Review of Personal Tax
Work stream 2 – analysis of number and type of personal income taxpayers 2007-2015 ("the relevant period")

1. Executive summary

1.1. The definitions used by the Taxes Office when producing taxpayer data are critical to understanding the analysis provided in this paper. Full definitions are provided within this paper.

1.2. Over the relevant period the number in the "Personal Taxpayer Base" has increased by c.1,100 from 60,400 in 2007 to 61,500 in 2015. Over the relevant period the number in the "Personal Taxpayer Base" has varied between 59,900 (in 2009 and 2014) and 61,500 (in 2015).

1.3. The number of taxpayers in the "Personal Taxpayer Base" is broadly driven by two factors: (i) changes in the Island's resident population; and (ii) decisions taken by the Taxes Office regarding who should, and who should not, be issued with a tax return.

1.4. A separate exercise is being undertaken to help reconcile the "Personal Taxpayer Base" per the Taxes Office to the Island's resident population per the Statistics Unit.

1.5. As part of its continuing efficiency processes the Taxes Office seeks to reduce the number of tax returns it issues in cases where it is highly unlikely that the recipient of the return will have a positive income tax liability.

1.6. A specific, one off exercise was undertaken by Taxes Office staff to close "Non Productive Cases" in 2014. This exercise resulted in c.700 "Non Productive Cases" being closed. This exercise would therefore have reduced the "Personal Taxpayer Base" by c.700 in 2014 and later years.

1.7. Over the relevant period the proportion of "Personal Non-Taxpayers" has grown slightly. In 2007 "Personal Non-Taxpayers" comprised 22.2% of the "Personal Taxpayer Base", by 2015 this had grown to 24.1%.

1.8. The split of the "Personal Taxpayer Base" between the "Personal Taxpayers" and "Personal Non-Taxpayers" is broadly driven by the following two factors: (i) changes in tax rules – in particular changes in income tax exemption thresholds; and (ii) decisions taken by the Taxes Office regarding who to, and who not to, issue tax returns to.

1.9. Over the relevant period the majority of tax rule changes agreed by the States Assembly should have had little or no impact on the split of the "Personal Taxpayer Base" between the two categories. However where rule changes have impacted on the split, they have tended to increase the proportion of "Personal Non-Taxpayers".

1.10. The proportion of "Personal Non-Taxpayers" reduced from 27.2% in 2013 to 24.7% in 2014, it is likely that the one off exercise undertaken by Taxes Office staff to close "Non Productive Cases" was a contributory factor in this reduction.

1.11. Over the relevant period the proportion of "Marginal Rates Taxpayers" has grown from 68.3% in 2007 to 88.0% in 2015.

1.12. The split of “Personal Taxpayers” between “Standard Rate Taxpayers” and “Marginal Rate Taxpayers” is broadly driven by changes in tax rules. Over the relevant period the vast majority of tax rule changes agreed by the States Assembly have tended to increase the proportion of “Marginal Rate Taxpayers”.

1.13. The marked increases in the proportion of “Marginal Rate Taxpayers” in 2008, 2009, 2010 and 2011 were most likely a result of the “20-means-20” policy. As a result of the “20-means-20” policy a greater proportion of “Personal Taxpayers” found that the marginal rate calculation (which was not changed by the “20-means-20” policy) produced the lower tax liability under the Island’s dual calculation approach.

1.14. Most “Personal Taxpayers” who were impacted by “20-means-20” have seen that impact limited by the existence of the marginal rate calculation. At some point during the phase out period these “Personal Taxpayers” found that the marginal rate calculation resulted in the lower tax liability; once this point was reached they were not impacted further by the “20-means-20” policy. These “Personal Taxpayers” transferred from being “Standard Rate Taxpayers” to “Marginal Rate Taxpayers” as a direct result of the “20-means-20” policy and paid more income tax.

1.15. The marked increase in the proportion of “Marginal Rate Taxpayers” in 2014 was most likely a result of the reduction in the marginal tax rate from 27% to 26%. As a consequence of the reduction in the marginal tax rate a number of “Standard Rate Taxpayers” found that the marginal rate calculation produced the lower tax liability under the Island’s dual calculation approach. These “Personal Taxpayers” transferred from being “Standard Rate Taxpayers” to “Marginal Rate Taxpayers” as a direct result of the reduction in the marginal tax rate.

2. Findings: Taxes Office definitions

2.1. The definitions used by the Taxes Office when producing taxpayer data are critical to understanding the analysis provided in this paper.

2.2. A graphical representation of these definitions is provided in Appendix A; this graphical representation aims to aid understanding of how these definitions interrelate.

2.3. The **"Personal Taxpayer Base"** is the summation of the number of "Personal Taxpayers" and the number of "Personal Non-Taxpayers".

2.4. A **"Personal Taxpayer"** is an individual/married couple/civil partnership that pays personal income tax, based on their own liability, in Jersey, for the particular year. A "Personal Taxpayer" whose liability is less than £50 for a particular is year is counted as a "Personal Non-Taxpayer". "Personal Taxpayers" includes:

- Single individuals (counted as one personal taxpayer)
- Married couples/civil partnerships (counted as one personal taxpayer as they do not have separate tax liabilities).
- Married couples/civil partners that have elected for separate assessment (counted as two personal taxpayers as they have separate tax liabilities).

2.5. A **"Personal Non-Taxpayer"** is an individual/married couple/civil partnership who has been issued with an income tax return and does not have a positive income tax liability for the tax year, based on the income, allowances, reliefs and deductions for the year.

2.6. The population of "Personal Non-Taxpayers" therefore does not include individuals/ married couples/civil partnerships that have not been issued with an income tax return, such as students that register for holiday job purposes only and therefore have an income well below the exemption threshold and other members of the Island's resident population who have not been issued with an income tax return because their income has consistently been below the exemption threshold and their specific circumstances dictate that it is unlikely they will pay tax in the future.

2.7. Consistent with "Personal Taxpayers", "Personal Non-Taxpayers" includes:

- Single individuals (counted as one personal non-taxpayer)
- Married couples/civil partnerships (counted as one personal non-taxpayer as they do not have separate tax liabilities).
- Married couples/civil partners that have elected for separate assessment (counted as two personal non-taxpayers as they have separate tax liabilities).

2.8. The population of "Personal Taxpayers" can be broken down into two groups: "Standard Rate Taxpayers" and "Marginal Rate Taxpayers".

