

STATES OF JERSEY



DRAFT BUDGET STATEMENT 2019 (S.R.16/2018): RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES

**Presented to the States on 15th January 2019
by the Minister for Treasury and Resources**

STATES GREFFE

**DRAFT BUDGET STATEMENT 2019 (S.R.16/2018): RESPONSE OF THE
MINISTER FOR TREASURY AND RESOURCES**

Ministerial Response to:	S.R.16/2018
Ministerial Response required by:	14th January 2019
Review title:	Draft Budget Statement 2019
Scrutiny Panel:	Corporate Services

INTRODUCTION

The Minister welcomes the report of the Corporate Services Scrutiny Panel.

FINDINGS

	Findings	Comments
1	The Minister for Treasury and Resources has lodged an amendment to the tax law so that husbands will be presumed to have given consent to their wives to discuss their tax affairs. In her amendment, the Minister has described the current system as “antiquated”.	<p>After this amendment to the Finance Law was lodged by the Minister, it became clear to the Minister (from a series of discussions with States Members), that the proposal did not enjoy broad support across the Assembly. The Minister therefore withdrew her amendment. Members nonetheless accepted the Minister’s good intentions in bringing the amendment, pending more comprehensive reform of the taxation of married couples.</p> <p>A public consultation on the Personal Tax system has now been launched, which will bring forward proposals for fully modernising the way personal income is taxed in Jersey, including the taxation of married couples. Clear recommendations will be brought before the Assembly in 2019 as part of the Government Plan 2020–23.</p> <p>The Minister has made it quite clear that – whatever changes are implemented – she will certainly reform the outdated and discriminatory aspects of current tax law.</p>
2	We consider that the Taxes Office needs to go further than the proposed amendment to the tax law, in order to move away as soon as possible from the system where husbands are legally responsible for their wives tax affairs. The system is also not fit for purpose in relation to same sex married couples and does not reflect the diverse and	<p>See comments made under Finding 1.</p> <p>Pending the above, working discussions are ongoing regarding other approaches to address this issue in the meantime.</p>

	Findings	Comments
	inclusive community that makes up Jersey in the twenty-first century.	
3	The Budget proposes targeted relief for non-residents adversely affected by the withdrawal of non-resident marginal relief. The Minister for Treasury and Resources has lodged an amendment to the Budget to make the relief effective from the 2018 tax year.	Noted.
4	Jersey has 10 stamp duty bands, which is more than most comparable jurisdictions.	<p>As with other areas of tax policy, it is important that Jersey's stamp duty regime reflects the correct balance between policy objectives such as simplicity and fairness, that are often competing. For example, a stamp duty regime with just one flat rate would be a very simple but inequitable system, because it would charge the same rate of duty on a property transaction of £300,000 as it would on a transaction of £6 million.</p> <p>The Panel is correct that Jersey's current stamp duty regime has 10 separate bands. However, this creates a regime that is highly progressive, so those who can afford to buy a more expensive property pay considerably more stamp duty.</p> <p>Reducing the number of bands might simplify the system, but at the expense of reducing its progressivity. Stamp duty "calculators" are widely available on websites across the Island to assist potential purchasers with their deliberations, and purchasers are also assisted by professionals who will generally advise them on their stamp duty obligations. The Minister's view is that any complexity arising can be easily managed for the Public, and if there was to be a reduction in the number of duty bands, the knock-on implications for equity and fairness would have to be carefully considered.</p>
5	In order to improve supply in the lower end of the market, stamp duty could be reduced in the higher brackets in order to encourage people to upsize. In a situation where there is low supply in the housing market, the only solution is to encourage movement within the market.	<p>The Minister notes the Panel's amendment to stamp duty that was withdrawn following constructive discussions between the Panel and the States Treasury and Exchequer.</p> <p>The stamp duty package that was agreed in Budget 2019 was focused on providing assistance in a cost-neutral manner, to first-time buyers and buyers at the lower end of the market requiring mortgage finance to pay for their home. Almost one third of all stamp duty collected by the States comes from transactions valued between £500,000 and £1 million. Therefore, any</p>

