Draft Budget Statement 2014
(P.122/2013): First Amendment

Response to Deputy Southern's amendment

After the words "as set out in the Budget Statement" insert the words –
"except that –
(i) income tax exemptions for the year of assessment 2014 shall not be increased by 1.5% as proposed in the draft Budget Statement;
(ii) the marginal rate for the year of assessment 2014 shall not be decreased from 27% to 26% as proposed in the draft Budget Statement;
(iii) the estimate of income from taxation during 2014 shall be decreased by £5 million by zero-rating or exempting from Goods and Services Tax foodstuffs in line with United Kingdom Value Added Tax arrangements and domestic fuel and energy with effect from 1st July 2014."

Recommendation	Summary of Key Points
Strongly Opposed	1. UK VAT exemptions would complicate GST legislation which is broad based, simple and low. 2. UK VAT exemptions have been debated on many previous occasions and each time they have been rejected. 3. The benefit of the marginal rate tax cut is guaranteed. Alternatively, there is no guarantee of permanent price reductions being passed on to the consumer if there is a reduction in GST. 4. The reduction in the marginal rate is targeted to lower and middle income earners.

Cost Implications

Part Year from 1 July 2014 to 31 December 2014

	£
Food Stuffs	**3.9m**
Domestic Fuel & Energy	**1.2m**
Total	**5.1m**

Full Year from 2015

	£
Food Stuffs	**7.8m**
Domestic Fuel & Energy	**2.4m**
Total	**10.2m**

Introduction

1. If this proposition is adopted there is a strong possibility the States would lose significant revenue, businesses incur increased compliance costs and the States additional administrative costs, with Islanders seeing little or no real benefit.

2. Jersey's policy towards GST is one of a Broad Based Low Rate - "BBLR", where the absence of numerous reliefs enables us to retain what is a relatively simple system and the lowest standard rate of GST in the world.

3. Because of our broad based low GST rate the creation of reliefs has a small economic effect but a disproportionate legislative and administrative cost when compared to other countries where the average worldwide GST rate is between 16 – 25%.

4. A system of exclusions (whether by zero rate or exemption) requires detailed legislation and the added complexity greatly increases the scope for avoidance, evasion and error.

5. The UK VAT system is a poor model on which to base any GST relief changes and is recognised as being excessively complex and outdated. This point was amply illustrated in the coalition government's 2012 attempt to make changes to zero rate reliefs on foodstuffs which culminated with the "pasty tax" fiasco. In contrast, Jersey should seek to follow the best examples of international tax practice, not adopt a regime which 40 years after implementation, is still subject to constant challenge and change.

6. International studies (Mirrlees, OECD Global Forum on GST/VAT) and global experience illustrate that a reduction of consumption tax on goods does not lead to a reduction in price and in many cases only serves to increase margins through the supply chain. GST/VAT taxation is a very inefficient way to target financial assistance as there is no guarantee that GST reduction would be passed on to the public through lower prices.

7. Introducing GST exemptions is a less efficient way to support those on lower incomes than the current system of income support and GST bonuses. This proposition fails to recognise that those in receipt of income support and the GST bonus would lose the element of those payments that relate to food and fuel, this contrasts with the better off who would

benefit considerably more since they spend and pay more GST on the food and fuel they buy.

8. Of the over £10+ million (Foodstuffs £7.8m, Fuel £2.4m) annual revenue that would be lost from excluding food and domestic energy, research conducted in 2011 suggests less than £1.3 million would go to the 20% of the population on the lowest income but more than £3.3 million would go to the top 20%. This again illustrates the ineffectiveness of using a GST relief to address income redistribution. In contrast the marginal relief reduction proposed would benefit 84% of taxpayers.

Supporting analysis (updated from response to P36/2011)

1. The proposition to introduce exclusions for food and domestic energy is not new and the concept has been debated before in the States. The arguments for and against have not changed significantly – they are the same now as they were when this issue was last discussed in May 2011 and on many other occasions over the past years.

