STATES OF JERSEY

LONG-TERM CARE SCHEME (P.99/2013): THIRD AMENDMENT

Lodged au Greffe on 19th November 2013
by Deputy M. Tadier of St. Brelade

STATES GREFFE

PAGE 2 –

After the words "dated 22nd August 2013" insert the words –

> "except that in section 1.12, delete the third paragraph which says –
>
> > 'Unlike income tax, an upper income limit will apply when calculating the LTC contribution. LTC liability for individuals with a gross income above the Social Security upper earnings limit (£152,232 p.a. in 2013) will be capped.' ".

DEPUTY M. TADIER OF ST. BRELADE

REPORT

'Would the Minister not acknowledge that there was continuing controversy about the cap and it was only with great reluctance that his predecessors raised it? Would he not acknowledge that this was a perfect opportunity to remove the cap and to show that the much better-off in society were taking the strain, notwithstanding I should add, the excellent work he is doing with his project?'

– Deputy R.G. Le Hérissier of St. Saviour,
Question without notice to the Minister for Social Security

-o0o-

The plan to introduce a Long-Term Health Scheme is not in itself controversial. Indeed, the principle of the scheme is most welcome. However, in time of widespread austerity and *belt tightening*, the issue of *who* shoulders the burden for this new payment (tax?) is very important.

It has been known that the consequence of an aging population is a challenge for **all** of us in society; however, the brunt of burden will fall on the lower- and middle-earners in Jersey. The highest-earners, who are most able to pay, will have their liability capped at £152,232. This is most peculiar, given the fact that those on these six-figure earnings tend to be those with the greatest proportion of disposable income and therefore the *most able* to pay.

However, it is not too late to put this right. Deputy Le Hérissier hit the nail on the head when he said this proposition (P.99/2013) was the 'perfect opportunity' to introduce a more progressive method of raising funds for the much-needed Long-Term Health Scheme.

This is exactly what the amendment does – it asks the States to agree that earnings above £152, 232 will also be liable for the additional [1%] tax/contribution.

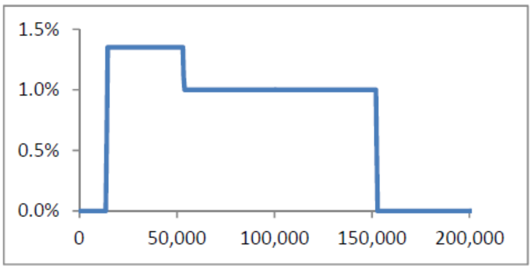
Effective Rate

The rationale for this amendment is quite simple: to spread more evenly the burden of this new payment and to make sure that the most wealthy in our society pay the same 'effective rate' as the rest. Indeed, I suggest it would be perverse if those most able to pay, in our society, were to have a *lower* effective rate than those less able to pay (see Figure 2.5, below).

Figure 2.5: Marginal rate of long-term care charge by household income (£)

Household 1:

Single, no children, no mortgage



‘Regressive’ or ‘Progressive’?

Page 16 of the Economic Impact Assessment reminds of the 3 definitions of *regressive, proportionate and progressive* –

> A *proportionate* system would impose the same relative burden on all taxpayers, i.e. the charge increases in proportion with income;
>
> A *progressive* system would see the charge increase more than proportionally as income increases;
>
> A *regressive* system would see a less than proportional rise in the charge, relative to income.

Page 2 of the Economic Impact Assessment, circulated by the Minister on 5th November 2013, states –

> - The LTC charge is progressive for marginal taxpayers, proportional for standard taxpayers and regressive for those with income in excess of £152,232 (reflecting the fact that the charge is collected in the same manner as income tax but with a £152,232 cap).

The amendment seeks to improve this assessment by removing the ‘regressive’ aspect of this new [tax] so that it will be ‘proportional’ for those with earnings above £152,232.

In this sense, the amendment is very much moderate. A more radical member would have perhaps sought to make higher earners pay a higher rate; however, given the historic tendency of successive States Assemblies to shy away from progressive taxation, I believe proportional rate seems to be more likely to be acceptable to the majority.

Advantages

There are 3 main advantages to this amendment –

(1) It is fairer. What is often referred to as ‘middle Jersey’ has seen a general reduction in their disposable income in recent years, with the tax system pushing the burden increasingly onto personal and workers’ incomes. This amendment will mitigate some of that burden so that it is shared more equally by those most able to pay.

