Revenue Policy Development Board

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25 April 2019

Work programme

Session 1	To develop a framework for building a broad, stable and sustainable tax system in Jersey
Session 2	To develop a framework for making policy choices about "user pay" charges
Sessions 3/4	To examine future choices for raising revenue (where required)

Today - Developing a tax framework

- The role of the Board
- Financial forecast 2019-2023
- Jersey's current tax system
- Important tax policy principles
- Assessment of the current tax regime
- A framework for future tax policy design in Jersey

The challenges

1. Ageing population
2. Environmental challenges
3. Jersey's small and very open economy - susceptible to volatility
4. Digitalisation and changes to the nature of work
5. The need to maintaining and build fiscal buffers
6. The impact of globalisation on tax policy
7. Vulnerabilities in the tax base
8. The role of "user pay" charges

The CSP priorities

We will put children first

by protecting and supporting children, by improving their educational outcomes and by involving and engaging children in decisions that affect their everyday lives

We will improve Islanders' wellbeing and mental and physical health

by supporting Islanders to live healthier, active, longer lives, improving the quality of and access to mental health services, and by putting patients, families and carers at the heart of Jersey's health and care system

We will create a sustainable, vibrant economy and skilled local workforce for the future

by delivering an economic framework to improve productivity, by nurturing and strengthening our financial services industry, by enhancing our international profile and promoting our Island identity, by delivering the best outcomes from Brexit, and by improving skills in the local workforce to reduce Jersey's reliance on inward migration

We will reduce income inequality and improve the standard of living

by improving the quality and affordability of housing, improving social inclusion, and by removing barriers to and at work

We will protect and value our environment

by embracing environmental innovation and ambition, by protecting the natural environment through conservation, protection, sustainable resource use and demand management, and by improving the built environment, to retain the sense of place, culture and distinctive local identity

The role of the Revenue Policy Board

Two aspects to decisions on taxation

1. The size of the tax pie – the level of tax revenues needed to fund economic and social priorities in Jersey, and

2. The composition of the tax pie – the best way to structure the tax regime to raise these revenues

The role of this Revenue Policy Development Board

- To focus primarily on the Composition of the tax pie in Jersey*
- By building a framework to ensure that Jersey's tax regime is broad, stable and sustainable

*Decisions about the "size of the pie" will be made elsewhere in Government

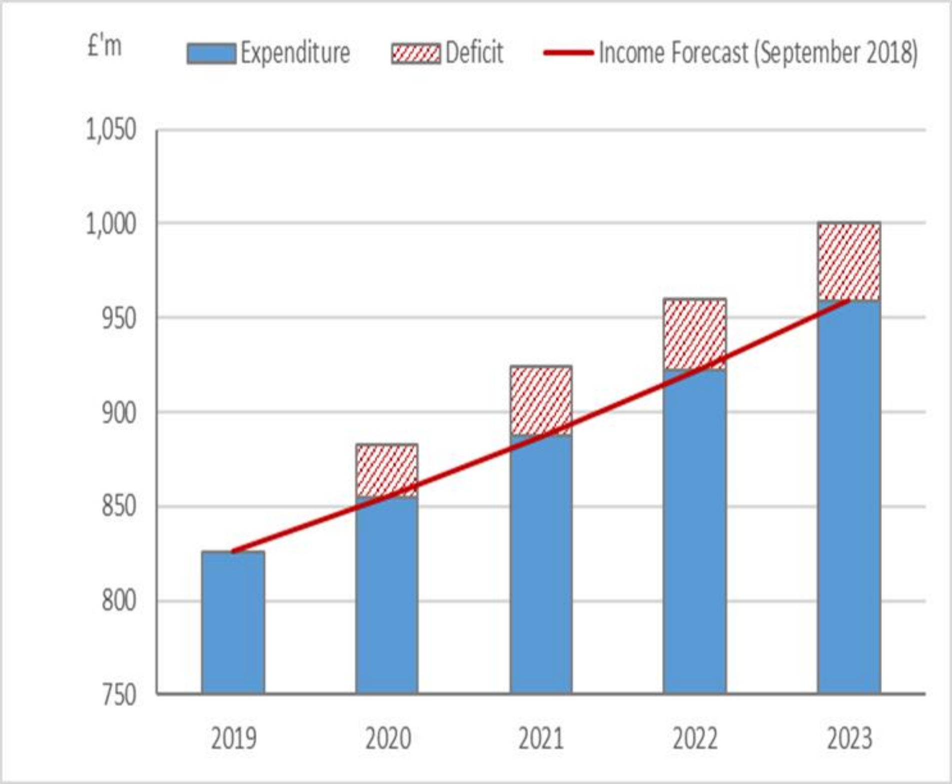
Building this framework

1. Review Jersey's current tax system
2. Assess its overall suitability based on the principles of good tax policy
3. Agree a framework for making tax policy choices in the future

