

### **3.17 Deputy M. Tadier of the Minister for Treasury and Resources regarding the 20 per cent tax rate:**

Given that the Minister has in the past said that the 20 per cent tax rate is sacrosanct, will he advise what other tax model, if any, he also sees as sacrosanct and what the logic is of including such an item for possible amendment in the current Green Paper on taxation proposals?

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

I have been a strong supporter of Jersey's long standing 20 per cent rate of tax because of the stability and the certainty that it brings the Island and the reputational benefit it brings. In fact, the mere proposal of changing the 20 per cent rate of tax attracted headlines in the *Financial Times* for 2 days last week. I am concerned and remain so that - and the Green Paper points this out - a higher rate of tax could mean that higher earners in the Island would have a real incentive to move elsewhere and that businesses and individuals would relocate to other places. Not the United Kingdom but other places that we compete with and which would be a negative effect on the economy. If this were to happen, and this would affect all Islanders, not just high earners, that would be bad. However, the option of a potential 30 per cent rate of tax is included in the consultation because the Council of Ministers want to hear what the evidence is, if that were to happen. We want to hear from people and businesses that would be directly affected and what the consequences would be. Only then would I be in a position to recommend to the Council of Ministers, and ultimately this Assembly, the best way to raise personal tax is to address the part of the structural deficit that will need to be dealt with by taxation and in a way that is least damaging to the economy.

#### **3.17.1 Deputy M. Tadier:**

The Minister started off by giving us a whole host of reasons for why the 20 per cent tax rate should not be changed; stability, *et cetera*. Then he goes on to say: "But we will nonetheless include as one of the options ..." The first part of the question still needs to be answered, I believe, about what other elements of Jersey's tax model he also sees as sacrosanct.

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

Well I did not answer the question because I do not think there is necessarily anything that I have said in the past that should be sacrosanct. If the Deputy wants to draw me out then clearly I think that a 10 per cent rate for financial services is something that is very important - a tax neutrality - but the underlying business activities are very important; delivering tax neutrality in terms of having a zero rate is our way of delivering tax neutrality in the absence of double taxation agreements, *et cetera*. So if drawn, I can put other matters to the Assembly but it is the 20 per cent I previously said is sacrosanct, so I have made my views known.

#### **3.17.2 Deputy T.M. Pitman:**

The Minister used the word "evidence", I believe. Surely, I hope you would agree with me, if as a very high earner I respond to this document and say: "If you increase my tax I will leave." That is not evidence, it is just an opinion. It is just self-interest. How can that be classed as evidence, with due respect?

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

Well of course as a member of Scrutiny I would imagine that Deputy Pitman knows what evidence is versus opinion. So I am very clear that certainly, for example, competitive evidence would be clear, a clear statement that the jurisdictions that we compete against have absolutely no intention of changing their 20 per cent tax rate and they would be seeking to take businesses and jobs that we would be charging a higher rate of tax. That would be evidence. A competitive landscape of other international financial centres and what their tax proposals would be, together with businesses, and I have to say that businesses are pretty forthcoming in the way that they can balance their own

interest in the balance of the national Island interest of Jersey. I welcome all of the comments that have been made from the business community; I want them to keep coming, keep giving me information that we can base good decisions.

### **3.17.3 The Deputy of St. Mary:**

On page 3 of the consultation document into private taxation there is a table which shows that if income tax is raised to the 30 per cent, economic efficiency and competitiveness would suffer a negative result. That appears to suggest that the Minister thinks that people take these location decisions of where to live entirely on the basis of the tax rate and I wonder if the Minister - and can he answer this - has any evidence that people would move and whether there are not other factors which influence people's decision of where to live and where to work, and has he and his team done any research on the literature to study how and why people take the decisions of where to live and work?

[16:30]

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

There are, as the Deputy quite rightly says, other factors in location business - the quality of regulation, the standard of living, the great restaurants, the fantastic place that Jersey is to live. They are all compelling reasons why you would come to Jersey and you would attract business to Jersey. But tax remains an important issue. I know that as a result of that *Financial Times* article, which I will, subject to data protection and making sure that it is all right to send around to Members, I will send it round to Members, I know that many of our competitors drew great glee from the statement that we were going to change our 20 per cent rate of tax. There were phones buzzing in the City of London and elsewhere that effectively were saying that they would be better locations in the longer term. There is a huge amount of evidence available to this, I hope the Deputy is not as complacent as to think that just because Jersey is a fantastic place we do not need to care about tax rates. It is an important competitive issue and we should be alert to it, but I am listening to the consultation to see how far we can push tax rates to achieve the legitimate aim of many Members to have a progressive tax system.

### **3.17.4 Deputy G.P. Southern:**

Is the Minister aware that one of his options in his Green Paper on taxation - the lifting of the ceiling on social security contributions - effectively kicks-in around £43,000 and, therefore, impacts upon those middle earners who are already hit by 20 means 20. Will he consider, given that he could raise £45,000 from lifting the ceiling altogether, to removing the double hit by removing 20 means 20 from this particular sector of our earners?

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

Deputy Southern confuses me because I just do not know who he thinks we can tax. I am afraid that this Assembly has to understand that if you want to raise £20 or £30 million of revenue then you have to target the majority of the income. If Members want to propose - and I will give them a working model because it is useful for decision making - if they want to lift, as was said earlier in question time, it is all right if the income tax raises £150,000 or £200,000 for a married couple, then the amount of revenue raised is going to be far less. There are no easy answers here. We have to understand that it is not other people that pay tax, it is all of us and it is going to be affecting little Jersey and no, we have had a debate about 20 means 20. I think 20 per cent rate of tax is a fair amount of tax to pay and that is why we have withdrawn the allowances, 20 should mean 20 over and above a certain limit.

### **3.17.5 Senator S.C. Ferguson:**

I have referred earlier to the fact that there are only 12,000 - 18 per cent - of the total, paying tax at the 20 per cent rate. Will the Minister issue some more basic information on that so that Members

can understand that something like 37,000 people who are paying income tax pay in the marginal rate, 12,000 pay in the 20 per cent rate and the balance of the 66,000 pay no tax at all because of our high low exemptions. Will the Minister issue a summary of these figures to Members so they can understand the parameters within which we are working?

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

I will try.

**3.17.6 Deputy M. Tadier:**

I am astounded, it is the Minister himself who has included this 20 per cent tax increase proposal in his Green Paper and he tries to turn it round on us as if we are the ones to blame. He has clearly just stated that the one thing he sees as being sacrosanct is the 20 per cent tax rate. So the question is, why was it included in the consultation paper and why were other elements which are not sacrosanct, such as the absence of capital gains tax and inheritance tax specifically, are not included in the tax proposal given that they are not sacrosanct?

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

Obviously things have changed and the reality of dealing with a deficit means that we are having to look at, and this Assembly is going to have look at, the whole range of taxes. I would have thought that the Deputy and supporters of higher rates of tax would have said it is a good thing to hear what the views of the public and business in competitiveness issues are and putting in the consultation. I thought the Deputy would criticise me if we would not have included in it. My views are known, they are on record, but I have to be completely open to hear the views of the Island community, which is something that many Members want to hear the evidence for. Capital gains tax: I am afraid it is the same thing as just proposing a higher rate of tax on incomes over £200,000. It raises very little revenue for a huge administrative cost. It undermines the financial services industry and Deputy Tadier, if he wants to come in and have some tutorials on the reality of taxation and what we could realistically raise, then he can come and spend some time in the Treasury in the summer.