2.9. A **"Standard Rate Taxpayer"** is a "Personal Taxpayer" whose income tax liability is calculated by reference to the standard rate calculation (i.e. the taxpayer pays less tax under the standard rate calculation than under the marginal rate calculation).

2.10. A **"Marginal Rate Taxpayer"** is a "Personal Taxpayer" whose income tax liability is calculated by reference to the marginal rate calculation (i.e. the taxpayer pays less tax under the marginal rate calculation than under the standard rate calculation).

3. Findings: Analysis of available data – "Personal Taxpayer Base"

3.1. Data relating to the "Personal Taxpayer Base" over the "relevant period"[1] is provided in Appendix B.

3.2. Over the relevant period the number in the "Personal Taxpayer Base" has increased by c.1,100 from 60,400 in 2007 to 61,500 in 2015. Over the relevant period the number in the "Personal Taxpayer Base" has varied between 59,900 (in 2009 and 2014) and 61,500 (in 2015).

3.3. The number of taxpayers in the "Personal Taxpayer Base" is broadly driven by two factors: (i) changes in the Island's resident population; and (ii) decisions taken by the Taxes Office regarding who should, and who should not, be issued with a tax returns.

3.4. A separate exercise is being undertaken to reconcile the "Personal Taxpayer Base" per the Taxes Office to the Island's resident population per the Statistics Unit. Therefore this paper has been limited to including the following high level comments on some of the factors that will necessarily result in the "Personal Taxpayer Base" being smaller than the Island's resident population:

- children are counted for population statistics purposes, but are usually excluded from the "Personal Taxpayer Base"; and
- married couples, and those in civil partnerships, are counted as two people for statistical purposes, but are deemed to be one taxpayer under the Income Tax Law and hence counted as one in the "Personal Taxpayer Base"

3.5. It costs the public money to print tax returns and have them posted; it also costs the public for the completed tax returns to be processed and the resulting notice of assessment issued and posted. As part of continuing efficiency processes the Taxes Office therefore seeks to reduce the number of tax returns it issues in cases where it is highly unlikely that the recipient of the return will have a positive income tax liability[2].

3.6. As tax returns are processed by Taxes Office staff they seek to close what are internally labelled as "Non Productive Cases", especially in those cases where there is a good degree of certainty that no future tax liability will arise (e.g. a pensioner with minimal fixed income and no significant assets). The amount of time dedicated to this task in any one year depends on the competing demands on Taxes Office staff.

3.7. A specific, one off exercise was undertaken by Taxes Office staff to close "Non Productive Cases" in 2014. This exercise resulted in c.700 "Non Productive Cases" being closed. This exercise would therefore have reduced the "Personal Taxpayer Base" by c.700 in 2014 and later years.

[1] For the purposes of this paper the "relevant period" is from year of assessment 2007 up to and including year of assessment 2015.

[2] This has the additional benefit of reducing the administrative burden falling on those taxpayers who are highly unlikely to have a positive income tax liability (i.e. they do not need to complete an income tax return).

4. Findings: Analysis of available data – proportion of “Personal Taxpayers” vs “Personal Non-Taxpayers”

4.1. Data relating to the proportion of “Personal Taxpayers” vs “Personal Non-Taxpayers” over the “relevant period” is provided in Appendix C.

4.2. Over the relevant period the proportion of “Personal Non-Taxpayers” has grown slightly. In 2007 “Personal Non-Taxpayers” comprised 22.2% of the “Personal Taxpayer Base”, by 2015 this had grown to 24.1%.

4.3. The split of the “Personal Taxpayer Base” between the two categories is broadly driven by the following factors: (i) changes in tax rules[3] – in particular changes in income tax exemption thresholds; and (ii) decisions taken by the Taxes Office regarding who to, and who not to, issue tax returns to.[4]

4.4. Over the relevant period[5] the majority of rule changes in the personal income tax system should have had little or no impact on the split of the “Personal Taxpayer Base” between the two categories.

4.5. However where rule changes have impacted on the split, they have tended to increase the proportion of “Personal Non-Taxpayers”. This is demonstrated in the following table:

Rule changes – likely to <u>increase</u> proportion of “Personal Non-Taxpayers”	**Rule changes – likely to <u>decrease</u> proportion of “Personal Non-Taxpayers”**
<u>2008:</u> 6.5% increase in income tax exemption thresholds (above increases in both inflation and average earnings)	<u>2010:</u> freeze income tax exemption thresholds
<u>2008:</u> increase in child allowance in both the marginal and standard rate calculations	<u>2014:</u> 1.5% increase in income tax exemption thresholds (consistent with inflation but below the increase in average earnings)
<u>2009:</u> 5.0% increase in income tax exemption thresholds (above increases in both inflation and average earnings)	<u>2015:</u> 1.7% increase in income tax exemption thresholds (consistent with increase in inflation but below the increase in average earnings)
<u>2012:</u> 4.5% increase in income tax exemption thresholds (consistent with increase in inflation but above increase in average earnings)	<u>2015:</u> Introduce cap of £15,000 on the amount of mortgage interest deductible in the year
<u>2012:</u> increased child care tax relief available in respect of pre-school age children	
<u>2013:</u> 3.0% increase in income tax exemption thresholds (consistent with increase in inflation but above increase in average earnings)	

[3] A summary of the significant changes to the personal income tax system during the relevant period is provided in Appendix D.
[4] For these purposes it has been assumed that newly registered taxpayers broadly split between “Personal Taxpayers” and “Personal Non-Taxpayers” in the same proportion as the existing “Personal Taxpayer Base”.
[5] Similar analysis of the changes made to the personal income tax system after the relevant period have been included in Appendix F for completeness.

2014: increase in allowance for children in higher education in the marginal rate calculation	

4.6. Therefore over the relevant period, all other things being equal, the tax rule changes agreed by the States Assembly should result in the proportion of “Personal Non-Taxpayers” increasing. This is consistent with the data provided in Appendix C.

4.7. In particular, all other things being equal, based on the tax rule changes agreed by the States Assembly the proportion of “Personal Non-Taxpayers” should increase in every year with the exception of 2010, 2014 and 2015. This is consistent with the data provided in Appendix C.

4.8. As noted above, as part of its continuing efficiency processes the Taxes Office seeks to reduce the number of tax returns it issues in cases where it is highly unlikely that the recipient will have a positive income tax liability (labelled by the Taxes Office as “Non Productive Cases”).

4.9. All other things being equal, the closure of “Non Productive Cases” should result in a decrease in the proportion of “Personal Non-Taxpayers”.

