STATES OF JERSEY

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FISCAL STRATEGY (P.106/2004) – AMENDMENTS (P.106/2004 AMD.) – COMMENTS

Presented to the States on 6th July 2004
by the Finance and Economics Committee

STATES GREFFE

COMMENTS

The Finance and Economics Committee comments on the amendments to its Fiscal Strategy P.106/2004, put forward by Deputy G.P. Southern of St. Helier, as follows –

Amendment (1) is consistent with Deputy Southern's unsuccessful amendment to the Strategic Plan, in that it implies that the required level of economic growth can only be achieved by an unacceptable level of population growth. The amendment proposes replacing a specific target for economic growth of 2% with "*a sustainable annual target for economic growth concomitant with the objective of restraining overall population growth*". The Finance and Economics Committee has suggested 2% growth, which is a low figure by international standards, because it believes this is both sustainable and achievable without any significant long term increase in population. Effectively the only difference between Deputy Southern's amendment and the Finance and Economics Committee's proposal is that Deputy Southern's amendment does not specify any growth target and so is unhelpful for planning purposes. Indeed it is conceivable that an economic growth target of 3% or even more would be consistent with the Deputy's proposed amendment. The Finance and Economics Committee needs to have a clear figure for the projected yield from economic growth if it is to ascertain how much needs to be provided by alternative means, and has used the figure of 2% p.a., which results in additional income of £20 million p.a. after 5 years.

Amendment (2) challenges the Committees policy of "20% means 20% for the better-off".

The Committee acknowledges the point made by Deputy Southern, in his excerpt from their Report to P.106/2004 "*…the consultation did identify concern about the way in which the allowances should be phased out, so that people's personal circumstances can be taken into account. The Committee is carrying out further work to find a way in which this can be achieved*". This is a clear example of the Committee listening to the views of the public, and acting upon them. The Committee has now refined its policy on "20% means 20%" and at its meeting on 24th June approved the principles of an improved method of phasing out allowances over a broadly similar income range but without some of the anomalies of the previous proposals. Those proposals have been published separately, but are also included as an appendix to this Report.

The Finance and Economics Committee intends to propose in this year's budget the phasing out of allowances for higher earners over a 3 year period, commencing in the 2006 year of assessment. Because taxes are received one year in arrears the full revenues from this proposal will not be received until 2009. If Deputy Southern's amendment were to be accepted there would be a delay of at least one more year, which would increase the deficit by approximately £10m. This the Committee considers unacceptable.

Given that amendment (2) is, in the Committee's view, no longer necessary, one of the reasons for amendment (3) also disappears. However, more importantly, the Committee has to oppose most strongly any proposals that even hint at the possibility of wealth taxes. Although the arguments against wealth taxes were not spelt out in the Committee's report, it did say on page 24 that "*A general wealth tax or capital gains tax would not be consistent with Jersey position as a location for international financial services, and could seriously harm Jersey's international reputation. The Committee does not recommend such a tax*". John Whiting, in the PriceWaterhouseCoopers peer review of the Committee's tax proposals came to the same conclusions in saying "*….wealth tax is not something found in the traditional lower tax area and would not do much for Jersey's image. Its complexity and uncertain yield would also seem to rule it out*".

Income tax is an area which is continually under review by the Finance and Economics Committee, so the Deputy's amendment adds nothing in this respect. However it is the raising of the spectre of wealth taxes, and the message which that might send out internationally, which causes the Committee to call for the rejection of this amendment.

The final amendment is one which the Committee finds hard to understand, in that it does not seem consistent with the accompanying Report. If the amendment is asking that consideration be given to a payroll tax, than that is already covered in d(iii) of the Committee's proposition. The Employment and Social Security Committee is already working with the Finance And Economics Committee, and is represented at meetings to discuss fiscal strategy, but also has a wider remit to look at the health and welfare needs of the Island residents over a longer timescale. This work is already under way, but the Deputy’s amendment seems to cut across this programme.

APPENDIX

PROPOSALS FOR PHASING OUT
TAX ALLOWANCES AND TAX RELIEFS FOR
THOSE WITH HIGH INCOMES

'20% MEANS 20%'

After listening to the comments and feedback from various people on the original proposals for '20% means 20%' it became clear that the 'one size fits all' approach of phasing out tax allowances over an income range of £80,000 to £150,000 for all married couples and income of £40,000 to £75,000 for all single people would not work satisfactorily in all cases.

