

2015.11.17

### **3.6 Deputy G.P. Southern of the Minister for Treasury and Resources regarding the rationale underpinning proposals to freeze tax thresholds for the over 65s:**

I shall try not to transgress any rules. I will try my best. Will the Minister explain the rationale that underpins his proposals to freeze the tax thresholds for over 65s, along with the short and long-term implications for tax revenues?

#### **Senator A.J.H. Maclean (The Minister for Treasury and Resources):**

As outlined in the draft budget statement I am committed to delivering the strategic priority of sustainable public finances agreed by this Assembly. I am therefore proposing to maintain the age-enhanced exemption thresholds in 2016. However, by not increasing the threshold in line with the estimated R.P.I. (retail price index), it creates a saving of approximately £200,000 per annum against the original income forecasts. In addition, the grandfathering of eligible claimants from the 2016 year of assessment is a measure to help maintain long-term sustainable public finances because the current enhanced exemption for those over 65 creates unsustainable costs in the long term as a result of the ageing demographic. It is estimated that a saving of an additional £300,000 per annum from 2019 will result from this change.

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

Is it not the Minister's intention to use fiscal drag to raise further revenues from this particular sector in society and is it not the case that, for example, in the period of the Medium Term Financial Plan \*where R.P.I. is assessed to be between 3.1 and 3.3 per cent, this will increase revenue from this sector by up to 13 per cent or so?

#### **Senator A.J.H. Maclean:**

I have already mentioned the potential revenues that could result from this measure as it stands at the moment based on the 2016 budget proposals. Clearly for future budgets there will need to be further consideration as to whether the gap is closed further between the standard exemption rates and the age-enhanced, which is the stated aim, but there are a number of factors that will influence that particular pace of change, and whether it falls exactly within the period the Deputy has referred to is difficult to say at this point.

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

And the first part of my question about the rationale? What is the rationale for this difference in rates in the first place and the rationale for taking it away?

#### **Senator A.J.H. Maclean:**

The Deputy asks a very good question. It is difficult to identify the rationale as to why we have this difference in the first place. All I can see from records is that it was in the early 1980s that an age-enhanced allowance was first introduced at a time when revenues for the Island were quite plentiful and presumably previous politicians decided that this was a measure they wished to take. It is argued that for long-term sustainable public finances that

one exemption threshold is more relevant. We do not believe it is particularly fair or justifiable or affordable, and that is probably the answer to the Deputy's question, in the long term with the ageing demographics; a point that I made in my opening remarks.

**3.6.3 Deputy M.R. Higgins:**

The Minister has said that it is his intent to reduce the enhanced allowance for the over 65s. In other words, it is a policy that is going to go after all those who have retired and who have spent or paid into the system a phenomenal amount of money and it seems to me that the intent is, over time and with other measures, to reduce quite considerably the amount of money that would be going to our elderly. Does the Minister not agree?

**Senator A.J.H. Maclean:**

Sadly I do not agree with the Deputy because the Deputy is not correct. We are not talking about reducing. What we are talking about, the measure for the 2016 budget, is freezing the exemption. It is not taking it away so it does remain in place, so what he says is incorrect.

**3.6.4 Deputy M.R. Higgins:**

The Minister knows full well that by freezing it is having the effect of reducing in real terms the effect of any allowance they get. It is a cut by any other means and the Minister should be ashamed of himself. I would say as well that the States are going on about the elderly population but at the same time we have already raised the age of retirement and there will be less people getting the retirement benefit because of that fact. Will the Minister acknowledge that his policies are wrong and definitely going to hurt these people? I know he will not but I would like to hear his excuse for it.

**Senator A.J.H. Maclean:**

I do not accept the point made by the Deputy and that will not be a surprise to him. In fact this is not, as he is alluding to, targeting pensioners. The State pension is increasing. There are measures within the Medium Term Financial Plan in support of pensioners within the Island, particularly the significant investment going into health, obviously the measures with regard to long-term care, and I would also point out with regard to this budget for 2016 that the R.P.I. for pensioners is effectively negative at the moment. So the measure is very small. It is not reducing the benefit that pensioners get and I think the question to ask, if I may, to the Deputy, is quite simply: is it reasonable to have an enhanced benefit for over 65s? Is it not better, bearing in mind that we have fairly generous exemptions altogether, that those are similar and simplified to make the tax system much easier?

**The Bailiff:**

We will take that as a rhetorical question. It is not the Deputy answering questions.

**3.6.5 Deputy M. Tadier:**

The problem is of course, I think we all agree there is an inherent unfairness in having a 2-tier system. It has been unfair for the last 35 years. It is only now for financial reasons that the Council of Ministers want to close this unfairness. Is it not the case ... and he will not even tell us what the time period is or what the long-term plan is to close that inequality. That is the issue. So I would ask the Minister: is it not the case that we are discriminating against 2 groups of individuals? We are discriminating on an age basis for those under 65, who do not get to

enjoy the same exemption thresholds. He smiles but that is absolutely correct. We are penalising the over 65s as of next year because they will see the quality of their spending power go down in real terms under this Government. So does the Minister accept that and accept Reform Jersey's argument that the only way to create fairness in this situation is to immediately uprate the under-65's component so that it meets with the over 65s straightaway and to do that through progressive taxation?

