WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES BY DEPUTY G.P. SOUTHERN OF ST. HELIER ANSWER TO BE TABLED ON TUESDAY 6th JULY 2010

Question

"Does the Minister consider the description of GST as "mildly regressive" as a fair and balanced statement to use in the consultation on personal taxation, when the Minister's figures show that it has more than twice the impact on the income of the lowest earners than it does on the highest?

Will he also explain to members why in the consultation on personal tax, almost half of the questions concern business, but he describes the Business tax review as a "technical exercise" aimed solely at business and taxation experts? Why has he not consulted the public on what they believe to be the correct balance to be struck between Business and Personal taxation?

Will the Minister state why he has chosen to consult on a cap of Social Security contributions at £115,000? Is it simply to be competitive with Guernsey's £117,468? What would the effect be of removing the ceiling altogether?"

Answer

GST

The description of GST as "mildly regressive" is very fair and balanced. The figures actually show that for the bottom income quintile in Jersey GST amounts to 2.9% of their expenditure while for the top quintile it amounts to 2.4% of expenditure. This difference can most accurately be described as a mildly regressive impact.

The analysis by the highly regarded and independent Institute for Fiscal Studies (IFS) in the UK of the distributional impact of VAT shows that the Minister's assessment is fair and balanced. In their Green Budget of January 2009 under the section titled "Myth 2: VAT is a regressive form of taxation" they point out that the percentage of income paid as VAT "varies relatively little across most of the income distribution, with the biggest exception being that the bottom decile group does pay a higher fraction of its net income on VAT than do other income groups". They go on to explain:

> *"However, looking at a snapshot of the patterns of spending, VAT paid and income in the population at any given moment is misleading, because incomes are volatile and spending can be smoothed through borrowing and saving. Consider a student or a retiree: their current income is likely to be quite low but their lifetime earnings could be relatively high. The student may borrow to fund spending, whilst the retiree may be running down savings. ……………..Because their spending is higher than their current income, these people will be paying a high fraction of their current income in VAT. Similarly, those with high current incomes tend to have high saving, and so appear to escape the tax, but they will face it when they come to spend the accumulated savings. Because of this 'consumption smoothing', expenditure is probably a better measure of living standards (and households' perceptions of the level of spending they can sustain)."*

The IFS go on to conclude that "it is sensible to express gains and losses from VAT as a proportion of expenditure, and doing this the current VAT system is seen to be mildly progressive".

Tax consultations

The personal tax review contains questions on the impact on business because some of the options can, at least in the short-term, impact on business either directly through increasing employment costs or indirectly through their ability to attract and retain highly skilled staff. Both consultations are full public consultations and we welcome responses from all interested parties. The business tax consultation paper relates solely to corporate income tax and there are issues in addition to the fiscal deficit which are driving that review. It is more technical because we are looking at different ways of taxing business on their profits and maintaining tax neutrality which is an important feature of our business tax regime. The potential solutions are therefore by their nature technical.

The Business Tax Review makes it clear that we have to try and maximise the revenue from corporate tax but also retain our competitiveness. It would be misleading to imply that we can simply choose what the balance of corporate and personal tax should be.

The business tax consultation specifically asks for any other comments and ideas for changes to the business tax and so there is full opportunity for all interested parties to comment.

Social security ceilings

The option in the personal tax review that looks at raising the social security ceiling to £115,000 has been chosen because it would raise £30 million extra in social security contributions and would not put us out of line with the position in Guernsey. Completely removing the ceiling would raise about £45 million in social security contributions but would also further increase the cost of employing highly skilled people who earn above £115,000. Raising the ceiling would potentially make it less attractive for highly skilled, high earning people to work in Jersey and increase the cost of employing them, putting jobs and tax revenue at risk.