

Fiscal Strategy Review

-Public consultation on personal taxation

Consultation Report

Written for the States of Jersey Treasury Department

by Involve

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1. Key insights

The overall finding from the consultation is that many people in Jersey hold strong views about personal taxation. Many people who responded think that changes to taxation will have a big impact on Jersey as a place to do business and as a place to live and work. On all options most people who expressed a view felt that the impact would be negative rather than positive for Jersey, both for businesses and residents. For all options the negative impacts outweighed the positive or neutral responses by a considerable margin. The majority of those who responded to the consultation wanted spending cuts/control before tax increases. However this does not mean that all options were equally unpopular and many responses acknowledge the difficult circumstances and the need for some kind of tax increase in response to this.

A sizeable number of responders declined to comment on one or more of the proposed options so we do not know what they felt. Many participants also expressed a mixed view, highlighting both benefits and downsides of the options, or emphasising that the results would make little difference to life in Jersey.

Competitiveness: A number of concerns were raised that increased taxation would reduce Jersey's international competitiveness and lead to emigration and loss of States' revenue, in particular related to the finance industry. Concerns for Jersey's competitive position were raised in relation to all tax options, although these concerns were more common in relation to Income tax and Social Security than for the other tax options. Others were worried that increased taxes would make small businesses struggle or that increased GST would force low income earners off the island to the detriment of the economy. A smaller number of responders felt that the fears of companies deserting Jersey due to taxes were exaggerated due to the current level of taxation being low compared to other parts of the world.

Fairness: Our analysis has found that fairness was a term used by a lot of people. However responders were divided on the exact definition of the term. Some people felt that those on higher incomes should be made to pay proportionally more income tax in the name of fairness; others opposed increases for high income earners and felt it would be unfair towards hard working people. The interpretation of fairness varied across the people who responded. Responders were both concerned that increases in rates and GST would force low income people out of Jersey and that increases in Social Security payments and Income Tax would lead to high income residents leaving the island.

Savings: One theme which did receive broad support was the principle that tax rises should be less of a priority compared to cost savings in public sector spending. One of the most common themes was a sense that the public sector was inefficient and that savings were both possible and necessary. The consultation provides a strong mandate for the States' ongoing Comprehensive Spending Review, which many of those who responded to the consultation view as a necessary precondition to tax increases.

The responses show that those who took the time to respond to the consultation are divided on which taxes it would be best to raise. Broadly speaking there seem to be two widely held perspectives; one which emphasises the high cost of living for those on lower incomes and wants to see a more progressive taxation system where those on higher incomes pay significantly more than they do today, and another perspective of concern that increased taxes on the wealthy will lead to Jersey losing financial services and affluent residents to international competitors, with the latter group favouring raising GST and rates.

The overall responses suggest that many people feel that the options that are least harmful to businesses will have larger impacts on residents and workers and vice versa. The consultation has not provided one simple solution to the taxation question. What it has done is uncovered the views of some of its citizens, which will be vital for elected members as they make the key decisions.

2. Introduction

This report summarises the responses to Jersey's 2010 consultation on personal taxation. It has been written by Involve for the States of Jersey Treasury Department. The report describes the key themes and trends of the consultation responses. The report does not count the number of times certain views were mentioned or present a percentage of support or disagreement towards any option. Rather the point of the report has been to understand the range of views expressed.

2.1 Who are Involve

The Involve Foundation is a charity, formed in 2006. Involve's principal activity is showing how public participation can positively change the lives of individuals and improve working practices of institutions. We help broker better relationships between citizens and the public realm, empowering people to contribute to society.

We breathe new life into institutions and communities, by working with senior people in government and business as well as community activists. Involve has helped organisations such as the OECD, UK Ministry of Justice, UK Department for Communities and Local Government, the UK Sustainable Development Commission, NHS Centre for Involvement and numerous Local Authorities to improve how they consult and engage with citizens.