**Senator A.J.H. Maclean:**

I was smiling because it appeared, as the Deputy was talking, that he wanted it both ways. In fact he summarised at the end by simply saying that he would like to raise all the exemptions to the level of the age-enhanced. That comes back to my original point, a matter of affordability. What I would also say is establishing the fair and true level of where exemptions should be is probably a question that was more relevant. That is a matter that needs to be given some attention to ensure that we have got our exemption levels at the right point.

**3.6.6 Deputy M. Tadier:**

It would be helpful if at some point - and I am sure the Treasury Officer is working hard on that - to know what the figure is we are talking about for that. We would appreciate that as soon as possible so we can lodge our amendments. But does the Minister accept that it could be affordable if ... there is lots of money out there, there are lots of individuals with disposable income at the higher end, who could easily afford to make sure that those most feeling the pinch - we have seen the statistics released last week - that those at the lower end are feeling the pinch more and that the gap between the most well-off and the least well-off has increased. This is a perfect way to try to close that gap and have a more equal society.

**Senator A.J.H. Maclean:**

I am not entirely sure of the question there.

**The Bailiff:**

No, I was going to ask that.

**Senator A.J.H. Maclean:**

The Deputy is effectively supporting the policy of the Reform Jersey party I think to increase taxation to the wealthier in our society and redistribute that to those less well-off. I would first of all thank the Deputy and his colleagues for coming into Treasury. I know they had a meeting with Treasury officials recently and have asked a number of questions and some data is being collated. I think that is a helpful debate to have, to get greater understanding on both sides. It certainly makes it a more valuable debate, and we will see what those figures demonstrate and indeed the possible amendments that the Deputy may or his colleagues may seek to bring forward in the future.

**3.6.7 Deputy C.F. Labey of Grouville:**

That might be the Reform's proposals but this Government's proposal seems to be to increase tax to pensioners by freezing these exemptions. Pensioners will suffer. Their income will go down. Does the Minister for Treasury and Resources not accept that for those on fixed income, this was brought about because pensioners have to live on a fixed income. They

probably spend more time at home, spend more time on heating their homes, and this is another attack on pensioners and middle Jersey. People that have worked all their lives, have got some expectation of what their tax bill, what they have got to save, and this Government seems to thwart that every step of the way. Does he not accept that?

**The Bailiff:**

Is there a question?

[10:30]

**The Deputy of Grouville:**

Does he not accept that? [Laughter]

**Senator A.J.H. Maclean:**

No, I do not accept that. I am not sure that it is valuable to repeat the arguments as to the reason why; I have said it already this morning. We are not attacking pensioners, that is not the intention here. We are certainly not taking the age-enhanced exemption away, it is being appraised, and I do accept that point, but is it fair and reasonable that pensioners have a significant enhancement above everybody else? In fact, that was even the point of Deputy Tadier: that young people and other hardworking people in the Island are getting significantly less. We have increased the state pension, there is investment going into the health service; all of these measures are aimed at supporting the very valuable pensioners that we have in our society. I should point out to Members also that, of the pensioner population, which is estimated by the Stats Unit at around about 15,000 individuals, approximately 50 per cent, half, are not affected by this measure anyway; they fall below the tax threshold. But for those that are affected, I accept, there is in some respects an impact, and it is noted.

**The Bailiff:**

Thank you, Minister. Can I remind Members that the purpose of question time is to seek information on a matter or ask for official action, it is not a time for speeches and for debate of a proposition, because that comes at a different time, the purpose is to get information. The questions so far in relation to this topic have not seemed to be addressed to that objective at all. A final question from the Connétable of St. John and then the final supplementary.

### **3.6.8 The Connétable of St. John:**

The Minister said earlier that there was a £200,000 saving for the Tax Department by the removing of the age-enhanced allowance, but he also said that there was no impact on pensioners. Could he clarify that for me?

**Senator A.J.H. Maclean:**

I am not sure I said there was no impact on pensions, as the point is made that, by default, there is going to be a modest impact. What I was trying to point out was we were not reducing the age-exemption levels at all, but obviously from an inflation point of view, which is almost negative in the R.P.I. pensioner category for the current time, the impact was very low. The point about the £200,000 I was making was that at the time that the measure was being proposed, or the forecasts, I should say, were being put in place, there was an estimate in the

forecast on the assumption that age-enhanced exemptions would be increased along with the R.P.I. rate. By not doing that and by freezing it, by default there is a few hundred thousand pound saving compared to income forecasts that we had previously set.

**3.6.9 Deputy G.P. Southern:**

I will try not to wander off the topic. The Chief Minister mentions that he is very proud to make courageous decisions nowadays. Did this Minister forewarn the over 65s at the election that he was considering coming after their exemptions or not, and if not, why not?

**Senator A.J.H. Maclean:**

I have no idea if there was any specific mention of age exemptions or enhanced exemptions at the time of the election; I was not the Minister for Treasury and Resources at that stage. I made comment in my election material about the importance of the pensioner community within the Island and the value that they have added, and I stand absolutely behind that original comment.