomes are somewhat in excess of the exemption limits fall into what is termed the "marginal band." A special rule operates to ensure that there is no disproportionate increase in a person's tax bill by having an income a bit above his or her exemption limit. It limits the individual's tax bill to a marginal rate (27% for 2003) on the amount by which the individual's income exceeds the exemption limit.

EXAMPLES

A. Single Person				Single Person (with exemption limit)	
Earnings			£12,000		£12
Less:	Personal allowance	£2,600		Less Exemption limit	£11
					£
Earned income					x 27%
allowance (1/4 x £12,000)		£3,000	£5,600	= £265 maximum tax payable	
Taxable income =			£6,400		
			x 20p		
£1,280 tax payable					

The difference between £1,280 and £265 is £1,015 and this is described in the tax assessment as "Marginal Relief"

B. Married Man				Married Man (with exemption limit)	
Earnings			£21,000		£21,
Less:	Personal allowance	£5,200		Less: Exemption Limit	£20,

Earned income allowance (maximum)	£3,400			£8 x 27%
Child allowance (1 child)	£2,500		= £221 maximum tax payable	
Life Insurance relief	£500	£11,600		
Taxable income =		£9,400		
	x 20p			

= £1,880 tax payable

The difference between £1,880 and £221 is £1,659 and this is described in the tax assessment as "Marginal Relief"

C. Married Man (Wife working)

Married Man (Wife working) (with exemption limit)

Earnings (self)			£28,000		
Earning (wife)			£5,000		
			£33,000		£3
Less:	Personal allowance	£5,200		Less Exemption limit	£2
	Earned income allowance (maximum)	£3,400			£ x 27%
	Wife's earned income allowance (maximum)	£4,500		= £896 maximum tax payable	
	Child allowance (2 children)*	£7,500			
	Life Insurance relief	£800	£21,400		
	Taxable income =		£11,600		
			x 20p		
	= £2,320 tax payable				

The difference between £2,320 and £896 is£1424 and this is described in the tax assessment as "Marginal Relief"
*** One child over 17 in full time further education.**
Feb 2004

SECTION 4 – INCOME TAX (JERSEY) LAW 1961

[92A Exemption from, and reduction of, tax on small incomes

[(1) If an individual, being a person entitled to the lower deduction under paragraph (1) of Article 94 this Law, or being a person entitled to the higher deduction under paragraph (1) of the said Article 94, proves tha his total income for the year of assessment does not exceed [eleven thousand and twenty pounds] or [seventeen thousand six hundred and eighty pounds] respectively, he shall be entitled to exemption from income tax:

Provided that if the individual is entitled for the year of assessment to deductions under Article 95 of this Law ir respect of children, the amount of [eleven thousand and twenty pounds] or [seventeen thousand six hundred and eighty pounds] shall be increased by an amount of two thousand five hundred pounds or five thousand pounds, as the case may be, for each child in respect of which he is entitled to a full deduction under the said Article 95 or by a proportionate part of two thousand five hundred pounds or five thousand pounds, as the case may be, for each child in respect of which he is entitled only to a part of the deduction under the said Article 95.

Provided further that if the individual is entitled for the year of assessment to the deduction, or part of the deduction, under Article 98A of this Law, the amount of [eleven thousand and twenty pounds] or [seventeen thousand six hundred and eighty pounds] shall be further increased by an amount equal to the amount of the said deduction or part of the said deduction, as the case may be.

Provided further that, if the individual is entitled for the year of assessment to the deduction under paragraph (2) of Article 94 of this Law, the amount of [eleven thousand and twenty pounds] or [seventeen thousand six hundred and eighty pounds], as the case may be, shall be further increased by an amount equal to the said deduction.

Provided further that, if an individual proves, at the commencement of the year of assessment, that either he or, in the case of a married man, his wife living with him, was of the age of sixty-three years or upwards, the amount of [eleven thousand and twenty pounds] shall be increased by an amount of [one thousand two hundred and eighty pounds] and the amount of [seventeen thousand six hundred and eighty pounds] shall be increased by an amount of [two thousand five hundred and seventy pounds].

Provided further that, if the individual is entitled for the year of assessment to the supplement for child care in accordance with the provisions of Article 92B of this Law, the amount of [eleven thousand and twenty pounds] or [seventeen thousand six hundred and eighty pounds], as the case may be, shall be increased by the amount of that supplement.]

(2) An individual, not being exempt from income tax under paragraph (1) of this Article by reason of the fact that his total income exceeds the respective amounts specified in the said paragraph (1), shall be entitled to have the amount of income tax payable in respect of his total income reduced, where necessary, so as not to exceed an amount equal to [twenty-seven per cent] of the amount by which his total income exceeds the respective amounts specified in the said paragraph (1).]

Re-issue Note

These comments are re-issued as, due to an error in the original document issued by the Treasury, the Finance and Economics Committee’s comments on P.216 and P.217/2004 were transposed.