

**WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES
BY DEPUTY G.P. SOUTHERN OF ST. HELIER**

ANSWER TO BE TABLED ON TUESDAY 17th JANUARY 2006

Question

Will the Minister inform members what justification lies behind the decision to maintain the system of payment of income tax in arrears under the new ITIS scheme, and in particular explain –

- (a) what consideration, if any, has been given to alternatives to the '*special transitional arrangements applying to years 6 and 7*', as outlined in answer to a question on 29th November 2005, as former President of the Finance and Economics Committee, wherein the taxpayer has a reduced tax bill to bring them into line with others paying tax on the previous year's income, and if not, why not?
- (b) what, if anything, has prevented the adoption of a system, whereby all new entrants to Jersey income tax continue to pay tax on current income?
- (c) what '*complexity and significant administrative costs*' are involved in a transfer to PAYE, as outlined in answer to a question on 29th November 2005, as former President of the Finance and Economics Committee?
- (d) what difference, if any, in tax returns is produced in the long-term (over 50+ years) between a 'tax break' in years 6/7 for all new entrants to ITIS, as proposed, or a gradual phasing out of all those paying tax on past income? and,
- (e) whether any legal advice has been received on this subject?

Answer

- (a) The only alternative considered was for all new entrants to remain on a current year tax paying basis throughout their working lives. It is considered that would be inequitable as well as leading to the possibility of a challenge under Human Rights legislation. For example, under such a permanent 'dual system' a situation could arise where two brothers, one who had joined the workforce prior to the introduction of ITIS and the other who had joined after the introduction of ITIS, would be on two different bases of paying tax until they retired - even if all their other personal and domestic circumstances were identical. To prevent such inequality, and such a permanent 'dual system' for at least 40 years, and the possibility of a challenge under Human Rights legislation, the transitional provisions for years 6 and 7 were introduced. In his question, the Deputy refers to a taxpayer having a reduced tax bill during the transitional period. In fact, it is the effective rate that is reduced during these two years, and these reduced effective rates during the transitional period will collect the correct amount of tax which that individual is liable to pay. The individual in question does not escape or avoid any of his properly due tax liability. In addition, the introduction of PAYE, whether gradually, as envisaged by the Deputy, or instantaneously, will create a system which is more complex and administratively difficult than the ITIS system, which is a simplified form of local tax collection. For all these reasons, it was decided to have the year 6 and 7 provisions for new entrants.
- (b) The increased complexity and administrative costs that would be incurred in the gradual change to what would effectively be a PAYE system, albeit taking some 40 years during which a 'dual system' would be in operation, would add to administrative costs both at the Income Tax Office and employers.
- (c) When a PAYE system, such as that in the U.K., is in use, the moment any change occurs in a taxpayer's personal circumstances, that taxpayer will immediately contact the Income Tax Office to have a new and revised tax coding issued so that he pays less tax the following week or month. In other words, an instantaneous response would be required from the Income Tax Office to ensure a revised coding was

issued within the week. That does not happen with ITIS as a taxpayer is paying the tax for the previous year. With PAYE, therefore, the Comptroller of Income Tax would need many more staff than he currently has to handle all that constant and significant additional workload. Even more importantly, employers would have a significant additional administrative and resource cost placed upon them, at a time when Government is trying to reduce red tape and other constraints on business. In addition, the shift from the old system of paying tax in a lump sum at the end of the year to a PAYE system would require taxpayers to pay two tax bills in one year. This is because they would be paying tax from January on a PAYE system but would also have to find the money to pay the previous years tax bill in the September of the first PAYE tax year. Finally, it was not thought appropriate to have a 'dual system' of existing and new taxpayers in existence for some 40 years under ITIS. For all these reasons, PAYE was rejected by the former Finance and Economics Committee.

- (d) There is no 'tax break' during the transitional years 6 and 7 as a 'tax break' suggests a taxpayer has escaped or avoided a tax liability properly due. All that happens is that the effective rate is reduced over these transitional years to collect the tax over a longer period of time thereby allowing the transition to take place. The taxpayer does not escape or avoid any of his properly due tax liability. The Comptroller will be happy to explain the matter further, with examples, if the Deputy cares to contact him. I am unable to answer this question, therefore, as the premise on which it is based appears to be inaccurate.
- (e) No formal legal advice has been obtained on this subject as the former Committee considered the options open to it and made a decision based on the arguments for and against both systems.