2. One difference at the time of this debate is that we have had nearly six years of live tax experience since GST was implemented and we can make informed judgements as to how well the tax system has performed. We also have international comparisons and the experience across over 150 other countries with a similar GST/VAT tax. The November 2012 Global VAT/GST Forum held by the OECD illustrated clearly that there is a movement away from technically challenging zero rates and exemptions across the world and a growing acceptance that broad based simpler consumption taxes support government and business aims.

3. The internationally recognised measure of efficiency in GST/VAT taxation systems, "the C - efficiency ratio", compares the yield from the tax with the theoretical yield if all goods and services were standard rate, A high ratio indicates limited or no reliefs, whereas a low ratio indicates numerous reliefs. The UK ratio at 42% indicates an inefficient system with many exceptions to tax and no longer compares favourably with nations such as New Zealand, Switzerland, Canada and Japan who seek to seriously limit reliefs and have factors between 60 to 85%. Jersey's GST taxation would be more effective by retaining a broad based tax with high level of efficiency in common with the approach taken by those countries named above.

The UK VAT system is not the best model to follow

1. The UK VAT system was introduced in 1973, forty years ago, and is now beginning to show its age – as such it is considered very much to be a first generation system. Internationally a fundamental review of the UK VAT system is considered long overdue.

2. As an EU Member State the UK should comply with the EU common VAT rules which determine, amongst other things, the rates of tax charged and what exclusions are permitted (whether by zero rating or exemption). Food and domestic energy are both taxable under EU rules but the UK, Ireland and Malta have been allowed to retain their different treatment as a transitional measure. This matter is kept under regular review; at some point the UK may be required to fall into line with the rest of the EU regarding its treatment of food for VAT purposes.

Impact of exclusions on the complexity of GST/VAT systems

The range, type and number of exclusions under any GST/VAT have a direct impact on the complexity of the system. The overall impact assessment of mirroring the UK VAT treatment of food is very high, while the impact of following the UK treatment of fuel would be lower.

Benefits of decreasing the marginal rate of tax

1. Personal income tax in Jersey is based around a standard 20% rate of tax with limited deductions and allowances but, in order to protect the lower to middle income earners, a separate calculation called 'marginal relief' with a 27% rate is also made. These two calculations are carried out at the same time.

2. Taxpayers pay whichever calculation gives them the lowest tax bill according to their circumstances so no one pays more than 20% of their total income in tax.

3. This works because more deductions are available to those who are marginal rate tax payers. So, for marginal rate tax payers, the calculation starts with their income, exemptions for child care, mortgage interest relief are deducted and then the tax due is calculated at 27% on the reduced amount.

4. Because these exemption thresholds are used to calculate tax, people on high incomes do not benefit from them.

5. If someone's income increases, the percentage of tax they pay also increases as the marginal relief gradually tapers away until they are paying the maximum 20%.

6. A cut in the marginal rate of tax will benefit all marginal rate taxpayers. In addition a number of standard rate taxpayers will be brought into the marginal rate.

7. The proposal to reduce the marginal rate of tax will reduce the tax liability of approximately 84% of the taxpaying population (around 40,000 households).

8. The cost of decreasing the marginal rate by 1% is approximately £7.8 million.

Draft Budget Statement 2014
(P.122/2013): Third Amendment

Response to Deputy Southern's amendment

After the words "as set out in the Budget Statement" insert the words – "except that income tax exemptions for the year of assessment 2014 shall be increased by 2.2% and not by 1.5% as proposed in the draft Budget Statement."

Recommendation	Summary of Key Points
Opposed	1. This amendment is entirely inconsistent with the Deputy's first amendment. 2. The Council of Minister's proposal is part of a package of measures. 3. The shortfall is not funded.

Cost £1.34m

1. This amendment is entirely inconsistent with the Deputy's first amendment which proposes no increase to the exemption limits at all.
2. The tax exemption threshold (i.e. the point at which an individual starts to pay income tax) is determined by the individual's personal circumstances.
3. It is proposed that these income tax exemption thresholds are increased by 1.5% with effect from the year of assessment 2014.
4. The original spending provision set out in the MTFP allowed for a 3% increase in tax exemption thresholds.

