STATES OF JERSEY

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INCOME TAX: INCREASE IN SMALL INCOME EXEMPTION LIMITS AND ALLOWANCES, AND INTRODUCTION OF HIGHER RATE (P.6/2003) – COMMENTS

Presented to the States on 10th June 2003
by the Finance and Economics Committee

STATES GREFFE

COMMENTS

Introduction

The Finance and Economics Committee is currently engaged in a comprehensive fiscal strategy consultation, which was embarked upon for the very important reasons of addressing, on the one hand, the link between tax and spending, and on the other hand, maintaining the international competitiveness of our finance industry. This process is due to be completed later this year, after which detailed policies for the future will need to be agreed by the States.

Issues arising

This proposition, if accepted, would be an 'ad hoc' and piecemeal amendment to the Income Tax (Jersey) Law 1961 which may well conflict with an eventual but yet to be decided underlying longer term fiscal strategy.

There is no doubt that changes will be necessary to the present fiscal regime. It is imperative that any major change to taxation policy must be gradual, and subject to very careful consideration as to its impact; it must not be imposed within a strict time deadline as this Report and Proposition demands. It is more than simply an 'in principle' decision as suggested in the Report.

It seems to be implied in the Report accompanying the Proposition that an increase in small income exemption and personal allowance would assist the less well-off residents of Jersey. This Proposition in fact does nothing to help the poor and the low paid, because they do not pay Income Tax at all. Any change in exemptions or allowances is totally irrelevant to the 28% (or thereabouts) of islanders whose incomes are so low that they are not liable to Income Tax.

Those who would benefit from the first part of the Deputy's proposition are those on middle and higher incomes, all of whom would be entitled to a higher level of personal allowance. Whether this was the Deputy's intention is unclear, but in the view of the Finance and Economics Committee it is not a sensible route to adopt.

Although Jersey already has a progressive taxation system, there may well be scope in the overall fiscal review for more progressive taxation having an impact on those with higher incomes. If such additional taxes are to be raised, they should be used to fund our vital public services of education, health and so on. Simply handing back those additional taxes to those who have gained substantially from increased tax exemption limits in the last 15 years is not a course of action which the Finance and Economics Committee would support. By way of example, if the cost of increasing tax exemptions and personal allowances amounts to £5 million p.a., a rate of tax of 24% will have to be levied on those with net incomes of over £100k, Similar increases in future years would require corresponding increases in the tax rate for higher earners. The existing small income exemption limits not only keep a quarter of Islanders outside the tax net, but they also cost the Island many millions of pounds in lost revenue.

This Proposition also fails to address the equity issue that will arise when those individuals who currently have substantial investment income in their own names transfer their investments into an investment holding company, thereby avoiding any higher rate of tax. Only those with higher earned income would be caught by this proposition, unless complex and labour-intensive anti-avoidance provisions are introduced to catch those who divest themselves of investment income. There is a risk that increased rates of taxation on these higher earners is likely to lead to Jersey being a much less attractive jurisdiction to the mobile and highly paid professional that our finance industry needs, and is also likely to discourage others, who may see the figure of £100,000 as the thin end of a growing wedge.

Recommendation

Any increase in taxation rates on higher incomes, or indeed increases in allowances, should not be regarded in isolation, but as part of an overall and well-considered package. It is crucially important that the matters raised in this Proposition are addressed in the wider context of the overall fiscal strategy which Members will have the chance to consider later this year. It would be quite improper, and potentially dangerous, to highlight and approve any individual measures in advance of, and in isolation from, the formulation of such a strategy.

The Finance and Economics Committee recommends that this Proposition is currently rejected.