Financial forecast 2019-2023

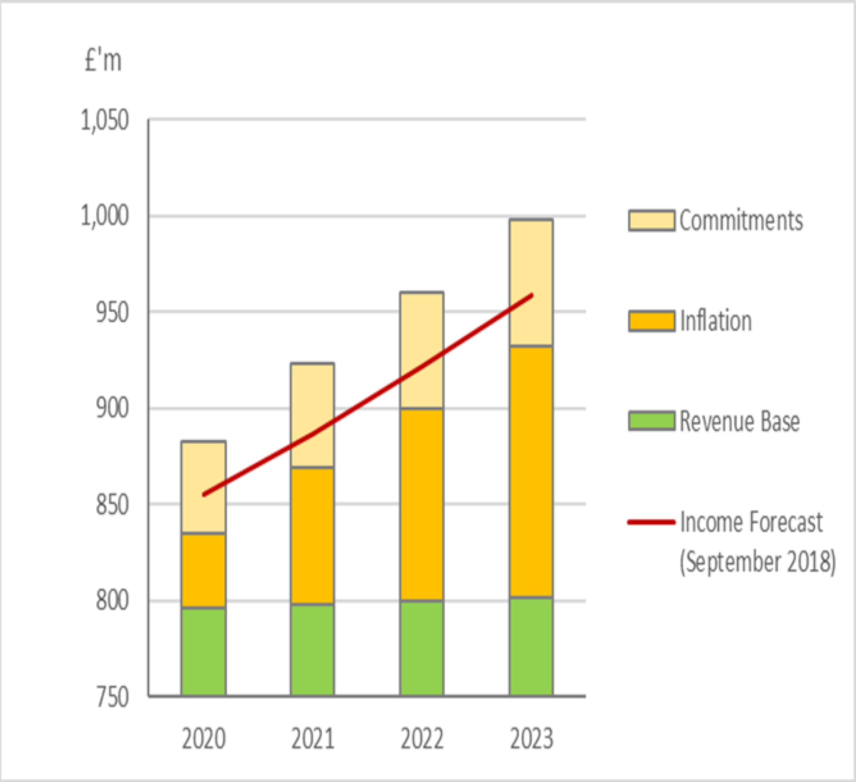
Financial Forecast Surplus / (Deficit) 2019-2023

- 2019 is broadly balancing the books
- From 2020 there are annual deficits after funding base expenditure, reserves, depreciation, inflation and commitments
- Includes an allocation for reserves of £7m
- An allocation of £53m (inflated) is provided for capital (based on depreciation)
- Inflation includes: pay provision, benefits and supplementation, pensions, health 2% growth and education demographics
- This is before investment in CSP priorities and for transformation



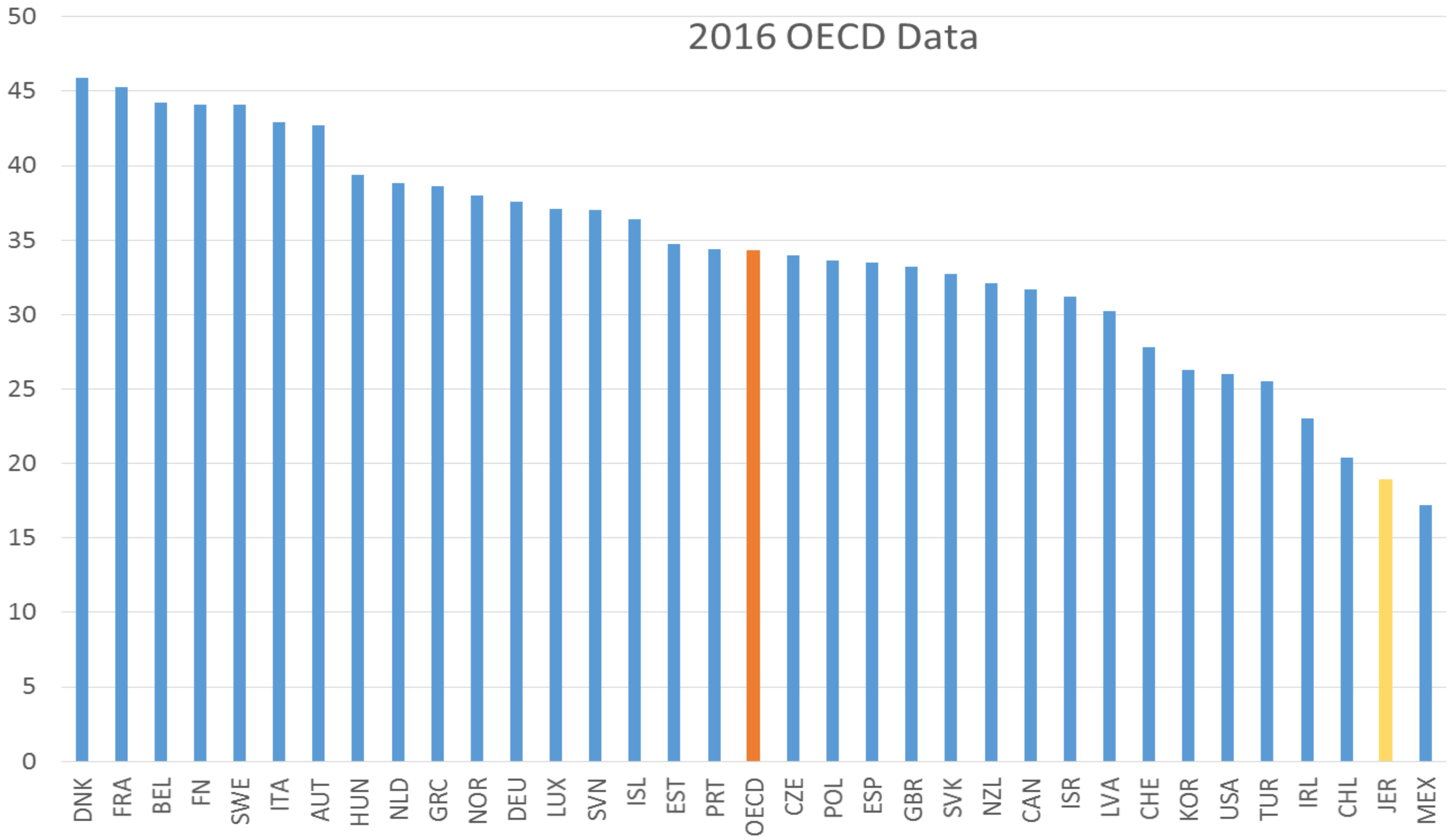
Financial Forecast Surplus / (Deficit) 2020-2023

