STATES OF JERSEY

LONG-TERM CARE SCHEME (P.99/2013): THIRD AMENDMENT (P.99/2013 Amd.(3)) AND DRAFT SOCIAL SECURITY (AMENDMENT OF LAW No. 6) (JERSEY) REGULATIONS 201- (P.138/2013): AMENDMENT (P.138/2013 Amd.) – COMMENTS

Presented to the States on 5th December 2013
by the Minister for Social Security

STATES GREFFE

COMMENTS

Summary

- The proposed LTC contribution liability is capped at the upper earnings limit of the Social Security scheme (£152,232 per annum in 2013).
- This would be equivalent to a maximum individual liability in 2013 for LTC contributions of £1,522 per annum at a 1% LTC contribution rate.
- The amendment of Deputy M. Tadier of St. Brelade seeks to remove the cap of the contribution amount, leaving liability uncapped and due against total taxable income.
- All existing contributions levied under the Social Security Law are capped and are associated with entitlements to a fixed range of benefits.
- The LTC contribution and LTC benefits have been designed in the same way, and there is no justification for an unlimited liability to be introduced in this single area.

Members are urged to reject this amendment.

LTC Contributions

The LTC contribution is a contribution raised under the Social Security Law.

As with all other social security contributions, there is a maximum contribution above which no additional payment is required. The proposed changes to the Social Security Law link the maximum LTC contribution to the upper earnings limit, which is currently set at £152,232 per annum.

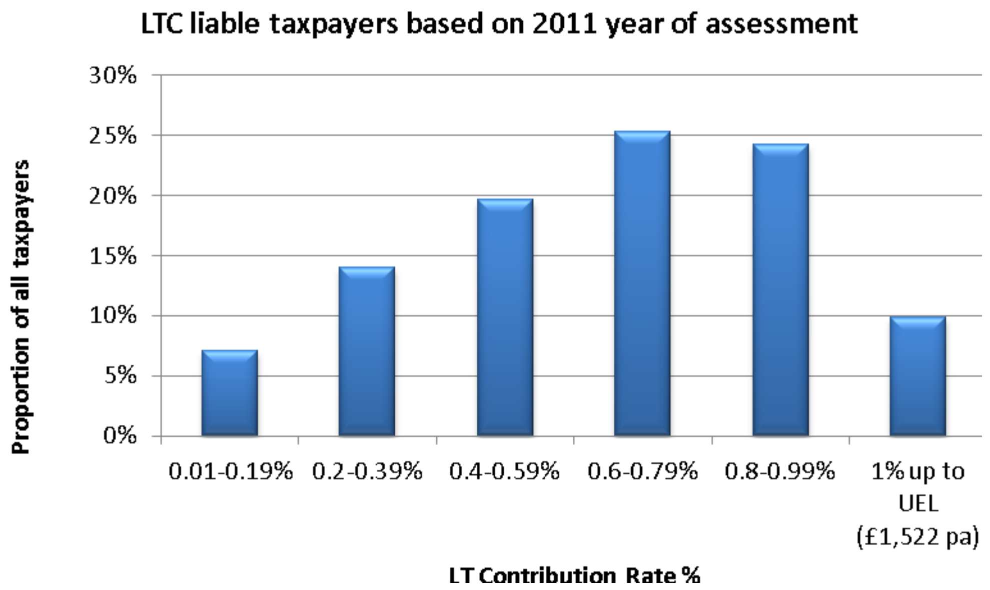
The upper earnings limit was introduced in 2012 as part of the Fiscal Policy Review. The initial proposal was to levy a new 2% social security charge up to the upper earnings limit on both working-age employees and their employers. After review, it was agreed that the charge in respect of employees would not be introduced in 2012. This decision was influenced in part by the knowledge that a new LTC charge was in the pipeline for employees. The current proposal is that the LTC liability in respect of individuals will be limited to the same upper earnings limit that is already in place for employers paying Social Security contributions.

The proposal to base the LTC liability on all income has created a more progressive charge compared to the original (2011) proposal. At that time, the proposal was to base liability on earnings for working-age individuals and taxable income for those aged over state pension age. The decision, confirmed in June 2013, to set the LTC contribution liability in line with income tax liability has created a broadly progressive contribution system. By contrast, the original suggestion in 2011 was for a flat rate contribution rate for all working-age adults, which would have collected proportionately more contribution income from lower-paid workers and proportionately less contribution income from higher-paid workers.

Effective rates

Deputy Tadier's report confuses the concept of effective rate and marginal rate. An individual's liability for LTC contributions will depend on their effective rate, which will gradually increase from zero, if their income is below the tax threshold, up to the full LTC rate (e.g. 1% in 2016) as their taxable income increases up to the upper earnings limit (UEL).

This diagram indicates the proportion of taxpayers who will be subject to LTC effective rates at different levels. For example, based on 2011 tax data, over 40% of all taxpayers would have an effective LTC rate of less than 0.6%, if the main LTC rate is 1%.



As Deputy Tadier notes in his report (page 11), 2% of taxpayers earn over £150,000 per annum and, at the proposed maximum contribution capped at the upper earnings limit, they will contribute approximately 15% of all the LTC contribution income collected.

Conclusion

The proposed LTC contribution will collect contributions against all income up to an upper earnings limit of £152,232 per annum. This is in line with other contributions collected through the Social Security Law.

The current proposals provide a much more progressive contribution liability compared to the original 2011 proposals. There is no justification for increasing this liability beyond the upper earnings limit.

Deputy Tadier's support for the concept of a long-term care scheme is welcomed, but members are urged to reject this amendment.