More information can be found at www.involve.org.uk

2.2 About the report

This report was commissioned by the Treasury Minister of the States of Jersey and was produced by Involve. The report summarises the responses to Jersey's public consultation on personal taxation held between 21 June and 30 August.

The analysis has been carried out independently by Involve and the report reflects Involve's professional analysis of the consultation responses.

Involve have read all consultation responses and have synthesised and summarised the key trends and views. This report is not a complete listing of every consultation response. We have where possible grouped the views of organisations according to their industry. We have also grouped consultation responses according to the views expressed and themes presented. In cases where the response is ambiguous and unclear as to whether the impacts indicated are positive or negative we have not tried to second guess what was meant.

Many respondents included views on reducing government spending and changing business taxation. These areas lie outside the scope of the personal taxation consultation but the Treasury has passed on these comments to be properly considered. No ideas have been lost in the process.

2.3 About consultations

Consultations are useful in helping governments understand the views of those who will be affected by decisions. Good decisions require broad and inclusive information about the likely consequences of options. Most modern democracies have mechanisms for listening to the views of citizens between elections. A consultation is not a referendum, so there is no obligation on decision makers to do what the majority of responders want in any given situation. The role of decision makers in consultations is to listen to and take on board what has been said by different people and to weigh up the arguments.

This consultation is not a statistically robust random sampling of public opinion. People have freely chosen to take part (or not) and so the views expressed through the consultation cannot be taken to represent the views of all islanders or all businesses. For this reason we have avoided using percentages. It should be noted that the States of Jersey used a variety of mechanisms to reach out to people in order to broaden the range of views expressed.

Hundreds of Jersey residents have taken part through an online questionnaire, paper based forms, letters, emails and face to face events across the Island. The numbers of responders indicates a high level of interest in the consultation. The consultation results are, however, as much about the quality and diversity of views expressed as they are about the numbers.

Involve acknowledges that for many people responding to a consultation is a big ask in terms of time and effort and we endeavour to value this commitment by carrying out the best analysis we can. The States of Jersey have expressed their gratitude for the time and effort that hundreds of people have taken in contributing to the consultation and have committed to considering what has been said carefully and making a decision bearing in mind and weighing up the various views expressed.

2.4 Background

This section comes from the Treasury's consultation document. It is included here to provide background information. The full version can be downloaded for reference at:

<http://www.gov.je/SiteCollectionDocuments/Tax%20and%20your%20money/ID%20FSR%20GREEN%20PAPER%2020100621%20MM.pdf>

The consultation is important due to the changing circumstances in Jersey's financial situation. In the past Jersey's successful economy has allowed both personal taxes lower than in many other countries and high quality health care, schools, roads and other public services. Forecasts show there is likely to be a budget shortfall from 2010 and the States will need to increase income or reduce expenditure in order to avoid having to borrow or depleting the Strategic Reserve.

The States of Jersey have responded to this challenge by doing the following:

1. **Controlling spending** – the Comprehensive Spending Review (CSR) is designed to find annual savings of £50 million by 2013 and to construct a more efficient public sector.
2. **Encouraging economic growth** - all States departments will work with Islanders and companies to support the development of new and existing businesses and create the right conditions to boost economic growth.
3. **Raising taxes** – The Treasury estimates that to continue paying for health and other services the States of Jersey may need to raise an extra £50-60 million per year.

The personal taxation consultation, which ran from 21 June to 30 August, looked at the final strand. The consultation focussed on four main possible taxation options and a mixture of smaller options. Other options, which the Treasury deemed unworkable, such as capital gains tax, were excluded from the consultation.

The four main options (each of which were estimated to raise around £30 million per year) were:

1. Increasing Goods and Services Tax
2. Raising ceiling for Social Security contributions
3. Increasing the domestic property rates
4. Introducing a higher rate of income tax

The consultation document acknowledges that the solution is likely to be a combination of some of these measures and asked the people of Jersey how they think these options could affect Jersey as a place to live,

work and do business. Alongside questions on the four options the consultation also covered smaller measures and how people felt the tax burden should be shared among different income groups.

