

3.5 Deputy M. Tadier of the Minister for Social Security regarding an earnings cap for the 1% increase in Social Security/Income Tax contributions to fund long-term care:

Will the Minister confirm whether those earning over £152,232 will be insulated from the proposed 1 per cent increase in social security/income tax contributions to fund long-term care, and if so will he explain the reason for the decision?

Senator F. du H. Le Gresley (The Minister for Social Security):

Most Members will recall the debate in July 2011, which agreed to set up the new long-term care fund to provide ring-fenced funding for the new long-term care benefit. As explained at that time, the legal liability for the contributions into the new fund will be set out in the Social Security Law and will be clearly identified as long-term care contributions. My proposal is to set an initial long-term care contribution rate of 1 per cent. To be clear, this is not an increase in social security contributions, nor an increase in income tax. It is a new contribution specifically set up for long-term care costs. As has already been made public, long-term care contributions will be levied on both earned and unearned incomes. There will be a maximum level of contribution for long-term care and this will be based on the existing social security upper earnings limit, which as the Deputy reports, is £152,232 in 2013. Individuals with total income above this level will pay a maximum contribution based on this upper earnings limit which is increased automatically each year. As I have explained, the long-term care contribution will be a legal liability under the Social Security Law and, as with contributions to the Social Security Fund and the Health Insurance Fund, it is appropriate that a maximum level of contribution is identified.

3.5.1 Deputy M. Tadier:

The Minister has confirmed that it is neither a social security contribution or a tax, it is something in between. Will the Minister confirm that somebody who is earning £120,000 will be paying 1 per cent tax, and that somebody who earns twice the limit of roughly £300,000 will be paying 0.5 per cent tax, therefore the wealthier you are the lower your percentage contribution over and above the threshold?

Senator F. du H. Le Gresley:

If somebody had a gross income of £120,000 they would have an income tax assessment of £24,000 and in respect of the long-term care contribution, their contribution would be £1,200. In other words, £100 of the £24,000 you pay £5 totalling £1,200. In respect of higher incomes above the upper earnings limit, I have to repeat that the fact is that this is not a tax and it is a social security contribution, and it is right and proper that we use the upper earnings limit to cap the contributions.

3.5.2 Deputy M. Tadier:

The Minister says it is not a tax but according to the text on his own website it says that if you pay income tax directly the long-term care contribution will be shown as a separate item on your tax bill. If you are pensioner the long-term contribution will be shown as a separate item on your income tax bill. Does the Minister therefore think that it is reasonable for anybody in the future who looks at their tax bill and those paying I.T.I.S. (Income Tax Instalment System) who will find it as a separate item on their tax bill, is it reasonable for them to think that this is a tax, especially if they are paying up to 1 per cent when the most wealthy in our society will be paying far less than 1 per cent?

Senator F. du H. Le Gresley:

It is quite right and proper that as the tax officers working as an agent for the Social Security Department in collecting the contribution, that it will be identified separately on their effective rate notices, if they are earners and on any half-yearly bill submitted to non-earners such as

pensioners. The money collected by the Tax Department on our behalf will be paid across to the department on a monthly basis and will be kept in the ring-fenced fund for long-term care, and I think it is absolutely clear that we do need to collect money. I should just wish to add that the current cost to the taxpayer of long-term care provided in the Island is £33 million and that is due to rise threefold by 2044, to just under £100 million and therefore it is right and proper that we start to collect this money now otherwise we will face much larger tax bills in the future.

3.5.3 Deputy G.P. Southern:

The Minister is quite proud of the fact that he has introduced a bit of progressive taxation here. Yet he stopped short. Did he consider with this long-term care levy not putting a ceiling on it and letting it go through the ceiling he currently has so that 1 per cent means 1 per cent and 20 means 20?

Senator F. du H. Le Gresley:

We did not consider not having a ceiling for the very reason the Deputy has just described, because if we did that it would be regarded as a tax and, in fact, it is a social security contribution.

3.5.4 Deputy R.G. Le Hérissier:

Very much on the lines of Deputy Southern. Would the Minister not acknowledge that there was continuing controversy about the cap and it was only with great reluctance that his predecessors raised it? Would he not acknowledge that this was a perfect opportunity to remove the cap and to show that the much better-off in society were taking the strain, notwithstanding I should add, the excellent work he is doing with his project?

Senator F. du H. Le Gresley:

I can only repeat and keep repeating until I am probably blue in the face. This is not a tax and therefore taking the cap off - which is applied to all social security contributions - of the £152,000 would be incorrect. It is a social security contribution. We need, as I have repeated before, to collect the money if we are going to deliver a long-term care benefit. We need to start as soon as possible and my proposals required us to collect money from pensioners. There was no method to collect social security contributions from pensioners and therefore to combine our work with the work of the Tax Department using the tax thresholds and marginal rate was the best way and certainly the cheapest way regards administration, to collect money from pensioners who pay tax.

3.5.5 Deputy T.M. Pitman:

Give the Minister a chance to go a bit bluer in the face. For the members of the public listening, could the Minister just make it quite clear, with what Deputy Tadier has put to him, and forget the niceties, is this not a fact that what this amounts to is the better-off you are the less ultimately you contribute, whether it is a tax or whatever else we want to call it? If that is so, which I believe it is, does the Minister not think there is a tension there, because as he has pointed out, £33 million for long-term care, was this not an ideal chance to do something about making that burden a bit easier by some of those who are very wealthy, have huge incomes, contributing a bit more?

Senator F. du H. Le Gresley:

If Members are unhappy with the upper earnings limit for social security contributions they are quite welcome to bring a proposition to remove it. At the moment that limit is in place and that is why we are applying it to the new long-term care contribution.

Deputy T.M. Pitman:

He did not answer the question.

The Deputy Bailiff:

I think he did. Deputy Higgins.

3.5.6 Deputy M.R. Higgins:

First of all, I will make it quite clear, I am pleased that we did bring in some long-term care legislation and I commend the Minister for that. I am surprised however that if the cost is going to rise towards £90 million and £100 million, that we did not remove that cap because it is going to become unsustainable unless we do find additional income. However, can the Minister tell us whether the people who are earning over £152,000 will be able to claim assistance from the States for their long-term care anyway? In other words, they will still be able to claim but they are not going to pay the full show, is that correct?

Senator F. du H. Le Gresley:

Unlike perhaps other social security contributions, the qualifying for long-term care benefit is not based on your contribution record. It depends on your length of residence and the assessment of your care needs. Anybody who meets those 2 criteria on residents and care needs will be eligible to receive benefit but only after they have paid £50,000 of care costs in the first instance. So there is sort of a full-safe mechanism for higher income people and people with assets to pay the first £50,000. So there are 2 mechanisms there, other than the cap on the contributions, to make sure that the better-off in our society make the biggest contribution to the provision of long-term care.

[10:30]

3.5.7 Deputy M. Tadier:

Will the Minister for Social Security renew his commitment that he made during a Senatorial campaign, that he is committed to progressive taxation whereby those who earn the most in our society contribute proportionately more than those who are less well-off?

Senator F. du H. Le Gresley:

I do not think that is a question in my capacity as Minister for Social Security, but I can inform Members that as a Member of this Assembly I still remain of the view that a taxation is the right way forward and I have never changed those views, and if you look at my voting record I have stuck to that.