- Commitments to be funded include: HIF replacement funding, Higher Education, Children's Change Programme and Children's Plan, Health P82 (including catch-up) and EPGDP
- The GHE cash limit has been supplemented to reflect the non-delivery of the Waste Charge
- The States Grant to the Social Security Fund will also return to formula (after being frozen)
- The previous Council has also supported additional recurring expenditure during the MTFP period to support existing commitments including Cyber Security, International taxes, Brexit and Legal Aid Office



Jersey's current tax system – an overview

Total tax : GDP - an international comparison

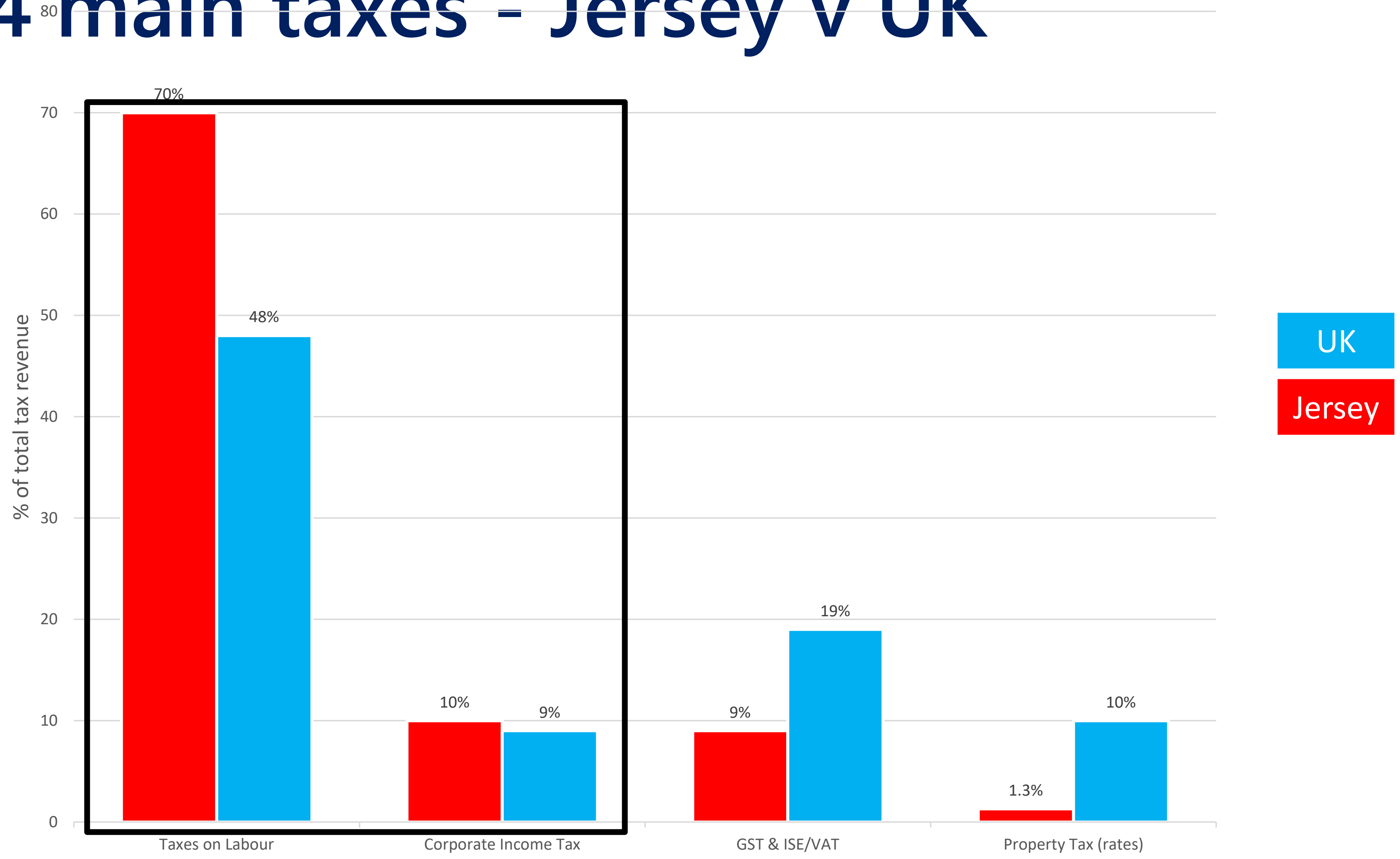


Current States revenues – the income forecast

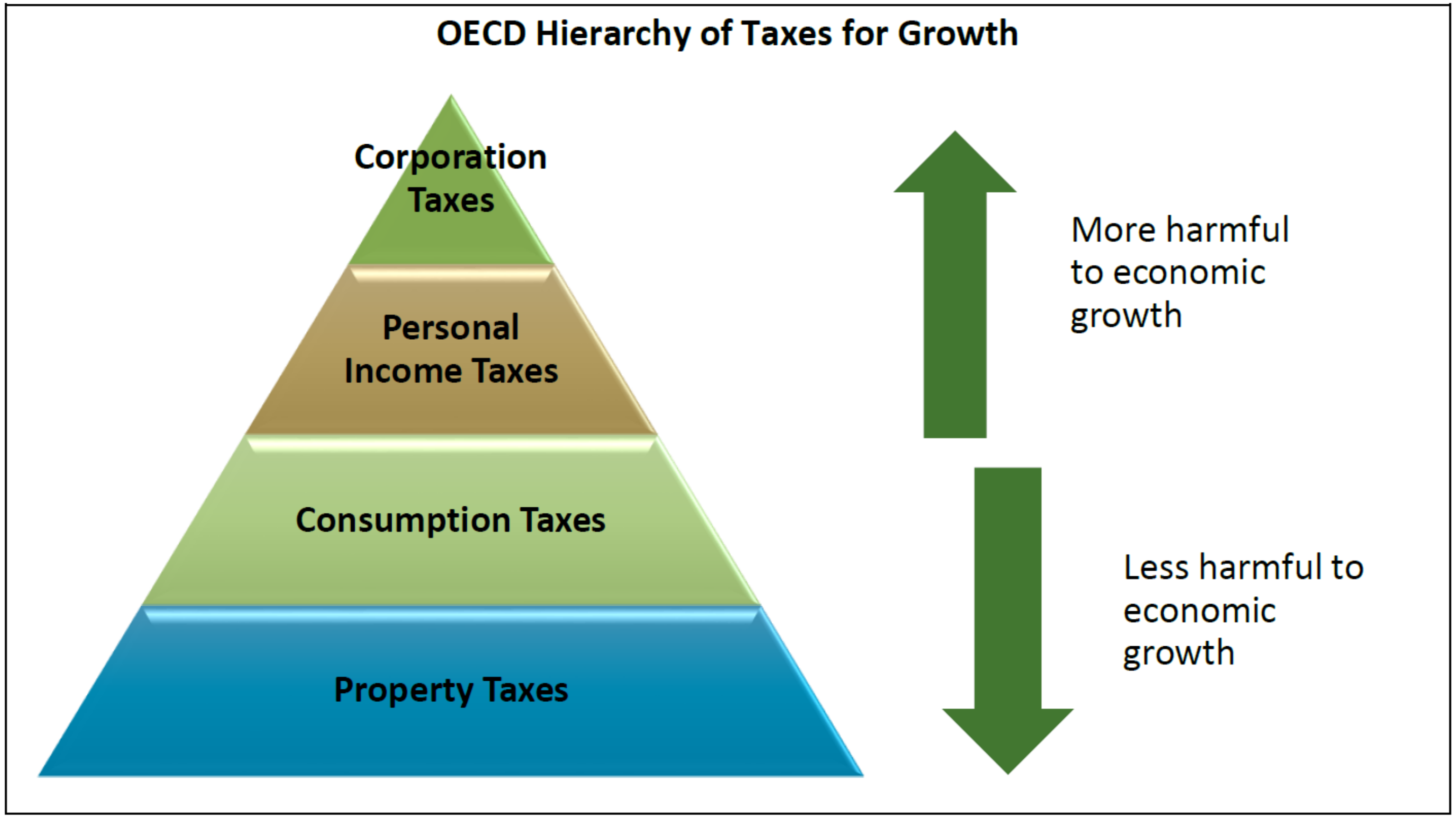
Figure 24 – Summary of Revised Income Forecasts (September 2018)

Total States Income	*Outturn*	September 2018 Forecast					
	2017	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'001	£'002
Income Tax	*514,930*	529,000	566,000	597,000	625,000	655,000	688,000
GST	*87,946*	90,517	92,358	93,482	94,538	95,728	96,833
Impots	*59,999*	62,109	62,785	62,679	62,692	62,816	62,960
Stamp Duty	*33,283*	34,736	35,366	35,008	35,771	36,557	37,366
Higher Growth Scenario	-	*726,721*	*784,251*	*823,516*	*869,178*	*920,373*	*974,790*
Total States Income from Taxation and Duties	***696,158***	**716,362**	**756,509**	**788,169**	**818,001**	**850,101**	**885,159**
Lower Growth Scenario	-	*704,013*	*730,864*	*748,185*	*760,634*	*773,295*	*787,879*
Other States Income	*71,094*	67,345	69,829	67,285	69,555	72,238	74,430
Higher Growth Scenario	-	*795,952*	*858,377*	*895,669*	*945,273*	*1,000,767*	*1,064,016*
Total States Income	***767,252***	**783,707**	**826,338**	**855,454**	**887,555**	**922,339**	**959,589**
Lower Growth Scenario	-	*761,327*	*790,727*	*805,523*	*820,308*	*834,182*	*849,880*

