STATES OF JERSEY

DRAFT MEDIUM TERM FINANCIAL PLAN ADDITION FOR 2017 – 2019 (P.68/2016) – TWELFTH AMENDMENT (P.68/2016 Amd.(12)) – COMMENTS

Presented to the States on 26th September 2016
by the Council of Ministers

STATES GREFFE

COMMENTS

Deputy S.Y. Mézec of St. Helier proposes that –

- the General Revenue Income for 2018 and 2019 shall be increased by £1,300,000 and £2,600,000 respectively by removing the proposed upper earning cap for the Health Charge.

The Council of Ministers opposes this Amendment and urges States Members to reject it.

Summary of Council of Ministers' Comments

- The application of a cap on the amount of income that is taken into account when calculating the Health Charge was a difficult decision for the Council of Ministers, who are sympathetic to the arguments advanced by the Deputy in support of his amendment.

- In designing the structure of the Health Charge, the Council of Ministers considered the long-term tax policy principles and, in particular, the second principle: "Taxes should be low, broad, simple and fair." This principle shaped the Council of Ministers' thinking in a number of areas; for example – using income tax principles rather than (say) social security principles, results in a broader base of people being eligible to pay while also exempting people on low incomes.

- However, there are 5 long-term tax policy principles which need to be considered and balanced whenever a decision on revenue-raising measures is taken. In this context, the Council of Ministers gave specific consideration to the fourth principle: "Taxes must be internationally competitive".

- Jersey operates in an internationally competitive environment, not only through its business tax regime, but also its personal tax (in its broadest sense including taxes, contributions and charges) regime. In order for the Island's economy to thrive, it is important that the Island can attract and retain highly-skilled individuals to work in the Island. This isn't just a question of tax rates, the "whole package" has to be right, including – the natural environment, educational facilities, quality healthcare, transportation links, etc. The package offered by Jersey as a place to work and live is highly compelling, but it is naïve to exclude tax rates and other cost-of-living factors from the issues considered by people considering relocating.

- In the context of financial services, the jurisdictions that Jersey is competing with for talent with include Guernsey, the Isle of Man, Cayman, Hong Kong and the BVI. Below is a brief summary of the top rates of income tax in those jurisdictions, and a high level indication of their social security contributions regime (note: the definition of "earnings" for social security purposes is generally narrower than the definition of "income") –

Jurisdiction	Top rate of personal income tax	Social security contributions
Guernsey	20% (with a capped liability)	6% of earnings with upper cap of £132k
Isle of Man	20% (with an elective capped liability)	11% of earnings up to £41k and then 1% on earnings above £41k
Cayman	0%	N/A
Hong Kong	17%	5% of earnings with upper cap of £36k
BVI	8% (payroll tax)	3.25% of earnings with upper cap of £31k

- If the States Assembly supports the Amendment and removes the income cap entirely from the Health Charge, Members are, in financial terms, doing the equivalent of adding (from 2019) 1% to the standard rate of personal income tax. This change in the Island's competitive position may well be factored into individuals' decision-making processes.

- More importantly, the removal of the income cap might raise questions about the longer-term certainty of the personal tax regime. The stability and certainty of the tax regime is of paramount importance to the Island's economic policy, and hence these questions would be more damaging than any particular tax increase. In proposing the Health Charge, the Council of Ministers determined that the existence of the income cap would limit any concerns over stability and certainty.

- The Council of Ministers recognise that they need to raise revenue to fund essential investment in transforming health and social care, as agreed by the States in 2012, but they are determined to do so in a way which maintains the competitive position of the Island, and the stability and certainty that has been built up over decades.

- The existence of the cap also reflects the fact that the proposed Health Charge will be used for health expenditure, rather than for general revenues. Consistent with social security contributions and long-term care contributions, it is considered appropriate that there is a maximum amount that any single individual can contribute into the Fund in any one year, rather than an open-ended liability.

- In the accompanying report the Deputy states: "However, I hope that a majority of States Members will agree that if the charge is to be introduced, it should apply to all income, rather than the wealthiest Islanders being *exempted*" (emphasis added). This inaccurately describes the operation of the proposed Health Charge; high-earners are not exempted from the charge, all individuals within the scope of the charge will pay, including those high-value residents whose tax rates change on income over £625,000; however, there is a cap on the maximum amount any individual person will pay.

- If the cap were to be removed, high-value residents who have arrived under the current regime would pay 1% (from 2019) on their entire income, on income above £625,000 their effective rate would double from 1% to 2%. Although a relatively small change, the resulting uncertainty could cause some high-value residents to consider whether Jersey is the correct location for them to live.

- The Council of Ministers has proposed that the level of the income cap is initially pegged at the same level as the income cap utilised in the Long-Term Care system and the earnings cap set in the Social Security scheme. In making this decision, the Council of Ministers were aware of the review of the Social Security Fund taking place, and that a recommendation of that review might be that the Social Security earnings cap might change. At that time, a separate decision would be needed to set future income limits for the Long-Term Care scheme and/or the health charge.

Financial implications

The General Revenue Income for 2018 and 2019 would increase by £1,300,000 and £2,600,000 respectively.

There are no manpower implications.

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

These comments were received by the States Greffe after the deadline set out in Standing Order 37A because the Council of Ministers wanted to ascertain the views of members and to ensure proper consideration was given to the Amendments and the later Amendments to Amendments, to provide the latest information ahead of the debate.