Alongside this consultation on personal taxation the States of Jersey is also carrying out a consultation on Business Taxation as well as conducting a Comprehensive Spending Review. The States also recently carried out a consultation on company registration fees. See the appendix 5.2 for a full version of the questionnaire.

2.5 Statistics at a glance

The consultation has reached a significant number of Jersey residents through a number of mechanisms.

Mechanism	Number of attendants or responses
Events	~300
Letters, emails and paper questionnaires	102
Online survey	548 (excluding those who did not complete survey)
TOTAL	Around 950

2.6 Methodology

The consultation used a variety of methods including face to face events, an online questionnaire and responses submitted via letters and emails. This has allowed as many people as possible to get involved in the consultation in times and places that suited them. Involve has considered all forms of responses. It is possible that one individual may have submitted responses using multiple mechanisms. The consultation analysis has looked at themes and views rather than counting the number of particular submissions and so we do not believe that multiple responses will skew the results.

The following approaches were used:

- Consultation events – Held at numerous places, they enabled people to ask questions of the Treasury Minister. Six events were held which reached around 300 people. Not all of these people asked questions or expressed their views at the events.
- Online survey – Allowed people to fill in the consultation questionnaire online at times and places that were convenient for them. This was the most popular response form, the responses for the online questionnaire outweighed the responses from all other consultation forms. 972 people started the questionnaire and 548 completed it. It is unclear why the drop out rate was so high. Some participants complained that the complex topic made it hard for them to respond. The survey tracked IP addresses in order to prevent multiple postings from one individual.
- Other communication – People could also submit their views using a paper based questionnaire, emails or letters. Slightly more than 100 people chose to do so.

People were asked what they thought the impact would be on Jersey as a place to do business and as a place to live and work for each option. The questions were not directly asking people if they were for or against any option, although many have offered their opinion on this. See appendix 5.2 for the questionnaire.

Involve has read all contributions submitted to the States of Jersey Treasury within the time frame of the consultation. Consultations have been coded according to the answers given to the questions. The

questions asked what the impacts would be for each option, it did not ask directly if impacts were positive or negative.

We have coded responses according to the following categories:

- Responses that have suggested positive impacts of options
- Responses that have suggested negative impacts of options
- Responses that have suggested neutral impacts of options (e.g. minimal or limited impact)
- Responses where it is unclear what the response means
- Responses that have suggested a combination of positive, negative and/or neutral impacts of options
- Responses that have declined to comment on the impacts of options
- Responses that have suggested other ideas beyond the options; these were either amendments to the proposed options or completely new ideas.

These categories have allowed us to see where the balance of opinion sits amongst those who responded and to uncover the bigger picture. When responses have been ambiguous about whether the impact is positive or negative we have refrained from interpreting the views expressed and have allocated the view to the 'unclear' category.

We have also separately grouped views and ideas expressed according to the themes mentioned, such as the impact on low income households or on businesses. This provides a more qualitative understanding of what has been said, alongside the coded responses. This analysis has allowed us to assess both the balance of views in response to questions and unprompted concerns and ideas.

This report has followed existing procedure for analysing consultations. It outlines the trends and key points expressed; it does not however tell the States of Jersey what to do. Policy decisions about taxes and spending are made by your elected States Members who will use the consultation responses as one source of information to make decisions.

3. Detailed Analysis

3.1 Overview organisation views

Involve looked at responses from named organisations separately from responses from individuals.

The breakdown of the organisations that have responded is very roughly as follows (see appendix):

- 20 finance sector
- 7 retail sector
- 3 hospitality / tourism sector
- 1 agriculture,
- 1 construction,
- 1 energy,
- 1 health,
- 1 government body
- A few of the above are associations e.g. Chartered Institute of Taxation, Small Business Forum, Chamber of Commerce, Jersey Hospitality Association

It has been difficult to draw comparisons between different types of organisation because most of the more detailed responses came from finance-related groups and companies, and fewer from retailers and others.