4.10. As noted above, a one off exercise was undertaken by Taxes Office staff to close “Non Productive Cases” in 2014. This exercise resulted in c.700 “Non Productive Cases” being closed. As outlined in the data provided in Appendix C, the proportion of “Personal Non-Taxpayers” reduced from 27.2% in 2013 to 24.7% in 2014, it is likely that the one off exercise undertaken by Taxes Office staff was a contributory factor in this reduction.

5. Findings: Analysis of available data – proportion of "Standard Rate Taxpayers" vs "Marginal Rate Taxpayers"

5.1. Data relating to the proportion of "Standard Rate Taxpayers" vs "Marginal Rate Taxpayers" over the "relevant period" is provided in Appendix E.

5.2. Over the relevant period the proportion of "Marginal Rates Taxpayers" has grown from 68.3% in 2007 to 88.0% in 2015.

5.3. The proportion of "Marginal Rate Taxpayers" increased markedly in the years 2008, 2009, 2010, 2011 and 2014.

5.4. The split of "Personal Taxpayers" between the two categories is broadly driven by changes in tax rules.

5.5. Over the relevant period[6] the vast majority of tax rule changes agreed by the States Assembly have tended to increase the proportion of "Marginal Rate Taxpayers". This is demonstrated in the following table:

Rule changes – likely to <u>increase</u> proportion of "Marginal Rate Taxpayers"	**Rule changes – likely to <u>decrease</u> proportion of "Marginal Rate Taxpayers"**
<u>2008:</u> 6.5% increase in income tax exemption thresholds (above increases in both inflation and average earnings)	<u>2010:</u> Freeze income tax exemption thresholds
<u>2008:</u> Reduction of personal allowance in standard rate calculation ("20-means-20" measure)	<u>2012:</u> Reduction of tax relief available for pension contributions for those with income above £150,000
<u>2008:</u> Reduction of wife's earned income allowance in standard rate calculation ("20-means-20" measure)	<u>2014:</u> 1.5% increase in income tax exemption thresholds (consistent with inflation but below the increase in average earnings)
<u>2008:</u> Reduction of mortgage interest tax relief in the standard rate calculation ("20-means-20" measure)	<u>2015:</u> 1.7% increase in income tax exemption thresholds (consistent with increase in inflation but below the increase in average earnings)
<u>2008:</u> Reduction of relief for private medical insurance premiums in the standard rate calculation ("20-means-20" measure).	<u>2015:</u> Introduce cap of £15,000 on the amount of mortgage interest deductible in the year
<u>2009:</u> 5.0% increase in income tax exemption thresholds (above increases in both inflation and average earnings)	
<u>2009:</u> Reduction of personal allowance in standard rate calculation ("20-means-20" measure)	
<u>2009:</u> Reduction of wife's earned income allowance in standard rate calculation ("20-means-20" measure)	

[6] Similar analysis of the changes made to the personal income tax system after the relevant period have been included in Appendix F for completeness.

<u>2009:</u> Reduction of mortgage interest tax relief in the standard rate calculation (“20-means-20” measure)	
<u>2009:</u> Reduction of relief for private medical insurance premiums in the standard rate calculation (“20-means-20” measure).	
<u>2009:</u> Increase the maximum amount of relief available for pension contributions to £50,000	
<u>2010:</u> Reduction of personal allowance in standard rate calculation (“20-means-20” measure)	
<u>2010:</u> Reduction of wife’s earned income allowance in standard rate calculation (“20-means-20” measure)	
<u>2010:</u> Reduction of mortgage interest tax relief in the standard rate calculation (“20-means-20” measure)	
<u>2010:</u> Reduction of relief for private medical insurance premiums in the standard rate calculation (“20-means-20” measure).	
<u>2011:</u> Reduction of personal allowance in standard rate calculation (“20-means-20” measure)	
<u>2011:</u> Reduction of wife’s earned income allowance in standard rate calculation (“20-means-20” measure)	
<u>2011:</u> Reduction of mortgage interest tax relief in the standard rate calculation (“20-means-20” measure)	
<u>2011:</u> Reduction of relief for private medical insurance premiums in the standard rate calculation (“20-means-20” measure).	
<u>2012:</u> 4.5% increase in income tax exemption thresholds (consistent with increase in inflation but above increase in average earnings)	
<u>2012:</u> Increased child care tax relief available in respect of pre-school age children	
<u>2013:</u> 3.0% increase in income tax exemption thresholds (consistent with increase in inflation but above increase in average earnings)	
<u>2013:</u> Removal of remaining tax relief for life insurance premiums in the standard rate calculation	
<u>2014:</u> Decrease in the marginal tax rate to 26%	

2014: Increase in allowance for children in higher education in the marginal rate calculation	

5.6. The marked increases in the proportion of “Marginal Rate Taxpayers” in 2008, 2009, 2010 and 2011 was most likely a result of the “20-means-20” policy. Under the “20-means-20” policy allowances and reliefs were phased out from the standard rate calculation over a five year period from 2007 to 2011.

5.7. The impact of this change to the standard rate calculation was that a greater proportion of “Personal Taxpayers” found that the marginal rate calculation (which was not changed by the “20-means-20” policy) produced the lower tax liability under the Island’s dual calculation approach.

5.8. For the avoidance of doubt, the majority of “Personal Taxpayers” were not impacted by the “20-means-20” policy. Prior to the implementation of “20-means-20” they were taxed by reference to the marginal rate calculation (i.e. the marginal rate calculation produced the lower tax liability) and they have continued to be taxed by reference to the marginal rate calculation. These “Personal Taxpayers” were not impacted by the “20-means-20” policy.

5.9. The minority of “Personal Taxpayers” who were impacted have seen their effective tax rate (i.e. income tax liability *divided by* taxable income[7]) increase, consistent with the stated aim of the “20-means-20” policy.

5.10. However the majority of “Personal Taxpayers” who were impacted by “20-means-20” have seen that impact limited by the existence of the marginal rate calculation. At some point during the phase out period these “Personal Taxpayers” found that the marginal rate calculation resulted in the lower tax liability; once this point was reached they were not impacted further by the “20-means-20” policy.

5.11. These “Personal Taxpayers” transferred from being “Standard Rate Taxpayers” to “Marginal Rate Taxpayers” as a direct result of the “20-means-20” policy and paid more income tax[8].

5.12. The marked increase in the proportion of “Marginal Rate Taxpayers” in 2014 was most likely a result of the reduction in the marginal tax rate from 27% to 26%.