(2) It will help to **frontload** the costs by raising an extra £3.37 million p.a.[1], thereby reducing future liabilities and allowing for greater flexibility if future income proves uncertain.

[1] Figure provided by Social Security Department, based on 2011 figures.

(3) It is in keeping with the broad objectives of the strategic plan and the election pledges of the Minister.

The current strategic plan states that –

> *'The Council of Ministers is committed to delivering strong leadership, to valuing our community and promoting* ***fairness****.'*

It also goes on to state (p.18) that, '*Taxes should be low, broad and simple.*' However, it seems that the breadth of this new tax would only be applied up to £152,000. This is neither 'fair' nor 'broad'.

Similarly, we know that Senator F. du H. Le Gresley himself is a supporter of progressive taxation, where those who earn the most in our society would pay a higher rate of tax than those on lower incomes. It is therefore strange, that a proposition coming out of his Department is in direct contradiction to his stance of continued support for the principle of progressive taxation. This proposition allows the Minister a mechanism by which to pursue the much-needed long-term health care scheme without having to break his election promises.

<u>When is a tax not a tax?</u>

Several questions have been asked about whether this is a tax or not.

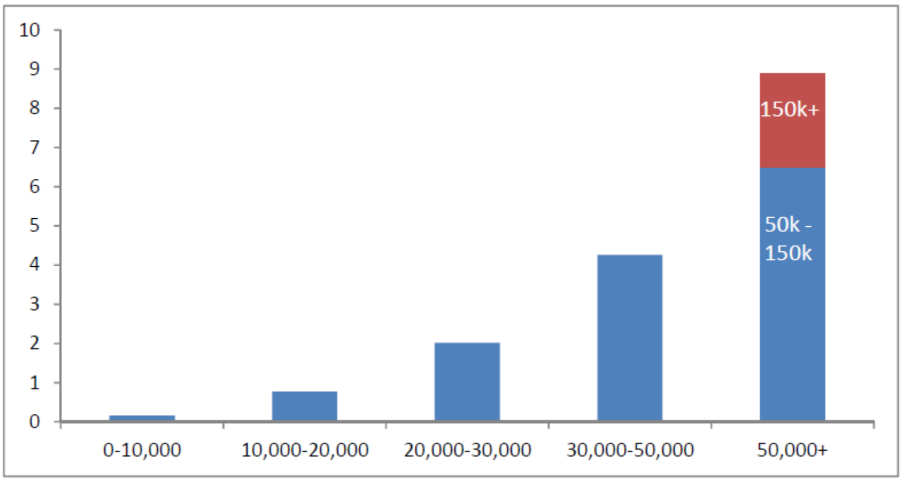
> *'If contributions are to be levied on earned and unearned income, will the Minister confirm that the effect will be to the Island's headline income tax rate of 20 per cent to increase to 21 per cent?'*
>
> – **Deputy of St. Ouen, 18th June 2013**

> *'The Minister says this is not to be regarded as a new tax, but new Social Security payments. But he appears to be treating it exactly like tax in his proposals.'*
>
> – **Deputy G.P. Southern of St. Helier, 18th June 2013**

The Minister has stated that it is the very presence of the upper cap that prevents this from being a tax. However, unlike Social Security Contributions, this *levy* is collected via the tax system and will capture unearned income too, which would not otherwise be liable for Social Security Contributions. So in that respect, it does not act like an *ordinary* contribution either.

However, if the rationale is that this new charge is not a tax simply because there is an upper limit, then that is a very narrow and fragile definition. It stands to reason, that to all intents and purposes, for all those earning under the ceiling, that it *feels and acts like* a tax. And a tax which disproportionately hits middle income households – see Figure 2.7 below.

Figure 2.7: Value of LTC charge (£m) paid by each income group (£)



You will note from this graph above that for those in the *red* £150,000+ category, the yield is much less than those in the £30,000–£50,000 and those in the £50,000–150,000 categories. In fact, the yield is almost identical to that paid by those in the £20,000–£30,000 brackets, and still less when <£30,000 earners are taken as a whole.

Further supporting graphs and explanations can be found in the **Appendix** (attached) taken from the Economic Impact Assessment circulated by the Minister. I encourage members to read these in conjunction with this report as they will be referred to in the debate.

<u>Conclusion</u>

As a society, we often hear phrases from politicians that imply, 'we are all in this together.' However, it is difficult for the public to believe this when in their daily reality they continually experience the divide between rich and poor increase – and when government actively pursues funding mechanisms that perpetuate this divide.

