

Revenues of the States of Jersey
Policy Development Board
Terms of Reference

1. Purpose

- 1.1. To review and propose the long-term tax policy principles.
- 1.2. In furtherance of the Government's CSP priorities and in line with the long term tax policy principles, review and consider changes to the current structure and incidence of taxation, contributions and charges.
- 1.3. Should the need for additional revenue raising be required to fund public services, to consider, in advance, policy options to materially increase revenues, having consideration for the long-term tax policy principles.

2. Background and rationale

- 2.1. The Minister for Treasury & Resources is currently undertaking a review of the Island's personal income tax system. This review and associated research is being undertaken on a "revenue neutral basis" and is focussed upon removing the current archaic aspects of the system, as well as seeking views as to the structure, allowances and rates of taxation.
- 2.2. However the output of that review (including consultation, research and modelling) would provide the basis to consider revenue raising.
- 2.3. In Budget 2019, the Minister for Treasury & Resources and Council of Ministers committed to the exploration of revenue raising measures in the furtherance of achieving environmental objectives, particularly in light of the Climate Emergency.
- 2.4. In addition an ongoing review of the Social Security system is underway.
- 2.5. Clearly taxation, contributions and charges' strategies provide an opportunity to act upon the CSP priority of reducing of income inequality and the improvement of living standards.
- 2.6. According to information provided in Budget 2019, the Government of Jersey is projected to run an annual deficit (after depreciation) of approximately £30m to £40m over the period to 2023. Whilst there are plans being finalised to reduce this deficit through the delivery of efficiencies, this scale of deficit is before any additional investment in CSP priorities and funding to modernise and transform public services.
- 2.7. In the event that these calls on funding, exceed income forecasts, one option available to Government is to amend existing revenue raising measures and/or introduce new revenue raising measures in order to increase the "total States income" and correspondingly reduce the possible deficit.
- 2.8. Analysis of revenue raising measures aligns with the fifth "ongoing initiative" which underpins delivery of the CSP priorities, namely: "A

sustainable long-term fiscal framework and public finances that make better use of our public assets” and will support Work Stream 3 of the Government Plan 2020-23, which is focussed on States revenues.

- 2.9. Any changes relating to revenue raising measures are, by definition, highly politicised and hence the Board will need to provide clear political direction on the measures considered.

3. Inclusions and Exclusions

- The Board should consider the appropriateness of the existing long term tax policy principles (see Appendix B).
- The initial priorities for the Board should be:
 - the personal tax review,
 - changes to social security contributions and the level of supplementation grant paid by the Government of Jersey,
 - the imminent need to raise the long term care charge, and
 - revenue measures associated with achieving environmental objectives
- The Board’s assessment of any measures should include consideration of the likely distributional impact and the impact on economic incentives.
- The Board will assess the principle of only charging once for a service/charging tax on income once.
- The Board will assess the value of commissioning a review which looks at how take home pay in Jersey (after housing costs and school fees) has changed over time and how it compares to similar jurisdictions.
- The Board will also consider the financial restrictions underlying the introduction of new user pays charges and increases in existing user pays charges (see Appendix C).
- In the context of user pays charges the Board will consider (i) the issue of cost recovery and how Government is ensuring that it is recovering the full costs incurred in delivering a service); and (ii) the issue of competition between Government and the private sector in the delivery of services and whether charges for these services should be increased to a higher amount.
- The Board will consider the interaction between the income support system and the taxation system.
- The Board’s considerations should be informed by the reports of the Income Forecast Group and long term fiscal modelling.
- The Board’s considerations should also be informed by the findings and recommendations of the Fiscal Policy Panel.
- The Board’s considerations should be informed by the findings and recommendations of the Social Security Review.
- The Board should consider any recommendations that are made by the Migration Policy Development Board
- It is not in the Board’s remit to consider fundamental changes to the structure of the corporate taxation regime.
- It is not within the remit of this Board to consider efficiencies and/or savings. However the Board will consider the interaction between contributions to the social security/long term care funds and the States grants into those funds.

