WRITTEN QUESTIONS TO THE PRESIDENT OF THE FINANCE AND ECONOMICS COMMITTEE BY DEPUTY G.P. SOUTHERN OF ST. HELIER

ANSWERS TO BE TABLED ON TUESDAY 18th JANUARY 2005

Question 1

Will the President –

(a) confirm that the tax increases resulting from his "20% means 20%" proposals will take place over the ranges indicated below for the examples given?

(b) complete the table with the additional tax proposed for each salary point

(i) in absolute terms, and

(ii) as a percentage of current tax paid?

Answer

(a) I am afraid that I cannot give the Deputy the confirmation he seeks. The tax increases under the 20% means 20% proposals will also occur on incomes above the ranges given by the Deputy in his examples because there is no upper income limit for the tax increases under these proposals. In other words, those with high disposable incomes, currently paying tax at the standard rate of tax of 20%, will all have to pay additional tax and there is no upper income cut off point when such people will not be paying additional tax under the 20% means 20% proposals. It is also very important to bear in mind that it is only those with the highest incomes in relation to their particular personal and individual circumstances that will pay any additional tax at all under these proposals. Indeed, it might be best to categorise such individuals as those with high net disposable income rather than as having high incomes. For example, it is difficult to argue that a single individual, with no children, no mortgage and no other commitments, earning £45,000 a year, does not have a high net disposable income. It is right and proper, in my view, that such an individual should pay an extra £1,200 a year in additional tax, phased in over 3 years, to help preserve our economic well-being and to safeguard Jersey's high standard of living for future generations. The additional tax that we are seeking to collect from such individuals will also ensure that, even after these tax increases, they will still be considerably better off living in Jersey than many other places throughout the world, and, as they grow old, will enable them to benefit from a system of benefits and pensions which is also considerably more generous than in other comparable jurisdictions. On the other hand, a married man with 2 children at school and a working wife, a £200,000 mortgage and paying contributions into an occupational pension scheme, could not be considered, on an income of £45,000, to have a high net disposable income, so he will not have to pay any additional tax at all under the 20% means 20% proposals. These proposals have, unfortunately, been completely misunderstood by some people which is why the Committee decided to defer them at the time of last year's Budget; but I do hope that there is now some more understanding of these proposals as there is no wish, whatsoever, on my part or that of the Committee, to argue for and introduce tax proposals which perhaps only I and the Committee understand and which Members of this Assembly do not fully understand. To help Members and others get a fuller understanding of these proposals, the Committee will shortly make available a comprehensive and detailed schedule with many examples of different taxpayer types, detailing the impact, if any, on them under these 20% means 20% proposals. These examples will be available on both the gov.je and the Income Tax Office web-sites.

(b) I attach tables with the information requested. I should advise the Assembly that the examples which have been chosen by Deputy Southern are highly selective showing increases in tax liability for all of the household types listed. This is not, and I repeat not, a true representation of how all households will be affected by the proposals. I must emphasise that 70% of households in Jersey will not be affected by these proposals. In order to demonstrate this more clearly, I attach, as an annex, further examples of how households may be affected by the proposals, which give a more representative picture. As I have already said, an extensive and comprehensive schedule will shortly be made available on the States website.

SINGLE No children No mortgage

Salary £	Year	£ Additional Tax from 2005	% increase from 2005
30,000	2006	324.60	6.76
	2007	324.60	6.76
	2008	324.60	6.76
37,500	2006	400.00	6.35
	2007	800.00	12.70
	2008	849.60	13.49
42,500	2006	400.00	5.48
	2007	800.00	10.96
	2008	1,199.60	16.43
100,000	2006	400.00	2.13
	2007	800.00	4.26
	2008	1,200.00	6.38

MARRIED No children No mortgage Wife earning

Salary £	Year	£ Additional Tax from 2005	% increase from 2005
85,550	2006	873.33	6.03
	2007	1,746.67	12.05
	2008	2,619.90	18.08

SINGLE PARENT 1child £120,000 Mortgage (interest rate 5. 3%)

Salary £	Year	£ Additional Tax from 2005	% increase from 2005
60,000	2006	1,290.67	15.88
	2007	1,489.40	18.32
	2008	1,489.40	18.32
94,000	2006	1,290.67	8.65
	2007	2,581.33	17.29
	2008	3,869.40	25.92

MARRIED 2 children £120,000 mortgage (interest rate 5. 3%) Wife earning

Salary £	Year	£ Additional Tax from 2005	% increase from 2005
80,000	2006	1,436.20	12.93
	2007	1,436.20	12.93
	2008	1,436.20	12.93
100,000	2006	1,630.67	10.79
	2007	2,836.20	18.77
	2008	2,836.20	18.77

