

STATES OF JERSEY



BUDGET 2005: SIXTH AMENDMENTS

**Presented to the States on 7th December 2004
by Senator E.P. Vibert**

STATES GREFFE

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In the estimate of income from Income Tax –

Reduce the estimate by £4,913,000 by increasing –

- (a) the single person's tax exemption threshold from £11,020 to £11,640;
- (b) the married person's tax exemption threshold from £17,680 to £18,670;
- (c) the tax exemption threshold increment in the case of a single person aged 63 or more from £1,280 to £1,350;
- (d) the tax exemption threshold increment in the case of a married person aged 63 or more from £2,570 to £2,710;
- (e) the maximum child care relief from £6,150 to £6,490.

SENATOR E.P. VIBERT

REPORT

I have brought this amendment to protect those taxpayers on lower incomes from the full effect of inflation. The effect of this amendment is to increase small income exemptions (applicable to those taxpayers on relatively low incomes) by the full rise in the RPI in September of 5.6%.

Members will be aware that the Finance and Economics Committee's proposal to freeze allowances for a fifth year in succession last year was thwarted by my successful amendment. However, that only ameliorated the increase in tax paid by all those on marginal rates who received a cost of living increase in the year.

The freezing of allowances is in effect a stealth tax in that by doing nothing the comptroller of Income Tax brings more low earners into taxation and results in higher tax bills for those on marginal rates. These are the low to middle earners. The overall effect of freezing these exemptions is to increase revenue from this section of society by some £4 - 5 million.

Last year, I successfully argued that the policy employed over the past 4 years by the Finance and Economics Committee to bring an ever greater number of those on low incomes into income tax was wrong.

The recent Income Distribution Study (IDS) revealed that 24% of the Jersey population of both people (20,290) and households (8,520) exist below the E.U. and U.K. accepted thresholds of low income after housing costs (AHC). These are households with average annual pre-benefit incomes of £13,500. Do we really wish to bring these 20,000 people into taxation? Shall we actually give benefits with one hand, only to take it back with the other?

Last year I achieved partial indexation, raising exemptions by 2.5% when full indexation would have meant 3.8%. This still resulted in some increase in those paying tax and in the tax take from these low to middle earners. I believe that the time has come to stop this search for increased tax from those on ever lower incomes, so I come to the house this year with this proposal of full indexation.

There will be those who may criticize my choice of RPI rather than a figure based on earnings for this indexation. To them I say that we all have to live with the effects of inflation, and it is those on lower incomes who are most affected. Analysis of the inflation figure reveals some interesting details.

This is the largest rise in RPI since 1992. The 2 largest individual components in the rise are housing costs (3%) and motoring (0.8%) but it is noteworthy that the increases in impôt duties, on petrol, alcohol and tobacco, effective in January 2004, contributed 0.5% to the annual figure. The high cost of housing in Jersey cannot be avoided. Whether renting (significant rises in January and October for States rents) or buying, those on low to middle earnings will be hit by inflation.

This amendment seeks to further protect the pensioners, from increased taxation, by restoring the index linking for those aged 63+. Pensioners are particularly vulnerable to this process in that they are unlikely to be able to claim other allowances (children no longer dependant, mortgage paid off). They are also over-represented in the lowest income groupings according to the recent Income Distribution Study. Over one-third of pensioners are found in the bottom income quintile and over half (more than 7,000 pensioners) in the bottom 2 quintiles.

Although average incomes are low for both single pensioners and pensioner couples in comparison with their non-pensioner equivalents, without additional allowances many pensioners end up paying income tax. Last year the pensioners got some partial relief through my amendment. I believe it is time to restore the value of the additional exemptions for pensioner households.

Finally, I have included full indexation for child care tax relief, which is also a recognized high cost area and one which does cause hardship problems.

If the amendments are adopted the tax exemption thresholds for persons over 63 would be as follows –

Single person	£12,990
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Married person £21,380

Financial and manpower statement

There are no additional manpower requirements. The loss in income tax revenue has been estimated by the Comptroller to be £4,913,000.