As a government, we have the perfect opportunity to realign the burden of this otherwise worthy scheme, to make sure that its funding mechanisms are much fairer than they are under the current proposals.

I also make a personal plea to the Minister, himself, to stick by the principles of his election pledges and support this move to make the system less regressive and more progressive.

Financial and manpower implications

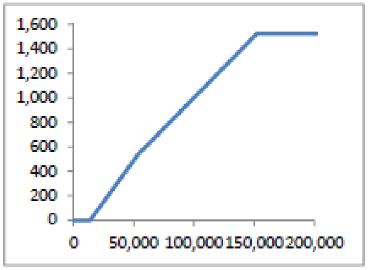
This amendment, if adopted, will increase the payment for the Long-term Care Scheme by £3.37 per annum (based on the 2011 figures provided by Social Security Department).

APPENDIX

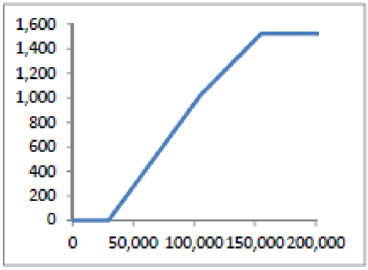
Extract from –
Response from Minister for Social Security to the
Economic Impact Assessment of long-term care scheme

Figure 2.4: Long-term care charge (£) by household income (£)

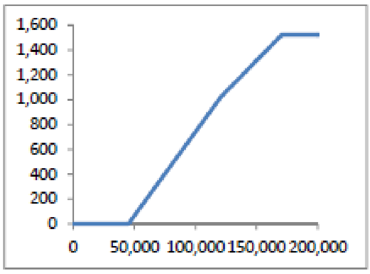
Household 1:
Single, no children, no mortgage



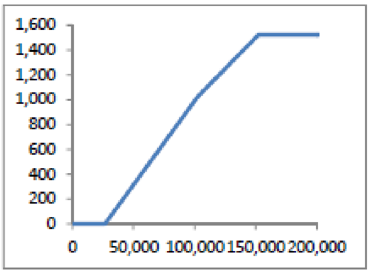
Household 2:
Married, 1 child, no mortgage



Household 3:
Married, 2 children, £250k mortgage



Household 4:
Married, pensioner, no mortgage



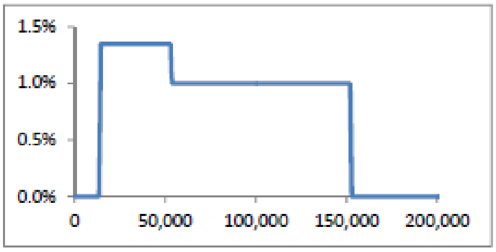
The charts above show that households with lower incomes (those who do not currently pay tax) will not pay any LTC charge. After that, marginal rate taxpayers will pay 1.35 per cent LTC charge on each £1 they earn above their exemptions. Standard rate taxpayers will pay a marginal rate of 1 per cent on all income up to £152,232. Those with income over £152,232 will pay the maximum charge of £1,522 but will not pay anything on the rest of their income.

Using Household 1 as a simple example, the marginal rate over the income distribution has been illustrated below. Over much of the income distribution this reflects the nature of the income tax system where the marginal rates will be 0 per cent, 27 per cent and 20 per cent. The only real difference being the marginal rate for the LTC charge on incomes above £152,232 being impacted by the cap and leading to a 0 per cent marginal rate above that income whereas the marginal income tax rate remains at 20 per cent:

Figure 2.5: Marginal rate of long-term care charge by household income (£)

Household 1:

Single, no children, no mortgage



For the other illustrative households, the 1.35 per cent rate and the 1 per cent rate will take effect at a higher point in the income distribution.

In order to assess whether the LTC charge is progressive, proportional, or regressive; it is necessary to look at the proportion of total income which is paid at each point on the income distribution.

A *proportionate* system would impose the same relative burden on all taxpayers, i.e. the charge increases in proportion with income;

A *progressive* system would see the charge increase more than proportionally as income increases;

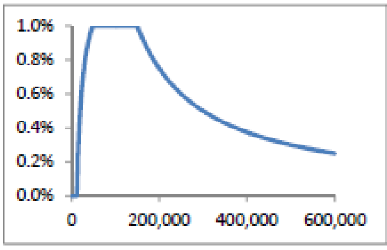
A *regressive* system would see a less than proportional rise in the charge, relative to income.

