STATES OF JERSEY

GOVERNMENT PLAN 2021–2024 (P.130/2020): FOURTH AMENDMENT

Lodged au Greffe on 30th November 2020
by Senator S.Y. Mézec

STATES GREFFE

1 PAGE 3, PARAGRAPH (j) –

After paragraph (j), insert the following new paragraph –

"(k) to agree in principle that from the year of assessment 2022 the 20% personal income tax rate should no longer be available (except for High Value Residents, for whom no change is proposed), and personal income tax should instead be charged at a rate of 25% (with all personal income taxpayers being entitled to the allowances and reliefs which are available to marginal rate taxpayers when calculating the amount of income taxable at the rate of 25%), and to direct the Minister for Treasury and Resources to bring forward the necessary legislative changes for debate by the Assembly during 2021."

SENATOR S.Y. MÉZEC

Note: After this amendment, the proposition would read as follows –

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

to receive the Government Plan 2021 – 2024 specified in Article 9(1) of the Public Finances (Jersey) Law 2019 ("the Law") and specifically –

(a) to approve the estimate of total States income to be paid into the Consolidated Fund in 2021 as set out in Appendix 2 – Summary Table 1 to the Report, which is inclusive of the proposed taxation and impôts duties changes outlined in the Government Plan, in line with Article 9(2)(a) of the Law;

(b) to approve the amounts to be transferred from one States fund to another for 2021, in line with Article 9(2)(b) as set out in Appendix 2 – Summary Table 2 to the Report;

(c) to approve the proposed borrowing to be obtained for 2021, in line with Article 9 (2)(c), up to and including the amount set out in Appendix 2 – Summary Table 3 to the Report;

(d) to approve each major project that is to be started or continued in 2021 and the total cost of each such project and any amendments to the proposed total cost of a major project under a previously approved government plan, in line with Article 9(2)(d), (e) and (f) of the Law and as set out in Appendix 2 - Summary Table 4 to the Report;

(e) to endorse the efficiencies and other re-balancing measures for 2021 contained in the Government Plan as set out in Appendix 2 Summary

Table 6 and reflected within each gross head of expenditure in Appendix 2 – Summary Table 5(i);

(f) to approve the proposed amount to be appropriated from the Consolidated Fund for 2021, for each head of expenditure, being gross expenditure less estimated income (if any), in line with Articles 9(2)(g), 10(1) and 10(2) of the Law and set out in Appendix 2 – Summary Tables 5(i) and (ii) of the Report;

(g) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in 2021 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 7 to the Report;

(h) to approve the proposed amount to be appropriated from each States trading operation's trading fund for 2021 for each head of expenditure in line with Article 9(2)(i) of the Law and set out in Appendix 2 – Summary Table 8 to the Report; (i) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2021as set out in Appendix 2 – Summary Table 9 to the Report;

(i) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2021as set out in Appendix 2 – Summary Table 9 to the Report;

(j) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2021-2024, as set out at Appendix 3 to the Report; and

(k) to agree in principle that from the year of assessment 2022 the 20% personal income tax rate should no longer be available (except for High Value Residents, for whom no change is proposed), and personal income tax should instead be charged at a rate of 25% (with all personal income taxpayers being entitled to the allowances and reliefs which are available to marginal rate taxpayers when calculating the amount of income taxable at the rate of 25%), and to direct the Minister for Treasury and Resources to bring forward the necessary legislative changes for debate by the Assembly during 2021.

REPORT

Summary of the effect of this amendment

The effect of this amendment is to abolish the "20 means 20" Income Tax calculation and put all ordinary taxpayers on the Marginal Relief calculation, but at a reduced rate from 26% to 25%, from the 2022 tax assessment year.

This will simplify our Income Tax system and deliver a tax-cut for the majority of taxpayers, whilst raising tax on the very highest-earners. It will also provide a reliable income-stream for much-needed investment in our public services to support our strategic priorities.

Reform Jersey would like to thank officers in the Treasury Department for providing impartial and objective advice, and for assisting us in producing modelling for our proposals.

The case for change based on the government's commitment to 'Reduce Income Inequality'

"*We will reduce income inequality and improve the standard of living*" - Headline priority from the Common Strategic Policy 2018-2022

In 2018 the States Assembly unanimously approved the Government-proposed Common Strategic Policy, which featured as one of its headline priorities 'Reducing Income Inequality'. This is not an unquantifiable aspiration or vague words which aim to merely sound nice. It is something which is measurable. If it is to be achieved, it means decreasing the income gap between those who earn the least and those who earn the most. That can mean increasing the amount that those on the lowest incomes receive, decreasing the amount those on the highest or a combination of both. It can still involve having the highest earners continue to receive more, so long as those on the lowest incomes are receiving more at a higher proportion, so it balances out.

