STATES OF JERSEY

DRAFT SOCIAL SECURITY (AMENDMENT OF LAW No. 1) (JERSEY) REGULATIONS 201- (P.110/2011): AMENDMENT (P.110/2011 Amd.) – COMMENTS

Presented to the States on 13th July 2011
by the Minister for Treasury and Resources

STATES GREFFE

COMMENTS

This amendment makes 2 main proposals –

- An increase from January 2012 of Social Security contributions for employees of 2% for those earning above the standard earnings ceiling up to the upper ceiling (£150,000 for 2012).

- An increase in the employers' Social Security contributions in relation to employees earning above the standard earnings ceiling up to the upper ceiling (£150,000 for 2012) amounting to 4% from January 2013 and 6% from January 2014.

The Minister for Treasury and Resources opposes both of these proposals and will deal with each in turn.

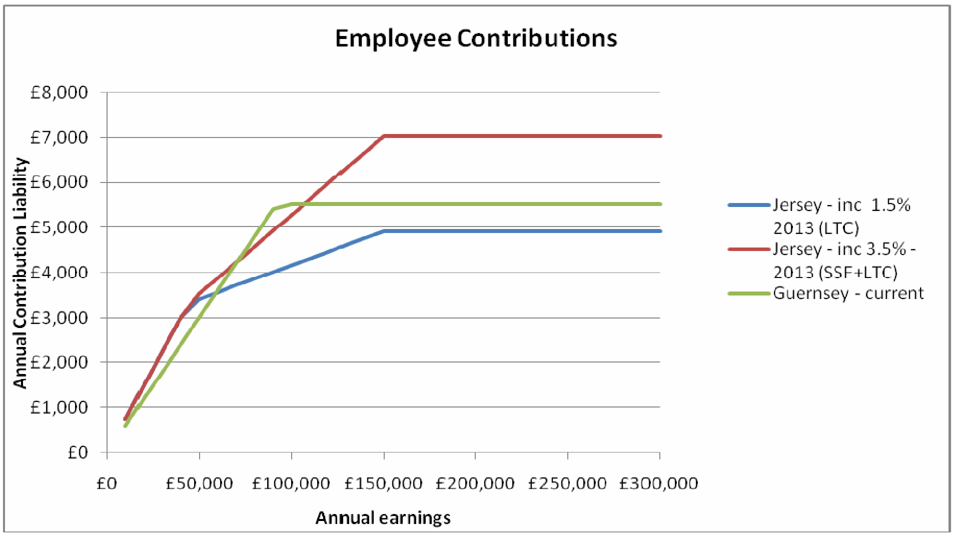
<u>Increase from January 2012 of Social Security contributions for employees by 2% for those earning above the standard earnings ceiling up to the upper ceiling (£150,000 per annum for 2012)</u>

The Minister had proposed such an increase in the Fiscal Strategy Review and 2011 Budget. The slight improvement in the financial forecast in the audited 2010 Accounts allowed the Council of Ministers to give careful consideration as to the timing of this increase. On balance it agreed to postpone it. The Minister has made clear that he regards this decision as a temporary deferral of the increase, not a cancellation. Other factors relevant to agreeing the deferral include –

- The full implications of "20 means 20" are now being felt in terms of Income Tax.

- The Minister for Social Security is proposing an increase in contributions to create a welcomed permanent solution to the issue of funding long-term care.

- There is an indication of an element of dissatisfaction from middle-income earners and a feeling that attention is too often focused on the extremes of the least and most well-off.



