

**2.17 Deputy T.M. Pitman of the Minister for Treasury and Resources regarding the proposed increase to 5 per cent of G.S.T. and its likely impact on ‘middle earners’:**

Given that the Minister has repeatedly resisted implementing a progressive taxation system, whereby those who have a greater income would also be subject to a further increased rate, will he clarify his justification for this, particularly in the light of the proposed increase to 5 per cent of G.S.T., and its likely impact on middle earners?

**Senator P.F.C. Ozouf (The Minister for Treasury and Resources):**

I think I need to correct the perhaps misinformation that is in the question. Our income tax system is progressive. Those on lower incomes pay a lower proportion of their income than those with higher incomes, which is the definition of a progressive tax system. In fact, the Independent I.F.S. (Institute for Fiscal Studies) Review by Sir James Mirrlees, advised last week it is the whole taxation system that needs to be progressive, not every single tax. The full package of measures in this year’s budget is also progressive, with the inclusion of a proposed new rate of social security contributions above the earnings limit. I am afraid to repeat again G.S.T. is much less regressive than the Deputy often accuses G.S.T. of being. My research indicates that Jersey G.S.T. is closer to being proportional. G.S.T. has a number of advantages as a fiscal measure. It is paid by everybody. It is wealthier people paying more, because they spend more and it does not undermine the competitiveness of the economy. Those who favour a higher rate of tax believe that we can tax the better off without any impact on the Island as a whole. I believe that this fails to recognise the mobility of business. We are in an increasingly competitive world. If businesses moved elsewhere then there would be a loss of jobs and tax revenue, which would leave a higher tax burden for the rest of the Island.

**2.17.1 Deputy T.M. Pitman:**

Perhaps we need a definition of progressive from the Solicitor General. Most middle earners are very happy that they pay tax while those at the bottom do not. Does the Minister not agree that it is time in that same spirit of fairness that those who earn a great deal pay a little more also? Because there is absolutely no evidence that they will all leave the Island. No evidence. Does he agree?

**Senator P.F.C. Ozouf:**

The Deputy asks questions very regularly in question time about this issue of a progressive tax system. He again in his supplementary indicates that Jersey does not have a progressive tax system. I urge the Deputy to read the data that has been published within this year’s budget and previous budgets which shows clearly that Jersey does have a progressive tax system.

**2.17.2 Deputy G.P. Southern:**

Does the Minister fully support the graph produced by the Council of Ministers on page 9 in response to my proposition P.154, which clearly shows a reducing rate of total tax paid for those earning over something like £43,000 per year? How can he justify the statement that we have a progressive tax situation when for those earning that much it is clearly not according to his data.

**Senator P.F.C. Ozouf:**

The data is clear. I have supplementary information from my own budget which shows the progressive nature of Jersey's tax system. I am not aware of the immediate graph that he is talking about. In any event, he should be supporting the budget measures, which have a contribution for incomes above £44,000, which makes an already progressive tax system more progressive.

**2.17.3 Deputy G.P. Southern:**

Supplementary? In that case, is the Minister completely unaware of the paper produced by the Council of Ministers? Presumably he was there, he signed-up to it; it must be the research of his department. I will refer him further to page 7 which again shows a reducing rate of tax for Jersey.

**The Bailiff:**

No, no. A brief supplementary, Deputy. Deputy, if I do interrupt, please stop speaking. That is what Standing Orders are about.

**Deputy G.P. Southern:**

I do apologise, Sir.

**The Bailiff:**

Can you just keep your question down to the supplementary of what it was before.

**Deputy G.P. Southern:**

I was just getting there, Sir. How can the Minister for Treasury and Resources repeatedly assert that we have a progressive tax system when the figures clearly show otherwise?

**Senator P.F.C. Ozouf:**

I am looking at the graph myself and I, of course, have been part of this research, because it is a Council of Ministers' comment and indeed I was delegated to sign-off the comment. I will study the graph, but it quite clear of exactly what it means. I am not immediately jumping to the conclusion of it. Basically our tax system is progressive. He is using his opportunity for a graph, which is being made ... I think the difference is the fact that it includes social security contributions, to some extent. I will come back with a proper answer to the question. I maintain the position that Jersey's tax system is progressive.