	Findings	Comments
		<p>significant reduction to rates in these bands would create a significant Exchequer shortfall that would have to be found elsewhere.</p> <p>The Budget 2019 amendment that was tabled by the Panel would have resulted in 63% of purchasers paying more stamp duty than under the Budget proposal. Only 23% would have paid less (those buying properties between the values of £550,000 and £1.27 million). Those paying more would have included –</p> <ul style="list-style-type: none"> • purchasers of properties below £550,000 who are not first-time buyers • purchasers of properties over £1.27 million • first-time buyers of properties between £450,000 and £500,000. <p>There would have been no change for first-time buyers below £450,000.</p>
6	<p>More needs to be done to help the slow turnover rate in the housing market between £600,000 and £1 million. This will in turn help to free-up houses in the brackets below (particularly for First-Time Buyers).</p>	<p>See comments under Finding 5.</p> <p>A Policy Development Board is being established by the Government, which will “take a long-term view of how we can create sustainable and affordable housing provision for the next generation to meet the aspirations of our young people”. Government is of the view that any further changes to stamp duty are best addressed as part of the work of this Board, and the Panel may wish to engage with the Board on this matter once it has been established.</p>
7	<p>We were disappointed in the lack of engagement by the Treasury with a sugar tax and surprised by the lack of willingness to investigate alternative revenue streams designed to improve lifestyle choices as seen in other jurisdictions.</p>	<p>The Minister supports tax measures to influence consumer choices through the alcohol; tobacco and fuel strategies. Taxation is however, not the only instrument available to Government to affect consumers’ choices, and in some cases other forms of intervention may be more appropriate and more effective.</p> <p>Whilst appearing superficially attractive, a sugar tax (more broadly taxing foods and drink on the basis of sugar content) would be difficult to administer in Jersey. This is evidenced by the lack of progress in other jurisdictions, for example the UK, which has really only succeeded in introducing a levy of limited scope on certain kinds of drinks.</p> <p>It also needs to be borne in mind that the States Treasury and Exchequer has limited resources available to consider new forms of taxation, and to review and update existing tax law, which is</p>

	Findings	Comments
		also widely regarded as outdated and increasingly not fit-for-purpose. It is important therefore that careful consideration is given as to what tax reviews are most important to undertake in any one year.
8	It is highly unusual to amass large surpluses in the Consolidated Fund without either transferring to reserves or having a plan to spend the money.	<p>The Minister has proposed the transfer of £50 million into the Stabilisation Fund. No other proposals are put forward at this time. The only other suitable uses would be one-off spending or investment proposals that do not increase funding pressures on a permanent and recurring basis, in light of the indicative financial forecasts for the period 2020–23 outlined on page 83 of the Draft Budget Statement 2019.</p> <p>Maintaining large balances on the Consolidated Fund is a deliberate policy choice to provide Government with options in formulating the Government Plan.</p> <p>The options include going part of the way towards meeting the considerable demands for capital schemes in the next financial period.</p> <p>The Infrastructure Investment Fund will enable considerable development of our urban areas in particular, providing the opportunity for investment in housing and economic infrastructure.</p> <p>But there is also a considerable pipeline of demand for further investment in schools and Highlands College, for example. The balances on the Consolidated Fund provide the opportunity to invest in these essential assets.</p>
9	The structuring of the MTFP in the Public Finances Law is restrictive and has led to constraints on expenditure in the final year of the MTFP, even when there are surplus funds accumulated in the Consolidated Fund and the States' Reserves.	<p>The Minister agrees that the current Public Finances Law is restrictive. She looks forward to the Panel's support when she brings a new draft Law to the Assembly for consideration early in 2019 which will, amongst other changes, move from a 4-year fixed MTFP to an annual Government Plan with a 3-year forward outlook.</p> <p>Using the balances on the Consolidated Fund to fund capital or other one-off expenditure is appropriate. Using those balances to pay, in the short term, for significant recurring expenditure, without a plan to pay for that expenditure beyond the short term, is not prudent.</p> <p>The Minister will discuss with ministerial colleagues, and consider the views of the Assembly, before deciding whether it is appropriate in the context of all circumstances to</p>