However, bearing this in mind we believe the key findings are:

- GST is one area where there seems to be a distinction between sectors.
- There is opposition to income tax from all the organisations who have expressed an opinion
- There are similar concerns with social security, but the tone seems to be less dismissive amongst a few of the organisations – for example some suggest a lower ceiling than that presented in the consultation paper. It is not clear where there are differences between sectors
- Most think the domestic rates will not have a significant impact on business. However, it is worth considering that there are a few organisations opposed
- Few organisations have commented on the package of measures and there are a range of opinions amongst the few that do

3.2 Tax spread

People were asked how they felt any new taxes should be spread over the Island population. The options were:

- ‘Better off households should pay a lower percentage of their income (but a similar amount in cash terms)’,
- ‘Each household should pay the same percentage of their income’ and
- ‘Better off households should pay a higher percentage of their income’.

The online questionnaire results show that less than one in ten responders chose the first category, more than forty percent chose the second and almost half felt that those better off should be taxed at

a higher rate than those on lower incomes. Views are clearly divided across those who took part, but there is only limited support for a system where wealthier people pay a lower percentage of their income in tax. Many people didn't say which they preferred.

A number of concerns relating to fairness/social division were raised both in this question and others in the consultation. See further sections for this analysis.

The question itself was challenged by a few respondents:

This question misses the most important point – that the burden of taxes does not only come from the money directly collected, and does not fall only on the people who actually pay the tax... The worst burden of taxes is not the amount that people have to pay, but the lost jobs that result from businesses leaving, or not coming to, the Island... Whilst one can produce graphs of who will actually have to pay a new tax, it is impossible to tell who will suffer from the broader knock-on effects... (Jersey Finance)

3.3 Goods and Services Tax

Current situation: GST is a sales tax of 3% on most goods and services supplied in the Island (one of the lowest GST/VAT rates in the world).

Option: Increase the rate of GST from 3% to 5%. This would raise £30 million a year.

Those who responded viewed the change as more negative for Jersey as a place to live and work than as a place to do business. A rise in GST was felt to be more negative to residents than to businesses, with a number of people suggesting that the change would be neither positive nor negative for businesses.

Individual views

A number of concerns were expressed about the impact of an increase in GST for Jersey as a place to live and work. There was a worry that prices would go up as costs are passed on to the consumer. Some added that Jersey is already an expensive place to live and GST rises will make it worse, pushing the cost of living up further. Fears were expressed over the impact this would have on people and families who are on low incomes.

Jersey already has one of the highest costs of living. For people working in the finance industry this will have little impact. However, for those of us in lower income posts - but nevertheless perhaps even more essential to Jersey as a whole - it would make it even less affordable to live here. People are leaving Jersey because they cannot afford rents and other basic essentials (individual online response)

Respondents were also concerned about the negative impact of an increase in GST on retail, tourism and small businesses. Many thought there will be an increase in online shopping and more goods will be being bought in other locations than Jersey. By reducing spending, some people felt there was a risk that the option would backfire and lead to less tax revenue in the end.

However, some thought the impact would be minimal, with a few thinking it is a fair method as everyone pays or those that buy more will pay more tax.

Minimal, income support can be adjusted to compensate those on lowest incomes, this way everyone else pays fairly into the pot, essentially those that spend more will pay more. (Individual online response)

Views varied on exemptions to GST increases. Some suggested that food and other essentials should be exempt from the rise to help those on lower incomes. Others opposed exemptions because they would make the system more complex to administer; a few thought it would be preferable to support those on low incomes through income support instead. Other suggestions included raising or lowering the percentage increase proposed.

A couple of specific issues were mentioned relating to price. A handful of respondents were concerned that retailers would raise the price above the rate of the GST increase. A few also thought that there was a problem with some retailers including VAT as well as GST in their prices.