5.13. The reduction in the marginal tax rate reduced the income tax payable by all “Marginal Rate Taxpayers”.

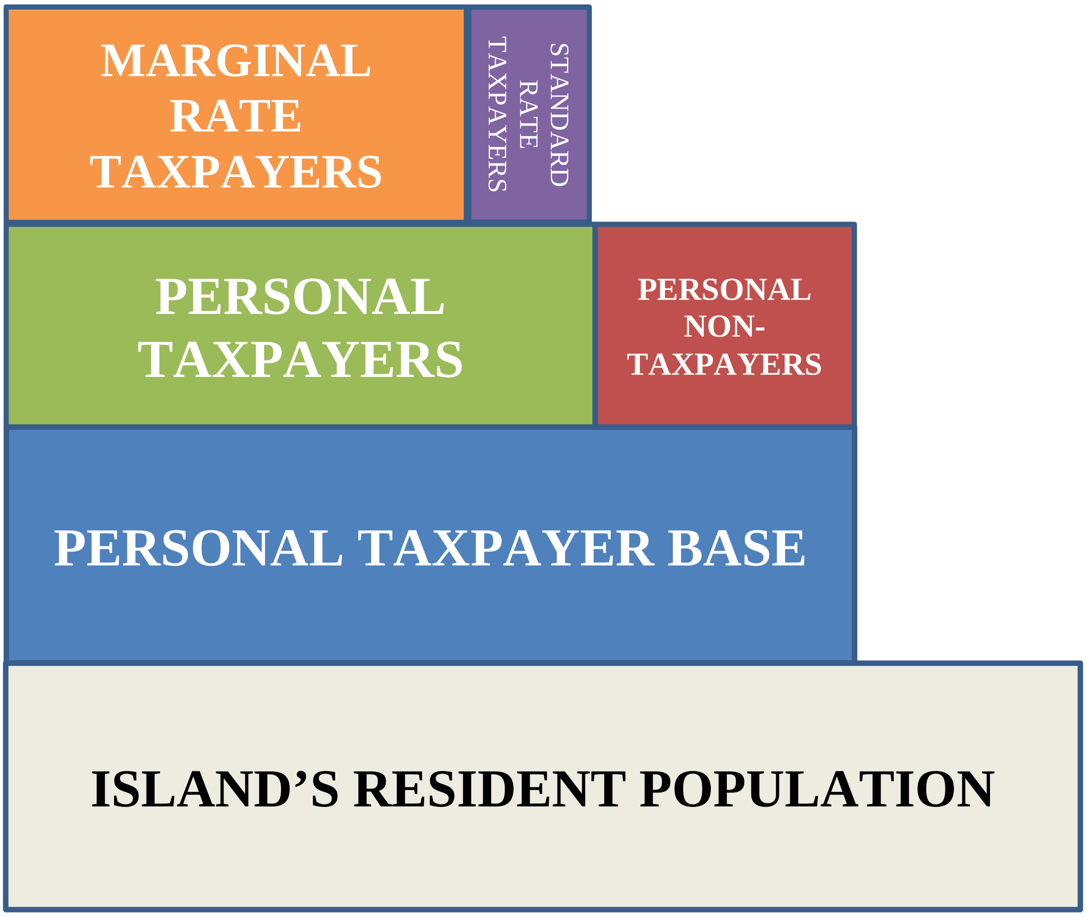
5.14. For a number of “Standard Rate Taxpayers” they found that the reduction in the marginal tax rate meant that the marginal rate calculation produced the lower tax liability under the Island’s dual calculation approach.

5.15. These “Personal Taxpayers” transferred from being “Standard Rate Taxpayers” to “Marginal Rate Taxpayers” as a direct result of the reduction in the marginal tax rate.

[7] For the avoidance of doubt, this is not the same as a taxpayer’s “ITIS effective rate”. It is not unusual for a taxpayer’s “effective rate” to differ to some degree from their “ITIS effective rate”.

[8] Graphs which help to explain this analysis are provided in Appendix G. An estimate of the number of “Personal Taxpayers” who converted from being a “Standard Rate Taxpayer” to a “Marginal Rate Taxpayer” as a direct consequence of “20-means-20” has been provided in Appendix H.

Appendix A
Graphical representation of Taxes Office definitions



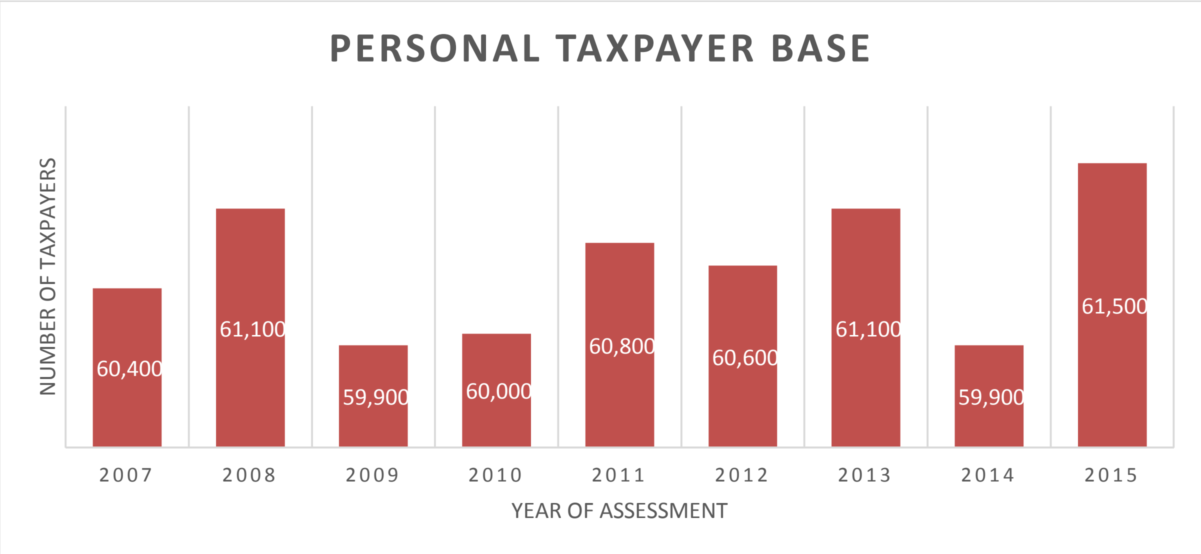
Appendix B
Data relating to “Personal Taxpayer Base”