- With the agreement of the Chair and the Chief Minister, any other matter which may be relevant may be considered

4. Membership

- 4.1. Minister for Treasury & Resources (Joint Chair); Chief Minister (Joint Chair); Minister for Social Security; Assistant Environment Minister; Deputy of St Mary.
- 4.2. Senior Responsible Officer: Richard Bell, Director-General, States Treasury & Exchequer.
- 4.3. Executive Support: Officers from the Tax Policy Unit (States Treasury & Exchequer); from Strategic Policy, Performance and Population and from the Economics Unit.
- 4.4. Lay Members: To be agreed by the Joint Chair of the Revenue Policy Development Board.

5. Roles and Responsibilities

- 5.1. The Board will be supported by officials, to the same standards and applying similar practices, including around the production of evidence, options, any reports, and public engagement, as officials would apply in supporting individual Ministers.
- 5.2. As such, officials are under an obligation to produce reports and provide thereon free and open access to information, subject to the standard requirements of taxpayer confidentiality, to members of the Board, and impartial advice.
- 5.3. Board members will respect the impartiality of officials, and maintain the confidentiality of any information or advice provided, in so far as it is not already in the public domain.

6. Timeline

- 6.1. To commence in summer 2019. Initially the output from the Board will support the progress of work stream 3 ("States Revenues") of the Government Plan 2020-23. It is anticipated that the Board will continue beyond this initial period and support subsequent Government Plan's lodged by the current Government.

7. Records and Reporting

- 7.1. Minutes of meetings will be taken to ensure that a proper official record is maintained, and published as soon as practical and appropriate, subject to the relevant FOI exemption concerning policy under development.

Appendix A – Relevant elements of Common Strategic Priorities

Elements of the Alignment to the Common Strategic Priorities 2018-2022¹ most directly relevant to the work of the Board are:

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

- We will improve Jersey's economic performance
- We will support and strengthen our financial services sector
- We will maintain tax neutrality

We will reduce income inequality and improve the standard of living:

- We will work towards a fair balance between wages, taxes and benefits, rents and living costs
- We will consider whether the Fiscal Strategy and Fiscal Framework need refreshing
- We will consult on the future of the personal tax system
- We will conclude the current review of the Social Security scheme, which is examining contribution rates, old age pensions and working age contributory benefits
- We will consider the interaction between personal income tax and social security benefits

¹ See:

<https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20Proposed%20Common%20Strategic%20Policy%2020181001%20VM.pdf>

Appendix B – current long term tax policy principles

- Taxation must be necessary, justifiable and sustainable.
- Taxes should be low, broad, simple and fair.
- Everyone should make an appropriate contribution to the cost of providing services, while those on the lowest incomes should be protected.
- Taxes must be internationally competitive.
- Taxation should support economic, environmental and social policy.
- Taxes should be easy to implement, administer and comply with, at a reasonable cost
- No individual tax measure will meet all these principles. But overall, the Island's tax regime should represent a sustainable balance of them

Appendix C – financial restrictions underlying the introduction of new user pays charges and increases in existing user pays charges

Introduction of new user pays charges

Any proposal to introduce a new charge needs the approval of the States (in accordance with P63/2003², which resulted in a States decision in June 2004). A “new” charge is one for a service for which charges have not previously been made.

User pays charges cannot exceed the cost of service provision, except where imposed by States trading operations.

Increases in existing user pays charges

The Anti-Inflation Strategy (p125/2000³) states that increases in States fees and charges should be limited to 2.5% per annum with compelling cases to be subject to the prior approval of the Minister for Treasury and Resources.

The aim of the States Anti-Inflation Strategy, as agreed by the States in September 2000, is to bear down on inflation in the Island. It was recognised from the outset that, because of the wide ranging involvement of the States in the Island’s economy, action on States fees and charges would need to be an important element of the Strategy.

² See: <https://statesassembly.gov.je/assemblypropositions/2003/39799-17796-1452003.pdf>

³ See: <https://statesassembly.gov.je/assemblypropositions/2000/21447-5663.pdf>