

**WRITTEN QUESTION TO THE PRESIDENT OF THE FINANCE AND ECONOMICS COMMITTEE
BY DEPUTY G.P. SOUTHERN OF ST. HELIER**

ANSWER TO BE TABLED ON TUESDAY 29th NOVEMBER 2005

Question

Would the President inform members –

- (a) what mechanisms, if any, are to be put in place for new entrants to Jersey income tax who, under ITIS, will effectively be paying tax on current earnings, to be on the same footing as those already paying income tax based on the previous year's tax? and,
- (b) will the proposals put an end to the situation whereby those who retire or lose a job find themselves owing a full year's tax bill, and if not, explain the reasons why?

Answer

- (a) This information is already in the public domain. It is explained in the answer to question 15 on the 'ITIS – a brief guide' and in the final paragraph of the basis of assessment section of 'ITIS – an explanatory leaflet' both available on the Income Tax Office web-site www.incometax.gov.je.

For the sake of completeness, however, I can confirm that the ITIS legislation, which was approved by the States Assembly at the time of the last Budget and which can be examined at Article 41H of the Income Tax Law, does have special provisions for new entrants to Jersey income tax.

These individuals will not have a local tax bill to pay for the previous year. So their effective rate will be calculated using an estimate of their liability based upon their personal circumstances and a projection of their annual income.

It is very important, therefore, that these individuals notify themselves to the Comptroller when they enter the labour market so as to get an effective rate that applies to their personal circumstances and, also, to promptly notify the Comptroller of any material change in their income or circumstances to determine if their effective rate should be altered. If they do not, they may find that they are paying tax at too high an effective rate.

I can also confirm that new entrants who register with Social Security are now being issued with Income Tax Registration Forms so as to get an effective rate appropriate to their circumstances from the Income Tax Office.

Such new entrant employees who remain permanently resident in Jersey will transfer on to the established basis after 7 years, special transitional arrangements applying in years 6 and 7. In essence, the effective rate for years 6 and 7 will be at half their usual effective rate, allowing them to be absorbed into the mainstream tax deduction scheme without too much difficulty in the 8th year.

- (b) Those who retire will have the option to increase their effective rate whilst still in employment thereby building up a tax credit which can be used to alleviate the tax bill they get in their first year of retirement and which relates to their income whilst in employment. That is the advice being given by the Comptroller to those who know they are going to retire and if that advice is followed nobody will find themselves owing a full year's tax bill on retirement.

This adds a much greater degree of flexibility to the planning of those who are going to retire, as under the current system this option is not available. So ITIS is a major move in the right direction for those who retire and find themselves with a large tax bill from their previous year's employment income.

On the other hand, those who lose their job without any redundancy payment will be considered to be a

genuine hardship case by the Comptroller and a solution will be found that will satisfy both the taxpayer and the Comptroller as to payment of the tax that falls into arrears.

ITIS is not a PAYE system but a simplified form of local tax collection and, as such, it cannot cover every conceivable situation that can arise in relation to a particular taxpayer's circumstances. It will not be able to cater, therefore, for established taxpayers paying in arrears who lose their jobs and who are liable to tax for that year due to their earnings. But the Comptroller will be sympathetic to genuine hardship cases, thereby following a long established practice at the Income Tax Office.

I also ought to add that introducing a current year basis of PAYE as in the United Kingdom was considered by the Committee. This would solve the problem of those who have a tax bill to pay when they retire or when they lose their job, but it was rejected as being too complex and having very significant administrative costs for both employers and the Income Tax Office. Furthermore, moving to a current year basis under a PAYE system would require existing taxpayers to make an extra 'catch up' payment to cover their arrears of tax in addition to their current year tax liability.