4. The rationale to increase the income tax exemption thresholds to 1.5% instead of 3% was to form part of a package alongside a reduction in the marginal rate of income tax from 27% to 26%.

5. By introducing the combination of these two proposals not only are 530 people taken out of the tax bracket but 84% of the tax paying public of the Island benefit by seeing a real reduction in their income tax bills.

6. In recent years the practice has been to increase the tax exemption thresholds by reference to the lower of RPI figure and the annual increase in earnings. However in the 2013 Budget the income tax exemption thresholds were increased by 3% in line with the increase in RPI for the year to 30 June 2012. This was the higher of the RPI figure and the annual change in average earnings index at June (being 1.5%) and was introduced to assist those taxpayers at the lower end of the earnings threshold.

7. This years Budget proposal again benefits those taxpayers at the lower end of the earnings bracket, whilst keeping a certain proportion within the system, as well as assisting the majority of taxpayers who pay at the marginal rate of tax.

8. The estimated cost resulting from the proposal to increase the income tax exemption thresholds by 1.5% is £2.5m.

9. To increase the exemption thresholds by 2.2% would cost the Treasury an additional £1.34m.

10. If the Deputy's proposal is to assist those at the lower end of the income bracket his proposal will take only a small number more of taxpayers out of the tax bracket (than the 1.5% proposal would) - estimated to be below 50 taxpayers , however it would be assisting every taxpayer paying at the marginal rate of tax.

11. The increase in exemption limits cannot be disaggregated from the reduction in marginal relief they are a package and cannot be dealt with in isolation.

12. The Deputy does not say how the additional £1.34m will be funded.

Draft Budget Statement 2014

(P.122/2013): Fourth Amendment

Response to Deputy Young's amendment

(a) Higher Child Allowance

"except that –
(a) the higher child allowance (comprising the additional tax relief of £3,000 proposed in the draft Budget Statement and the existing £6,000 allowance making a total of £9,000) for the year of assessment 2014 due to taxpayers whose income for 2014 falls below the income tax exemption thresholds with children over the age of 17 in higher education, may, by agreement, be wholly or partly transferred to a relative (including grandparents) of the tax exempted taxpayer, who has provided financial support to a child relative under 25 years (including grandchildren) for higher education purposes and such relative shall then qualify for this income tax relief;

Recommendation	**Summary of Key Points**
Strongly Opposed	1. The amendment, whilst well intentioned, effectively reintroduces the same issues as existed with the deed of covenant scheme that was abolished in 1994. 2. Contrary to move towards simplification of the income tax system. 3. Potential for tax relief to be claimed and granted in the absence of any financial support being provided. 4. Application of the legislation would be administratively complicated for the small number of taxpayers who may benefit from this proposal.

Cost £538,000

1. The good intentions for the proposed amendment are understood and accepted. On the surface this amendment was regarded as attractive until further analysis was carried out.

2. The higher child allowance was introduced in 1994 as compensation for the abolition of deeds of covenant that parents entered into to help their children through higher education.

3. The deed of covenant scheme was abolished as there was evidence that some parents were not making payments in accordance with the scheme rules however claims for tax repayments under the scheme were still being made.

4. The Deputy's amendment makes provision for households who are unable to benefit fully from the higher child allowance because their income tax allowances exceed their gross income, and they therefore fall below the tax exemption threshold to allow such households, by agreement to reallocate all or the excess part of the higher child allowance which they cannot utilise, to a family member (including grandparents) who has provided financial support to their child relative under 25 years of age for higher education purposes.

5. The proposed scheme under this amendment could create similar issues to those encountered with the deed of covenant scheme that was abolished.

