STATES OF JERSEY

PROPOSED GOVERNMENT PLAN 2022-2025 (P.90/2021): TWELFTH AMENDMENT (P.90/2021 AMD.(12)) – COMMENTS

SOCIAL SECURITY CAPS

Presented to the States on 9th December 2021
by the Council of Ministers

STATES GREFFE

COMMENTS

The Council of Ministers rejects this proposal and asks the Assembly to reject this amendment.

Summary

The proposal:

1. Goes against the advice of the Fiscal Policy Panel - "revenue raising steps would not be appropriate now".

2. Would pose an unacceptable risk to Jersey's international competitiveness, particularly for the financial and legal services sector.

3. Would be likely to raise much less income than estimated because businesses and individuals may take steps to avoid the additional charges, and this could lead to a loss of revenue if they chose to leave Jersey.

4. Would raise revenue into ring-fenced Social Security and Long-term Care Funds.

Two years ago, the States agreed to increase the upper earnings limit to £250,000 a year for 2020. This was the highest limit Jersey could set, following careful consideration of advice from tax policy experts, and the expected impacts and risks to the change.

Over the next few years, we will be able to evaluate the impact of increasing the upper earnings limit in 2020.

Actuarial reviews of the Social Security and Long-term Care Funds will be undertaken in 2022 and any action to adjust contribution rates or limits should be taken after those reviews are complete.

Proposed change

This proposal would remove the monthly upper earnings limit on Social Security contributions and Long-term care contributions from 1 January 2022.

The upper earnings limit is currently £21,030 per month (£252,360 a year) and is expected to increase to £21,724 per month (£260,688 a year) on 1 January 2022 in line with the increase in average earnings during 2021.

This proposal would require:

- **Employers** to pay an extra 2.5% Social Security contributions on employees' earnings above £21,030 per month

- **Self-employed people** below pension age to pay an extra 2.5% Social Security contributions on business income above £21,030 per month

- **Taxpayers on the high value residency scheme** below pension age to pay an extra 2.5% Social Security contributions on income above £21,030 per month

Employees with earnings above £21,030 per month would not pay extra Social Security contributions because the monthly standard earnings limit (£4,610 per month/£55,320 per year) applies and no contributions are due on earnings above this limit. This part of the amendment only requires an additional payment from the employer.

This proposal would also require people with income above £252,360 to pay an extra 1.5% Long-term care contributions on their income above £252,360.

The estimated revenue has not been allocated to any specific government priorities from 2022 onwards. It will add to the existing reserves within the Funds.

Fiscal Policy Panel – revenue raising steps would not be appropriate now

In their recently published Annual report (November 2021) the Fiscal Policy Panel recommended:

*"**1. Tax revenue: short and medium term.** The economy is recovering, but is still weakened and the outlook remains unclear. Whilst inflation is forecast to be higher over the next year, revenue raising steps, including higher taxes, impose a burden and would not be appropriate at present**.** Yet raising revenue over the medium-term is important and the Government should clarify how it will do so in its next Government Plan."*

International competitiveness

This proposal has the potential to significantly reduce Jersey's international competitiveness, particularly in the financial and legal services sector, which comprise almost two-fifths of Jersey's economy (by Gross Value Added, GVA[1]), and are subject to fierce competition internationally. Elements such as cost and ease of doing business are critical to the perception of Jersey's competitiveness.

The most affected businesses could limit their activity or even leave Jersey. We would not only lose the Social Security and Long-term care contributions, but also the Income Tax and GST that they pay.

Connected to this, it would also make it less likely that Jersey could attract and keep highly skilled and successful business owners, employees and taxpayers on the high value residency scheme. These people make a valuable contribution to our society and economy and are often internationally mobile, making location choices based on a variety of factors.

Estimated income from the proposal

The estimates of income provided apply the proposed changes to a snapshot of taxpayer earnings and incomes from 2019. It does not take in to account any changes in behaviour that could take place to minimise the impact of the proposal themselves.

The estimated income from the Social Security contributions part of the proposal depends on approximately 350 employed and self-employed people, including

[1] Measuring Jersey's economy, GVA and GDP – 2020.

taxpayers on the high value residency scheme. The estimated income from the Long-term care contributions part of the proposal depends on approximately 450 people.

It is very likely that some of these people will change their financial arrangements, or perhaps move away from Jersey, to avoid paying the significant extra contributions.

The income that could be raised would also be highly variable from year to year, as contributions at very high earnings levels, particularly for self-employed people, vary from year to year. This means that the income could not be relied upon to pay for a permanent benefit increase or service improvement.

Sustainability of the Social Security and Long-term Care Funds

The Social Security Reserve Fund was worth £2.3bn at the end of October 2021. It has a sustainable long-term outlook under current policy and projections of an ageing population, with reserves expected to be approximately 4 years' worth of spend by the 2070s.

The Long-term care Fund, following the States agreement to increase the Long-term care contribution rate to 1.5% and the upper earnings limit to £250,000, is now expected to last much longer under current policy and assumptions about long-term care in the future.

Financial Implications

The amendment does not impact on expenditure or borrowing from the Consolidated Fund.

Statement under Standing Order 37A [Presentation of comment relating to a proposition]:

These comments were submitted to the States Greffe after the noon deadline as set out in Standing Order 37A due to time constraints from the States Meeting being moved forward to Monday 13th December, which in turn affected the final deadline for Comments, and the requirement to undertake final due diligence and review processes.