**2.17.4 Deputy M.R. Higgins:**

The Minister gave the impression that he has done additional research over and above what he has supplied to Members with the budget proposals, would he share all that written extra research about the progressive nature of the tax system with Members?

**Senator P.F.C. Ozouf:**

I would encourage the Deputy to read all of the documentation published in the ...

**Deputy M.R. Higgins:**

I mean in addition to. You have indicated there is more that you have done.

**Senator P.F.C. Ozouf:**

I have nothing further to add, apart from the information which is fully and completely put into the public domain. I would also encourage the Deputy to read the

Sir James Mirrlees report on the principles of taxation and these issues which we are discussing, which back absolutely the Treasury's position in relation to issues like exemptions of G.S.T. and the rest of it.

**2.17.5 The Deputy of St. Mary:**

The Minister constantly makes reference to this notion that higher earners will leave the Island in droves if the tax system is adjusted to extract a bit more tax from them. Can he tell us how this could be so, in the light of the fact that Jersey has one of the lowest tax burdens in the world?

**Senator P.F.C. Ozouf:**

I respect the Deputy's view that he believes in a higher rate. He believes that there would not be an impact on the Island's economy. I would argue that our financial services industry which employs about 12,500 people pays for the large proportion of public services needs to be competitive. Competitive jurisdictions, such as Guernsey and the Isle of Man, do not have high rates of tax. If we introduce one - and if I may say if there is continual speculation of this Assembly introducing one - we will lose business. We will undermine the competitiveness of our economy and we will all end up paying higher tax.

**2.17.6 The Deputy of St. Mary:**

Supplementary. I was not talking about the financial service industry, I was talking about individuals. His claim is that the individuals will leave the Island. **[Approbation]** The fact is that all other jurisdictions, including Switzerland and Luxembourg, have far higher rates of national wealth given to public sector expenditure. So his claim is hard to justify and I would like him to justify it.

**Senator P.F.C. Ozouf:**

The financial services industry which I referred to is the economic generative area of the economy. It is that which is most sensitive to international comparison and competition. I understand the Deputy's comments in relation to Luxembourg and Switzerland, but those are not our direct competitors in terms of the offshore world. Our direct competitors are Guernsey and the Isle of Man and jurisdictions such as that. They have no plans, there is no discussion that I am aware of, of introducing a higher rate of tax, which I repeat I believe would be damaging Jersey's interests.

**2.17.7 Deputy M. Tadier:**

There seems to be a certain amount of cognitive dissonance coming from the Minister for Treasury and Resources. Does he accept that in his own consultation report he did say that G.S.T. was regressive, but he said mildly regressive, but regressive nonetheless? To solve the confusion that seems to be prevailing in the Assembly as to what the meaning of the word progressive is, will the Minister for Treasury and Resources tell us what he means by progressive in the context of taxation?

**Senator P.F.C. Ozouf:**

Since the publication of the report in the summer where we consulted on tax - and I have been watching very carefully the debate in the U.K. - the independent I.F.S. report indicated much about G.S.T. and Value Added Tax. I have drawn from that in terms of their own recommendations. Indeed that report last week, issued to the U.K. Government and other governments, suggested that the U.K. should do away with exemptions and instead put the income into the income support system. This is what

we are already doing. The income support benefit which is being put forward in the U.K. is a copy of what we already have in Jersey. That is the definition that I use of progressive. I would urge, quite seriously, the Deputy and other Members to read that report.

**2.17.8 Deputy T.M. Pitman:**

I will try again really. Could the Minister tell me what evidence he has got that if we increase the tax rate slightly high earners would leave? Because in my recollection he has already stated in the States before that there is no evidence. Could he please answer that question and tell us where that evidence is?

**Senator P.F.C. Ozouf:**

The evidence, I would argue, is in simple judgment of the reality of the situation. The Deputy wants me to say: "Yes, it would be fine to introduce a higher rate of tax and that our economy, particularly financial services, would not be affected." I am afraid the Deputy and I are going to have to agree to disagree. I take feedback. I listen to the industry. I look at international comparisons and my judgment is a high rate of tax would lead to a loss of business and a detrimental effect to the Island economy and I am sorry but we are just going to have to agree to disagree on that.

**The Bailiff:**

Very well, then we come to the question that the Deputy of Grouville will ask of the Minister for Transport and Technical Services.

[11:30]