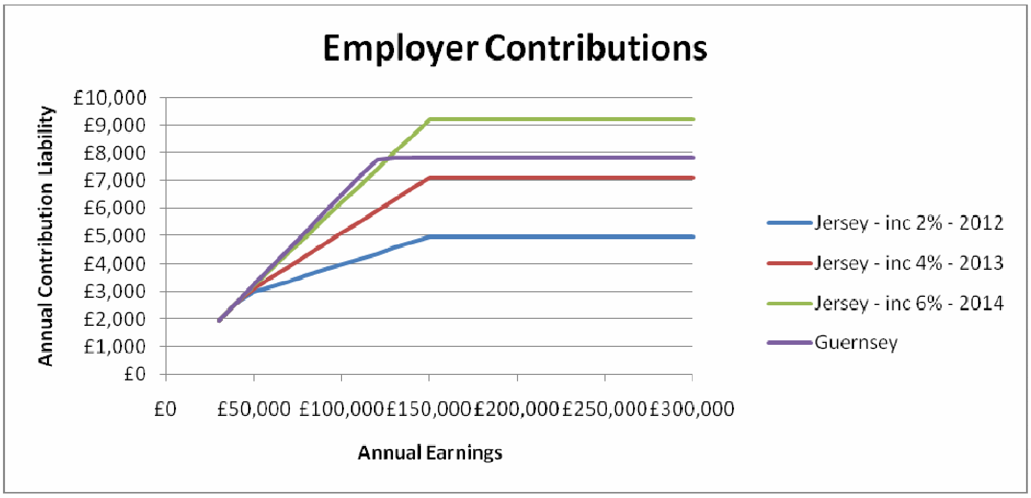
The Minister therefore requests the Assembly to support the Council of Ministers' decision for a temporary deferral and reject this part of the amendment.

Increase in the employers' Social Security contributions in relation to employees earning above the standard earnings ceiling up to the upper ceiling (£150,000 per annum for 2012) of an additional 2% from January 2013 and an additional 4% from January 2014

The issue in relation to this part of the amendment is more than simply one of timing. It is one of damage to the economy and to Jersey's crucial international competitiveness – it is this upon which our economic strength is based.

Given the relatively weak state of the Labour Market, as highlighted by May 2011's registered unemployment figures, any decision which significantly increases labour costs within a short timeframe would risk jobs and/or result in employees being paid less, as employers seek to mitigate or pass on the cost of the additional Social Security. These proposals would be likely to impact all employees, not just the higher-earners, who, it is assumed, are the target of the increases.

As outlined in the report accompanying the original proposition, there is a need to balance potential yield with Jersey's international competitiveness. The charts below compare the employer social security contributions in Jersey with Guernsey, the jurisdiction which represents the greatest competitive threat, on the basis that the Deputy's amendment is adopted.



As can be seen, by 2014 for an employee earning £150,000, the employer contributions in Jersey would exceed those in Guernsey. For highly mobile businesses, such as finance, this could be significant when marginal costs are critical and profit margins are fragile. The latest Financial Institutions Survey, released on 29th June, indicates that –

- total annual net profit was a quarter lower than in 2009;
- the total annual net profit for 2010 is the lowest recorded by this survey since its introduction in the mid-1990s, and has declined by 60% in the last 2 years;

- only the legal sub-sector recorded an increase in profits in 2010, up by about a third on 2009. Profits in all the other sub-sectors declined in 2010: banking profits fell by a third, whilst trust and company administration, fund management and accountancy each recorded falls of around a fifth;

- the number of local staff recruited directly from school and university decreased for the second consecutive year, to 190 FTEs, the lowest number recorded since 2005;

- expectations for profit levels for 2011 were relatively optimistic compared to those made for 2010, with almost two-thirds of firms expecting an increase in profits and only one in 7 companies anticipating a decline.

The Minister would ask whether this is really the time to even be considering such a significant increase in such a short space of time. The Island's businesses, and those within "Finance" in particular, will be monitoring the debate on this Amendment with interest and will be looking for a clear message that Jersey wants to encourage economic growth, not "milk" those businesses that are still working hard to turn around one of the worst recessions we have experienced.

It is assumed that the Deputy has brought forward this part of the amendment to address his apparent belief that companies do not pay enough tax. Ultimately however, employers' Social Security contributions are not a tax on companies but a tax on employment. The increase proposed by the Deputy could put existing jobs at risk and discourage future employment growth, whilst damaging our general economic growth prospects.

The Minister strongly urges States Members to reject this part of the Amendment and not unnecessarily burden individuals or damage the Island's economy.