Table 1 – “Personal Taxpayer Base”: 2007-2015

YOA	2007	2008	2009	2010	2011	2012	2013	2014	2015
Personal non-taxpayers	13,400	13,600	14,000	14,000	14,300	15,400	16,600	14,800	14,800
Personal taxpayers	47,000	47,500	45,900	46,000	46,500	45,200	44,500	45,100	46,700
Personal taxpayer base	**60,400**	**61,100**	**59,900**	**60,000**	**60,800**	**60,600**	**61,100**	**59,900**	**61,500**

Source: Taxes Office records

Graph 1 – “Personal Taxpayer Base”: 2007-2015



Source: Taxes Office records

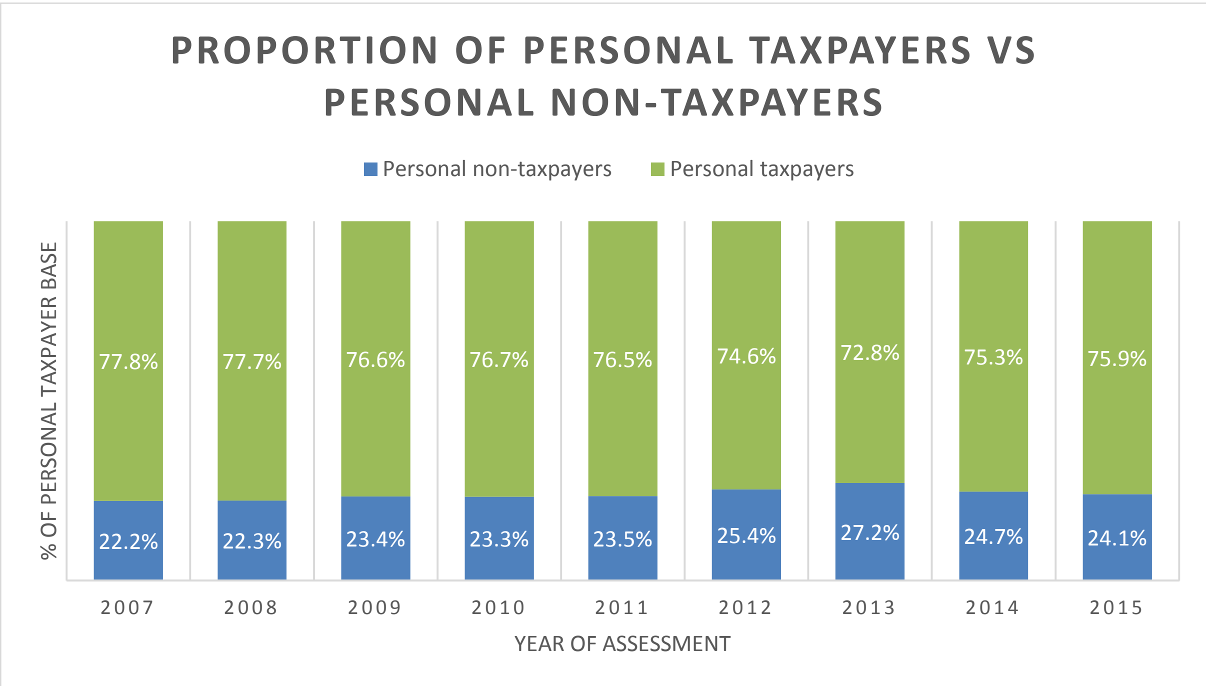
Appendix C
Proportion of “Personal Taxpayers” vs “Personal Non-Taxpayers”

Table 2 – Analysis of “Personal Taxpayer Base”: 2007-2015

YOA	2007	2008	2009	2010	2011	2012	2013	2014	2015
Personal non-taxpayers	13,400	13,600	14,000	14,000	14,300	15,400	16,600	14,800	14,800
Personal taxpayers	47,000	47,500	45,900	46,000	46,500	45,200	44,500	45,100	46,700
Personal taxpayer base	**60,400**	**61,100**	**59,900**	**60,000**	**60,800**	**60,600**	**61,100**	**59,900**	**61,500**

Source: Taxes Office records

Graph 2 – Proportion of “Personal Taxpayers” vs “Personal Non-Taxpayers”: 2007-2015



Source: Taxes Office records

Appendix D
Significant changes in personal income tax system by year of assessment

<u>Year of Assessment 2008</u>

Change in personal income tax system	Impact on type of taxpayers
6.5% increase in income tax exemption thresholds (above increases in both inflation and average earnings)	Exempt taxpayers ↑ Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Reduction of personal allowance in standard rate calculation (“20-means-20” measure)	Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Reduction of wife’s earned income allowance in standard rate calculation (“20-means-20” measure)	Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Reduction of mortgage interest tax relief in the standard rate calculation (“20-means-20” measure)	Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Reduction of relief for private medical insurance premiums in the standard rate calculation (“20-means-20” measure).	Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Increase in child allowance in both the marginal and standard rate calculations	Exempt taxpayers ↑ Marginal rate and standard rate taxpayers ↓ (split between marginal and standard rate taxpayers unclear)

Year of assessment 2008 was the second year of “20-means-20” which involved the phasing out of allowances in the standard rate calculation – in this year the allowances which were phased out under “20-means-20” were reduced by a further 20% (in YOA 2008 cumulatively 40% of the allowances had been phased out).

<u>Year of Assessment 2009</u>

Change in personal income tax system	Impact on type of taxpayers
5.0% increase in income tax exemption thresholds (above increases in both inflation and average earnings)	Exempt taxpayers ↑ Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Reduction of personal allowance in standard rate calculation (“20-means-20” measure)	Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Reduction of wife’s earned income allowance in standard rate calculation (“20-means-20” measure)	Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Reduction of mortgage interest tax relief in the standard rate calculation (“20-means-20” measure)	Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Reduction of relief for private medical insurance premiums in the standard rate calculation (“20-means-20” measure).	Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Increase the maximum amount of relief available for pension contributions to £50,000	Marginal rate taxpayers ↑ Standard rate taxpayers ↓

	(unlikely to have an impact on those lower down the income distribution who are unlikely to make additional pension contributions as a result of this change)

Year of assessment 2009 was the third year of “20-means-20” which involved the phasing out of allowances in the standard rate calculation – in this year the allowances which were phased out under “20-means-20” were reduced by a further 20% (in YOA 2009 cumulatively 60% of the allowances had been phased out).

