

**QUESTION TO BE ASKED OF THE PRESIDENT OF THE FINANCE AND ECONOMICS
COMMITTEE ON TUESDAY 18th NOVEMBER 2003,
BY DEPUTY G.P. SOUTHERN OF ST. HELIER**

Question

Will the President inform members in relation to the reduction of tax allowances for wealthy residents, the introduction of sales tax, and PAYE –

- (a) when the Committee expects to finalise its proposals in respect of each of these matters?
- (b) how much additional revenue the Committee expects to raise by each of these three measures? and,
- (c) whether each of these three measures will be ready for implementation in 2005?

Answer

- (a) As the Budget Book 2004 made clear, the Committee intends to launch a consultation next year on the proposals to phase out allowances for those with pre-tax income of £80,000 or more. I do not wish to preempt the results of that consultation period but I can confirm that it is the Committee's intention to introduce legislation in next year's Budget which may take effect from the year of assessment 2005.

In relation to PAYE, the Committee's aim in the short term is to bring in a simplified form of PAYE relating to the construction industry, as introducing a system across the board would be much more complicated and have considerable staff and resources consequences at the Income Tax Office. I also ought to make it quite clear that PAYE is not a solution for the problem that will face us in 2009 but that it is something we are looking at to further increase equity in the tax system and for reasons of good governance. However, we must not lose sight of the fact that any form of PAYE puts a considerable administrative burden on employers, who will effectively be acting as unpaid tax collectors. PAYE needs consideration and careful thought but I anticipate a decision being made early next year.

As members will be aware, the Island faces a potential taxation revenue shortfall of up to £80-£100 million in the coming years. In addressing this issue the Committee is currently considering various packages of tax reform measures. Much research work is currently being undertaken and it is hoped that the results from this work will be available early in the new year, soon after which we hope to present a range of options, including the Committee's preferred tax reform 'package', for consideration.

- (b) It is estimated that reducing and removing allowances for those with pre-tax income of £80,000 or more would generate approximately £8 million. It is estimated that a simplified form of PAYE relating to the construction industry would generate between £1 and £2 million whilst a comprehensive PAYE system could yield up to £5 million.

With regards to the potential revenue generated from the possible introduction of a sales tax, I wish to emphasise that no decisions have yet been taken on the package of tax reform measures to be proposed. In terms of the potential revenue a sales tax could raise, this could be anything from zero to up to £100 million depending, of course, on the rate of the sales tax to be applied. The gross yield would be in the region of £8.5m per 1% depending on the level of exemptions, such as food and children's clothes.

The Committee does not believe, however, that a single measure, particularly one such as a sales tax/VAT, should be used in isolation to raise the possible tax revenue shortfall. As I have previously stated, the Committee believes that a 'package' of tax reform measures is preferable.

- (c) It is expected that the proposal to reduce and remove allowances could be ready for implementation at the very earliest for the year of assessment 2005 and yield additional tax revenues in 2006.

The earliest date that a simplified form of PAYE could be introduced, because of all the significant administrative, operational and resource consequences of such a system, would be from 1st January 2006.

Should a sales tax be proposed as part of a 'package' of tax reform measures it could not be ready for implementation during 2005. The possible introduction of a sales tax would require a lead time for introduction of between 3 and 4 years.