Organisation views

Amongst the organisations that responded to the consultation views diverged between the finance sector and other sectors on the impact of GST. The majority who commented from the financial sector thought the impact on business would be minimal, with only a couple expressing concerns. A few cautioned against ISE fees going up.

... The only realistic method for increasing tax is therefore an increase to GST to 5%. This is the simplest option to both implement and to collect. Our recommendation of this, however, would also have some defined requirements. Firstly we would want it to be a blanket 5% rather than include any exemptions. This means that the tax remains easy to police and to collect and would require very simple changes at 'user' level... (Jersey Small Business Forum)

The few organisations who responded to the consultation from the retail and hospitality sectors expressed reservations about the proposed increase in GST.

The retail economy continues to be eroded at an alarming rate from internet trading and this will reduce the GST receipts. Raising GST will only fuel further business growing outside the island... The retail economy is weak and such an increase will affect those most in need in our community which makes up a sizeable section of our community (Retail sector response)

...With regard to GST, any move to increase the rate of GST will undoubtedly have a serious impact on the hospitality industry as it is unlikely the increased rate of GST will be able to be passed on to customers due to intense price competition with other resorts in what is very much a global market... (Jersey Hospitality Association)

3.4 Social Security contributions

Current situation: Social Security contributions are paid on wages and not on any other kind of income. Islanders who earn up to £43,752 (the ceiling) pay 6% of their wages and their employer pays another 6.5%, making a total contribution of 12.5%. They do not pay Social Security on anything above £43,752, which means that as income rises above this ceiling the proportion of income paid in contributions falls. Most of this contribution (10.5%) pays for pensions and benefits, with the remaining 2% going into a Health Insurance Fund to subsidise doctors' fees and provide free prescriptions. Increasing the 2% contribution to the Health Insurance Fund is one option being considered to meet the costs of future investment in our health service.

Option: To raise the employee and employer social security ceilings to £115,000 (Guernsey is moving towards this in steps). This would raise about £30 million a year for the Social Security Fund. (A further £6 million would be raised for the Health Insurance Fund if the ceiling is applied to those contributions).

The overall responses to raising the Social Security ceiling were different from those to the GST question. Where the majority view was that GST would negatively affect residents more than businesses, the consultation responses suggest that many people feel that Social Security increases would affect businesses more than the average resident.

Individual views

Respondents thought business would be affected in a number of ways by Social Security increases. It would result in increasing employment costs and some would have to reassess staffing. It would also make Jersey a less attractive place to do business.

This would raise employment costs which reduce our competitive advantage and therefore stifle business growth (individual online)

Others talked about the negative impact it would have on Jersey as a place to live and work. It would mean a reduction in people's income, which would affect how much they spend, which in turn would impact on the local economy. Some mentioned the self employed as a group who would be badly affected.

Increases taxes and gives people less money in their pockets. Assuming there is no additional benefits to be attached to the social security, highly unfair as it penalises those who work hard to live here (individual online)

In contrast, there was a sense among some individual respondents that the impact would be minimal. And a few felt it would be fairer, as those that can afford it will be paying more, whether an employer or an employee.

This option seems to be a particularly fair solution, not out of step with some other low tax areas, and important in a time when social security provision is going to become increasingly expensive (long term health care etc.)(Individual response)

There was some uncertainty about what the tax revenues would be used for and concern if it is not used for its original purpose, such as pensions and health care.

... Would the public really see the benefit of this extra rise within the island or later in life? (pensions etc) (Individual online response)

.. At present SS contributions are ring-fenced to fund pensions and benefits, and the Health Insurance Fund. Any increase in contributions will be regarded by both employers and employees as a tax and the States would need to openly acknowledge the fact... (Individual letter response)

A few mentioned misuse of benefits and Social Services as a problem which needed to be dealt with in order to bring down wasteful spending as a precondition to any Social Security increases. There was some uncertainty about whether the money raised will be used for social security (pensions/benefits). A few said it should be and others felt there will be resentment if it isn't. Others just oppose paying for people on benefits.

