

STATES OF JERSEY



INCOME SUPPORT, FOOD COSTS BONUS, INCOME TAX ALLOWANCES AND/OR EXEMPTIONS – INCREASES TO OFFSET GST ON FOODSTUFFS AND DOMESTIC ENERGY (P.138/2008) – ADDENDUM TO REPORT

**Presented to the States on 8th September 2008
by Deputy J.A.N. Le Fondré of St. Lawrence**

STATES GREFFE

ADDENDUM

As noted in the report accompanying P.138/2008 (“Income support, food costs bonus, income tax allowances and/or exemptions – increases to offset GST on foodstuffs and domestic energy”), I stated I would lodge some further details concerning my proposals.

I therefore give some numerical illustrations below. I would add the strong caveat that these are just illustrations, and that any particular decision would (under my proposition) be in the hands of the Ministers for Social Security and Treasury and Resources. Obviously if Members were unhappy with any proposals brought by the Ministers, they could make amendments at that time.

The Statistics Department has calculated the gain to householders (by quintile) if food was exempted using the UK rules. Please note that when this is calculated back to arrive at a weekly food bill the figures may look a little ‘light’. However, the reason for this is that the weekly food bill is not the same as the weekly shopping bill, which will also include non-food items, such as cling-film, cleaning products, etc.

In addition, these figures exclude alcoholic drinks and tobacco products. Finally, because these are the UK VAT rules, items such as chocolate digestive biscuits will be excluded (because they would continue to be taxed, therefore no benefit), whilst plain digestive biscuits would be included in the calculation of the benefit, as they are not taxed under UK VAT rules. Finally, please remember that these figures are averages, and there will be variations within each quintile.

There is also a separate column for domestic fuel.

Table: Average weekly impact of exempting food (UK rules) and domestic energy by quintile

	Average weekly impact of GST on food (UK rules) ^[1] £	Average weekly impact of GST on domestic energy ¹ £	Total £	Income Range ¹ £
Q1	1.12	0.50	1.62	£0 – £19,500
Q2	1.33	0.44	1.77	£19,500 – £31,000
Q3	1.71	0.68	2.39	£31,000 – £45,000
Q4	2.38	0.95	3.33	£45,000 – £71,000
Q5	3.08	1.45	4.53	£71,000 – £ [∞]

As you will note from this information, the average total benefit to householders only exceeds £2 for the third quintile, who will be earning between £31,000 and £45,000 per year, with the top 2 quintiles benefiting the most.

If one uses the existing systems, we could target these monies in a better manner.

Please note that it is not easy to make direct comparisons between households by quintile as per the statistics department and the households impacted by income support, the GST rebate scheme or tax exemptions.

However, some suggestions/comparisons are overleaf (again, very much subject to formal proposals from the Ministers).

Both of the alternatives would cost either just below or just above (by £2,000) the sum of £5.8 million, being the amount of money that is available.

Note that these are purely examples, and they do need some fine tuning. However, as these examples demonstrate, it is possible to target those sectors of the population most in need in a far better way than the blunt instrument of just exempting food and fuel: i.e., to give a far greater benefit to the individuals we are trying to target, in particular those on low and middle incomes.

It is the principles that are important here, not (at this stage) the exact detail of any allocation. These examples are to demonstrate that £5.8 million can be used to give a significant benefit to many households on lower and middle incomes than would be received from exempting food and fuel.

In addition, these proposals will avoid unnecessary changes being foisted upon small businesses, as well as saving £300,000 **per year** by avoiding the additional bureaucratic costs that arise from ensuring compliance with the new rules. I trust members find these of interest.

Alternative (a) – one way of allocating £5.8 million

- (i) A single pensioner with a small additional income (over and above their pension) might have an income of just over £16,000 per year, and may therefore be paying tax of around £800. According to the statistics department they would fall into quintile 1. The average benefit that such an individual would receive from exempting food and fuel would be approximately £1.62 per week (£84 per year). If tax exemption limits could be raised by 5%, they would benefit by £3.49 per week (£181 per year). [Total cost £4,500,000.]
- (ii) Quintile 2 can still include someone on income support (if for example their total income was just over £19,500). Again, the average benefit that such an individual would receive from exempting food and fuel would be approximately £1.77 per week (£92 per year). For the total cost of just under £590,000, we could increase Income Support by £2.52 a week, £131 per year, noticeably better than the benefit received from exempting food and fuel.
- (iii) For an individual not paying tax and not receiving Income Support, we could (for a cost of £710,000), increase the rebate scheme by £2.73 per week, £142 per year.

Alternative (b) – alternative way of allocating £5.8 million– more funds to income support and GST rebate scheme

- (i) The same pensioner (noted in (a)(i) above) will fall into quintile 1. To reiterate, the average benefit that such an individual would receive from exempting food and fuel would be approximately £1.62 per week (£84 per year). If tax exemption limits were raised by 4.8%, they would still benefit by £3.35 per week (£174 per year). [Total cost £4,320,000.]
- (ii) This would enable Income Support to be increased by £3 per week. The benefit received by those in quintile one and two from exempting food and fuel from GST would be between approximately £1.62 and £1.77 per week (£84 – £92 per year). For the total cost of just under £702,000, we could increase Income Support by £3 a week, £156 per year, a noticeably better result.
- (iii) For an individual not paying tax and not receiving Income Support, we could (for a cost of £780,000), increase the rebate scheme by £3 per week, £156 per year.

Note: increases to tax exemptions benefit taxpayers who fall into the marginal rate of income tax, and therefore give benefit to thousands of households, both of low and middle income. Obviously the greater proportionate benefit will be to those on lower incomes.

[1] Confirmed with Statistics Unit.