The LTC charge is based on the system for collecting personal income tax. This system is progressive for marginal rate taxpayers and proportional for standard rate taxpayers. Households on low incomes do not pay income tax. However, the LTC charge will differ from the income tax system in that it will have a cap (to be initially set at income of £152,232, in line with the Upper Earnings Limit for Social Security), over which no charge will be collected.

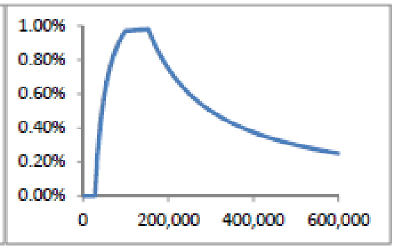
Figure 2.6 demonstrates the proportion of income paid by each of the four illustrative households, depending on income.

Figure 2.6: Proportion of income to pay LTC charge, by household income (£)

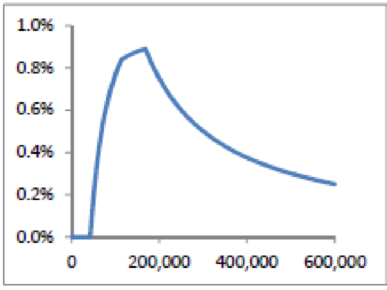
Household 1:
Single, no children, no mortgage



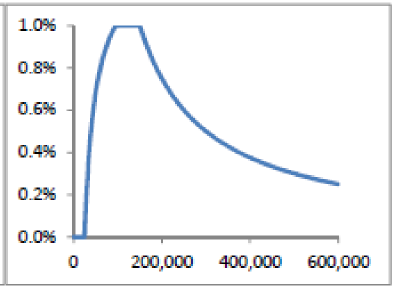
Household 2:
Married, 1 child, no mortgage



Household 3:
Married, 2 children, £250k mortgage



Household 4:
Married, pensioner, no mortgage



Again this shows that those on the lowest incomes do not pay anything towards the LTC charge. Marginal rate taxpayers pay an increasing proportion of their income towards the charge so the charge is progressive at this point. However standard rate taxpayers pay 1 per cent of their incomes up to £152,232 so up to this point in the income distribution the charge is proportional. Those with income above £152,232 pay less than 1 per cent of total income and as income increases the proportion decreases (as the contribution cap is set at £1,522) so at this point the charge is regressive. This is summarised in the table below, using the simple example of a single household with no children and no mortgage.

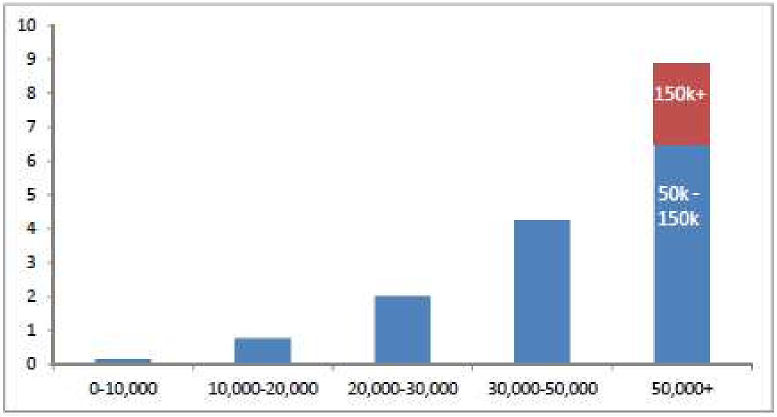
Table 2.2: Contribution paid and proportion of income paid over the income range (Household 1)

	Income range	Contribution	Proportion of income	Distributional impact
Below threshold	£0 - £13,780	£0	0%	Proportional
Marginal rate	£13,780 - £53,151	£0 - £532	<1%	Progressive
Standard rate < £152k	£53,152 - £152,232	£532 - £1,522	1%	Proportional
Above £152k	£152,232+	£1,522	<1%	Regressive

The income ranges for the other household types will be higher. It is worth noting that for Household 3, the LTC charge would not reach 1 per cent of income at any point on the income distribution. This is because this illustrative household will be paying tax at the marginal rate when income reaches the cap of £152,232. There will be no proportional element to the LTC charge for this household; it will change from being progressive below £152,232 to regressive above £152,232.

In order to assess what proportion of the total charge is likely to be paid by each income group, consideration has been given to data from the income tax database for the 2011 tax year.

