STATES OF JERSEY

MINI-BUDGET 2022 (P.80/2022): FOURTH AMENDMENT

Lodged au Greffe on 30th August 2022
by Deputy S.Y. Mézec of St. Helier South
Earliest date for debate: 13th September 2022

STATES GREFFE

PAGE 2, PARAGRAPH (b) –

Insert a new paragraph (b) as follows and re-designate the remaining paragraphs accordingly –

(b) that, in principle, from the year of assessment 2023 the 20% personal income tax rate should no longer be available (except for High Value Residents, for whom no change is proposed), and personal income tax should instead be charged at a rate of 25% (with all personal income taxpayers being entitled to the allowances and reliefs which are available to marginal rate taxpayers when calculating the amount of income taxable at the rate of 25%), with the Minister for Treasury and Resources directed to bring forward the necessary legislative changes for debate by the Assembly during 2022;

DEPUTY S.Y MÉZEC OF ST. HELIER SOUTH

Note: After this amendment, the proposition would read as follows –

THE STATES are asked to decide whether they are of opinion –

to agree that the following actions should be taken to address cost of living concerns –

(a) increasing the personal income tax thresholds and allowances by 12% above the 2022 thresholds and allowances, in accordance with the Table in Appendix 2 of the report accompanying the proposition, to take effect for the year of assessment 2023;

(b) that, in principle, from the year of assessment 2023 the 20% personal income tax rate should no longer be available (except for High Value Residents, for whom no change is proposed), and personal income tax should instead be charged at a rate of 25% (with all personal income taxpayers being entitled to the allowances and reliefs which are available to marginal rate taxpayers when calculating the amount of income taxable at the rate of 25%), with the Minister for Treasury and Resources directed to bring forward the necessary legislative changes for debate by the Assembly during 2022;

(c) temporarily reducing by 2 percentage points Class 1 and 2 social security contributions for the period 1st October 2022 to 31st December 2022, comprising a reduction, in respect of earnings below the standard earnings limit (SEL), from 6% to 4% for the Class 1 employee contribution rate, and from 12.5% to 10.5% for the Class 2 contribution rate;

(d) doubling the value of the Community Costs Bonus for 2022 by increasing the value of the bonus from £258.25 to £516.50.

(e) setting a fixed value at £70 per month for the Cold Weather Bonus and Cold Weather Payments, regardless of temperature, for the winter months (October 2022 to March 2023 inclusive); and

(f) postponing the commencement of the obligation for offshore retailers to register under the Goods and Services Tax (Jersey) Law 2007 from 1st January 2023 to 1st July 2023."

REPORT

Summary

If this amendment is adopted, from January 2023 Jersey's '20 means 20' Income Tax band would cease to exist, and all taxpayers would pay under the Marginal Relief system. The basic rate of Marginal Relief would also be reduced from 26% to 25%.

This will simplify our Income Tax system, by subjecting all taxpayers to the same rules, whilst providing a small tax reduction for tens of thousands of Islanders to assist with the cost-of-living crisis.

Introduction

This amendment is proposed in order to complement the measures proposed in P.80/2022, by providing a further reduction in the tax liability of Marginal Rate taxpayers.

By implementing this tax reform, we will:

- support tens of thousands of Islanders through the cost-of-living crisis
- raise revenue to offset some of the cost of the rest of the Mini Budget measures
- create a more equal society

Supporting Islanders through the cost-of-living crisis

This amendment will see the tax liability reduce (even beyond what is proposed in P.80) for tens of thousands of Islanders. Most taxpayers are Marginal Rate payers. Every taxpayer with a tax liability currently between 1% and 19% will see their tax reduce as a result of this proposal. This will see more money put in their pockets to assist them in affording their increasing bills and expenses.

Further detail is provided in the distributional analysis below.

Raise revenue to pay for the Mini Budget

Whilst the measures proposed in P.80 are welcome, there remains questions over how this is being funded. Many of these measures are permanent and will incur a great cost over time. Current departmental underspends cannot be considered a sustainable way to pay for this.

This amendment sees an extra £12.1m in revenue raised, after the increases in tax allowances (as proposed in part (a) of P.80) is taken into account. This will help offset the cost of the other measures and reduce any pressure in the future to cut essential public services or raise alternative taxes, in order to return to a balanced government budget.

A more equal society

The information published in the recent Household Income Distribution Report[1] by Statistics Jersey confirms that Jersey has continued to become a more unequal society, where the wealthiest have got wealthier and the poor have got poorer. This trend has

[1]https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20Income%20Distribution%20Report%202021%2020220826%20SJ.pdf

been in place for over a decade, and successive governments have failed to take action to reverse it.

By putting all taxpayers on the same footing, our tax system will be simpler and fairer. We will all pay under the same rules and be treated equally.

The consequence of equality here is that those who earn the most will be required to pay slightly more.

Distributional analysis

Every earner who currently pays an effective tax rate of 0% ("non-liable taxpayers" i.e. those who earn and submit tax returns, but do not earn enough to incur a tax liability – some 9,550 taxpayers) will continue to pay 0%. This amendment will leave them no worse off.

Every taxpayer who currently pays a tax rate between 1% and 19% will see their tax liability **reduce**. This amounts to around 9/10 taxpayers with a positive liability, or some 37,340 taxpayers.

Those at the lower end of '20 means 20' will see their tax liability reduce, as they become eligible for tax allowances that they were previously not entitled to, which will **reduce** the amount of their income which is taxable.

Only those at the very top of the income spectrum in Jersey will see their tax rates increase progressively to a modest 25%.

Children's Rights Impact Assessment

There are no direct children's rights concerns arising from this, as children will not be Income Taxpayers themselves. However, the indirect concerns will relate to the effect this measure will have on their parents and their ability to provide for their children, and the wider impact on government finances which could provoke changes in the delivery of services which benefit children.

By providing a tax break to those working parents at the lower and middle parts of the income scale, they will be in a better position to be able to financially provide for their children, whilst those who will see a tax rise as a result of this are already at the top of the scale and will face only a negligible impact.

Financial and manpower implications

The Treasury have been aware of this proposal for tax reform for several years and have worked closely with Reform Jersey members to assess the likely financial consequences of its implementation.

The report to P.80/2022 states that the financial impact of adopting part (a) of the proposition is £34.1m. If this amendment is adopted alongside part (a), this figure reduces to around **£22m**.