The Government has failed to provide Statistics Jersey with the resources it requires to conduct an updated Income Distribution Survey to measure the levels of income inequality which exist in Jersey, and how they have changed since the last survey in 2014/15[1]. We can therefore only speculate as to how successful the government has been at fulfilling this ambition, but the evidence we can access does not look promising.

The Government has imposed real terms pay cuts on many of its employees, and undertook a sham negotiation with the employee representatives which provoked strike action, which those workers will have had to lose pay to take part in.

Last year the Social Security Minister failed (in rejecting the amendment to P.56/2019) to uprate Income Support rates to mitigate the effect that inflation has had on the value of Income Support.

[1]https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20Income%20Distribution%20Survey%20Report%202014-15%2020151112%20SU.pdf

The Government and Assembly chose to raise the Long-Term Care Tax on taxpayers, without fully lifting the regressive cap on the tax, which sees the very highest earners sheltered from this.

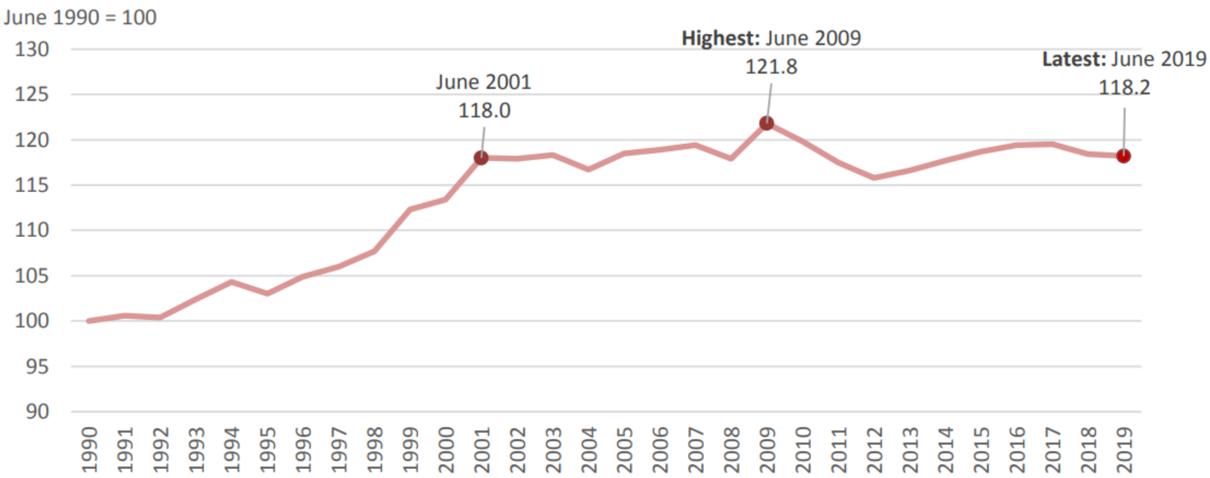
Even though the Government did raise the cap on Social Security Contributions, it did not fully lift it, which means that low and middle earners pay proportionately more than the highest earners, and is in direct contradiction of the aim of reducing income inequality.

Though the Minimum Wage has been increased at a higher rate than in previous years, it had an unjustifiably low starting point (having fallen below the UK and Guernsey), and is still well below a Living Wage. Attempts to rectify this have been rejected.

It is safe to assume that levels of income inequality have got worse since the last IDS.

Real terms earnings in Jersey have basically been frozen for two decades. Since 2001, real terms earnings have increase by just 0.2%, having actually fallen by 3.6% since the mid-way point of June 2009[2]. See the table below.

Index of Average Earnings in real terms from 1990 to 2019 (June 1990=100)



In the two years of this Government, real terms earnings have fallen.

The Covid-19 pandemic will of course have a very disruptive effect on earnings and employment, which will be difficult to assess next to ordinary trends. But the trend before the pandemic was one in which ordinary earners were not getting better off, poverty was increasing, and the income of the wealthiest was increasing.

