WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES BY DEPUTY G.P. SOUTHERN OF ST. HELIER

ANSWER TO BE TABLED ON TUESDAY 13th MAY 2008

Question

Following earlier questions on the effective tax rates for different sectors of the economy, can the Minister state

(a) whether there has been any change to OXERA estimates of effective tax rates for residents given in 2002/3, as follows:

low earners (on marginal rate) average effective tax rate = 8%
middle to high earners (on full rate) = 14%

and, if so, what change there has been, and to what extent such change has been the result of "fiscal creep" or the "20 means 20" policy?

Answer

There has been no update of the original tax take model with more recent tax data and more recent demographic data. To do so would be a considerable undertaking.

Question

(b) what estimate he has for the equivalent effective company tax rate for the finance sector? In particular, does he accept the following as a reasonable approximation for comparison purposes:

Total profit of financial institutions = £1,314 m

Total company taxation (all sectors) = £192 m
of which % GVA of finance sector x 52%
= £ 99.8 m

Finance sector effective rate (= 99.8 / 1,314) = 7.6%

Answer

It is difficult to give an effective tax rate for the company finance sector that in any way would be a particularly meaningful figure as there are such major differences in the tax rate applied to different firms in the finance sector. In particular, there is a complex mixture of Income Tax companies, such as banks in the finance sector, and International Business Companies, especially those International Business Companies in the finance sector. However, from publicly available information it is possible to calculate a rather crude approximation of the *average* tax rate of this sector at any particular point in time. In the 2006 Annual Report and Accounts the tax yield from financial intermediation is given as £138.9 million. This represents a mixture of tax being paid on profits earned in 2004 and 2005. As an approximation, the annual finance sector survey reports profits of the finance sector for 2005 to be approximately £1,054 million. These two figures are derived from two different data bases, and there is no guarantee that the two bases match. Notwithstanding this limitation, the average tax rate would be expected to approximate 12% - 14%. But I must stress that this average is made up of very different tax rates applicable to different firms and even different profits of the same firms. These tax rates vary from around 0.5% to 30%, on which see my answer (c) below.

Question

(c) If not, what figure for the effective tax rate for the finance sector does he have? Further, will he state what impact the zero/ten proposals will have on this effective tax rate?

Answer

As stated above a rough approximation of the current *average* rate is 12-14%. This is not a particularly meaningful figure, however, as it is not a good indication of the tax rate applying to any particular firm, nor indeed to any particular activity within the finance sector. However, to disaggregate this analysis any further would take an inordinate amount of time, effort and resource cost. And even then the calculated figures may not be particularly meaningful due to the huge variations in the tax rates applied to various companies, especially International Business Companies in the finance sector. By way of illustration, the tax rates range from 2% up to 30% in some instances, with rates as low as 0.5% on some international profits, and some of these varying rates applying to the profits of the same International Business Company. Post 0/10 implementation I would expect that the average effective tax rate for those activities that fall into the 10% category, i.e., certain financial services companies, to be 10%. However, the tax base will not be the same as that used by the survey to report on profits, as certain finance sector profits will not be subject to the 10% tax rate. For all of these reasons it is not possible to produce an estimate of the effective rate of tax post 0/10 without incurring excessive cost, and even then the figure wouldn't be meaningful. Furthermore it must not be forgotten that the prime reason for introducing 0/10 was to respond to competitive pressures, from other jurisdictions such as the Isle of Man and Guernsey. Any attempt to increase the effective rate of tax above that in competitor jurisdictions, would lead to business going elsewhere resulting in not only unemployment and lower incomes, but also a decline in tax revenues.