STATES OF JERSEY

DRAFT BUDGET STATEMENT 2009 (P.158/2008): FOURTH AMENDMENT

Lodged au Greffe on 18th November 2008
by the Deputy of St. Ouen

STATES GREFFE

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1 PAGE 2 –

After the words “as set out in the Budget Statement” insert the words –

> “except that income tax exemption thresholds for the year of assessment 2009 shall be increased by 6.4% rather than by 5% as proposed by the Minister”.

2 PAGE 2 –

After the words “as set out in the Budget Statement” insert the words –

> “except that the progressive withdrawal of income tax allowances and reliefs as part of the ‘20 means 20’ proposals approved by the States on 18th July 2006 shall be suspended for one year with no withdrawal for the year of assessment 2009”.

DEPUTY OF ST. OUEN

REPORT

Background to amendments proposed

In recent months the economic forecasts for the UK and global economies already factor in a significant slowdown, and although the Island generally lags behind we are not immune from the overall global economic conditions.

The Fiscal Policy Panel warned of this in their first report published in September.

They recommended that the States should not approve decisions that would undermine the tax base, such as exempting food from GST, or commit to expenditure growth greater than currently forecast.

Following late amendments to the 2009 Business Plan, expenditure levels were exceeded over and above those forecast and considered by the Panel, contrary to the advice given.

More importantly, they recommended that in the event of a sharper, more protracted slowdown, the States should take steps to manage the situation.

The first step is to allow automatic stabilisers to work. In other words, allowing the natural inclination for tax revenues to fall and expenditure to rise in a slowing economy.

The second step is for the States to consider discretionary changes to tax revenues and or spending levels, whilst avoiding policy measures that would permanently weaken the tax base or raise expenditure levels.

My amendments are designed to take into account this advice.

Because most taxpayers pay tax on the previous year's income, the effect of these amendments will not be noticed until 2010. As a consequence, the natural effects of an economic slowdown will take effect next year, 12 months before the benefits flowing from my amendments are realised.

The proposals allow for a loosening of the fiscal policy by reducing taxation without permanently undermining the tax base. This, in turn, will help support demand in the economy by allowing people to retain money in their pockets rather than government taking it.

It is, after all, Islanders who ultimately support our economy through their ability to spend. This will be essential if businesses, both large and small, are to be sustained through an economic downturn.

Although there is a cost to Government in loss of income, this will be offset by the benefits derived from supporting our local economy over this difficult period.

Economic stability is at the heart of a sustainable prosperity. It is therefore important that we do all we can to ensure that this remains the case.

It should be remembered that aside from the recent economic situation, Islanders have been faced with the introduction of ITIS, '20 means 20', and more recently GST.

At present, all sectors of our society are experiencing the most painful part of our fiscal strategy.

We owe it to them to acknowledge this and act accordingly.

Amendment 1– tax thresholds

During the last debate on exempting food from GST, many States members realised that the money could be better targeted by, among other things, increasing the tax thresholds. It was also recognised that in light of current events, there was a need to inject money into the economy.

In the Draft Budget, the Minister for Treasury and Resources is proposing to increase tax thresholds for 2009 by 5% in order to "assist low and middle income earners affected by food and fuel inflation, and also to help reduce the impact of GST."

The question is whether 5% is sufficient. The latest RPI figures show that headline inflation is 6.4%.

Furthermore, although fuel prices have come back to former levels, electricity is set to increase by 24% from January. The reality is that the increases proposed are not keeping up with inflation.

Furthermore, for a married couple where both partners work, the increase of 5% will be less. For them the increase is a little over 4%, as shown below.

Existing Tax Threshold, Married Couple, wife not working	£19,310
Add 5%	96

	20,275
Proposed Tax Threshold with 5% increase	20,275
Add: Wife's Earned Income Allowance (unchanged)	4,500
Proposed tax threshold, married couple, wife working	24,775

Value of increase is under 4.1%

(Existing threshold 19,310 + 4500 = £23,810 x 4.1% = 24,786)

It is my view, that an increase of 1.4% above that proposed is affordable. ITIS and GST have exceeded expectations so a certain amount of money is available to be used. It should be noted that the Comptroller of Income Tax can only estimate the cost of increasing the thresholds, and even his figures involve certain assumptions that may, or may not, be correct.

It could also be argued that funds set aside in the Stabilisation Fund should be used at this stage in the economic cycle to pump money into the Jersey economy, especially at this time of uncertainty.

Furthermore, increasing the level of Tax Thresholds will mean that more taxpayers in the lower income range will be kept out of the Tax net.

Financial and manpower implications

There is no impact on the total income tax revenue set out in the Draft Budget Statement 2009 as the proposal relates to the 2009 year of assessment. The 2010 revenue income will be reduced by an estimated £1.7 million which is the difference between a 5% increase and the 6.4% proposed. There are no manpower implications arising from this amendment.

Amendment 2– 20% means 20%

Under this policy, tax allowances are being phased out over the 5 years 2007 to 2011.

I am a supporter of the States fiscal strategy, whereby the loss of corporate tax is recovered from –

- more efficient income tax collection (ITIS),
- a simple flat rate of GST set at 3%,
- 20% means 20%.

However, I believe that insufficient weight is being given to the world economic downturn. It is bound to have some impact on Jersey. Right now is not the time to tighten fiscal policy any farther. The transfer of spending power away from the medium-to-high earners resulting from 20% means 20% is bound to affect the spending of those well-off people who could otherwise be relied upon to keep the economy going. Small businesses could be badly affected, particularly those offering goods and services that can be deferred, or dispensed with, such as training, advertising and eating out.

Locking money away in the Treasury's vaults will have an adverse effect over and above the downturn itself. Even the UK is considering tax cuts and they are far less able to afford the reduction in income.

The phasing in of 20% means 20% has already been in place for 2007 and 2008.

For the year of assessment 2007 the system of phasing out tax allowances has been widely advertised as the "20% means 20% measures". Single allowances have been reduced by 20%. Married allowances have been reduced by 20%. Earned income allowances have been reduced by 20%. Wife's earned income allowances have been reduced by 20%. The only allowances that have not been reduced by 20% are the single parent allowance, the child allowance and the child in higher education allowance. The same will be the case for the year of assessment 2008.

Urgent action is needed to suspend the 5 year implementation plan for at least a year to allow time for the full effects of the general economic situation to be understood.

There is already a tightening effect which the Island is yet to experience. This is due to the fact that most people won't pay the tax due for the year 2009 until a year later, and therefore any benefit from this proposal will only be seen in 2010.

I believe that this element of the Fiscal Policy has been derailed by the global economic downturn. The facts have changed and the States have the ability to react to the new situation that we find ourselves in.

Financial and manpower implications

There is no impact on the total income tax revenue set out in the Draft Budget Statement 2009 as this amendment relates to the 2009 year of assessment.

I have been notified by the Income Tax Department that the reduction of income brought about by this amendment has been estimated at £3.8 million and will affect 2010 income figures only. It should be noted that although '20 means 20' was expected to raise £20 million a year when fully implemented, £10 million of this has already been used to increase personal tax exemptions prior to this year's budget proposals. There are no additional manpower implications linked to this amendment.