STATES OF JERSEY

DRAFT BUDGET STATEMENT 2014 (P.122/2013): AMENDMENT

Lodged au Greffe on 19th November 2013
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PAGE 2, PARAGRAPH (a) –

After the words "as set out in the Budget Statement" insert the words –

"except that –

(i) income tax exemptions for the year of assessment 2014 shall not be increased by 1.5% as proposed in the draft Budget Statement;

(ii) the marginal rate for the year of assessment 2014 shall not be decreased from 27% to 26% as proposed in the draft Budget Statement;

(iii) the estimate of income from taxation during 2014 shall be decreased by £5 million by zero-rating or exempting from Goods and Services Tax foodstuffs in line with United Kingdom Value Added Tax arrangements and domestic fuel and energy with effect from 1st July 2014."

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

There is much to praise in the draft 2014 Budget. We are told that it is a Budget for growth, in that it offers a tax reduction for those who pay income tax, especially those at the marginal rate. The total reduction is around £10 million, made up of raising thresholds by 1.5%, at a cost of £2.5 million, and lowering the marginal rate to 26%, at a cost of £7.8 million. It is suggested that this additional £10.3 million will flow from consumers' wallets and purses to be spent in the local economy, giving a much-needed boost to economic activity.

Looking at this from another perspective, it could be said that this reduction merely covers up the cost of the long-term care plan which will soon add to the total tax and contributions bill by 1%, rising over time to over 2%. Whatever the presentational gloss put on the Budget, the net result however is not a reduction in overall tax, but rather the opposite. In a still stagnant economy, and without the inclusion of the costs of the plan for long-term care, the total States income rises from £646 million to £673 million, an overall increase of 4%, against a background of inflation at only 1.5%.

The Minister for Treasury and Resources has the laudable intention to help all residents to cope with the recession, but his attempt hits the wrong target. If he really wants to do something to boost the economy, and above all to do so in a fair manner, he should surely take care to address the needs of all members of our society, including those least well-off.

As we have heard from the Fiscal Policy Panel recently in respect of counter-cyclic spending, monetary theory states that demand should be stimulated in a recession, curbed in a boom. The more cash is in circulation, the more goods and services are bought and the more activity is created. The best people to stimulate demand are the poor, because they are less able than the rich to save. So we should channel cash through the poor.

The Minister's alterations to the tax system, apart from some £700,000 increase in impôts, are aimed solely at those in income tax. They fail to address the needs of the poorer sections of society, the bottom 20% of families, some of whom will suffer from the planned £3 million (5%) cut in funding to the Income Support system in 2014. If the Minister wishes genuinely to address this imbalance, he should surely be prepared to reduce indirect taxation, or GST, which we all pay.

We clearly do not know yet what price rises we shall see this winter on the costs of heating and lighting our homes, but the signs from the UK are not good, with 4 of the 6 major utility companies raising prices by around 9%. The Jersey Electricity Company offer little comfort when it states in the annual report (R.106/2012) –

> *"Going forward, it is extremely difficult to predict prices. While we still expect to fulfil the majority of the island's electricity requirements from imported power, locally generated power from oil will remain more expensive than previous levels... Our business will be exposed to the new commodity risk of oil price and volume uncertainty….. The business therefore remains ready to implement more frequent tariff changes…"*

We do know that Jersey residents have already seen significant rises in the costs of domestic energy. After 3 years of frozen tariffs, electricity prices went up by 2.9% in 2012 and by 9.5% in January of this year; a total rise of 12.7%. Gas prices went up by 7% in 2011, by 5% in May 2012, and by a further 3.5% in August 2013, overall a rise of 16.3%. Heating oil saw a rise of 7.4% in 2012 and a further 4 pence per litre recently.

The cumulative effect of all these individual increases is an overall 10.4% rise in the cost of heating and lighting our homes in the last 2 years.