Commendable action was taken by the Government to mitigate the worst possible effects of the pandemic on ordinary earners. Including the co-funded payroll scheme, extra Income Support payments and the temporary cut in Social Security Contributions (which fits in with the 'Relief' principle of the New Deal). But none of these were structural changes which will have any long-term impact on addressing inequality.

[2]https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/20190823%20Average%20Earnings%20Index%20June%202019.pdf

Inequality is a political choice, which we could change course on if we had the courage to take action to deal with it. By accepting this amendment, we will make our Income Tax system fairer, more progressive and simpler. It will provide a break for the vast majority of taxpayers, who will get to keep more of their earnings which they can spend in the economy, whilst asking the highest earners to be put on the same tax regime as the rest, and contribute what will proportionately be a very small amount extra.

This will contribute to an economic recovery after the Covid19 pandemic which is actually worth having. A return to what we had before the pandemic is not good enough. This could instead be a moment where we realigned our economy into one which works for everyone, and that means having a fairer tax system.

The 'New Deal' for Jersey

Reform Jersey proposes that we learn the lessons of history from successive economic crises, and accept that an austerity approach to economic recovery will inevitably lead to failure, whereas an investment approach and concerted drive to address structural inequalities is more likely to speed up economic recovery and provide a sound basis for our society and economy operating in the future. This is partly inspired by the 'New Deal' approach taken by US President Franklin D. Roosevelt in rebuilding the American economy after the Great Depression.

The 'New Deal' is made up of the three R's:

Relief – Provide direct support for Islanders facing immediate hardship and prevent a deepened economic deterioration
Recovery – Temporary action to kick-start economic recovery, create employment and business growth
Reform – Address structural deficiencies to provide for systemic resilience in the event of future crises

The Government has taken action which could fall into the Relief and Recovery stages, such as committing to run a deficit, taking on debt and looking to undertake economic stimulus measures. But these measures will prove futile if they are followed up with austerity at the first sign of short-term economic recovery.

By changing our Income Tax structure, we will support economic recovery by providing a break for ordinary taxpayers, without harming public finances by deepening the deficit or taking on more debt. A more progressive system will contribute to reducing income inequality in a more tangible way than any measure undertaken by the current government.

Distributional analysis

Every earner who currently pays an effective tax rate of 0% ("non-liable taxpayers" i.e. those who earn and submit tax returns, but do not earn enough to incur a tax liability) will continue to pay 0%.

Every taxpayer who currently pays a tax rate between 1% and 19% will see their tax liability **reduce**. This amounts to around 9/10 taxpayers with a positive liability, or 44,000 taxpayers.

Those at the lower end of '20 means 20' will see their tax liability reduce, as they become eligible for tax allowances that they were previously not entitled to, which will **reduce** the amount of their income which is taxable.

Only those at the very top of the income spectrum in Jersey will see their tax rates increase progressively to a modest 25%. This equates to just 5,000 taxpayers.

There are no implications for taxpayers who pay under the 2(1)(e) regime (formerly 1(1)(k)).

Approximately 90% of taxpayers will see their tax rates either reduce or remain the same. The following scenarios show the impact of these changes on various household examples, based on the proposed 2021 tax allowance levels.

- A single person with no children or mortgage would not pay any extra tax until they were earning £82,000 a year. Those earning less than that would get a tax cut. (Appendix 1)

- A married couple each earning the average wage, with 2 children and a £300,000 mortgage, will be £291 a year better off. (Appendix 2)

- A married couple with 2 children and a £300,000 mortgage would not see their tax liability increase until they were earning £257,000 a year.

- A retired married couple would not pay any extra tax until they were earning £163,000 a year. (Appendix 3).

Children's Rights Impact Assessment

There are no direct children's rights concerns arising from this, as children will not be Income Taxpayers themselves. However, the indirect concerns will relate to the effect this measure will have on their parents and their ability to provide for their children, and the wider impact on government finances which could provoke changes in the delivery of services which benefit children.

By providing a tax break to those working parents at the lower and middle parts of the income scale, they will be in a better position to be able to financially provide for their children, whilst those who will see a tax rise as a result of this are already at the top of the scale and will face only a negligible impact.

By raising a further £7.5m income for the Government, fewer tough choices in how to fund public services will be necessary, meaning the services that children rely on can be more easily safeguarded.

