

**WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES
BY DEPUTY L.J. FARNHAM OF ST. MARY, ST. OUEN AND ST. PETER
QUESTION SUBMITTED ON TUESDAY 2nd MAY 2023
ANSWER TO BE TABLED ON THURSDAY 11th MAY 2023**

Question

“Will the Minister –

- (a) advise whether the IT system intended to process independent tax returns is also able to process combined tax returns and, if not, what adjustments, if any, would be required to enable this; and
- (b) provide details of the financial and manpower implications of allowing combined, as well as independent, returns?”

Answer

- (a) The Revenue Management System (RMS) is a commercial “off-the shelf” system, which is designed to operate primarily with Independent Taxation, which is the tax regime in force in most jurisdictions. With investment, RMS has been customised for use in Jersey to accommodate Married Couples’ Taxation (and other Jersey-specific matters).

RMS is currently configured to process tax returns from single individuals (including those who are already within the Independent Taxation regime – married or single), as well as tax returns from married couples and civil partners. Therefore, the IT system would be able process ‘combined tax returns’, effectively continuing the current dual system, with relatively little up-front system development work. Further details on costs are provided in the response to part (b).

One major advantage of mandatory Independent Taxation is that it would remove the complexity and frictional costs that comes with having two separate regimes. All tax returns would be processed in the same way, regardless of an individual’s marital status. Any move to maintain married taxation, either for all couples or for specific groups, would naturally create complexity and higher ongoing financial and staffing costs, potentially for an indefinite period (the youngest married couples in the tax system are in their early to mid-20s).

- (b) Although costs would be minimal in the short-term, the real costs of running two systems in parallel would come further down the line:
 - Two IT systems would need to be maintained. Every system update (approx. four per year) would require twice the amount of resource in the testing team, and at least double the supplier development costs.
 - Revenue Jersey officers would need to be trained on two separate forms of taxation for the foreseeable future.
 - All communications issued by Revenue Jersey would need two versions, or each communication would need to be caveated to explain that some rules are different for certain groups of taxpayers. Revenue Jersey has recent experience of how unclear messaging increases call volumes and footfall, diverting officers from core assessing and compliance work.

- Maintaining a Jersey-specific add-on element to the more usually adopted (worldwide) personal taxation rules would significantly limit the options, and increase costs, when the existing tax system needs to be replaced in future years.
- It may also cause unnecessary complexity as we seek to move to more digital Government, with each person having their own digital identity for the purpose of accessing Government services. On the other hand, the move to mandatory Independent Taxation would help ensure that the forthcoming online tax accounts can adhere to data protection rules.

Quantifying these future costs and complexity is difficult. Allowing couples married before 2022 to remain in the Married Couples' Taxation regime indefinitely is likely to increase the costs of Revenue Jersey by at least £500,000 yearly, and deprive the Government of opportunities to make efficiencies through greater simplification of the tax system. Further work on costing could only be done were the Assembly to agree a different approach from that long-proposed by Government.

Recent experience with the transition from the previous year basis (PYB) of payment to the current year basis (CYB) of payment provides a recent example of the complexities of introducing a policy through a system of grandfathering. Ministers are determined to learn from the past.

There are already married couples and civil partners who have been mandatorily included within Independent Taxation since the first stage of the legislation came into force on 1 January 2022. That cohort of newly married couples and new arrivals join those who have volunteered into Independent Taxation. If Independent Taxation is not made mandatory, careful consideration will need to be given to those couples, including whether to offer a return to married taxation and how the compensatory allowance would work (the draft legislation would currently only permit the compensatory allowance to couples in the married couples' tax system before 1 January 2022).

Many of those couples who have volunteered into Independent Taxation would have made that decision based on what they have understood from government communications. Namely, that Independent Taxation would become mandatory, at which point the compensatory allowance would be made available for those who need it.

Crucially, grandfathering of Married Couples' Taxation would defeat the principle of Independent Taxation, which is to remove sex and age discrimination from Jersey's tax system. The propositions to-date were approved overwhelmingly by the States Assembly following extensive public engagement.

Nevertheless, there is a valid issue about the unsettling effect these changes may have on a minority of couples. The same concerns have been raised at the Personal Tax Community Helpdesk events, which have taken place in Parish Halls and other locations across the Island since September 2022.

If the draft law is approved by the Assembly, it is likely that many pensioners could be removed from the need to file a tax return, meaning additional customer support can be targeted to those who need it most. Revenue Jersey has regular experience in handling inexperienced filers, in the unfortunate circumstance of the death of a spouse, for example.