The 4 main taxes - Jersey v UK

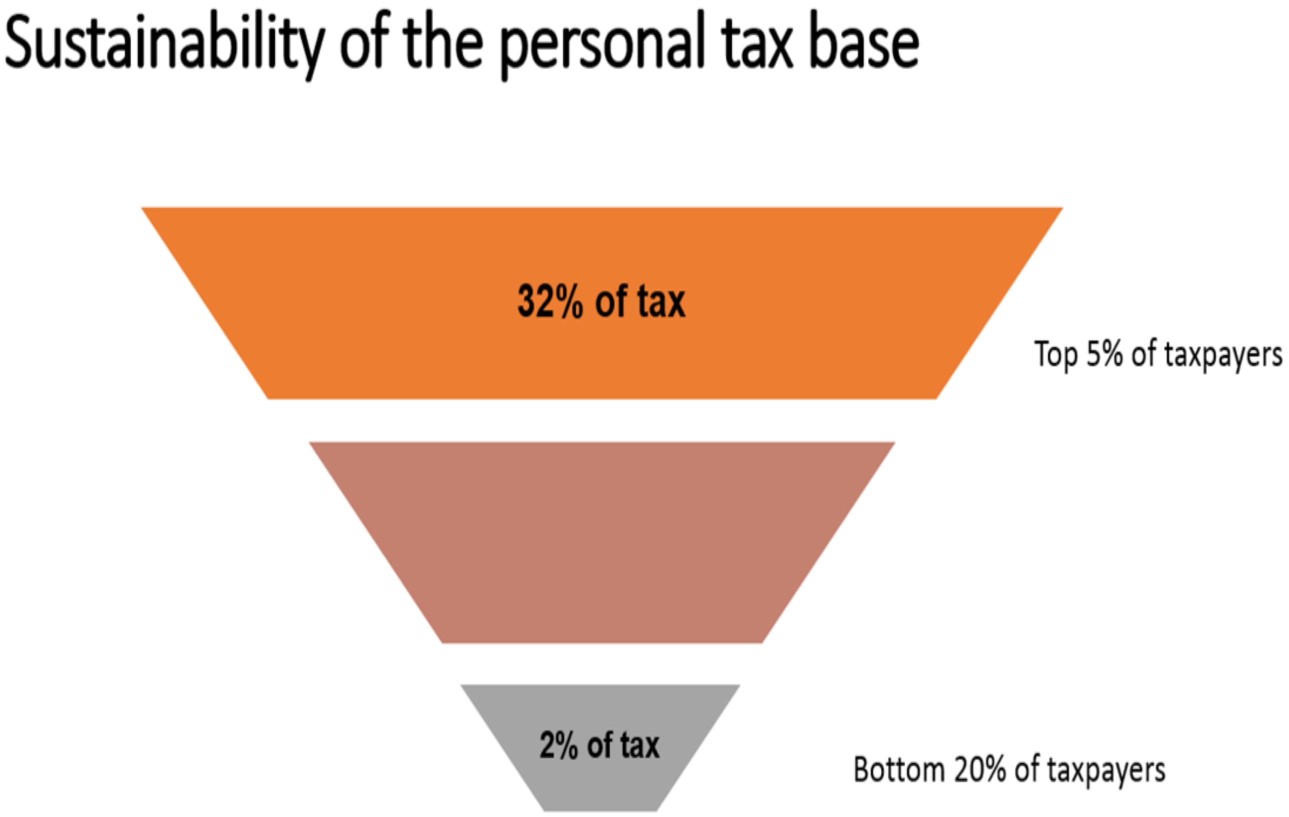


The impact of tax on business growth - OECD



Property taxes - least distortionary of all taxes. Immobile and broadly progressive in nature

Reliance on top 5% of personal taxpayers



Reliance on top 10 CIT payers

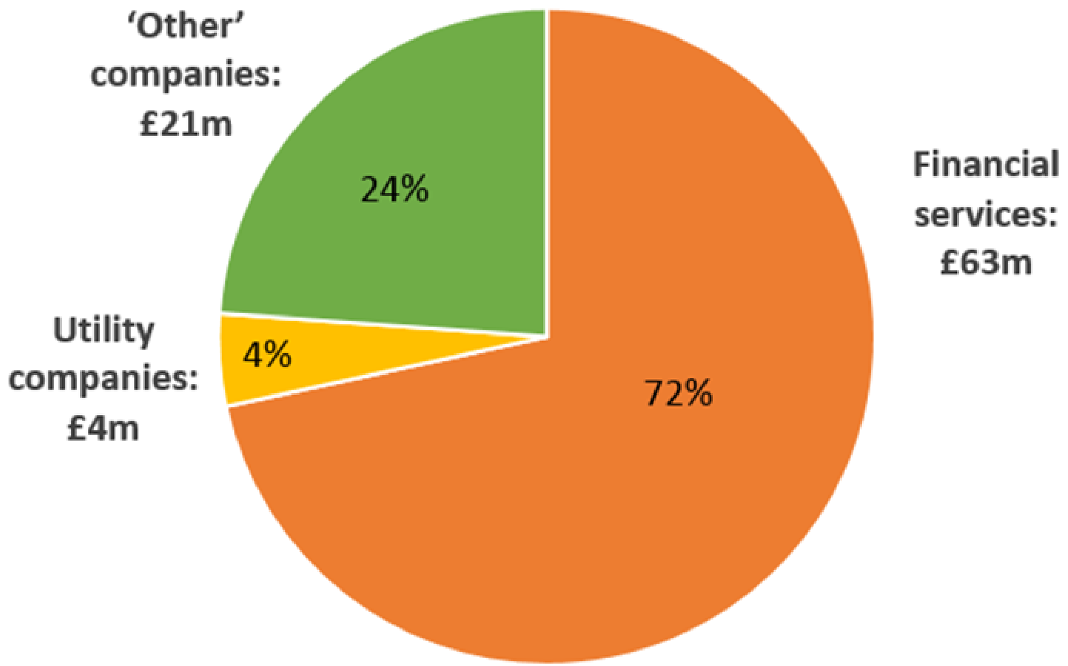
In 2017:

