

STATES OF JERSEY



DRAFT BUDGET STATEMENT 2017 (P.109/2016): FIFTH AMENDMENT (P.109/2016 Amd.(5)) – COMMENTS

**Presented to the States on 12th December 2016
by the Council of Ministers**

STATES GREFFE

COMMENTS

Key points:

- The Council of Ministers supports the aims of the Deputy's proposal more closely to align the income tax treatment of applying to married couples and cohabiting couples.
- The Minister for Treasury and Resources has started to address part of the differential by proposing that the second earner's allowance available to married couples increases by £500 in 2017.
- The Council of Ministers are concerned by the potential impact on middle- to lower-income households of the immediate removal of £4,500 of tax relief (equating to £1,170 of additional tax per year or nearly £100 per month).
- **The Council of Ministers supports the amendment brought by the Deputy of St. John provided it is amended, as proposed by the Minister for Treasury and Resources, to give the Treasury the flexibility to consider an appropriate phasing-out of the allowance.**

Consistent with the position outlined in the amendment to the amendment lodged by the Minister for Treasury and Resources, the Council of Ministers is supportive of the Deputy's proposal more closely to align the income tax analysis applying to married couples and cohabiting couples.

However, the Council of Ministers is concerned by the potential impact on middle- to lower-income households of the immediate removal of £4,500 of tax relief (equating to £1,170 of additional tax per year or nearly £100 per month), and hence support the Minister's proposals that, when the Treasury brings forward the required legislative changes, the States Assembly should consider the introduction of an appropriate phase-out period.

At this stage, it is important that States Members are aware that cohabiting is not always more tax advantageous than being married.

In her proposition, the Deputy provides the following examples to illustrate a case where a married couple is paying £1,482 more tax than a cohabiting couple with the same household income. The analysis provided by the Deputy (based on the allowances and reliefs for the 2016 year of assessment) is entirely correct.

Married couple with 1 child of school age – Persons A & B	
Income	£50,000
Exemption threshold	(£23,000)
Child allowance	(£3,000)
Second earner's allowance	(£4,500)
£50,000 – £30,500	= £19,500
26% of £19,500	= £5,070

Cohabiting or Common-in-law couple with 1 child of school age – Persons C & D			
Person C with 1 child of school age		Person D (partner of Person C)	
Income	£30,000	Income	£20,000
Exemption threshold	(£14,350)	Exemption threshold	(£14,350)
Child allowance	(£3,000)		
APA	(£4,500)		
£30,000 – £21,850	= £8,150	£20,000 – £14,350	= £5,650
26% of £8,150	= £2,119	26% of £5,650	= £1,469
Total tax for household £3,588			

Hence in this scenario the cohabiting couple are paying £1,482 less in income tax due to a combination of: (i) the fact that 2 lots of the single-person exemption threshold is greater than the married couple's exemption threshold plus the second earner's allowance (the Minister has started to address this part of the differential by proposing that the second earner's allowance *increases* by £500 in 2017, reducing the tax paid by the married couple); and (ii) that the cohabiting couple are entitled to claim the additional personal allowance.

However, if you use the same household scenario (i.e. one school-age child), but with a lower household income level, the analysis reverses, and it is the married couple that would pay less tax than the cohabiting couple, as illustrated below –

Married couple with 1 child of school age – Persons A & B	
Income	£30,000
Exemption threshold	(£23,000)
Child allowance	(£3,000)
Second earner's allowance	(£4,500)
£30,000 – £30,500	= NIL
26% of Nil	= NIL

Cohabiting or Common-in-law couple with 1 child of school age – Persons C & D			
Person C with 1 child of school age		Person D (partner of Person C)	
Income	£25,000	Income	£5,000
Exemption threshold	(£14,350)	Exemption threshold	(£14,350)
Child allowance	(£3,000)		
APA	(£4,500)		
£30,000 – £21,850	= £3,150	£5,000 – £14,350	= Nil
26% of £3,150	= £819	26% of Nil	= Nil
Total tax for household £819			

Hence in this scenario the cohabiting couple is paying £819 more income tax than the married couple. This is because the proportion of the exemption threshold that is not utilised "Person D" is effectively wasted. If the additional personal allowance were to be immediately removed, in this household scenario the cohabiting couple will pay a further £1,170 of tax, resulting in a total tax disadvantage compared to the married couple of £1,989 per year (equating to almost 7% of the household's income).

Therefore, although supportive of the Deputy's primary objective more closely to align the income tax analysis applying to married couples and cohabiting couples, the Council of Ministers supports the Treasury's proposal to introduce some form of phase-out of

the availability of the additional personal allowance which considers the impact on lower-income taxpaying cohabiting households.

Therefore the Council of Ministers supports the amendment brought by the Deputy of St. John, provided it is amended as proposed by the Minister for Treasury and Resources.

Statement under Standing Order 37A [Presentation of comment relating to a proposition]

These comments were submitted to the States Greffe after the noon deadline as set out in Standing Order 37A in order to ensure that the States Assembly has the latest information when considering the effect of the amendments.