6. The proposal is complex, will be difficult to administer and could be subject to abuse.

7. Unfortunately there are a number of additional concerns:-

   - Terms such as household, family member and financial assistance would need to be clarified in legislation
   - It could simply be used as a tax planning mechanism in absence of evidence to demonstrate provision of financial support.
   - There would be an increased administrative burden for the Taxes Office in that Officers would need to be able to establish how much financial support was provided by grandparents/relatives
   - Potentially the transfer of excess of the enhanced child allowance could be higher than the amount of the financial support given
   - The allowance could be relinquished to more than one relative
   - It opens up the possibility of surrendering allowances in general terms

(b)Tax Relief on Lump Sum Donations to Local Charities

the estimate of income from taxation during 2014 shall be decreased by £20,000 by reducing the de minimus limit on charitable donations on which the charity may reclaim the tax applicable from £100 to £50;

Recommendation	Summary of Key Points
Accepted	1. Charity will benefit from more donations and the associated tax rebate 2. Limited administration issues for Taxes Office 3. Supports the proposed new Charitable Purposes Law

Cost £20,000

1. It is proposed to reduce the requirement for a taxpayer making a donation to a local charity to have been resident in the Island for 3 years. The minimum donation to qualify for the Lump Sum Donation Scheme is currently £100.

2. The Deputy's amendment sets to reduce the de minimus level at £50.

3. It may be that individuals who had in the past donated £100 to charity may reduce their donation to £50 because of the lower limit.

4. Alternatively it may be that those same individuals would split their donation to £50 x 2 thereby benefitting two local charities who as well as the donation would receive a tax rebate of £12.50 each.

5. There would be limited administration issues for the Taxes Office in this proposed amendment.

6. The proposed new Charitable Purposes Law is proposing to extend the definition of charity to include sporting bodies, clubs and associations. Reducing the de minimus limit from £100 to £50 will make charitable giving to these bodies more affordable which will give them greater scope for funding opportunities.

(c) Extension to the purposes of mortgage interest on main residence qualifying for tax relief.

mortgage interest relief shall be extended for the year of assessment 2014 on loans for purposes other than the acquisition and extension of the taxpayer's principal personal residence so that it is available for home improvement works and home energy efficiency measures carried out by local contractors subject to limits on loan interest eligible for these additional purposes, interest limits to be based on a loan of £30,000 for home improvements and a loan of £20,000 for energy efficiency measures;

Recommendation	Summary of Key Points
Opposed	1. The proposal would be better dealt with under a grant system 2. The tax system should not be encouraging people to take on debt for a tax advantage 3. Energy efficiency is already encouraged by the States through an annual grant of £1m in support of the Department of the Environment's energy efficiency service

Cost £585,000 per Deputy Young

The proposed amendment to the Income Tax Law would allow tax relief on interest paid on loans to a maximum of £30,000 for home improvement works and a maximum of £20,000 for home energy efficiency works.

Home energy efficiency works

1. The States of Jersey already encourage energy efficiency through a grant of £1m per annum in support of the Department of the Environment's energy efficiency service. To date this grant has been used to support low income families and pensioners by ensuring their homes are provided with improved insulation and other energy efficiency measures where appropriate. For the forthcoming five years the draft energy plan "Pathway 2050" outlines a programme of work to expand these initiatives into the "able to pay" market which will support all islanders in making energy efficiency improvements. Ministers believe that the continuation of this grant is a better way to encourage home energy efficiency in Jersey rather than through providing additional interest tax relief.

2. Whilst the States will always encourage homeowners to make their property energy efficient a grant system would be preferable to a system that may encourage people to take on debt to secure a tax advantage.

3. High administrative burden for the Taxes Office due to compliance checks on the validity of claims.

4. The proposal would be better dealt with under a grant system as some quality control would be involved, in addition a grant system would benefit those individuals who do not pay income tax.