This is because different taxpayers with the same income had very different personal and family circumstances which resulted in a very different entitlement to tax allowances and reliefs.

What is now proposed by the Finance and Economics Committee will simplify the current personal tax system whilst ensuring that individual personal circumstances which entitle people to certain tax allowances and reliefs will be taken into account, except for those with high incomes.

So the principle of '20% means 20%' (a principle which seemed to find considerable support even if the original mechanism was flawed) is maintained for those with high incomes.

These revised and improved proposals will allow taxpayers to pay the lower **tax bill as calculated under the following two methods:**

1. **Income - less allowable pension contributions and allowable work-related expenses -** taxed at 20%, (This remains the standard rate of income tax) or,

2. **Income - less allowable pension contributions and allowable work-related expenses** and **the exemption threshold to which a taxpayer is currently entitled and the additions, if applicable, to that exemption threshold, such as child allowance and additional personal allowance and other deductions such as mortgage interest tax relief up to a cap of £300,000, child care tax relief and maintenance relief -** taxed at 27%. (This is the marginal rate applied to those with low to middle incomes who benefit from the high exemption limits).

It is also proposed to **phase in** the withdrawal of tax allowances for those on high incomes over a period of 3 years so that there is no sudden and dramatic increase in any individual's tax bill.

This will be achieved by introducing legislation in this December's Budget to start withdrawing one third of the tax allowances from those on high incomes in the year of assessment 2006, affecting tax paid in the year 2007, two thirds of their tax allowances in the year of assessment 2007, affecting tax paid in the year 2008, with all their entitlement to tax allowances gone in the year of assessment 2008, affecting tax paid in the year 2009.

Impact of these revised proposals

1. All those taxpayers who currently benefit from the existing exemption thresholds will not pay any more tax under these proposals. This covers some 36,500 taxpayers, single and married, with relatively low incomes.

2. Only those taxpayers, some 14,300, who currently pay tax at the standard tax rate of 20% will pay more tax – these are the taxpayers that are relatively better off.

How much tax these taxpayers pay will depend on two factors – their income and their current entitlement to tax allowances and tax relief such as mortgage interest relief. Those with higher incomes will see all their entitlement removed, so will pay an additional amount of tax equal to the full value of their current tax allowances and reliefs at 20%. **Those with lower incomes will lose only a proportion of the benefit of their current income tax allowances and reliefs.**

Examples of how these revised proposals will work, for different household types, are given below.

1. Single, no children, no mortgage and no other income tax allowances or reliefs - maximum amount of additional tax to be paid is £1,200. This maximum additional amount will become payable at incomes above £42,500.

2. Single, one child (school age) mortgage of £120,000 @ 5.3% and no other income tax allowances or reliefs - maximum amount of additional tax to be paid is £3,870. This maximum additional amount will become payable at incomes above £94,000.

3. Married couple, no children, no mortgage, wife working and no other income tax allowances or reliefs – maximum amount of additional tax to be paid is £2,620. This maximum additional amount will become payable at incomes above £85,550.

4. Married couple, two children (school age) mortgage of £120,000 @ 5.3%, wife working and no other income tax allowances or reliefs - maximum amount of additional tax to be paid is £4,890. This maximum additional amount will become payable at incomes above £129,370.

5. Married couple, two children (school age) mortgage of £200,000 @ 5.3%, wife working and no other income tax allowances or reliefs - maximum amount of additional tax to be paid is £5,740. This maximum additional amount will become payable at incomes above £145,720.

As can be seen, these improved proposals take into account the personal circumstances of taxpayers, so the ‘one size fits all’ phasing out of tax allowances from £40,000 and £80,000 has been revised. The standard rate of tax remains at 20% for those with high incomes but the Finance and Economics Committee has retained the concept of the marginal rate, which has been in existence in Jersey for very many years, for those on low to middle incomes.

Any taxpayer who wishes to see how these revised proposals will impact on them personally should contact the Income Tax Office Help Desk for assistance.

Malcolm Campbell
Comptroller of Income Tax
June, 2004