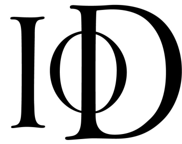

16th October 2013

Scrutiny Office
Morier House
Halkett Place
St Helier JE1 1DD

Re: Long-Term Care Law

Dear Panel

We write with reference to your examination of the revised proposal to introduce a new charge for "long-term care". We note that the scope of your review is a comparison of what is being proposed in P.99/2013 "Long-Term Care Scheme" compared to what was approved in P.108/2011 "Draft Long-Term Care (Jersey) Law"; a determination as to how the figures within the proposals have been justified; consideration of the financial implications as a result of the proposed changes; and an assessment of the social and economic outcomes of the proposals.

Context

The original proposal was mooted in late 2008 and was contained within the Strategic Plan 2009 -2014. This document promised that the States would " work together to co-ordinate the actions required to deal with the ageing population in a cohesive way including providing health and long-term care provision in the future - including introducing an Island-wide scheme to meet the costs of individuals residential care". Contained with the same report was an acceptance that "government cannot provide everything" and that it was essential that reform of the public service was required to improve efficiency. It noted that "the economic downturn will put significant pressure on government revenues and spending. If we are to maintain core public services at an acceptable level, an early priority will be to review services and make savings. All elements of the public sector must work together....., to deliver modern, co-ordinated services that meet the needs of Islanders." Since that time, the States has of course increased public sector employment to the highest recorded levels to date at a time whilst the island experienced a decline in GVA of 4% in real terms and has unemployment of 5.7%. It is against that background that the States of Jersey are proposing to introduce a new tax on income.

Transparency

The Treasury Minister recently described the 20% income tax rate as a "cornerstone" of Jersey's tax system. We therefore understand the political reluctance to describe this proposed charge on income as a tax. However, the Oxford English Dictionary definition describes a tax as a "compulsory contribution to state revenue, levied by the government on workers' income and business profits, or added to the cost of some goods, services, and

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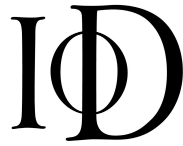


transactions." It would therefore be challenging to describe this proposed charge as anything other than a tax. We note that a publicity campaign will be launched during the second half of 2014. This is too late. Notwithstanding the effect of the October 2014 elections, those who will need to pay this new tax should be given as much warning as is possible, and that means as soon as the law is passed.

Economic position

We are surprised that the Fiscal Policy Panel do not appear to have been asked to provide specific input in relation to the introduction of the new tax and would strongly suggest that their input is sought before the proposals are formally introduced.

We had serious concerns about the short-term economic impact of a 0.5% contribution rate in 2014 and we therefore welcomed the proposal to delay contributions until 2015, and then at 0.5% in 2015, and 1% in 2016. However, P.099-2013 talks about "a time of continuing economic uncertainty". In fact, the recent GVA figures (published after P.099-2013) paint a rather more certain picture and arguably the rate should be kept at 0.5% until such time as GVA grows again.

Competitiveness

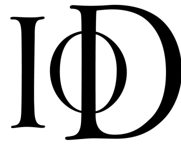
Many of the individuals who will pay this new tax are internationally mobile, as are their businesses. Whilst an increase in tax of 1% should not of itself convince anybody to leave the Island, an introduction of a new tax at a time when many individuals and businesses are feeling the effects of an economic decline, does not send a positive message. Government should not underestimate the effect of a tax rate exceeding 20% (or other previously agreed limits) on the attractiveness of Jersey as a low tax jurisdiction.

Population

We fail to see how such a tax can be introduced without a population policy being in place. In effect, once the tax is introduced, it is an open-ended commitment funded by future taxpayers. We would suggest that in reviewing the assumptions for this report and comparing them to those used in relation to education, the new hospital, and the revisions to the island plan there are significantly different assumptions made.

Alternatives

It is not within your remit to revisit the basis for the new tax and therefore we do not intend to go over old ground covered in the previous green / white papers concerning alternative arrangements but, to describe it bluntly, we struggle to understand the merits of asking future generations to pay for and preserve the wealth of the persons who have failed to adequately provide for their old age. The policy and collection method effectively rewards the person who has been subject to little tax in the past and also those who are asset rich and income poor. There is a clear disconnect between the likely contributors (the current working population through a tax on their income) and the likely beneficiaries (those with capital assets).



We continue to believe that an alternative based around taxing an individual's capital assets on death (additional probate duties), taking into account the need to protect international business, could raise funds in a more targeted, and potentially fairer, manner. In the UK, inheritance tax thresholds have been frozen in real terms, and the equivalent Guernsey scheme was introduced in 2003, when the economic picture was somewhat different.

Conclusion

In our view, the island already has a high cost of living and the imposition of a further tax on income will create an additional drain on the economy. As the States workforce increases the real value added to the economy can only decrease based on the assumption of a static working age population. If additional funds are taken out of the economy it is possible that unemployment will rise or persons of working age and within the scope of this tax will leave the island to seek employment elsewhere. This will create a spiral of lower taxation receipts etc. The island may struggle to have a workforce large enough to pay for this.

The IoD membership is of course of individuals, not of businesses, and as individuals we sympathise with the need to consider the funding of long-term care. However, when these proposals were initially put forward they were part of a much larger agenda, much of which was focused on stimulating the economy. Whilst the strategic plan had many tensions within in it is disappointing to note that yet again, there is a proposal that is likely to have exactly the opposite effect. We urge Government to think again.

Yours faithfully

K.N.Higgins

pp Jason Laity, Executive Director, KPMG
Chairman, IoD Jersey Branch

John Shenton, Partner, Grant Thornton
Chairman, IoD Tax Sub-Committee

Wendy Dorman, Partner, PwC
IoD Tax Sub-Committee Member

cc Senator Francis Le Gresley,
Senator Philip Ozouf
Deputy Anne Pryke