	Findings	Comments
		bring forward a proposal as the Panel recommends. If she does so, then this would only be for one-off spending or investment proposals that do not increase funding pressures on a permanent and recurring basis.
10	It is the Panel's view that the Treasury Minister has the tools available to amend the MTFP to tackle the constraints on expenditure if the Council of Ministers is determined to do so.	See comments under Finding 9.
11	There is no allowance in the Budget for the savings generated by the new Target Operating Model.	Noted. The Budget deals largely with revenue-raising, not expenditure. That is a matter for the Government Plan (currently the MTFP). A plan for the £30 million savings in 2019 will be presented in the first quarter of 2019.
12	We have identified concerns regarding transfers out of the capital programme into contingency in relation to projects at Sandybrook Care Home and for homes for children with autism.	The Panel's concerns are noted by the Minister. She understands that the Panel is in ongoing dialogue with the Departments concerned. The Minister hopes that the Panel understands that the repurposing of unspent allocations, both revenue and capital, are an important part of good financial management. It is far better to make use of the funds available than to see them remaining allocated, unspent and unavailable for identified priorities.
13	It appears to us that the management of the capital project at Sandybrook Care Home has been unsatisfactory over the last 6 years, leading to a situation where much needed refurbishment and renovation has not been carried out.	See comments under Finding 12.

RECOMMENDATIONS

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
1	The Minister for Treasury and Resources should prioritise the work to reform the tax system in relation to the treatment of married couples and should bring forward proposals to reform the system in the 2020 Budget.	Min. T&R	Accept	See comments under Finding 1.	Bring proposals to the Assembly by the end of 2019
2	The number of stamp duty bands should be reduced. We have lodged an amendment to the Budget which would reduce the number of stamp duty bands to 5.	Min. T&R	Reject	See comments under Finding 5.	N/A
3	The stamp duty on residential property transactions between £600,000 and £1 million should be reduced. Our amendment to the Budget reduces the stamp duty for these bands by up to 1%.	Min. T&R	Reject	See comments under Finding 5.	N/A
4	In order to pay for reduced stamp duty between £600,000 and £1 million, we recommend that stamp duty on properties above £3 million be increased, as set out in our amendment to the Budget.	Min. T&R	Reject	See comments under Finding 5.	N/A
5	The Minister for Treasury and Resources should undertake more work to investigate the feasibility of introducing a buy-to-let rate of stamp duty and report to the Assembly in the next Budget.	Min. T&R	Accept	This matter will be put forward for consideration to the Housing Policy Development Board (“PDB”) which will be carrying out an overall review of the housing market.	Timeline for consideration will be determined by the Housing PDB

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6	In a period of uncertainty as a result of Brexit, there is a lack of political direction regarding the high balances in the Consolidated Fund. The Council of Ministers should clearly state now what the plan for these balances is, rather than wait for the Government Plan to be prepared further down the line.	Min. T&R	Accept	The Minister's Budget speech indicated potential uses of the balance.	Complete
7	The Minister for Treasury and Resources should bring forward a proposition as soon as possible to amend the MTFP in accordance with Article 9(2)(ca) of the Public Finances Law on the basis that there is an urgent need for expenditure in 2019 to fund emerging priorities in relation to the Common Strategic Policy and to resolve the public sector pay dispute.	Min. T&R	Reject	The Minister remains of the opinion that increasing expenditure on a recurring basis, increasing forecast deficits as a result, without a plan to fund such expenditure on an ongoing basis, is fiscally irresponsible. In the event that an urgent need for expenditure does occur during 2019, the Minister would bring forward such a proposal only with associated funding plans in place.	N/A

CONCLUSION

The report of the Panel, and the amendment brought, have resulted in helpful dialogue and clarification. The Minister looks forward to continuation of that dialogue.