

### **3.8 Deputy G.C.L. Baudains of the Minister for Treasury and Resources regarding the impact of the removal of income tax allowances:**

Would the Minister advise whether there are issues arising from the removal of income tax allowances and, if so, whether he intends to review the matter?

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

I understand the Deputy is referring to the effect on taxpayers of the phasing out of the allowance under 20 Means 20. The 20 Means 20 measures were introduced to withdraw the majority of allowances that were available to higher income earners in Jersey. These allowances were phased out over a 5-year period beginning in 2007 and ended in 2011. Following the introduction of 20 Means 20, there are a number of deductions and allowances that remain for higher rate taxpayers, deductions for pension contributions, deductions for employment expenses, child allowance, higher child allowance and the single parent allowance. However, these deductions and allowances are enhanced for marginal taxpayers who remain to have income exemption thresholds which are much higher. In other words, a tax-free allowance, child care tax relief, a deduction for mortgage interest tax relief and wife or civil partner earned income relief. In the period since the introduction of 20 Means 20, exemption threshold and some allowances have been increased by this Assembly in a number of budgets. The introduction of 20 Means 20 has, overall, resulted in more people paying at the marginal rate of tax. In 2006, 58 per cent of tax-paying population paid at the marginal rate; in 2011, 84 per cent of taxpayers now pay at the marginal rate. Therefore, while it is complicated, what this effectively means is that our tax system is more progressive under the new system than under the old one. Taxpayers who were on the 27 per cent tax marginal band continue to benefit from exactly the same personal tax allowances that existed prior to the introduction of 20 Means 20. Therefore, 84 per cent of taxpayers remain unaffected - to quote the Deputy - from the removal of tax allowances. I know this is complicated but I hope that tries to explain what happened.

#### **3.8.1 Deputy G.C.L. Baudains:**

I appreciate the Minister's response and apologise for the vagueness of my question. It has been suggested recently in the media that I think it is 45 per cent of Islanders are struggling financially and one in 20 are in extreme difficulty. It does seem to me that the current tax structure has a greater effect on those on low incomes than the high earners. I just wondered if the Minister has any plans to give greater flexibility for those with unavoidable expenses such as costs related to illness or care requirements.

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

That is a pretty wide question. We are going to have a budget debate over the next few days and we are going to be discussing and, no doubt, debating the merits of the marginal rate of tax cut that is proposed. I think one of the things that perhaps has not been explained - because this marginal relief system is complicated - is that in fact low and middle income families and the threshold for, effectively, the cut in of losing allowances for a single person is about £55,000; for a married couple it is around £85,000. Now, many people would say those are fairly high, middle income high amounts. The effect of these proposals in recent years has been to cut taxes for everybody below those measures. The exemption limits in 2008 when G.S.T. (Goods and Services Tax) came in was lifted by 6.5 per cent. That is a tax cut of about £300. The next year they were increased by 5 per cent. That is another tax cut of £300.

#### **The Bailiff:**

Minister, if I may say so, you were asked quite a narrow question; it has become quite a long speech.

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

Okay, I am just trying to explain that lower and middle income people are better off as a result of 20 Means 20. The people over those limits are effectively worse off.

**3.8.2 Deputy J.H. Young:**

The Minister's initial reply has said that marginal rate benefits lower income and middle income people. Would he not accept that on his department's own figures that whether or not a taxpayer is treated as a marginal taxpayer or pays at the full rate is more now under the system that he described more due to the allocation of allowances than the income? For example, would he accept figures from his own department show that the tipping point in some circumstances can be as high as £250,000 for a taxpayer receiving marginal relief, whereas in other circumstances much lower figures apply? Would you not accept that?

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

Yes, of course, all the figures from the Tax Department are exactly that and it is complicated. There are going to be some exceptional examples where somebody has put forward large pension contributions that they will pay at the marginal rate, but that does not really make a political point against the marginal system. The marginal rate of the tax system has been extremely effective in targeting and cutting the tax for lower and middle income people. Now, we can have a debate about what we think those lower and middle income people are. As I have explained, the tipping point currently is around £53,000-55,000 per single person. For a married couple with no mortgage, wife not working and no children, it is £85,000. Our marginal system has been incredibly effective at making sure people at lower and middle income do not pay any more taxes and the marginal rate is going to help them even more.

**3.8.3 Deputy J.H. Young:**

Would the Minister not accept that the marginal rate system has been extremely effective but in terms of raising money and would he not accept that what has happened is that the differential treatment of allowances between the 2 groups has resulted in major anomalies and unintended effects which do justify, and I think in his own report a review of the whole system to arrive at at least an independent taxation system with one system?

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

There were quite a few questions there. I counter no, no, no, and yes, we are reviewing it but for completely different reasons. The marginal rate system rewards people in certain circumstances. For example, working parents with child care costs get a tax-free amount; I think it is £12,000. The marginal rate system gives an individual a tax-free amount of £14,000 before they have any other circumstances of children. The only reason why we are reviewing the tax system is to modernise it to get into individual taxation. But individual taxation I hope will be introduced but keep the system of marginal rate which cuts tax for lower and middle income people.

**The Bailiff:**

We are going to have most of this week discussing these matters so I am going to call a halt to questions on this subject now.