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

ANSWERS TO BE TABLED ON TUESDAY 3rd JULY 2007

Question 1

When the Minister set a cap on mortgage tax relief in 2003 for the 2004 budget, the average price of a three bedroom house was £333,000; it is now £381,000 and rising. Will the Minister inform members whether he has under consideration any of the following actions –

(a) raising the cap in line with inflation, or

(b) raising it in line with average house price inflation, to around £350,000 or

(c) leaving the cap where it is, thus generating additional tax revenue, or

(d) reducing the cap, as occurred in the UK during MIRAS (Mortgage Interest Relief At Source) reform?

Will the Minister further indicate what tax revenues might be generated or lost from any of the above actions?

Answer

I have no plans to amend the cap from its current £300,000 limit**.**

From an economic standpoint there is little reason to consider raising the cap for mortgage interest relief. Firstly, it will have the effect of undermining revenues, much in the same way as a tax cut, and this would not be prudent at a time when the economy is performing very strongly and we are predicting budget deficits in future years. Secondly, at a time when the housing market is clearly tightening, reflecting the strength of our economy, to increase the cap would only serve to add to house price pressures in the Island.

Although the Comptroller of Income Tax has details on the Income Tax Returns delivered to him of the amount of a particular mortgage and the interest payable on it, he does not contain that information on his computer system. So he would have to go through every single personal taxpayer file to determine all those with mortgages on principal private residences and then estimate, through that exercise, the yield from increasing or decreasing the £300,000 cap. That would take a huge amount of effort and resource. As I have no plans to amend the cap, that is not a resource I am prepared to expend, particularly as the Comptroller and his staff are fully occupied doing their normal operational and administrative tax work. However, from next year, 2007 year of assessment, when 20% means 20% is operational, details of the mortgage amount, the £300,000 cap and the total interest paid by individual taxpayers will be placed on the computer system, so the tax yield / cost of such 'cap movements' may very well be available in the future through a new tax modelling programme.

Question 2

Does the Minister consider that property owners in the buy-to-let market enjoy a tax advantage over those buying to occupy under Jersey tax rules and if so, would he consider the introduction of measures to remove such inequities in treatment?

Answer

Where a person acquires land or buildings for the purpose of letting that property on commercial and open market terms, full tax relief is granted for the interest payable on a loan incurred for the purpose of buying that land or property. This relief is available to all Jersey taxpayers, and is the same tax treatment as given to all interest payments incurred for a commercial purpose, including that of real property investment holding. There is no limit on the relief available on borrowing for commercial purposes. This policy ensures that employment, commercial and business activities continue to prosper.

Mortgage interest tax relief for the purchase of a principal private residence is restricted to the interest payable on a mortgage up to the value of £300,000, thereby assisting those in the lower to middle income brackets but denying relief to higher income earners. I do not consider this inequitable, since the circumstances are different.
I have no plans to amend this position.