129,370	2006	1,630.67	7.77
	2007	3,261.33	15.54
	2008	4,892.00	23.32

MARRIED 2 children £200,000 mortgage (interest rate 5. 3%) Wife earning

Salary £	Year	£ Additional Tax from 2005	% increase from 2005
80,000	2006	1,139.40	11.11
	2007	1,139.40	11.11
	2008	1,139.40	11.11
146,000	2006	1,913.33	8.16
	2007	3,826.67	16.31
	2008	5,740.00	24.47

Question 2

Will the President inform members whether any further progress has been made in the Committee's attempts to recover the tax lost from non-Jersey resident shareholders via a 'look-through' mechanism, and if not, will he -

(a) explain what additional measures the Committee proposes to put in place to raise the additional £20 million required? and,

(b) assure members that the Committee will not propose that the level of a Goods and Services Tax be raised above the 5% currently indicated?

Answer

I assume that the question in part (a) is referring to some form of withholding tax on non-finance sector, non-resident shareholders rather than a 'look-through' mechanism. The'look-through' arrangements are only intended to apply to Jersey resident shareholders.

(a) I can confirm that the Committee has indeed spent considerable effort in investigating whether a selective tax could be implemented which would help restore a Jersey tax liability to Jersey for non-finance sector companies that are owned by non-resident shareholders. These companies will be subject to a zero corporate profit tax rate in Jersey. I wish to emphasise that most, if not all, of these companies will not be paying less tax in future; they will merely be paying the same amount of tax but in another jurisdiction rather than in Jersey. Any additional tax liability imposed on them will usually be an additional cost of doing business in Jersey.

In developing any additional taxes that would apply to these companies, but would not impose additional costs on either Jersey owned companies or financial services companies, and which would meet non-discrimination requirements, any new tax must be applicable to all companies. However, by making payment of this new tax off-settable against any Jersey corporate profits tax liability, and capping it at a maximum of 10% of profits, it would be possible to ensure that no additional tax liability would fall to Jersey-owned companies, or financial services companies. It is also necessary to ensure that non-trading Jersey companies which form the corporate vehicles for the customers of the international financial services provided in Jersey do not acquire a tax liability. If they did, Jersey would become uncompetitive in much of its main export market.

Broadly speaking three possible options have been identified: a tax based on number of employees, total cost of payroll, or on property occupied (some form of commercial rate). Whilst all three options are technically feasible in terms of implementation, they all suffer from undesirable economic consequences for the people of Jersey. To varying degrees they would be likely to lead to job losses, and increases in prices locally.

In addition the technical complexity of all three taxes, which would have to be both capped and off-settable, so as not to impact adversely on locally owned businesses, would, unfortunately make them relatively easy to avoid.

Not only that, but there is a possibility that the damage to the competitive environment may disadvantage Jersey residents more than any additional tax revenue generated. Furthermore, it is estimated that the maximum level of tax revenue that could be raised from any one of the three options under consideration is in the order of £5 million to £6 million per annum.

I should advise the Assembly that the figure of some £20 million to £25 million previously quoted is misleading. Following further extensive research, the Committee is now advised that the reduction in tax revenues from non-finance sector, non-resident companies, as a result of the move to 0/10% is in the order of £10 million to £12 million, and not £20 million to £25 million. The reason for the revision to this estimate is that the original estimate included around £10 million to £12 million of tax revenues from a small number of specialist non-resident, non-finance companies, which will be leaving the Island before 2008 for reasons unconnected to the move to 0/10%. In the initial calculations this tax revenue was incorrectly included in the amount that would be lost as a result of 0/10%. In reality, whilst it will still be lost, it would be lost irrespective of the change.

Final decisions on which of the three options, if indeed any, are in the best interests of the Island have yet to be made. However, the Committee will advise the Assembly of its views when it lodges its fiscal strategy proposals.

(b) As for the possible introduction of a Goods and Services Tax (GST), I can assure Members that the Committee is determined that the rate should be as low as possible, even if possible below a rate of 5%.

The Committee is also determined that not only should GST be introduced at a low rate, but also that this rate should be guaranteed not to increase for a number of years.

However, I would like to take this opportunity to make it clear that the reason we are making these proposals is because, like it or not, the Island must balance its books; we must, as an Island, pay for the services we receive from the States. We are moving to 0/10% because this *minimises* the loss of tax from corporate profits, and maintains the economic foundation of the Island, i.e. the financial services sector. Without the financial services sector the loss of tax revenue would be much greater, and the economic activity on the Island to support our public services would be considerably smaller, implying much higher tax rates if States services were to be maintained.

