

**Deputy M.R. Higgins of St. Helier of the Minister for Treasury and Resources regarding the Jersey taxation system:**

In what ways is the Jersey taxation system fair and equitable and what proposals, if any, does the Minister plan to bring to the Assembly to improve the current system and when?

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

It is very nice to see Deputy Higgins back in the Assembly having not been well at the last sitting. **[Approbation]** No tax system is perfect and fairness is clearly subjective. However, the Jersey tax system does seek to protect those on the lowest incomes. The generous allowances and reliefs offered means that the 30 per cent of the population with the lowest income pay no income tax whatsoever. Those same people do not pay long-term care contributions and will not pay the proposed health charge. We also protect the lowest earners from the burden of G.S.T. (Goods and Services Tax) on food through a combination of enhanced income support and the food cost bonus. The total tax burden falls significantly on highest earners. The top one-fifth of earners pay 70 per cent of all personal income tax. This demonstrates how our tax system takes the least from those with the lowest income while taking the greatest contribution from those with the highest income. I hope the Members can agree that this is the basis of a fair tax system. In terms of improving our tax system, there is a great deal of policy review work continuously being undertaken. As an example, we are fundamentally rewriting the tax compliance framework, the incentives, the sanctions, the penalties that affect taxpayers' behaviour and encourage full compliance. I announced in the last budget that Members will start to see measures coming forward in future budgets.

**3.1.1 Deputy M. R. Higgins:**

Supplementary? When I asked this question I had in mind the difference between tax paid by corporations and the tax paid by individuals. Now, we all know that since Zero/Ten came in no companies are paying tax, with the exception of financial service firms at 10 per cent and utilities at 20. All other companies are not paying tax and therefore the burden has been placed fully and squarely on personal income taxpayers. Does the Minister think that is right, is that the correct position, and if he thinks it is wrong when is he going to do something about it?

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

The Deputy is effectively talking about our Zero/Ten tax regime, one that took a number of years to develop and, I might add, in conjunction with other jurisdictions the Crown Dependencies all operate a similar tax system. It is a system that ensures that we maintained and sustained our essentially important financial services industry and what is now something like 13,000 jobs in the Island. I believe it is the right system at the moment, there are no intentions to change the Zero/Ten structure as it exists. It has served the Island well. No system, as I have said, is perfect but we are in a competitive world and we need to bear that strongly in mind for when considering how we apply tax.

[14:45]

**3.1.2 Deputy S.Y. Mézec of St. Helier:**

Is it not the case that this Minister for Treasury and Resources is intent on making our tax system more unfair because he intends to introduce stealth taxes at which the tax rate decreases the higher somebody's income is?

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

No, that is completely untrue.

### **3.1.3 Deputy S.Y. Mézec:**

The Minister has just said that is not true, that is true. The health tax, the rate reduces the more you earn, so he cannot stand up in this Assembly and say it is not true. That is perfectly true.

#### **The Deputy Bailiff:**

Is there a question, Deputy?

#### **Deputy S.Y. Mézec:**

Yes, of course there is, Sir. Why is the Minister for Treasury and Resources seeking to increase taxes on low and middle earners when he promised at the last election he would not do that? Why is he now standing in this Assembly and denying that the highest earners will not be asked to contribute proportionately the right amount?

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

In my opening remarks I made it clear that the highest earners in our community make this most significant contribution in terms of taxation. That is the case and that will remain the case. Broadly the measures that the Deputy is talking about, independently assessed, are progressive.

### **3.1.4 Deputy M. Tadier of St. Brelade:**

Of course, to put it the other way around, the highest earners in our society get the biggest tax breaks on their disposable income and under this Minister and under this Council of Ministers he is maintaining their tax-free status. Let us talk about the 20 per cent rate which only applies to the highest earners, everybody else in our Island is going to be paying up to 21 per cent.

#### **The Deputy Bailiff:**

Deputy, could you ask a question, please?

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

In fact, already is, so does the Minister agree that there is much scope for improvement when it comes to the Council of Ministers own mantra of low, broad, simple and fair taxes, especially on that last point of fairness?

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

Again, I made this point, I think, in my opening remarks. There are always opportunities to improve the taxation system, that is why there have been a number of reviews in recent years: 2010, 2012, 2014. There are a number of policy reviews under way as we speak. That is quite understandable because we are continually looking at ways in which we can improve the tax system, ensure proper compliance from it and improve the yield. That is as Members would expect.

### **3.1.5 Deputy M. Tadier:**

On that basis, given the fact that there is so much goodwill towards doing these reviews which are underway already in some cases, will the Minister be supporting the proposition that is on the table from his colleague on the right to have a proper review of our tax system, a wholesale review, and if not, why not?

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

I do not know for one minute why the Deputy thinks that the reviews undertaken to date have not been, as he puts it, "proper reviews". There have been some very good reviews undertaken and the policy work that continues to be undertaken, much of it internally in the Taxes

Department by an extremely professional, excellent team of individuals, does, when appropriate, call upon external advisers. I have had some very instructive discussions, together with the Chief Minister, during the course of the last week with Senator Ferguson and her proposition. Members will see, as a result, that there is a fairly detailed comments paper which has now come out, hopefully Members will have it with them, it was delayed. I apologise you did not have it at the end of last week but it did take additional time to work on, and in that you will see exactly what has been undertaken in terms of reviews in recent years, what is currently underway and, indeed, what we intend to do over the coming months and years to further review and improve our tax system.

