STATES OF JERSEY

SOCIAL SECURITY FUND: REMOVAL OF EARNINGS LIMIT (P.82/2005) – COMMENTS

Presented to the States on 10th May 2005
by the Economic Development Committee

STATES GREFFE

COMMENTS

The Economic Development Committee firmly opposes this proposition as it clearly contradicts the aims of the Economic Growth Plan, particularly in terms of creating employment opportunities for local people, that was only agreed by the States on 20th April.

The thrust of the proposal is that employee and employer social security contributions will rise as a result of the removal of the earnings limit and a gradual rise in the contribution rate. There can be little doubt that in the short term this will serve to undermine economic growth in Jersey.

The rise in employer contributions will act like a rise in employer payroll tax and therefore increase the cost of employing people in the Island. The costs of doing business in Jersey will increase and Jersey businesses will be made less internationally competitive – whether they are finance, tourism or agriculture. This will require firms to adjust other employment costs to compensate and that could result in lower wages for employees and/or lower employment. The industries that would need to make the most adjustment are those paying the higher wages and they would see the largest increase in employer contributions.

The Committee is also concerned about the distributional consequences of the proposed changes and relative to the Finance and Economic Committee's proposals for GST and 20 means 20. In particular –

- The tax base is narrower as it focuses on earned income only and excludes unearned income (covered in income tax) or visitor expenditure (covered by GST). The end product is that wage earners pay more than they would under GST and 20 means 20.

- People with high unearned income do not pay any additional tax under the proposed changes in social security contributions.

- The fact that employers have to pay an additional £11 million in contributions due to the removal of the ceiling will mean that wages across the pay structure (and not just at the higher incomes) are likely to rise by less than they would have otherwise done. This will mean that all wage earners are likely to be affected by the removal of the ceiling for employers, not just those on higher incomes.

- If the higher costs of doing business in the Island result in employers cutting employment (or not taking on additional workers) then that could well be the jobs of the lower paid rather than the higher earners.

- The States is an employer and any increase in employers' contributions will incur a cost to the States. This means that the increase in social security contributions will have to be higher than set out in the proposition to generate income that is truly additional.

- Those on low incomes would therefore pay an additional 1.5% in contributions and their employers would also pay an additional 1.5%. Eventually the end product is likely to be that wages rise by less than they would otherwise have done and that the full 3% is shouldered by those on low incomes. This would be likely to be below the impact of GST which would be 3% on about 85% of total spending, i.e. approximately 2.5%. The overall impact on the lower paid is therefore likely to be little different and may in fact be worse than under GST and 20 means 20.