STATES OF JERSEY

DRAFT BUDGET STATEMENT 2019 (P.114/2018): SECOND AMENDMENT (P.114/2018 Amd.(2)) – COMMENTS

Presented to the States on 30th November 2018
by the Council of Ministers

STATES GREFFE

COMMENTS

The Council of Ministers opposes this amendment and encourages States Members to vote against it.

The Council of Ministers recognises the time and effort that Senator S.Y. Mézec has committed to the proposals contained in his amendment; however the Council of Ministers draws States Members' attention to the comprehensive review of the personal tax system that is underway and in relation to which a public consultation will be launched in December 2018.

The Council of Ministers strongly recommends that this personal tax review be completed before any decisions on fundamental reform to the personal tax system are taken.

Review of the personal tax system

This amendment proposes a fundamental change to the personal tax system by effectively removing the well-established 20% standard tax rate and replacing it with a rate of 25%. It also reverses the "20-means-20" policy by making available tax allowances and reliefs to all taxpayers, including those with the highest incomes.

As outlined above, the States Treasury and Exchequer ("ST&E") is undertaking a full review of the personal tax system with a view to modernising it. This is a far-reaching review which will consider personal tax rates as well as other related issues. Final recommendations will be included within the Government Plan 2020–23, when it is lodged during 2019. The Council of Ministers cannot support any fundamental changes to the personal tax system whilst this review is in progress.

Stage 1 of this personal tax review reported in March 2017[1] and included the collation and publication of a body of data and information that outlined the personal tax changes implemented over the period from 2006 to 2015. The purpose of that aspect of the review was to provide a comprehensive data set; establishing a platform of common and shared understanding of the Island's personal tax system which States Members could rely upon when considering future tax policy proposals.

Work on the personal tax review has been ongoing since then. ST&E has run a series of focus groups with the public, conducted a Facebook "chat" and posed a number of questions through the 2018 Jersey Opinions and Lifestyle Survey ("JOLS"). Emerging findings from these actions will be published together with the launch of a full public consultation in December 2018, aimed at obtaining Islander's views on this important subject.

The timeline on the personal tax review also dovetails with the replacement of the Taxes Office's computer system. Under current plans the new computer system should be available for processing online tax returns and assessment from 2020 onwards. This approach avoids the need to make changes to the existing computer system, which is nearing the end of its useful economic life and is broadly under a "change freeze" to maintain its operational capabilities.

[1] R.30/2017 (see: http://www.statesassembly.gov.je/assemblyreports/2017/r.30-2017.pdf)

Simply put, with such a major review ongoing, now is not the right time to be making fundamental changes to the personal tax system.

Other issues

- Although the majority of personal taxpayers would experience a reduction in their income tax liability, a relatively small number of higher income taxpayers currently paying tax at the standard rate of 20% would experience a significant increase in their liability.

- In fact, the £7.5 million net gain for the States represents:

    - An increase in tax of £17.3 million from just 3,500 taxpayers who would be paying more personal income tax as a result of the amendment, and

    - a reduction in tax of £9.8 million from a much larger group of around 43,000 taxpayers who would be paying less personal income tax.

- The £7.5 million net gain does not take account of any possible change in behaviour by those taxpayers who would be required to pay more tax.

- The top 5% of taxpayers currently pay 32%[2] of all personal income tax and this relative reliance on a small group of individuals is likely to increase significantly under the terms of the amendment. Any behavioural change amongst even a proportion of this group could significantly reduce the States' revenues.

- This risk requires careful consideration and consultation particularly with Jersey businesses and the finance sector, to ascertain how the proposals might impact the supply of skilled labour to the Island.

- The net gain of £7.5 million represents a very small percentage increase (less than a 2% increase) in personal income tax revenues considering the fundamental nature of the change being proposed and the potential impact on the competitive position of the Island's tax system.

- It is clear from engagement to date, that one of the key personal tax issues of concern to Islanders is the system of married man taxation. Senator Mézec's proposal does not address this matter in any way.

- The potential impact of this proposition on Long-Term Care ("LTC") contributions would also require careful analysis. As LTC contributions mirror the tax system (up to the income cap that applies for LTC purposes), changes in the income tax system will automatically result in changes to LTC contributions. Whereas the estimated net impact on income tax revenues is an additional £7.5 million, the existence of the income cap means that the changes are likely to reduce the yield from LTC contributions. This may result in the

[2] Tax Statistical Digest, States of Jersey, November 2018, p.15: https://www.gov.je/sitecollectiondocuments/tax%20and%20your%20money/id%20tax%20statistical%20digest%202016%2020181113.pdf

need to accelerate anticipated increases in LTC contributions, potentially negating the income tax benefit expected to accrue to the majority of taxpayers.

- Retaining the 20% tax rate for High Value Residents ("HVRs") would extend the preferential tax rates for those taxpayers. Currently HVRs are subject to tax at the standard rate on income up to a certain level, and then have access to a preferential tax rate on excess income. This proposition would result in these taxpayers having their own regime, with all income being taxed at preferential rates (i.e. 20% and 1%), as opposed to the 25% rate which would apply to other taxpayers.

Whilst it is clear that Senator Mézec has given careful consideration to his proposal, requesting and analysing relevant data on the distributional impact, this is no substitute for a full consultation and review process when considering such fundamental changes. As outlined above, the personal tax review that is underway has already engaged with the public through a number of channels and a full public consultation is about to be launched.