The question is, therefore, not one of introducing GST because it is, in itself, a good thing. It is because to maintain government spending on such things as health, education, pensions and the like, more tax revenue is required because it is no longer possible, in this internationally competitive world, to get the financial services sector to pay as much as it did. It will still pay a lot, and the tax paid by Jersey residents will still be low compared to the benefits they receive. But if we try to maintain the current levels of tax they will simply re-locate, taking their jobs and their corporate tax with them, which is just what Guernsey and the Isle of Man would like.

The real issue is whether GST is a better, or worse, way of raising the additional revenue compared to the other alternatives such as payroll taxes, income taxes, or other taxes paid by Jersey residents. The question is not really whether 5% is the right rate, but what is the rate, and coverage, required to generate the income needed to pay for States' services. I would prefer lower taxes to higher taxes, but I would also prefer paying more taxes to ensure that the States can continue to function, to continue to provide education, health and other services to our people and, such things as, continued assistance to those on low incomes. To pretend that these services can, somehow, be provided for nothing, is tantamount to putting one's head in the sand.

Description of Household	Household income	Total tax due for 2005	2005 Effective rate	Tax paid after full implement-ation of 20% means 20% (2008)	Effective rate after full implement-ation of 20% means 20% (2008)	2008 Increase in tax paid from 2005	% Increase from 2005	2008 Increase in effective rate from 2005
Single, no children, no mortgage	£25,500	£3,900	15.3%	£3,910	15.3%	£10	0.2%	0.0%
Single, no children, no mortgage	£30,000	£4,800	16.0%	£5,125	17.1%	£325	6.8%	1.1%
Single, no children, no mortgage	£37,500	£6,300	16.8%	£7,150	19.1%	£850	13.5%	2.3%
Single, no children, no mortgage	£42,500	£7,300	17.2%	£8,500	20.0%	£1,200	16.4%	2.8%
Single, no children, no mortgage	£100,000	£18,800	18.8%	£20,000	20.0%	£1,200	6.4%	1.2%
Single, 1 child at school, mortgage £120,000	£40,000	£4,128	10.3%	£4,217	10.5%	£89	2.2%	0.2%
Single, 1 child at school, mortgage £120,000	£50,000	£6,128	12.3%	£6,917	13.8%	£789	12.9%	1.6%
Single, 1 child at school, mortgage £120,000	£60,000	£8,128	13.5%	£9,617	16.0%	£1,489	18.3%	2.5%
Single, 1 child at school, mortgage £120,000	£94,000	£14,928	15.9%	£18,797	20.0%	£3,869	25.9%	4.1%
Married, wife earning, no children, no mortgage	£50,000	£7,380	14.8%	£7,511	15.0%	£131	1.8%	0.3%
Married, wife earning, no children, no mortgage	£60,000	£9,380	15.6%	£10,211	17.0%	£831	8.9%	1.4%
Married, wife earning, no children, no mortgage	£85,550	£14,490	16.9%	£17,110	20.0%	£2,620	18.1%	3.1%
Married, wife earning, 2 children, mortgage £120,000	£60,000	£7,108	11.8%	£7,144	11.9%	£36	0.5%	0.1%
Married, wife earning, 2 children, mortgage £120,000	£70,000	£9,108	13.0%	£9,844	14.1%	£736	8.1%	1.1%
Married, wife earning, 2 children, mortgage £120,000	£80,000	£11,108	13.9%	£12,544	15.7%	£1,436	12.9%	1.8%
Married, wife earning, 2								

children, mortgage £120,000	£100,000	£15,108	15.1%	£17,944	17.9%	£2,836	18.8%	2.8%
Married, wife earning, 2 children, mortgage £120,000	£129,370	£20,982	16.2%	£25,874	20.0%	£4,892	23.3%	3.8%
Married, wife earning, 2 children, mortgage £200,000	£70,000	£8,260	11.8%	£8,699	12.4%	£439	5.3%	0.6%
Married, wife earning, 2 children, mortgage £200,000	£80,000	£10,260	12.8%	£11,399	14.2%	£1,139	11.1%	1.4%
Married, wife earning, 2 children, mortgage £200,000	£90,000	£12,260	13.6%	£14,099	15.7%	£1,839	15.0%	2.0%
Married, wife earning, 2 children, mortgage £200,000	£100,000	£14,260	14.3%	£16,799	16.8%	£2,539	17.8%	2.5%
Married, wife earning, 2 children, mortgage £200,000	£110,000	£16,260	14.8%	£19,499	17.7%	£3,239	19.9%	2.9%
Married, wife earning, 2 children, mortgage £200,000	£146,000	£23,460	16.1%	£29,200	20.0%	£5,740	24.5%	3.9%

Notes: Where examples for single parents are given the calculations assume additional personal allowance is due. Where wife working this assumes income over £4500. Where child allowance given this assumes any income in the child's own right does not exceed £2500. Allowable Mortgage interest calculated at 5.3%.
The effective rate is the percentage of your income

you pay in tax.