Figure 2.7: Value of LTC charge (£m) paid by each income group (£)



Based on the 2011 data, taxpayers have been split into five groups based on income. Each income range group is approximately equal, with between 16 per cent and 24 per cent of taxpayers in each group. The top group, with incomes of over £50,000, represent 16 per cent of taxpayers and will be paying approximately £9m of the LTC charge, 55 per cent of the total. The bottom group, with incomes of less than £10,000, represent 18 per cent of taxpayers and will be paying approximately £150,000, less than 1 per cent of the total raised.

The chart above is based on taxpayers only – there will be another group (primarily with low or no incomes) who are not required to complete a tax return. The 2011 Census estimated there were approximately 82,000 individuals over 16 in Jersey – suggesting that over 6,000 of them were not required to pay any tax in that year. Therefore 55 per cent of the charge will be paid by approximately 14 per cent of the 16+ population.

Table 2.3: Liability to LTC charge by income (£ per annum)

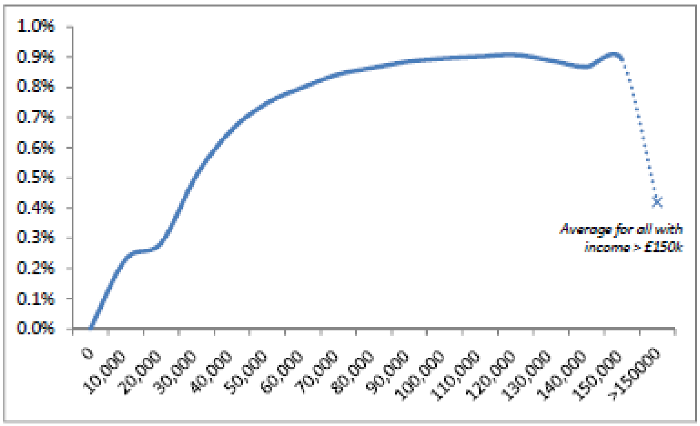
Income group	Share of total taxpayers	Contribution to £16m	LTC charge/ income	LTC charge per taxpayer
0-10k	18%	1%	0.2%	£11
10k-20k	24%	5%	0.3%	£43
20k-30k	21%	13%	0.5%	£126
30k-50k	21%	26%	0.7%	£267
50k+	16%	55%	0.7%	£759
of which:				
50k-150k	*13%*	*40%*	*0.9%*	*£641*
150k+	*2%*	*15%*	*0.4%*	*£1,522*
Total	**75,314**	**£16m**	**0.6%**	**£213**

Numbers may not sum due to rounding

Table 2.3 demonstrates that, on average, those in the lower income groups will pay both a relatively small amount per person and a relatively small proportion of their income. While there will be considerable variation within each income band, the bottom three bands (which represent almost two thirds of taxpayers) will each pay 0.5 per cent of their income or less. The average contribution for taxpayers with incomes below £150,000 will be less than £200 per annum.

Figure 2.8 breaks this down further into £10,000 income bands and demonstrates that the charge is progressive at the lower end of the income distribution then becomes broadly proportionate above £80,000 but is regressive at the top of the income distribution. No more detailed breakdown is available above £150,000/annum but as this income bracket pays a fixed amount, the distribution should be regressive after this point, in line with the charts in Figure 2.6.

Figure 2.8: LTC charge as proportion of total income by income band



2.4. Distributional impacts between generations / over time

The costs of the LTC scheme will initially be shared by all those who are currently taxpayers but there will be no minimum contribution before the benefits can be paid out. Therefore those needing care in the near future will not have paid a significant amount of contributions by the time they benefit from the LTC scheme. This will see some older people retaining more wealth than they otherwise would have done, in spite of having limited contributions to the Fund.

The required contribution rate to break even is anticipated to increase over time and is estimated to reach approximately 3 per cent by 2044 (excluding administration costs and contingency). This breakeven rate considers the contribution which is required from taxpayers at that time but takes account only of the costs of those in care at that particular time. Earlier generations will therefore benefit as their contribution rate will not fully reflect the level of care required for their generational cohort – part of this will be paid by higher contributions by later generations – a pay-as-you-go system. This will see a transfer of wealth to older generations.

However, whilst those individuals who exceed the £50,000 cap will pay less for their own care, they are unlikely to be able to spend much of this retained wealth/income while they are in care. In practice the beneficiaries are likely to be the heirs to those individuals, who benefit from less of the individual's assets being used to fund the care.