STATES OF JERSEY

TAXATION OF HIGH VALUE RESIDENTS (P.44/2023): COMMENTS

Presented to the States on 30th June 2023
by the Chief Minister

STATES GREFFE

COMMENTS

Introduction

As Jersey faces, like elsewhere, challenges around inflation, social inclusion, and our ageing demographic, our attention should be on increasing economic growth and community benefit in a sustainable manner.

This proposition runs counter to this aim.

It calls in part (a) for a significant change in our tax system by applying a 20% rate on all income from 2(1)(e) applicants, without any evidence on the impact of doing so on total tax take; and in part (b) for an immediate and without notice suspension of the initiative to encourage wealthy people to move to Jersey.

Jersey has a long-established reputation as a stable jurisdiction that makes prudent economic and fiscal decisions, within a well-regulated and well-governed environment. Our finance industry is based on the effective management of wealth. This proposition, if approved, sends a clear negative signal to local financial businesses, to international parent companies, partners, and markets. It would give the impression that our attitude to wealth is cautious at best, and that we change and suspend policies without evidence and with very limited notice or opportunity to consider. That is not a positive for economic confidence and growth.

We need innovation, invention, and bold decisions, but that should be in the context of preserving our reputation for being open for business, and for stability and prudence, something our predecessors appreciated and cultivated.

It was in this context that ministerial proposals were carefully developed over the last 6 months, using the available evidence, and working with industry.

Ministerial Proposals

In the Ministerial Plans issued by the Council of Ministers in October 2022, a commitment was made to update the 2(1)(e) policy to enhance economic and social benefits from a fewer number of applicants. To deliver this, the following evidence was considered:

- Statistics for tax liabilities at different rates and under different versions
- Application volumes and arrivals since 2005.
- Permissions granted for properties to be purchased since 2005, including values.
- Regimes in competitor jurisdictions
- Countries of origin and age profile for applicants
- Views of interested parties, including recent applicants, finance industry professionals, and estate agents, as well as input from experienced officials.

An information digest is appended.

Following discussion at the Housing and Work Advisory Group and Council of Ministers, considering this information, the Minister for Treasury and Resources lodged in May 2023 proposals that the minimum tax contribution be increased from £170,000 per annum to £250,000.

For context, the rates have progressively increased over year years: In 2020, the tax receipts from 2(1)(e)s amounted to £20.9m from 175 individuals, which is £119,000 on average.

Other changes proposed included a large increase in the minimum property price to £3.5m and formalising a minimum net wealth level of £10m. The review also signalled more activity in promoting entrepreneurial ventures and charitable giving.

Rationale for Ministerial Proposals - Taxation

While Ministers are proposing a significant increase in liability to generate more revenue, it remains an evolutionary change within the broad parameters of the scheme, including a minimum tax requirement, and retaining a 1% tax rate on income over that requirement (income over £1.25 million).

This increase in the minimum liability carefully considered price sensitivity and our competitive position, based on comparative analysis of other jurisdictions and discussions with industry, and concluded that removing the 1% rate would negatively impact revenues.

Jersey has an enviable natural environment, a safe and vibrant community given our size, excellent transport links to the United Kingdom, good public services, and a critical mass in some of the key industries, notably wealth management, which attract many 2(1)(e) applicants.

This means we can operate at the higher end of the market in terms of tax, applying strong due diligence. However, there are limits to our attractiveness, and we must remain competitive overall.

For example, Guernsey operates an Open Market Cap that allows any new residents to claim a tax cap of £50,000 for four years, provided they have paid at least £50,000 in duty on a Guernsey property. The Isle of Man enables an election to be made limiting liability at £200,000 for a single person. Other jurisdictions have zero rates of tax, or lump sum options, or do not tax overseas income.

The increase in the minimum tax contribution to £250,000 means that our wealthy migrants pay more, which in turn supports spending decisions which are redistributive and progressive in nature – spend on benefits, health services, and education.

This is why we need to make sensible decisions that maximise the tax base, which includes encouraging high value residents.

Weighing this, Ministers acknowledge that wealthy individuals are highly mobile, and may choose to live elsewhere if Jersey ceases to be attractive.

They also have legitimate means of effectively managing their wealth and income, including choosing to accumulate corporate profits as capital rather than take income.

Indeed, the 1% rate was introduced in 2005, and updated by subsequent governments, based on consultants' reports, recognising that a 20% rate on all income does not maximise tax returns. Since then, the number of 2(1)(e) residents arriving in Jersey in each year has increased significantly; as have their tax receipts (rising from £2.5m in 1996; to £7m in 2005; £10m in 2011; and now £20.9m in 2020).