Home improvement works - why the proposal is not supported

1. It would only benefit those individuals with a capacity to borrow

2. Home improvement not clearly defined

3. Local contractor not defined

4. There is already a provision in the legislation for the cost of tax relief on extensions e.g. dependant relative accommodation

(d) Tax relief for private health insurance premiums
health insurance premiums paid shall qualify for relief from income tax for the year of assessment 2014;

Recommendation	**Summary of Key Points**
Strongly Opposed	1. Do not want to reverse the policy principal made under "20 means 20" 2. Likely to favour those persons most able to afford private medical insurance

Cost £2.2m

1. The Deputy's proposed amendment seeks to restore the tax relief on private health insurance premiums for all taxpayers.

2. No clear factual evidence to indicate a decline in medical insurance being related to withdrawal of tax relief.

3. In fact there are a significant number of employees who are covered under their employers group medical insurance scheme.

4. The proposal does not seek to support the long term policy of simplifying the tax system this is not supported by re-introducing or introducing allowances.

5. The States decision on capital spending to build a new hospital for the Island will benefit all rather than allowing a targeted relief for those individuals who can afford private health insurance.

6. Likely to benefit those with higher incomes.

7. This would reverse the policy principal made under "20 means 20".

8. Reintroducing allowances does not support the long term policy principal to simplify the tax system.

General comments on part (e) and part (f)

1. Members are asked to refer to previous comments made concerning both the introduction of new exemptions for GST and the desire to keep GST broad based, low and simple (see Deputy Southern's first proposed amendment) and the preference of Ministers to deal with energy efficiency measures through a grant system rather than through the tax system (see Deputy Young's proposal to extend mortgage interest tax relief).

2. The proposition appears to misunderstand the distinction between items that are zero rate and exempt. At page 7 the list of supplies shown as being exempt and zero rated are not correct. They should be listed the other way round, what are headed as exempt supplies are in fact zero-rated and the zero rate are exempt. Further details can be found in the GST (Jersey) Law 2007 – exempt rate supplies are listed under schedule 5 and zero rated supplies are listed under schedule 6.

(e) GST Zero rating of expenditure on the installation and maintenance of energy conservation measures from local suppliers and contractors
the estimate of income from taxation during 2014 shall be decreased by £1,000,000 by zero-rating or exempting from Goods and Services Tax from 1st July 2014 any expenditure on the installation and maintenance of energy conservation measures (including plant, equipment and materials) from local suppliers and contractors;

Recommendation	Summary of Key Points
Strongly Opposed	1. Would complicate GST legislation which is broad based, simple and low. 2. The proposal would be better dealt with under a grant system 3. No guarantee of price reduction passed onto consumers

Cost Up to £1m

1. The proposition appears to attempt to zero rate or exempt the installation and maintenance of a specific list of energy saving goods but only when supplied and fitted by local suppliers / contractors.

2. The same goods would not be eligible for zero rating if supplied in the same state and fitted as a DIY project or by a non-GST registered business

3. The proposition appears to distinguish between installers who are local and those who are not. That, if adopted would breach one of the OECD GST/VAT Guidelines which precluded discrimination of an entity solely on the grounds that it is not established in the country in which work is performed. This removes one of the main reasons for adopting the proposition.

4. The Deputy has provided an illustrative list of eligible goods and expects the Taxes office to finalise based on his intentions – so further work would be required.

5. Even if discrimination was not a problem this form of exclusion is beginning to sound quite complicated and will create compliance and administration costs

6. It would appear far more sensible to introduce some form of improvement grant system to reimburse property owners for part of the cost

(f) GST Zero rating of purchase of Ultra Low Emission Vehicles (ULEVs) (<75g/kg CO_2 emissions)

the estimate of income from taxation during 2014 shall be decreased by £200,000 by zero-rating from Goods and Services Tax from 1st July 2014 on the purchasing, importation and leasing of Ultra Low Emission vehicles (vehicles falling within the definition of the UK Office for Low Emission Vehicles, currently an emission level below 75g/Km of CO_2).