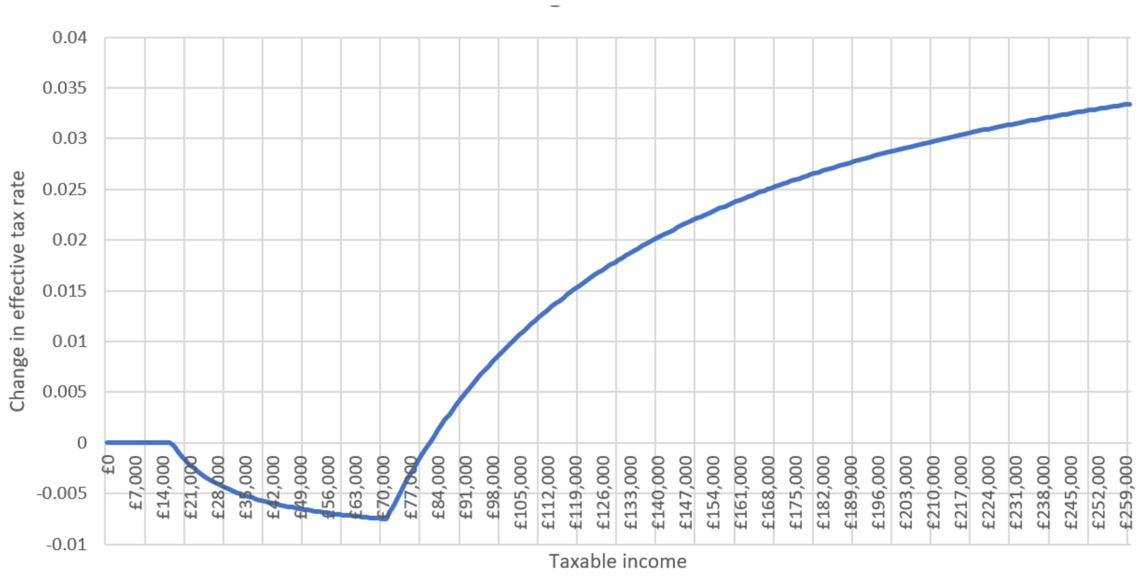
Financial and manpower implications

If adopted, this amendment will require legislative changes to the Public Finances (Jersey) Law 2019 in 2021 which could be funded from within existing resources.

Revenue Jersey has provided an estimate of £7.5m per year in extra revenue that this change could deliver.

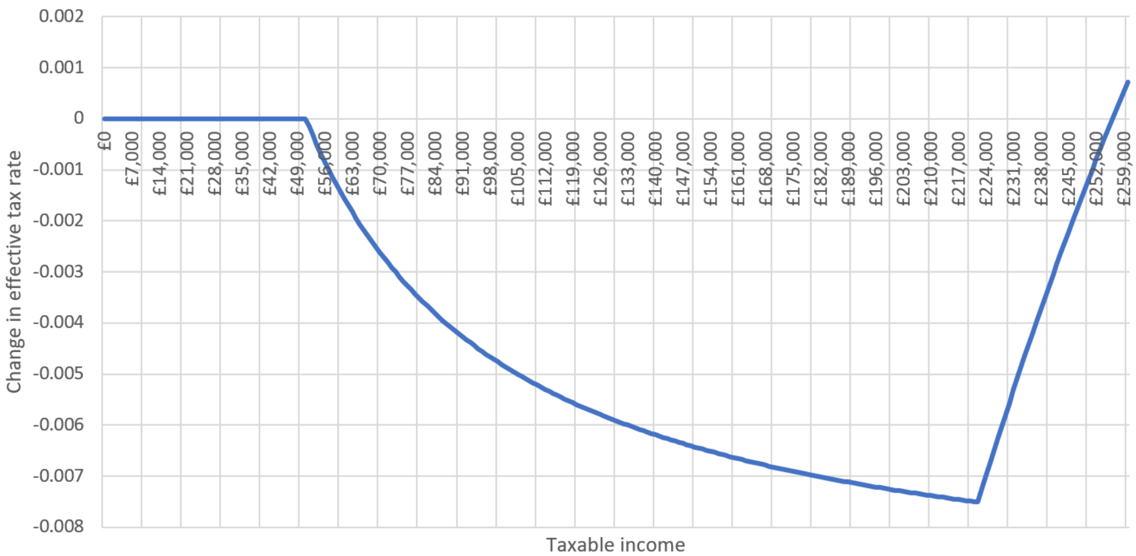
Appendix 1

A single person with no mortgage



Appendix 2

A married couple with 2 children and a £300k mortgage



Appendix 3

A married pensioner couple