Rationale for Ministerial Proposals – Housing Market and wider benefits
As to property prices, there is limited evidence locally, and internationally the evidence is also weak, as to the impact of property purchases at the top of the market on the rest of the market. However, it is likely that there is some ripple effect from the purchase of higher value properties through the rest of the market, given the dynamism of markets. Considering this, Ministers have significantly increased the minimum property prices from a published policy minimum price for houses of £1.75m to £3.5m (and for apartments from £0.95m to £1.75m).

This means that our 2(1)(e) residents must purchase higher up the market, reducing impact lower down the market.

Ultimately, any threshold has the risk of creating market distortion around the cut-off point, but adopting a much-increased threshold seemed a prudent decision, which can be monitored and adjusted as needed.

Ministers did also consider a much higher minimum purchase price, of £5m, but were concerned that this may create perverse incentives such as driving the development of large properties, or 2(1)(e) residents occupying much larger properties than they need or would otherwise wish because of the threshold.

Ministers have also recommitted to carefully managing application volumes, advanced a limit on the development of large new properties over 3000 square feet, and supported the decision of the last government to prevent new share transfer developments (so that all new apartments need be flying freehold and need permission to be purchased). These are sensible measures applying the available evidence.

Finally, and not least, it is also important to consider the wider economic and social benefits delivered by 2(1)(e) residents.

Many Jersey charities have received significant benefits from 2(1)(e) residents, and many invest locally in businesses, with the profile of 2(1)(e) residents gradually changing over recent years towards a younger demographic who remain economically active. For example, in recent years we have seen significant seven figure contributions to the appeals for Ukraine and our pandemic response, and the gift of Millbrook Playing Fields.

The focus of Ministerial work going forward is on maximising these social and economic benefits, working with applicants and industry.

Conclusions
For all these reasons – adverse impact on reputation by immediately suspending the scheme; likely impact on application numbers, revenue, and wider social and economic benefits from changing the tax rates so significantly; and more generally, lack of evidence provided - Ministers sincerely ask Members to reject parts (a) and (b) and support the proposal to increase the minimum liability to £250,000 as outlined in P.29/2023.[1]

We should be positively welcoming and supportive of new migrants who move to Jersey wishing to become part of our community, including those who are wealthy.

[1] Draft Income Tax (High Value Residents – Amendment) (Jersey) Law 202- (gov.je)

As to part (c) of the proposition, Ministers agree that all policies should be subject to ongoing review, assessing costs and benefits.

However, this should not be at the cost of perpetual uncertainty (when there has already been a period of uncertainty between the announcement of the review in October 2022 and its debate in July 2023) or have an unrealistic timetable as outlined in part (c).

Accordingly, while Ministers do not support another review of the scheme in such quick succession as proposed, we are already committed to doing further work as part of a rolling programme of research on areas such as:

- How we can promote more charitable giving.
- How we encourage more entrepreneurial activity.
- How we manage impact on the housing market, including data on share transfer purchases and development activities.

Ministers therefore ask Members to reject part (c), to adopt this rolling approach of review and monitoring, working collaboratively with industry and 2(1)(e) residents, and endorse a focus on increasing economic and social benefits as well as tax revenue.

Appendix: Data and Information

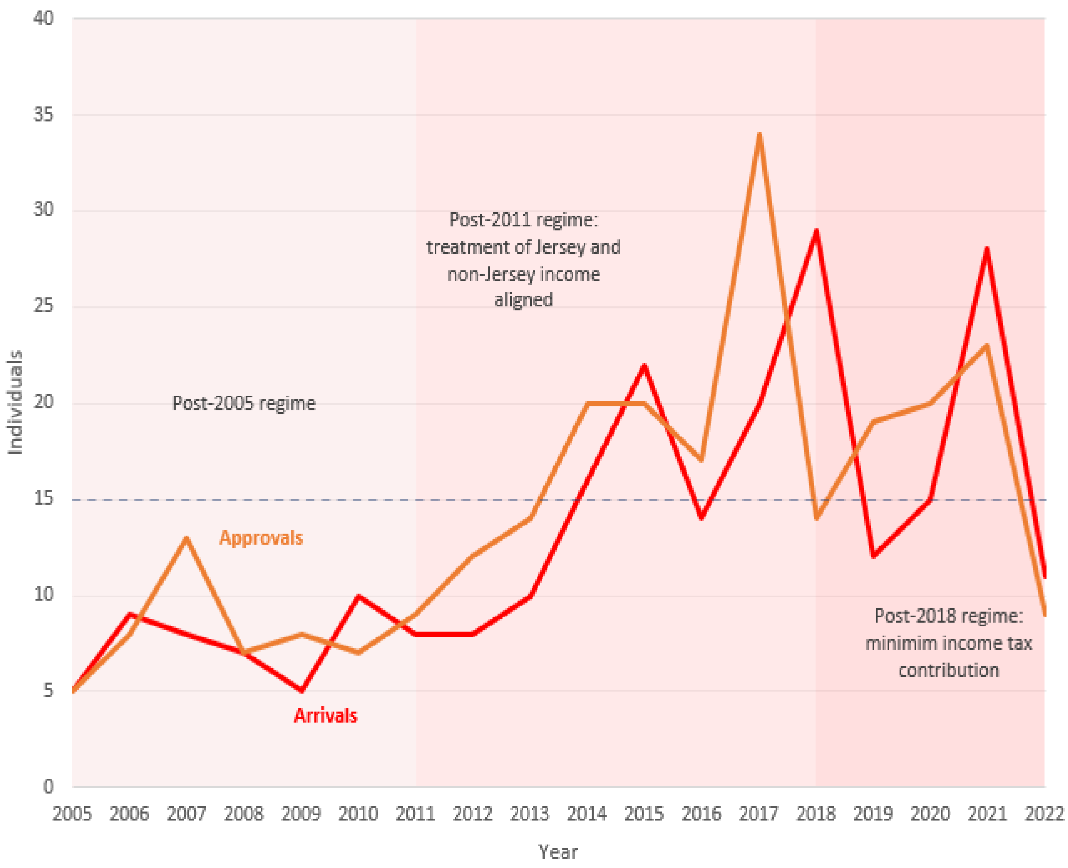
A. Personal income tax from High Value Residents by year, 2005 - 2020:

Year: Amount

2005: £7m
2006: £8m
2007: £9m
2008: £7m
2009: £11m
2010: £10m
2011: £10m
2012: £9m
2013: £11m
2014: £12m
2015: £10m
2016: £13m
2017: £15m
2018: £17m
2019: £22m
2020: £21m

See tax digest for further information: (see link, page 8): [ID Revenue Jersey Statistical Digest 2018 to 2020.pdf (gov.je)]

B. Number of approvals and arrivals in Jersey, 2005 – 2022



Note: the dotted horizontal line shows the target of 15 arrivals per year.

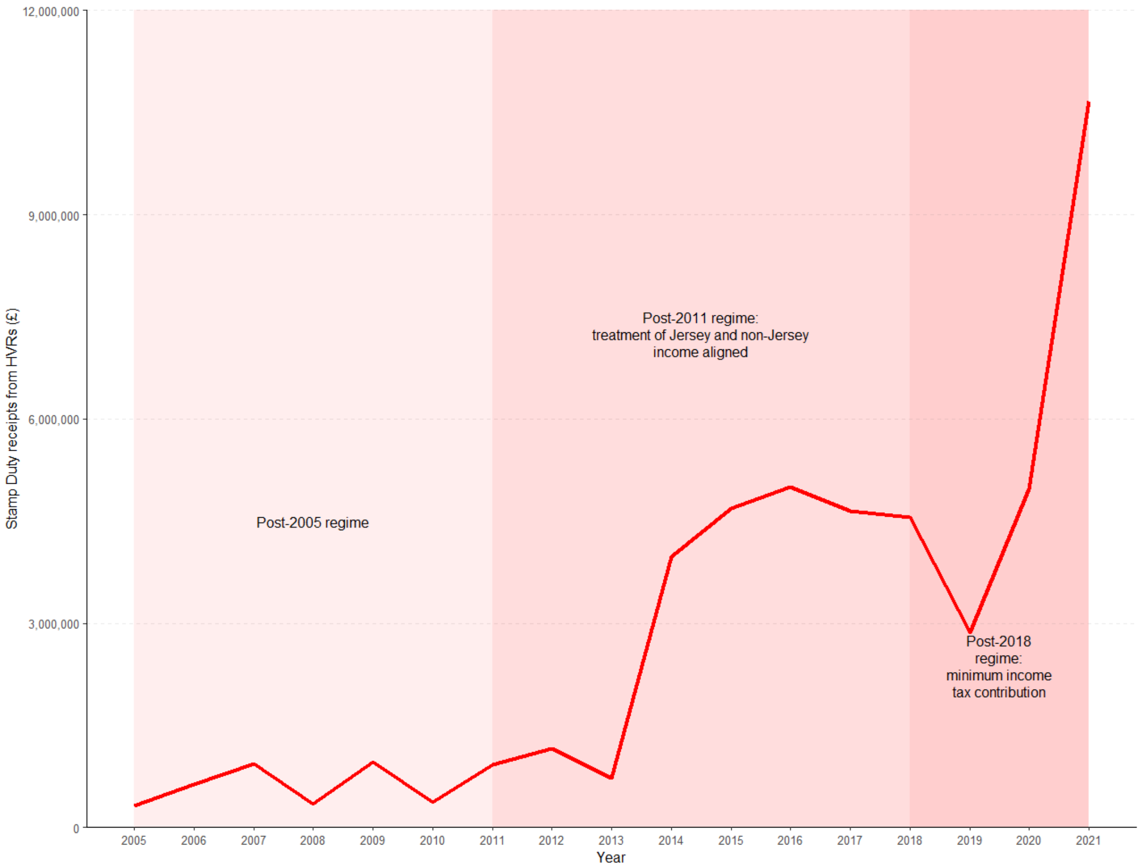
Year	Approvals	Arrivals	Departures
2005	5	5	-
2006	8	9	1
2007	13	8	1
2008	7	7	-
2009	8	5	1
2010	7	10	1
2011	9	8	-
2012	12	8	-
2013	14	10	2
2014	20	16	1
2015	20	22	4
2016	17	14	2
2017	34	20	1
2018	14	29	3
2019	19	12	2
2020	20	15	7
2021	23	28	7
2022	9	11	5