- 10 companies contributed over
- 40% of total corporate income tax (CIT)

In UK – 2,000 large businesses in 2017 paid 22% of CIT

Reliance on the finance sector

- Total collected - £88m (YOA 2016 latest data)



Personal income tax (PIT)

3 important features

1. Progressivity - approx. 30% of Islanders are exempt from income tax

2. Reliance on top 5% of taxpayers

3. “20 means 20” – raising more revenue from this cohort would require a headline rate rise

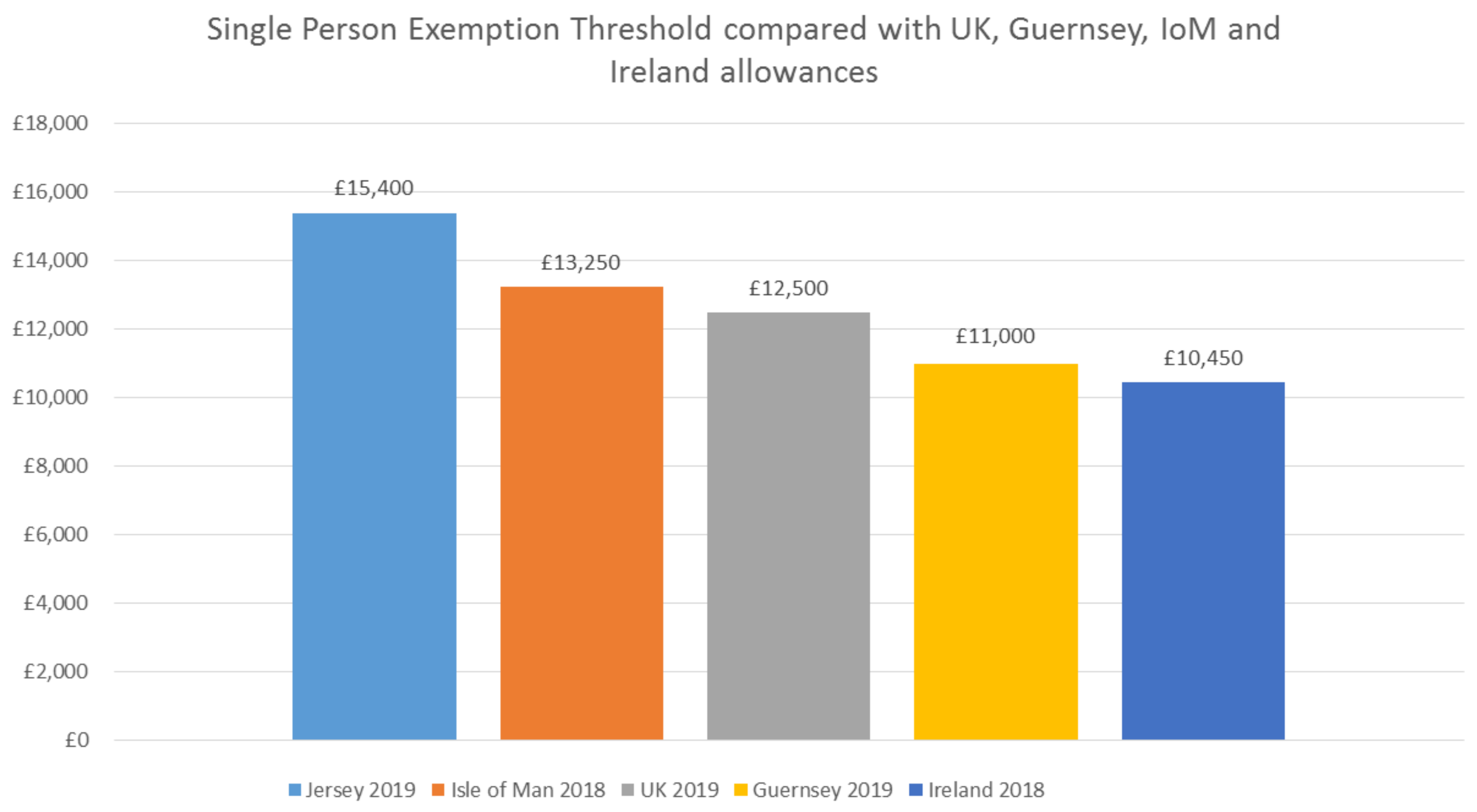
"20 means 20"