Recommendation	Summary of Key Points
Opposed	1. The proposal would complicate GST legislation which is broad based, simple and low. 2. VED Scheme already recognises the benefits of low emission vehicles

Cost £200,000

1. Currently these types of vehicles are not popular – unit sales in Jersey and elsewhere are low mainly due to high cost and in the case of electric vehicles requirements for charging.
2. It is doubtful that if GST were removed that this would encourage the sale of many extra ultra low emission vehicles.
3. The VED Scheme already recognises the benefits of low emission vehicles.
4. The Transport and Technical Services Department have also introduced incentives for such vehicles through a reduction in parking charges

Draft Budget Statement 2014
(P.122/2013): Fifth Amendment

Response to Deputy Southern's amendment

"as set out in the Budget Statement" insert the words –
"except that the age of entitlement for single, married persons and civil partners to the higher income tax exemption threshold shall not be increased for the year of assessment 2014 from 63 years to 65 years as proposed in the draft Budget Statement

Recommendation	Summary of Key Points
Strongly Opposed	1. The proposal is contrary to when other Senior Citizen entitlements commence 2. Not inline with other jurisdictions 3. Grandfathering' provisions protect those who already benefit.

Cost £750,000

1. It is proposed that the age entitlement of 63 years is increased to 65 years with effect from the year of assessment 2014.

2. The rationale to increase the age entitlement for single, married persons and civil partners to the higher income tax exemption threshold is to bring it in line with the current States pension age of 65 years.

3. The proposed increase was signalled in last year's Budget. A clear statement was made at the time in the Draft Budget Statement. This informed people of the proposed change and gave them reasonable time to understand and be aware of the proposal.

4. The States pensionable retirement age laid down in the Social Security Law is 65. It is an individual's personal choice is they wish to elect to take a reduced State pension – by up to 2 years earlier i.e. age 63.

5. The Budget proposition will not affect those who qualify for the enhanced exemption prior to the change coming into effect.

6. 'Grandfathering' provisions will be applied which will ensure that any individual who became 63 in 2012 and who receives the higher income tax

exemption threshold for the year of assessment 2013 will continue to do so for the year of assessment 2014 and ensuing years.

7. If an individual's or a couple's sole income is from a State Pension, they would be exempt from tax - as their income would fall below the lower tax threshold limits i.e. for those lower limits that currently apply for under the age of 63.

8. Other tax jurisdictions use a Normal Retirement Age of 65 as a benchmark age for giving additional tax relief. Some examples are the UK, Isle of Man and France.

9. Other laws in Jersey use the age of 65 as a 'demarcation'; e.g.

    - Income Support (Special Payments) (Cold Weather Payments) (Jersey) Regulations 2008 refer to pensionable age of 65 years.

    - The Jersey 65+ Health Plan (known as Westfield) – is aimed at people 65 and over.

10. It is common for the 'Normal Retirement Age' for occupational (employer) pension schemes (approved under Article 131 of the Income Tax Law) to be 65 – an example, the States PECRS scheme.

11. Also approved Pension Trusts established under Article 131E of the Income Tax Law makes reference to attaining the age of 65.

12. It is considered that to delay the Budget proposition until 2025 or 2031 is not valid or relevant to the aim it intends to achieve.

13. The aim and intention of the Budget proposition is to place, at this time, the enhanced exemption limit in line with the States pension age of 65. This also brings the eligibility in line with the age of retirement used in other jurisdictions and also other Laws in Jersey.

14. The estimated additional revenue resulting from this proposal will be approximately £750,000. The number of people affected, who will be those taxpayers liable to tax at the Marginal Rate, will be approximately 1100 each year.

15. It is proposed policy that, in future, the age related exemption threshold will further change to be kept in line with the States pension age.

16. No such further change will be put forward, until such time, as the changes in the States Pension age takes effect.

17. It has been shown that with the result of people living longer and an ageing population, laws and policies in the modern world will have to change to reflect the shifting demographics. Jersey is not alone in this.

18. The impact of the proposal is softened by the decrease in marginal rate from 27% to 26% together with the proposed increase in the exemption thresholds by 1.5%.