C. Table of properties purchases by year – number, total value, average value, 2004 - 2022

Year	Number of properties purchased	Total Value (£millions)	Average Value (£millions)
2004	1	1.2	1.2
2005	5	10.7	2.1
2006	9	21.2	2.4
2007	10	31.4	3.1
2008	3	11.7	3.9
2009	8	32.1	4.0
2010	5	12.3	2.5
2011	6	30.6	5.1
2012	8	29.2	3.7
2013	9	23.5	2.6
2014	27	98.7	3.7
2015	18	84.5	4.7
2016	22	96.8	4.4
2017	29	95.1	3.3
2018	23	83.5	3.6
2019	14	63.9	4.6
2020	22	76.9	3.5
2021	31	145.0	4.7
2022	14	88.6	6.3
Total	264	1037.0	3.9

Note: 2(1)(e) residents are only able to purchase on property for occupation as their principal place of residence. The above statistics show the permissions granted. In addition to the above, 2(1)(e) residents, like anyone else in the world, can purchase share transfer properties and can act as property developers (properties must be sold on completion). No information is held on their wider activity in the property market.

D. Stamp Duty receipts associated with HVR residency purchases, 2015-2021



E. Age Profile of applicants

Age Profile of applicants, 2014 – 2022

<39	13%
40-49	26%
50-59	31%
60-69	18%
>70	12%

Mean Age of applicants by version

Version	Mean Average Age
V1&2	56
V3	55
V4	53

F. Place of Origin of applicants, 2013 - 2022

Antigua	<5	<5%
Australia	<5	<5%
Barbados	<5	<5%
Cayman	<5	<5%
Dubai	<5	<5%
England	134	69%
France	<5	<5%
Germany	<5	<5%
Hong Kong	7	4%
Isle of Man	<5	<5%
Luxembourg	<5	<5%
Monaco	<5	<5%
Morocco	<5	<5%
New Zealand	<5	<5%
Northern Ireland	<5	<5%
Poland	<5	<5%
Portugal	<5	<5%
Russia	<5	<5%
Scotland	6	3%
Singapore	<5	<5%
Spain	<5	<5%
Switzerland	12	6%
The Netherlands	<5	<5%
USA	<5	<5%
Total	195	

G. Chronology of relevant statutory regimes

1970s - 2004: No statutory arrangements around tax contributions

2005: Introduction of statutory regime (Version 2):
Minimum expected annual liability of £100,000 based on income projections (not required by Law)
the first £1 million of foreign (i.e., non-Jersey) income at 20%;
the next £500,000 of foreign income at 10%;
the balance of foreign income at 1%;
all Jersey's source income at 20%.[2]

2010: Update of statutory regime (Version 3):
Taxed aligned for the treatment of Jersey and non-Jersey income for HVRs:
The first £625,000 of the HVR's income is subject to tax at 20%

[2] Powell, C. (2010), 'History of the 1(1)(k) policy'. Available at https://www.gov.je/SiteCollectionDocuments/Tax%20and%20your%20money/R%20HISTORY%20OF%20THE%2011k%20Policy%2020101005%20TandR.pdf.

Any income above £625,000 subject to tax at 1% (though income from property located in Jersey is not subject to the preferential tax rate). [3]

<u>2012:</u> Introduction of £2,500 fee for a registration card

<u>2017:</u> Increase in registration card fee to £7,500

<u>2018</u>: Introduction of statutory minimum tax requirement (Version 4):

£145,000 required by Law, even if income insufficient to generate that level of liability. To be revalorised for inflation every 5 years

<u>December 2022</u>: Revalorisation of Version 4, rising minimum tax requirement from £145,000 to £170,000.

<u>May 2023</u>: Version 5 lodged for debate, inclusive of increase in minimum requirement for new applicants to £250,000.

[3] States of Jersey (2016), 'Post-Implementation Review of HVR Regime applicable since July 2011'. December 2016. Available at https://statesassembly.gov.je/assemblyreports/2016/r.130-2016.pdf.