### **3.1.6 Deputy G.P. Southern of St. Helier:**

The Minister for Treasury and Resources cannot possibly be allowed to get away with what he just said. Does the Minister not accept that as part of the Council of Ministers he is proposing a health charge which is capped at £164,000 and that above that cap the tax is in fact regressive? The more you earn above the cap, the lower your effective rate of tax is. Does the Minister not agree, that that indeed is an unfair tax system and is regressive?

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

The Deputy is perhaps seeking to have the debate that we are going to have on Deputy Mézec's amendment in the next few days. I am sure that all the arguments will be presented at that particular point. As I have said, independently, the health charge has been assessed and as such it is broadly progressive. The point that the Deputy makes over a capped level, yes, of course that is going to have a different impact but then again it follows the contributory system that operates within the social security system. It is the same system that was used for long-term care, and although the Council of Ministers recognises that the cap itself needs to be reviewed, and indeed is each year anyway, it started at £150,000, it continues to be updated from an R.P.I. (Retail Price Index) perspective and further work is being undertaken by Social Security with regard to that cap, and I have no doubt that it will be amended in due course. That is the proper way to do it based on the evidence.

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

Does the Minister not accept that above the cap his proposed tax, his Council of Ministers' proposed tax, is in fact regressive? The more you earn the less effective rate of tax you pay?

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

If you wish to look at it in that isolated way, of course, that would be a correct interpretation, but you have to look at the broad package of measures that are being proposed and therefore you get the context and the rationale behind the measures that have been presented.

### **3.1.8 Deputy A.D. Lewis of St. Helier:**

The marginal tax rate of tax is deemed as the States attempt at a progressive tax system. It is criticised by many as being complex and difficult for people to understand. Does the Minister accept this and, if so, what will he endeavour to do about this? Will he review it? This is a cumbersome system of tax, is he prepared to review this and does he accept that it is such?

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

I certainly accept that at face value our marginal relief system is complex, and there are many people who do not properly understand it. In fact, I have discussed with the Treasurer and the Comptroller that we are going to undertake some more briefings for States Members. Clearly the understanding among Members will be far greater than the main population, but it is not as well understood as it should be. I will tell Members, though, that it is the view of the relatively

new Comptroller of Taxes that in fact our marginal relief system is, as he describes it “the jewel in Jersey’s tax crown”. If you look at the average effective rate of tax from those within the marginal relief area, it is 10 per cent. It recognises the priorities of this Assembly and Members of supporting families and consequently ensures that ultimately it is a relatively fair system in terms of outcomes but not well understood sadly.

**3.1.9 Deputy A.D. Lewis:**

Supplementary? Is the Minister therefore saying that somebody that has earned over £130,000 and is still not paying a full 20 per cent in tax is acceptable?

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

It is impossible to look at individual cases. Yes, it can extend up to £120,000 or £130,000 depending on the circumstances of the individual. So if you have somebody, for example, with 4 or 5 children, a mortgage and so on, then of course it recognises the support to the family, and that is the fundamental building block of the system that was put in place in the first place. As I have said, the Comptroller of Taxes, with wide experience of not just our system now but also elsewhere, in particular in the U.K. (United Kingdom), thinks that broadly the marginal relief system is something that we should be proud of. Now, that does not mean that it does not need to be reviewed and I would say to Members that with independent taxation on the horizon the review or a review of the personal tax system will be necessary in order to further the independent taxation, which is targeted for 2020.

**3.1.10 Deputy M.R. Higgins:**

I believe a figure that was quoted by the Minister was that the top 15 per cent are paying most tax. The truth of the matter is the top 1 per cent or 2 per cent are paying less tax than the rest of us. Does the Minister not agree with that and think that it is totally inequitable?

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

There was a little bit of noise behind me, I did not quite catch his question. If he would not mind repeating it, it would be very helpful.

**Deputy M.R. Higgins:**

I said that the Minister said in his answer, I believe, said the top 15 per cent are the ones who are paying most of the tax. The truth of the matter is the top 1 per cent or 2 per cent are paying considerably less than most people. So the point is that there is a special rate for the very, very rich in this Island and there is another rate that penalises the people in the centre. Is that not correct?

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

It is a very easy soundbite for the Deputy to use but we have to be realistic about this. There are some very high earners that if you wanted to apply the same rate of tax, and I am talking in particular the high net worth individuals that we attract to this Island that we greatly value, and I might add, I was at the Jersey Hospice Ball at the weekend, there were huge numbers of inward investors and high net worth individuals there and more than £250,000 was raised for Jersey Hospice Care. **[Approbation]** These are the types of unseen benefits that many people perhaps do not appreciate, the value that these high earners bring and why most jurisdictions around the world seek to attract such wealth creators. I do not think much more needs to be said about that particular area, I think our taxation system generally seeks to attract inward investment and, as such, support the local economy and that is what we should be seeking to do.