Two tax calculations for every taxpayer and the *lower* figure is used

Calculation One – Marginal Rate		Calculation Two – Standard Rate	
Income	£X	Income	£X
Less: exemption threshold	(£X)	~~Less: child allowance~~	~~(£X)~~
Child allowance	(£X)	~~Higher child allowance~~	~~(£X)~~
~~Higher child allowance~~	~~(£X)~~	~~APA~~	~~(£X)~~
Child care tax relief	(£X)		
APA	(£X)		
MITR	(£X)		
Second earner's allowance	(£X)		
Income subject to tax	£X	Income subject to tax	£X
Taxed at 26%	£X	Taxed at 20%	£X

Most tax reliefs have been abolished for standard rate taxpayers – broadening the personal income tax base

Entry point comparison



Income tax reliefs

Tax reliefs

“The way in is easy, the way out is hard”

Harvard Kennedy School of Government

Main PIT reliefs in Jersey

Most tax reliefs have been abolished for 20% standard rate taxpayers

Tax relief	Annual cost 2016 (£M)
Child allowance	12
Child care relief	3
Additional personal allowance	3
Pension contributions	11
Mortgage relief	11 (phase out by YOA 2026)

Corporate income tax (CIT)

CSP Strategic Priority - we will create a sustainable, vibrant economy and skilled local workforce for the future

What we will achieve

As a result of our actions during our term of office, we will:

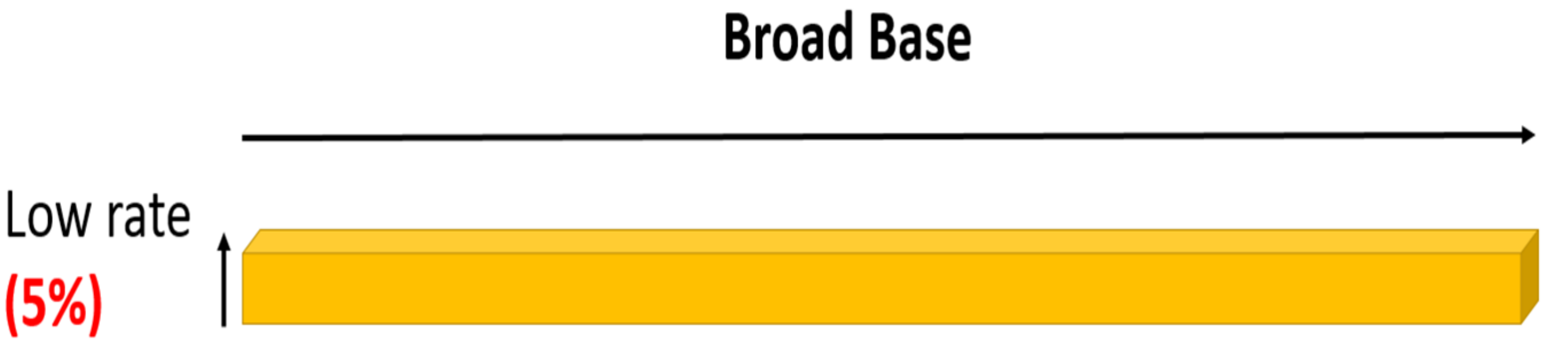
- Improve Jersey's economic performance
- Support and strengthen our financial services sector
- Maintain tax neutrality
- Deliver our Global Markets Strategy
- Continue to diversify our economy, including ongoing support for our digital sector and the development of our philanthropic sector
- Be outward facing and promote Jersey on the international stage
- Engage internationally and strengthen our reputation
- Continue to develop positive relations with the UK Government, Parliamentarians and other UK stakeholders
- Build on our existing engagement programme with EU institutions and nations, including our nearest neighbour, France
- Develop and negotiate a suite of international agreements to underpin opportunities in new international markets, as well as to maintain existing business flows
- Ensure that Jersey's public estate infrastructure is fit for the future and that St Helier is a more desirable place to live, work, do business and visit
- Increase the skills of our workforce
- Improve productivity to reduce population pressures
- Develop and implement a comprehensive migration and population policy.

A global framework of rules

- CIT rules must comply with global standards set by the OECD and other international bodies
- These rules have been tightened in the past decade to deal with cross border tax avoidance
- Thus, Jersey's CIT regime is not entirely a domestic competence

Goods and services tax (GST)

GST – broad base, low rate



Policy rationale

- Simple to understand
- Manageable cost of administration
- Low earners protected through benefits system

Tax and social security – differences in the base

Income tax vs contributions: Tax base

Income tax has a different tax base:

- Covers more income types (investment and pension income)

Income type	Income tax	Social Security contributions
Earnings	Yes	Yes
Self employment income	Yes	Yes
Investment income	Yes	No
Rental income	Yes	No
Pension income	Yes	No

- Higher income pensioners (income above tax threshold) do not pay contributions
- Lower income workers (income below tax threshold) do pay contributions

Social Security features

The Social Security scheme:

- Funded by contributions and general tax revenues
- Provides contributory benefits to contributors (inc. old age pension)
- Operates mainly on a "pay as you go basis" (today's workers pay for today's pensions)
- Balance of 7 years' spend has been built up since 2000

Contributions are related to earnings:

- 6% employee and 6.5% employer contributions on earnings or
- 12.5% contribution on business income
- Up to an earnings limit ("cap")(2019: £4,442 a month/£53,304 a year)
- 2% above this for employers and self-employed (up to an upper earnings limit)

Social Security features

The Social Security scheme:

- Partly funded by general tax revenues – based on "supplementation"
- Supplementation tops up the contributions of low to medium wage earners to protect the Fund so that it receives a standard amount per contributor
- This approach improves the progressivity of the Social Security scheme's funding

Progressivity of Jersey's Social Security scheme

	Progressivity
Contributions	
Up to earnings limit…	Proportional
with difference covered by income tax	Progressive
Above earnings limit	Regressive
Contributory benefits	
Fixed £ amounts not based on earnings	Progressive

Long term care scheme

- Set up to help those who need long-term care.
- Tax base = income tax with social security upper earnings limit
- Funded by a 1% contribution from income taxpayers up to the Social Security upper earnings limit (2019: £14,686 per month)
- The effective contribution rate is less than 1% for most income taxpayers and 1% for those with the highest incomes
- Income tax base includes pensioners with higher incomes – they are protected straight away and importantly also pay the contribution.
- The contribution level / benefit entitlement will need to change in future as a higher % of people become elderly and develop LTC needs.
- The first increase in the LTC contribution is needed 1 January 2020.
- How large should the increase be?

Revenue changes “in the pipeline”

Pipeline issues

- Personal tax review
- Interaction between personal income tax and social security
- LTC contributions
- PYB to CYB
- Stamp duty on enveloped properties
- Customs duties (on D1ND scenario)
- Financial security in old age

Important tax policy principles

Jersey’s current long term tax policy principles

1. Taxation must be necessary, justifiable and sustainable
2. Taxes should be low, broad, simple and fair
3. Everyone should make an appropriate contribution to the cost of providing services, while those on lowest incomes are protected
4. Taxes must be internationally competitive
5. Taxation should support economic, environmental and social policy

The overall balance is important

- Different taxes will conform with different tax policy principles
- There will often be trade-offs between these principles. For example, there may be a trade off between progressivity and relative international competitiveness
- What is important is that these principles are well balanced in the overall tax system

The Canons of Taxation

1. Equity
2. Certainty
3. Convenience or Ease
4. Economy
5. Productivity
6. Elasticity
7. Simplicity
8. Diversity
9. Desirability or Expediency

Tax and behavioural change

Taxation can influence the behavior of individuals and companies

1. It can be used as a lever to positively change behavior. For example, a "plastic bags tax" may deter the use of plastic bags. The aim is NOT to raise revenue from plastic bags but to reduce their use
2. The change in behavior may be an unintended consequence of the tax policy. For example, increasing the PIT rate may result in taxpayers working less hours or even migrating

When taxation can best influence behaviour

"...the hurdle for departing from neutrality should be high, requiring a strong and clear justification. This test is only likely to be passed by a handful of headline items such as:

- Environmentally harmful activities
- 'Sin taxes'
- Pensions
- R&D
- Educational investments, and
- Childcare"

"Tax by Design" – Mirrlees Review

The role of tax compliance

Work carried out by Revenue Jersey to collect taxes due:

1. Increases overall tax yield
2. Reduces the tax gap, and
3. Reduces reliance on new tax increases

Assessing the current tax regime

Levers to raise tax revenue

1. Increase tax rates

2. Broaden the tax base

- Broaden the base of existing taxes
- Introduce new taxes

Broad base, low rate

- Jersey taxes are generally broad based with a low rate
- Low rates do not necessarily mean low yield (if the base is broad)

Different taxes perform different functions

- CIT: a key support for international investment
- PIT: main source of revenue, with a redistributive role
- GST: provides stability with less damage to economic growth
- Impôts: raise revenues and target behaviours

Key vulnerabilities

1. Personal and corporate income tax accounts for almost 80% of Jersey's tax revenues

   - PIT 70%
   - CIT 10%

2. These are the two sources of taxation most damaging to economic growth

Key vulnerabilities (contd.)

3. Both sources of taxation are also highly mobile
4. Tax revenues are highly concentrated amongst a small number of taxpayers
   - PIT 5% of taxpayers pay 32% of PIT
   - CIT 10 companies pay over 40% of CIT
5. The tax base is very reliant on the finance sector
6. The contribution from GST and property tax (rates) is low
7. Excise duties from motor fuel is likely to diminish

The framework for future tax policy design in Jersey

Framework for the future

1. Taxation must be necessary, justifiable and sustainable

2. Taxes should be low, broad, simple and fair

3. Everyone should make an appropriate contribution to the cost of providing services, while those on lowest incomes are protected

4. Taxes must be internationally competitive

5. Taxation should support economic, environmental and social policy

Suggested additions

6. Taxes should be easily implementable and administrable at a reasonable cost

7. No individual tax will meet all these principles. But overall, the tax regime should represent a sustainable balance of 1-6

Next Session

"User pays" charges

Government *of* JERSEY

Questions

Gouvèrnément d'JÈRRI