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Senator Kristina Moore  
Chair, Corporate Services Scrutiny Panel  
By email

25th of June 2021

Dear Senator Moore,

### **Personal Tax Reform: Journey Into Independent Taxation**

I am pleased to let you know good progress has been made on policy development and operational planning for the transition to Independent Taxation, since I wrote to you regarding this work in March.

The Project Team has completed analysis on the feasibility of transitioning islanders to the new regime over 5 years in 3 phases. Subject to confirmation from the software provider regarding technical specifications (due later this month), the Team is confident that we can deliver the programme of work between 2022 and 2025.

### **Legislative review and debate**

I am currently planning to lodge legislation for phase 1 of reform on 3 August 2021, for debate in September 2021. This timing will allow the States to debate the legislation in good time for the start of the year of assessment 2022. It will also allow us to provide more certainty and clarity for separately assessed couples who may wish to move to Independent Taxation for the year of assessment 2022. The remaining legislative changes, which will implement the remaining phases of the move to Independent Taxation, will be included in the legislative programme for 2022.

Ahead of this, I am pleased to provide you with further details on the phasing, compensatory allowance and the plans for managing Islanders' experience of the change effectively and supportively.

### **Phase 1: Year of Assessment 2022, effective 1 January 2022**

Phase 1 covers Islanders not currently in Married Couples' Taxation (MCT) as at 31 December 2021 and also islanders who are in a marriage or civil partnership but who:

1. have confirmed to Revenue Jersey they are 'separated' as at 31 December 2021;
2. move to the island and register with Revenue Jersey after 31 December 2021; or
3. were 'separately assessed' for their 2020 tax return, *and* elect to Revenue Jersey, by 29 October, to move to Independent Taxation for 2022.

Income Tax Amendment Law 202x, if approved, will come into effect on 1 January 2022. Islanders in Phase 1 will be automatically moved to the Independent Taxation regime. They will be taxed as the law currently applies to islanders who are not married or civil partners, even if they become married or civil partners in future.

'Married Couples Taxation' (MCT) will cease to be available for couples who marry or enter civil partnerships in Jersey, married couples who move to the island, and for 'separately assessed' couples who elect to move to Independent Taxation.

### **Phase 2:** Year of Assessment 2023, effective 1 January 2023

Phase 2 includes couples who are in MCT and elect, by 29 July 2022, to move to Independent Taxation for 2023. This phase also includes islanders who are in MCT but have confirmed to Revenue Jersey that they are 'separated' as at 31 December 2022.

Changes as per Phase 1 apply. Where one partner's income is below the threshold for paying tax, once they have submitted their first return under Independent Taxation, they will be excluded from the requirement to fill out a tax return form for future years, unless their circumstances change and they become chargeable to tax.

It is anticipated that couples who would pay less tax or the same amount of tax under Independent Taxation will be most likely to elect to move in this phase. For year of assessment 2019, approximately 14,000 couples fitted that profile.

### **Phase 3:** Year of Assessment 2024, effective 1 January 2024 but possibly spread over 2 years depending on Phase 2 take up.

Phase 3 will include all remaining MCT couples who will be moved to independent taxation with effect from 1 January 2024.

Changes as per Phase 2 apply plus legislation to make Independent Taxation mandatory. Phase 3 will also bring the compensatory allowance into effect and provide details for phasing out of the allowance (see below).

### **Compensatory Allowance**

Work has also now been completed to develop and review options for mitigating the financial impact which some couples would suffer by moving to Independent Taxation.

The allowance will be available in any year where their tax bill would otherwise be larger under Independent Taxation than it would have been under the current Married Couples' Taxation.

I have previously articulated my desire that – wherever possible – existing married people will not be financially disadvantaged by moving to Independent Taxation. The allowance will not be means-tested. However, I am considering whether the allowance should be phased out over a reasonable time period in order to achieve tax equity - ensuring similar households with similar circumstances pay similar tax.

### **Managing the customer experience**

The Project Team has completed work to assess likely customer requirements during the transition. We are now developing tools, support and communications to equip customer-facing staff to answer queries confidently, clearly and consistently from the moment the proposals are first made public. A full explanation of the complete reform journey will be provided to the Public from the outset, which will aim to help islanders to understand what the changes mean for them.

Support will include an interactive online 'How Tax Works' tool. It will firstly illustrate how allowances and reliefs work (for most islanders), to reduce the amount of income on which we pay tax. It will secondly allow customers to see how the tax a couple pays may change when they are taxed under Independent Taxation rather than Married Couples' Taxation.

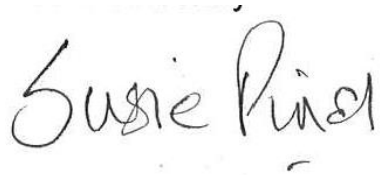
### **Feedback and advice**

In addition to the previous extensive consultation work undertaken, which we have drawn upon in decision-making, further focus groups are currently under way to test the communications being designed. Feedback on materials and support will also be sought from tax agents and third-sector organisations prior to final production.

We have recently consulted with the Children's Commissioner who has given her full support to the proposals and acknowledged the mitigations to protect those who would otherwise be worse off under a move to Independent Taxation.

I would be happy to brief you ahead of lodging the draft legislation – officers are looking for a suitable date and should be in contact shortly.

Yours sincerely

A handwritten signature in black ink that reads "Susie Pinel". The signature is written in a cursive style with a large initial 'S'.

Deputy Susie Pinel  
Minister for Treasury and Resources

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