

STATES OF JERSEY

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BUDGET 2007 (P.130/2006): SECOND AMENDMENT

Lodged au Greffe on 21st November 2006
by Deputy G.P. Southern of St. Helier

STATES GREFFE

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At the end of paragraph (a), after the words “as set out in the Budget Statement” insert the words –

“except that all income tax exemptions for the year of assessment 2007 shall be increased by 3.6%, being the Retail Prices Index in September 2006, instead of the 2.5% increase proposed by the Minister in the Budget Statement”.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

Once again, despite acceding to the principle that we should no longer be “freezing” income tax exemptions, the Minister has not gone far enough. Instead of adopting a figure of 2.5%, the target figure for inflation, as he has proposed, the figure should be properly indexed to the most recent actual figure for the rise in RPI. To do otherwise is merely to ameliorate rather than eliminate the fiscal drag effect of bringing more and more relatively low-earning households into taxation. In this case, we may only be dragging, say, an additional 150 families into the tax net and not the 500 who would be caught by freezing exemptions. The point is that we should no longer be doing it at all. We should be employing the principle properly or not at all.

Furthermore, we can be fairly sure that we are in a rising trend in economic activity at present, and we also know that this is likely to be associated with rising inflation. The recent 8% rise in prices for family homes, combined with the rise in mortgage rates will be reflected in the RPI over coming months. Who knows where we shall be in 3 years' time. The amendment can only be applied for the year 2007 at this time but a further proposition will be required for the years 2008 and 2009.

There are no manpower implications in this amendment. There are no financial implications on the income tax estimates for 2007 as set out in the Budget Statement but the overall financial impact for the 2008 estimates will be approximately £1 million per annum. The proposed increase in exemptions will nevertheless have an immediate benefit from 1st January 2007 for new personal taxpayers whose ITIS payments are based on a current year basis.