STATES OF JERSEY

PROPOSED GOVERNMENT PLAN 2023-2026 (P.97/2022): TWENTY-THIRD AMENDMENT

REMOVING THE UPPER EARNINGS CAPS

Lodged au Greffe on 28th November 2022
by Deputy S.Y. Mézec of St. Helier South
Earliest date for debate: 13th December 2022

STATES GREFFE

PAGE 2, PARAGRAPH (i) –

After paragraph (h), insert a new paragraph (i) –

"(i) to agree that the Upper Earnings Limit, as defined within the Social Security (Jersey) Law 1974, should be removed, abolishing the upper earnings limit cap on Social Security Contributions and on Long Term Care Contributions, increasing the estimated closing balance of the relevant Funds by £7 million and £6.5 million respectively by the end of 2023;"

and re-designate the existing paragraph (i) as paragraph (j).

DEPUTY S. Y. MÉZEC OF ST. HELIER SOUTH

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 2023–2026 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 2023 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 proposed Changes to Approval for financing/borrowing for 2023, as shown in Appendix 2 – Summary Table 2 to the Report, which may be obtained by the Minister for Treasury and Resources, as and when required, in line with Article 9 (2)(c) of the Law, of up to those revised approvals;

(c) to approve the transfers from one States fund to another for 2023 of up to and including the amounts set in Appendix 2 – Summary Table 3 in line with Article 9(2)(b) of the Law;

(d) to approve each major project that is to be started or continued in 2023 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 approve the proposed amount to be appropriated from the Consolidated Fund for 2023, 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;

(f) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in 2023 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 6 to the Report;

(g) to approve the proposed amount to be appropriated from each States trading operation's trading fund for 2023 for each head of expenditure in line with Article 9(2)(i) of the Law and set out in Appendix 2 – Summary Table 7 to the Report;

(h) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2023 as set out in Appendix 2 – Summary Table 8 to the Report;

(i) to agree that the Upper Earnings Limit, as defined within the Social Security (Jersey) Law 1974, should be removed, abolishing the upper earnings limit cap on Social Security Contributions and on Long Term Care Contributions, increasing the estimated closing balance of the relevant Funds by £7 million and £6.5 million respectively, by the end of 2023; and

(j) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2023-2026, as set out at Appendix 3 to the Report.

REPORT

Summary

If adopted, this amendment would abolish the Upper Earnings Limits on Social Security Contributions and the Long Term Care Tax. This would provide for an extra £7m annually into the Social Security Fund and an extra £6.5m into the Long Term Care Fund.

The Upper Earnings Limit is set at £250,000 a year, above which taxpayers do not pay the Long Term Care Tax and employers do not pay Social Security Contributions for their employees. Nobody earning a penny below this amount will see their contributions increase.

Manifesto Commitment

> "*We will also abolish the caps on Social Security Contributions and the Long Term Care Tax which currently allow those earning above £250,000 a year to pay a lower effective rate than everyone else*." – 2022 Reform Jersey Manifesto – The 'New Deal' for Jersey

Reform Jersey has consistently stood for progressive taxation to enable the funding of our public services. In lodging this amendment, we are acting on our democratic mandate to seek this change.

Rationale

The upper earnings caps on Social Security Contributions and the Long Term Care Tax are regressive and unfair.

The result of the upper earnings caps means that those who earn the most pay the lowest effective rates. This unarguably meets the definition of 'regressive taxation' which is – 'a tax where the tax rate decreases as the taxable base increases'. A millionaire will pay an effective rate of LTC which is ¼ of what a taxpayer on the average wage would pay.

There is no moral case for providing tax exemptions to the highest earners in Jersey. These caps are a tax privilege which provides for a break for people who do not need it. But it also sees Jersey's Social Security Fund and Long Term Care Fund lose out on potential revenue to allow those funds to serve their purpose.

In response to the cost-of-living crisis, measures have been taken to increase direct payments to Islanders. Some of that comes from the Social Security Fund. To pay more out of that fund whilst not increasing the amount that goes in will risk making that fund unsustainable. The effect of abolishing the UEL for Social Security Contributions can only be to make the Social Security Fund more sustainable.

As I write this report, the media headlines are focusing on the crisis in the care sector in Jersey. Recruitment of staff continues to be a key problem. This is unsurprising when you consider the pay and terms and conditions on offer to people who work in that vital sector. By providing an upper earnings cap on the LTC tax, we are losing out on £6.5m a year that could go to support care provision.

When the LTC tax was first introduced, it was anticipated it would eventually rise to 3%. It was introduced at 1%, then raised to 1.5% in the last term of office. By abolishing the cap, the need to increase the basic rate will be mitigated, and therefore lower and middle earners will be protected from a potential tax rise in the future.

This amendment will make our tax system fairer, our society more equal and our services better funded.

Financial and manpower implications

The financial implications are as stated in the wording of the amendment, which contains estimates provided by the Treasury.

The caps on Social Security Contributions and the Long Term Care Tax are defined in law, and so would require a minor change of legislation implement their abolition.