This is a similar picture to what is happening in the UK as incomes fall behind inflation. The UK Office for National Statistics recently reported that the proportion of household income accounted for by essentials rose from 19.9% in 2003 to 27.3% in 2013. Gas and electricity account for 3.1% of household spending in 2013, up from 1.8%, despite little change in the level of consumption.

Our own 2009/2010 Household Expenditure Survey (HES) showed that expenditure on electricity, gas and other fuels stood at 4% of household expenditure, before the onset of the price rises detailed above. It comes as no surprise, given the regressive nature of GST with few exemptions, that costs of heating a home are disproportionately loaded on the poorest 20% of the population, at 6% of expenditure, compared with 3% for those who are the highest earners.

The impact of the rising cost of food on household budgets is equally easy to demonstrate. Over the past 5 years food prices have risen consistently, and on occasions rapidly, as is shown here using September RPI figures –

Year	*2009*	*2010*	*2011*	*2012*	*2013*	*cumulative*
Food inflation	2%	3%	8%	1.8%	1.7%	17.5%

Even this cumulative figure is an underestimate, as the comment on the 2009 figure indicates in referring to the previous year –

> *"Price rises were seen across the majority of the group, particularly for bread, non-fresh fish, processed fruit and tea. Some price falls were seen within the group, notably for fresh fish, fresh fruit and fresh potatoes. The latest annual increase is the lowest seen by the food group for three years and is considerably below the rate of increase seen a year ago (2008) when food prices rose by 13% (including GST)."*

The 2009/2010 HES demonstrated that the average spend on food was 10% of household expenditure, and varied between 16% for those in the poorest quintile and 9% for the highest earners. In the 3 year period since then, the spending power of residents, as demonstrated by the growth in average earnings, at 6%, has been overtaken by a rate of inflation of 9%.

It is clear that if the Minister for Treasury and Resources wishes to alleviate the hardship that Jersey families are feeling, and he wishes to do that for all, then the changes he proposes to income tax are entirely the wrong instrument to do so. Change to the GST regime, and in particular the exemption or zero-rating of food and domestic heating, is a far more effective tool to achieve his aim.

Financial and manpower statement

The comments produced by the Minister for Treasury and Resources on a previous proposition covering a similar matter, lodged by Senator A. Breckon, P.36/2011: "Goods and Services Tax: exemption or zero-rating for foodstuffs, domestic energy and fuel", included an estimate of a loss to the States of £8.2 million on total GST receipts of £66 million. The GST revenue for 2013 is approximately £80 million and is due to rise to £82 million in 2014. Exemption of food and fuel is thus likely to cost around £10.2 million.

In addition, the additional administration costs to Treasury and to Customs and Immigration were estimated to be between £200,000 and £300,000 (or 3% of the total change) in 2011. Taking the top end of this estimate today would bring the total costs of zero-rating to £10.5 million.

The figures given in the budget for income tax changes are accounted for in 2015, thus –

> *"Whilst there would be an immediate cost to the Treasury, this will not be felt in the accounts until 2015. The figure of £639,513,000 taxation revenue shown in Table A for taxation revenue will not therefore be affected."*

The easiest way to illustrate this is to be found on page 48 of the Draft Budget Statement 2014 as follows –

> *"The income tax measures relate to the income tax year of assessment 2014. These will impact on the tax revenues to the States in 2015. However, most current year basis taxpayers under ITIS will see the benefit of these measures during 2014.This is because the measures will impact on the calculation of their provisional ITIS effective rate."*

Whereas changes to the income tax regime can be brought in at the start of the year, which would see a benefit to current-year income taxpayers immediately, changes to the GST Regulations would require some law drafting time. It is thought that the new exemptions could not be in place until 1st July 2014. This reduces the cost in revenue (or benefit to the taxpayer) to around £5 million in 2014 before rising to the full sum of £10.5 million in 2015. This matches closely the results in a full year of the Minister's proposals to change the income tax regime.