

STATES OF JERSEY



SOCIAL SECURITY FUND: A NEW METHOD OF FUNDING (P.137/2003) – COMMENTS

**Presented to the States on 10th February 2004
by the Finance and Economics Committee**

STATES GREFFE

COMMENTS

By lifting the earnings cap the Proposition would change the existing Social Security contributions system from an insurance scheme to an additional taxation, both on employers and employees. Effectively it would result in taxing employees at 5.2% on all earned income over the current earnings cap and employers at 5.3% on its paybill over that cap for each employee. Increasing the rates of contribution would effectively increase these rates of taxation.

The Committee believes that a proposition to debate fundamental changes to a key element of States finances in isolation from other taxation and revenue raising instruments is inappropriate.

Furthermore, given the imminent release of the next stage of consultation regarding the States Fiscal Strategy, the Committee is of the opinion that to debate the proposition now would be premature.

In respect of the Proposition specifically, the Committee welcomes proposals to reduce the States current deficits and to address the funding challenges being faced over the next 5 years, arising from the consequences of the E.U. Tax Package.

However, the Committee is concerned that the Proposition would very significantly increase the cost of doing business in the Island compared to Jersey's competitor jurisdictions and may therefore hamper economic growth if not reduce the size of the existing economy and create funding pressures of its own as a result of the consequent decline in taxation receipts.

The Proposition represents a tax on jobs which would probably lead to businesses leaving the Island and increased unemployment.

The Committee is also concerned that compared to alternative taxation measures, the proposal only raises income from the wage earner and not from unearned income and that taken as a package, both in terms of the removal of the cap, and increases in contribution rates, taxes the individual irrespective of their circumstances, unlike the income tax system.

The Committee maintains that the Social Security contributions system is the means by which the challenges of the ageing population should be funded, is not the tool for closing the current funding gap and that rates and the earnings cap should not be further changed without an up-to-date actuarial review.