Year of Assessment 2010

Change in personal income tax system	**Impact on type of taxpayers**
Freeze income tax exemption thresholds	Exempt taxpayers ↓ Marginal rate taxpayers ↑ Standard rate taxpayers ↑
Reduction of personal allowance in standard rate calculation (“20-means-20” measure)	Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Reduction of wife’s earned income allowance in standard rate calculation (“20-means-20” measure)	Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Reduction of mortgage interest tax relief in the standard rate calculation (“20-means-20” measure)	Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Reduction of relief for private medical insurance premiums in the standard rate calculation (“20-means-20” measure).	Marginal rate taxpayers ↑ Standard rate taxpayers ↓

Year of assessment 2010 was the fourth year of “20-means-20” which involved the phasing out of allowances in the standard rate calculation – in this year the allowances which were phased out under “20-means-20” were reduced by a further 20% (in YOA 2010 cumulatively 80% of the allowances had been phased out).

Year of Assessment 2011

Change in personal income tax system	**Impact on type of taxpayers**
1.1% increase in income tax exemption thresholds (consistent with increase in average earnings)	Broadly neutral impact
Reduction of personal allowance in standard rate calculation (“20-means-20” measure)	Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Reduction of wife’s earned income allowance in standard rate calculation (“20-means-20” measure)	Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Reduction of mortgage interest tax relief in the standard rate calculation (“20-means-20” measure)	Marginal rate taxpayers ↑ Standard rate taxpayers ↓

Reduction of relief for private medical insurance premiums in the standard rate calculation ("20-means-20" measure).	Marginal rate taxpayers ↑ Standard rate taxpayers ↓

Year of assessment 2011 was the fifth and final year of "20-means-20" which involved the phasing out of allowances in the standard rate calculation – in this year the allowances which were phased out under "20-means-20" were reduced by a further 20% (in YOA 2011 cumulatively 100% of the allowances had been phased out).

Year of Assessment 2012

Change in personal income tax system	**Impact on type of taxpayers**
4.5% increase in income tax exemption thresholds (consistent with increase in inflation but above increase in average earnings)	Exempt taxpayers ↑ Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Increased child care tax relief available in respect of pre-school age children	Exempt taxpayers ↑ Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Reduction of tax relief available for pension contributions for those with income above £150,000	Marginal rate taxpayers ↓ Standard rate taxpayers ↑

Year of Assessment 2013

Change in personal income tax system	**Impact on type of taxpayers**
3.0% increase in income tax exemption thresholds (consistent with increase in inflation but above increase in average earnings)	Exempt taxpayers ↑ Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Removal of remaining tax relief for life insurance premiums in the standard rate calculation	Marginal rate taxpayers ↑ Standard rate taxpayers ↓

Year of Assessment 2014

Change in personal income tax system	**Impact on type of taxpayers**
1.5% increase in income tax exemption thresholds (consistent with inflation but below the increase in average earnings)	Exempt taxpayers ↓ Marginal rate and standard rate taxpayers ↑ (split between marginal and standard rate taxpayers unclear)
Decrease in the marginal tax rate to 26%	Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Increase in allowance for children in higher education in the marginal rate calculation	Exempt taxpayers ↑ Marginal rate taxpayers ↑ Standard rate taxpayers ↓

Year of Assessment 2015

Change in personal income tax system	**Impact on type of taxpayers**
1.7% increase in income tax exemption thresholds (consistent with increase in inflation but below the increase in average earnings)	Exempt taxpayers ↓ Marginal rate and standard rate taxpayers ↑ (split between marginal and standard rate taxpayers unclear)
Introduce cap of £15,000 on the amount of mortgage interest deductible in the year	Exempt taxpayers ↓ Marginal rate taxpayers ↓ Standard rate taxpayers ↑

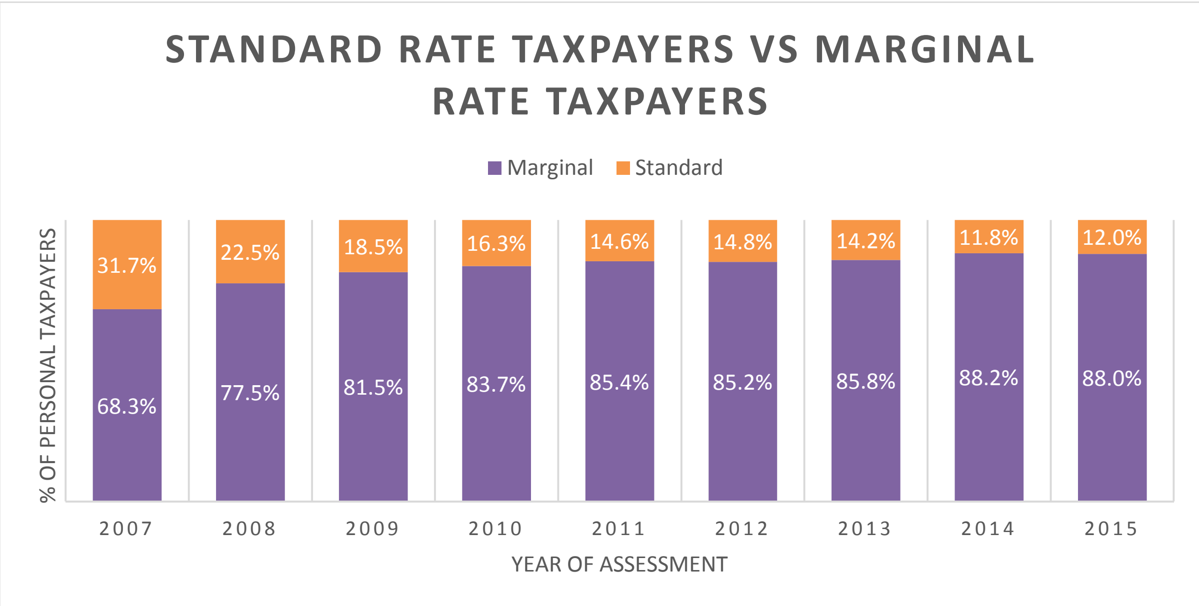
Appendix E
Proportion of “Standard Rate Taxpayers” vs “Marginal Rate Taxpayers”

Table 3 – Analysis of “Personal Taxpayers”: 2007-2015

YOA	2007	2008	2009	2010	2011	2012	2013	2014	2015
Marginal Rate Taxpayers	32,100	36,800	37,400	38,500	39,700	38,500	38,200	39,800	41,100
Standard Rate Taxpayers	14,900	10,700	8,500	7,500	6,800	6,700	6,300	5,300	5,600
Personal Taxpayers	**47,000**	**47,500**	**45,900**	**46,000**	**46,500**	**45,200**	**44,500**	**45,100**	**46,700**

Source: Taxes Office records

Graph 3 – Proportion of “Standard Rate Taxpayers” vs “Marginal Rate Taxpayers”: 2007-2015



