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3.4 Deputy M.R. Higgins of the Minister for Treasury and Resources regarding the Zero/Ten tax policy:

Will the Minister, using the latest figures, advise members of the total amount of revenue lost on an annual basis through the Zero/Ten tax policy and, in particular, the reduction in corporation tax for financial service firms from 20 per cent to 10 per cent, the 0 per cent tax for all non-utility companies and the estimated annual loss of income that will occur from reducing the marginal rate of tax in the 2015 Budget?

Senator A.J.H. Maclean (The Minister for Treasury and Resources):

The Deputy is misleading to suggest that the move to Zero/Ten led to a loss in overall tax revenue. The change in corporate tax allowed Jersey to remain competitive in international financial services and retain a very high value industry that provides 40 per cent of our G.V.A. (Gross Value Added) as well as approximately 12,500 jobs, good levels of pay and all the tax revenues that stem from it.

[10:00]

The tax revenue collected from financial services companies as defined in the Income Tax Law was £116 million in 2008, and in 2009 as a result of the planned move to Zero/Ten it reduced to approximately £57.5 million, as was predicted at the time. However, compensating measures have ensured that our overall revenues have continued to rise. The tax loss from non-locally owned 0 per cent trading companies is estimated at £7.6 million. In answer to Deputy Higgins's final point, the loss of revenue in respect of the reduction in the marginal rate of tax was in fact in the 2014 Budget, not 2015 as the question suggested, but nevertheless the reduction is estimated to be £8 million.

3.4.1 Deputy M.R. Higgins:

A supplementary. In fact question 2 of the written answers today gives figures for the amount of tax we are going to receive from financial services companies in 2014. It is £63,226,000. That is based on a 10 per cent corporation tax. Had we not reduced the tax from 20 per cent to 10 per cent we would be getting another £63 million.

The Deputy Bailiff:

Deputy, could you ask the question, please?

Deputy M.R. Higgins:

Yes, Sir. I am coming to it. The Minister has made various statements that are incorrect.

The Deputy Bailiff:

Well, yes, but this is question time, not speech time, and you will have to ask him a question.

Deputy M.R. Higgins:

I am coming to the question. Finally, £17 million is the figure for 0 per cent loss of the companies, not £7 million. So can the Minister accept that we have lost £78 million because of the introduction of Zero/Ten and therefore that our deficit is largely an own goal from the policies of the Council of Ministers?

Senator A.J.H. Maclean:

No, sadly I do not agree with the Deputy. Our shortfall in revenue is as a result of increasing expenditure, not a lack of revenues. We can see that our revenues are in fact continuing to rise, not, I hasten to add, at the level that was forecast, and I think therein lies the issue. The forecast was higher and we have not achieved those levels of revenue, but our expenditure has continued to rise. I should also point out that with regard to corporate taxation during the course of the recession the

corporate tax take fell to £49 million in 2010 and then recovered to £62 million in 2013 and is projected now as the Deputy rightly said at £63 million. So we are seeing financial services companies' revenues increase, so the recovery is taking hold and that is to be welcomed, as we can see from the increase in job numbers, up 400 recently in the financial services industry.

3.4.2 Deputy G.P. Southern:

Does the Minister have at his fingertips the reasons why the estimates of tax revenue have fallen so far to produce a £125 million deficit?

Senator A.J.H. Maclean:

First of all, it is not described as a deficit. The Deputy is referring to the shortfall in funding by 2019. That is largely predicated on chosen spend, particularly investment in health and education, which accounts for £57 million of that particular number. So these are choices that have to be made, as to whether we want to improve on our services. With regard to the forecasts, it is difficult to estimate precisely the reason why they were over-estimated. Nevertheless, I have, since taking up post at Treasury made some changes to the income forecasting group, broadened the remit and I am now satisfied that as we move forward and particularly for the purposes of planning for the next Medium-Term Financial Plan that a very prudent and accurate as possible forecast will be produced. I have to emphasise to Members of course that forecasts are exactly that. They will change. In fact our latest forecast we plan to update in May, but Members will be kept fully informed of progress.

3.4.3 Deputy G.P. Southern:

Call it what you like, call it deficit, call it shortfall, it does not matter. Will the Minister be honest to the public on this Island and explain how he is going to raise revenues to meet the demands that society makes on it for spending? When is he going to admit that his economic model of low spend, low tax, is broken?

Senator A.J.H. Maclean:

I am afraid I am not going to answer that question until the Deputy withdraws his suggestion that I have been dishonest.