Source: Taxes Office records

Appendix F
Significant changes in personal income tax system in Years of Assessment 2015 – 2017

<u>Year of Assessment 2016</u>

Change in personal income tax system	**Impact on type of taxpayers**
0.9% increase in income tax exemption thresholds (consistent with increase in inflation but below the increase in average earnings)	Exempt taxpayers ↓ Marginal rate and standard rate taxpayers ↑ (split between marginal and standard rate taxpayers unclear)
Reduction of child allowance and additional personal allowances in the standard rate calculation (1st year of 3 year phase out period)	Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Increased child care tax relief available in respect of pre-school age children	Exempt taxpayers ↑ Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Reduce the BIK exemption from £1,000 to £250	Exempt taxpayers ↓ Marginal rate taxpayers ↓ Standard rate taxpayers ↑

<u>Year of Assessment 2017</u>

Change in personal income tax system	**Impact on type of taxpayers**
1.5% increase in income tax exemption thresholds (consistent with inflation but below the increase in average earnings)	Exempt taxpayers ↓ Marginal rate and standard rate taxpayers ↑ (split between marginal and standard rate taxpayers unclear)
Increase the second earner’s allowance to £5,000	Exempt taxpayers ↑ Marginal rate taxpayers ↑ Standard rate taxpayers ↓
Reduce the cap on the amount of mortgage interest deductible in the year to £13,500	Exempt taxpayers ↓ Marginal rate taxpayers ↓ Standard rate taxpayers ↑
Increased child care tax relief available in respect of pre-school age children	Exempt taxpayers ↑ Marginal rate taxpayers ↑ Standard rate taxpayers ↓

These changes have been analysed in a consistent manner to that shown in paragraph 4.5 below:

Rule changes – likely to <u>increase</u> proportion of “Personal Non-Taxpayers”	**Rule changes – likely to <u>decrease</u> proportion of “Personal Non-Taxpayers”**
<u>2016:</u> Increased child care tax relief available in respect of pre-school age children	<u>2016:</u> 0..9% increase in income tax exemption thresholds (consistent with increase in inflation but below the increase in average earnings)
<u>2017;</u> Increase the second earner’s allowance to £5,000	<u>2016:</u> Reduce the BIK exemption from £1,000 to £250

2017: Increased child care tax relief available in respect of pre-school age children	2017: 1.5% increase in income tax exemption thresholds (consistent with inflation but below the increase in average earnings)
	2017: Reduce the cap on the amount of mortgage interest deductible in the year to £13,500

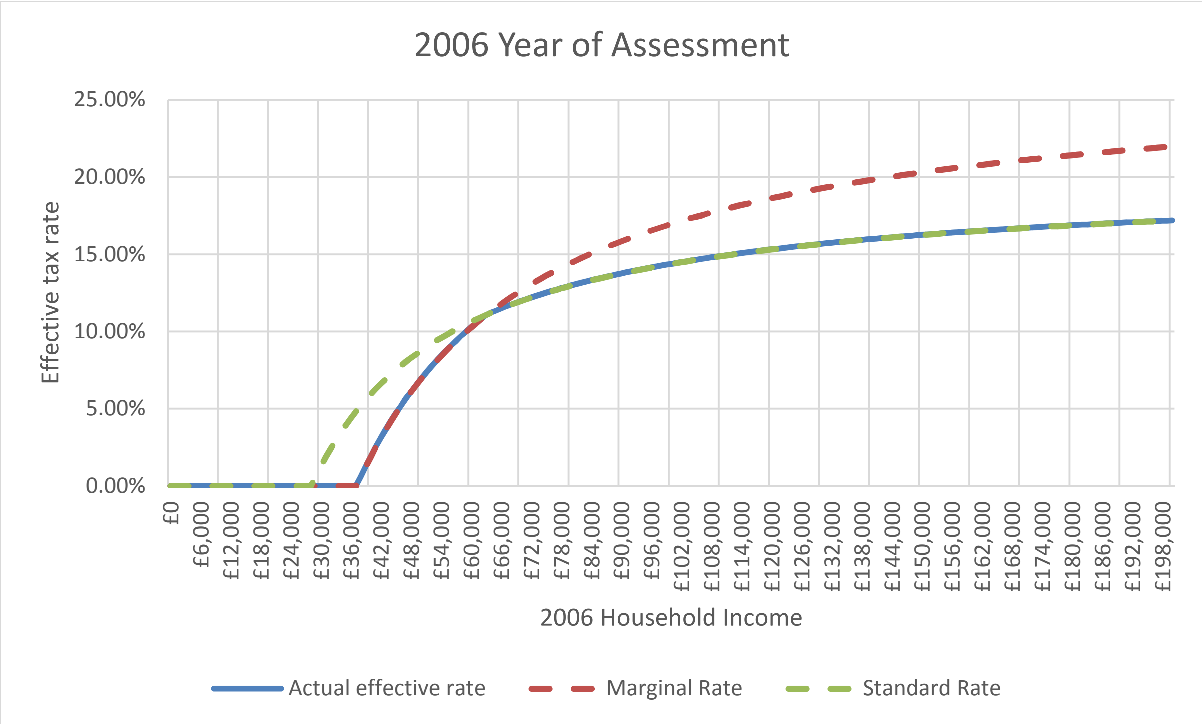
These changes have been analysed in a consistent manner to that shown in paragraph 5.5 below:

Rule changes – likely to increase proportion of “Marginal Rate Taxpayers”	**Rule changes – likely to decrease proportion of “Marginal Rate Taxpayers”**
2016: Reduction of child allowance and additional personal allowances in the standard rate calculation (1st year of 3 year phase out period)	2016: 0.9% increase in income tax exemption thresholds (consistent with increase in inflation but below the increase in average earnings)
2016: Increased child care tax relief available in respect of pre-school age children	2016: Reduce the BIK exemption from £1,000 to £250
2017: Increase the second earner’s allowance to £5,000	2017: 1.5% increase in income tax exemption thresholds (consistent with inflation but below the increase in average earnings)
2017: Increased child care tax relief available in respect of pre-school age children	2017: Reduce the cap on the amount of mortgage interest deductible in the year to £13,500

Appendix G
Graphs to help explain impact of "20-means-20" on proportion of "Standard Rate Taxpayers" vs "Marginal Rate Taxpayers"

Details of the Household: Married, no children, both working (pay split equally), all income is earnings, £300,000 of mortgage debt with 5% interest rate[9]