Deputy G.P. Southern:

I said the Minister can call the deficit what he likes. A deficit or a shortfall, as he wishes, but will he be honest with the public and say he is going to have to raise taxes?

The Deputy Bailiff:

Deputy, I do not think I took you to be suggesting that the Minister was in fact dishonest, merely you were asking for the Minister to provide information. Am I correct in that understanding?

Deputy G.P. Southern:

Absolutely, Sir.

Senator A.J.H. Maclean:

I would ask the Deputy to repeat his question. When he started to be somewhat insulting I stopped listening.

Deputy G.P. Southern:

The Minister is very good at that, not listening. He has not heard me for the last 14 years. Could the Minister explain to Members and the public - especially the public, the voting public - that the time has come when he has to raise taxes further? Call it a health tax and call it £35 million, or call it proper reform of the taxation system, but he has to look at raising additional funds, because

otherwise he cannot make the sums balance because his economic model of low tax, low spend, is broken.

Senator A.J.H. Maclean:

I think we have been perfectly clear, both with Members and with the public. The plan for dealing with the funding shortfall by 2019 is threefold. First, £60 million of savings which are largely staff savings, which have been explained. Second, £35 million of efficiencies which includes within them consideration of various fees and charges where services are not currently delivered at cost to recover costs, and the final £35 million is to look at and explore the possibility of a health charge for further investment in health. I have already pointed out this morning that £57 million of the proposed £125 million funding shortfall by 2019 is investment in health and education. Nearly £50 million of it in fact is in health and that is why the possibility of a health charge needs to be something that both Members in this Assembly debate, but also the wider community.

3.4.4 Deputy J.A.N. Le Fondré of St. Lawrence:

Does the Minister accept that the reduction in the marginal rate that cost us £8 million in lost revenues was unaffordable?

Senator A.J.H. Maclean:

Sorry, I did not get the last word. Un... what?

Deputy J.A.N. Le Fondré:

Does the Minister accept that the cut or the reduction in the marginal rate of income tax, which cost us £8 million a year, was unaffordable?

Senator A.J.H. Maclean:

I think that we have plans in place to balance budgets by 2019, which would suggest that it is possibly affordable. I suspect, though, that we will need to look very carefully at that particular measure in relation to the budget later this year.

3.4.5 Deputy S.Y. Mézec of St. Helier:

Could the Minister state whether or not he agrees that since the introduction of Zero/Ten the only reason that we have not hit a shortfall sooner is because of the introduction of regressive taxation in the form of G.S.T. (Goods and Services Tax) and would he pledge in future, if taxes have to go up, that instead of being focused on the poor, like last time, they focus on high earners?

Senator A.J.H. Maclean:

I think the Deputy and I have fundamental differences of opinion in this regard. There were a number of measures put in place to mitigate the result of Zero/Ten - the move to Zero/Ten - and that included broadening the tax base. One of those measures of course was G.S.T. At the time Jersey was one of the very few, if not the only, jurisdictions that did not have a consumption-based tax. The low level is something that we should celebrate and ensure that we maintain, and that is something that I am absolutely determined that we do everything in our powers to achieve.

3.4.6 Deputy M.R. Higgins:

According to my calculations £86 million of deficit is as a result of the change from Zero/Ten and the marginal rate reduction. Going back to the marginal rate reduction, Deputy Le Fondré took part of what my question was. An £8 million reduction in marginal rate is a permanent reduction in tax, and there is no justification for that at a time when we are already forecasting a deficit. Will the Minister give an undertaking that he will revise it and bring it in the next budget so that it comes into effect that that reduction does not take place before ... sorry, I will rephrase that. Will he bring in measures to reverse that decision, or try to reverse that decision, before it is implemented? That is £8 million permanent loss.

The Deputy Bailiff:

So what is the question, Deputy Higgins?

Deputy M.R. Higgins:

Just to make sure it is clear, an £8 million reduction to our tax, which is totally not justified on any criteria, because it goes against F.P.P. (Fiscal Policy Panel) policy.

Senator A.J.H. Maclean:

First of all to clarify a point, the benefit from the marginal rate is already being seen by taxpayers, so it is already being received. So that makes the matter somewhat more difficult, but what I can tell the Deputy and I think I was alluding to, in the previous question, is that the issue of the marginal rate is one that is being considered for the budget for this year. We are looking at the impact of what change was made at the last budget and indeed whether we will look to reverse that.