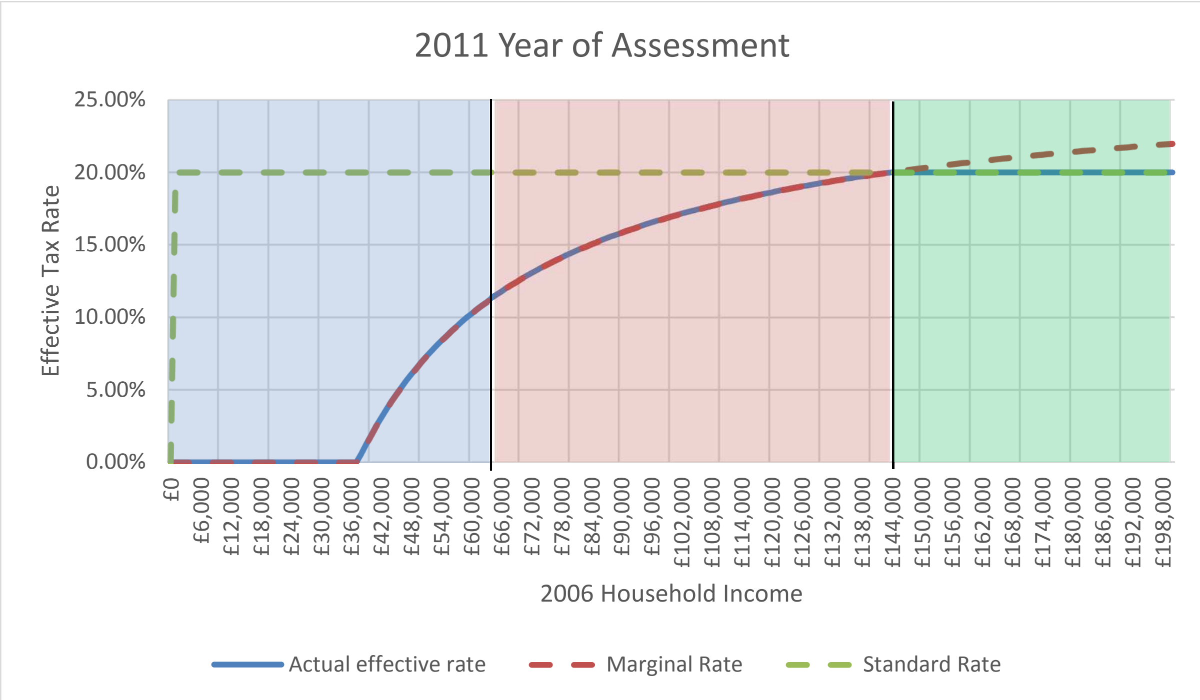
Graph 4 – Year of Assessment 2006 (pre "20-means-20") effective tax rate: marginal rate, standard rate and actual effective tax rate



Source: Tax Policy Unit analysis

[9] Broadly consistent with Household 3 included within the Oxera Report "Assessing the distributional impact of key changes in taxes and contributions between 2006 and 2015" with the exception of pension contributions.

Graph 5 – Year of Assessment 2011 (completion of "20-means-20")[10] effective tax rate: marginal rate, standard rate and actual effective tax rate



Source: Tax Policy Unit analysis

Explanation of graphs:

- For income levels below c.£63,000 (*the blue zone*) this household was not impacted by "20-means-20" (i.e. it did not increase their income tax liability).

- For example, at a household income level of £50,000:
  - In 2006 the household's income tax liability was calculated by reference to the marginal rate calculation and resulted in an effective tax rate of 6.92%
  - In 2011 the household's income tax liability was unchanged, still calculated by reference to the marginal rate calculation and resulting in an effective tax rate of 6.92%

- For income levels between c.£63,000 and c.£143,000 (*the pink zone*) this household was impacted by "20-means-20" (i.e. it did increase their income tax liability). At these income levels the household "converted" from being having its tax liability calculated by reference to the standard rate calculation to having its tax liability calculated by reference to the marginal rate calculation and paid more tax.

- For example, at a household income level of £100,000:
  - In 2006 the household's income tax liability was calculated by reference to the standard rate calculation and resulted in an effective tax rate of 14.38%
  - In 2011 the household's income tax liability was calculated by reference to the marginal rate calculation and resulted in an effective tax rate of 16.96%

[10] Adopting the same approach as Oxera, to aid comparability the exemption thresholds and household income have remained at 2006 levels in this graph – this helps to identify the specific impact of "20-means-20".

- For income levels above c.£143,000 (*the green zone*) this household was impacted by "20-means-20" (i.e. it did increase their income tax liability). At these income levels the household had its tax liability calculated by reference to the standard rate calculation throughout and paid more tax.

- For example, at a household income level of £150,000:
    - In 2006 the household's income tax liability was calculated by reference to the standard rate calculation and resulted in an effective tax rate of 16.25%
    - In 2011 the household's income tax liability was calculated by reference to the standard rate calculation and resulted in an effective tax rate of 20.00%

Appendix H
Estimate of number of “Personal Taxpayers” who converted from being a “Standard Rate Taxpayer” to “Marginal Rate Taxpayer” as a consequence of “20-means-20”

An estimate of the number of “Personal Taxpayers” who converted from being a “Standard Rate Taxpayer” to a “Marginal Rate Taxpayer” as a direct consequence of “20-means-20” has been sought utilising the following methodology:

- Identify all “Standard Rate Taxpayers” in year of assessment 2006 (i.e. pre-“20-means-20”);
- Complete the dual calculation approach on their 2006 taxable income but apply the 2011 rules (i.e. post-“20-means-20”) regarding the allowances available in the standard rate calculation (i.e. leaving all other parts of the calculation based on the 2006 rules); and
- Determine the number of “Standard Rate Taxpayers” who convert to being a “Marginal Rate Taxpayer” as a consequence of this change in the calculation.

Under this methodology it is estimated that approximately 10,000 taxpayers converted from being a “Standard Rate Taxpayer” to a “Marginal Rate Taxpayer” as a direct consequence of “20-means-20”.

The production of a similar estimate based on the reverse methodology (i.e. identify all “Marginal Rate Taxpayers” in year of assessment 2011 and apply the 2006 rules (i.e. pre-“20-means-20”) regarding the allowances available in the standard rate calculation to determine the number of “Marginal Rate Taxpayers” who convert to being a “Standard Rate Taxpayer” as a consequence of this change in the calculation) would be a useful check of the above estimate; however it is not possible to produce this further estimate with the modelling tools currently available to the Taxes Office.