"People are sick of paying for people on welfare....we the tax payers get nothing in return. (individual response)"

A number of suggestions were made. There was a split between those who thought the ceiling that was presented should be lower and those who thought it should be higher. Other ideas included a gradual increase in the ceiling and ring-fencing the funds. A few expressed views on whether the ceiling should only be increased for the employer or only for the employee, with both options receiving some support.

Organisation views

The majority of organisations who commented on this option thought the impact on business would be negative. Companies were concerned that it would result in increasing employment costs, which would mean business is less profitable, and the island would become less attractive to existing and potential employees. Some thought prices could go up, which would affect inflation. It could also damage economic growth.

This a severe tax on jobs and would be a great shock to employers resulting in less recruitment and job losses resulting in increased unemployment. (Herald Trust)

Some expressed their opposition to social security being used as a way to raise tax.

Social security was originally designed to pay for Health and Pensions. It is not a tool for raising taxation and should never be used as such. Also, any increase in Social Security becomes a taxation on employment and this must be avoided at all costs... (Jersey Small Business Forum)

However, a few thought the impact would be limited, or could be considered as long as the ceiling is lower than the figure proposed.

Limited. I believe this is the best option as the additional cost will be borne by higher wage earners and finance industry. Limited impact on local non finance businesses. Suggest cap should be retained at or around Guernsey levels to avoid competition issue. (organisation online response – no name given)

There were also a few organisations that raised concerns about small businesses and those that have to pay class 2 contributions.

The ceiling on SS could be raised. However serious thought and care must be given to this as there are a lot of small business who pay class 2 contributions and significant increases for this group could make their businesses uneconomic or cause them to increase rates and prices and thereby have an effect on inflation... (organisation from the retail sector)

3.5 Domestic Property rates

Current situation: The average rates paid (parish plus Island-wide) come to about £350 per household per year. In the UK, the average council tax per dwelling is about £1,100.

Option: Triple domestic property rates by increasing the Island-wide rate, which is collected by the parishes and passed onto the States. This would raise about £30 million per year.

The option to treble the Island wide domestic rates was seen by the majority of those who responded as much more negative to Jersey as a place to live and work than to Jersey as a place to do business. Amongst those who responded via the online questionnaire the idea had the highest number of people suggesting it

was negative for Jersey as a place to live and work of all the ideas and a much larger number of people felt that it would be neutral to Jersey as a place to do business compared to the other options.

Individual views

Many individuals highlighted mainly negative impacts or did not support the policy option. It was felt that Jersey would become a more expensive and less attractive place to live and work. Concerns related to the increasing cost of rates, especially as the option is a threefold increase. Some highlighted the impact on homeowners and those struggling to pay mortgages. Others thought it would be unfair on low income earners and families who would pay proportionally more. Other groups that respondents were concerned for include middle earners, the elderly, those paying rent and first time buyers.

BAD IDEA. This affects lower and middle income homes that are already struggling to pay normal bills, why triple it? an idea would be to have rates mean tested? (individual online)

Some thought the impact would be neutral, saying there would be no impact or it would be limited. Some thought it would still be better, or in line, with rates in other countries.

Domestic rates are ridiculously low compared to many other countries and an increase would not be detrimental to the Island's economy (individual online)

A number of people made a link between the rates and the services provided. A few thought a rise in domestic rates should equate to an improvement in services. Others commented on the parish system. For example, a few felt parish rates are currently unfair with some parishes costing more than others. There seemed some confusion about how the option relates to parish rates and island-wide rates.

The wholesale change to the domestic property rate is a bad idea and should be discarded. Put simply, the people of Jersey have not got used to the idea that domestic rates are levied for any purpose other than to meet immediate parochial needs. Go to any parish assembly when the annual rate is on the agenda and you will hear fierce debate and passionate argument about the tenths of a penny on the rate ... (individual online)

Some respondents recommend changes to the option. Suggestions included a smaller increase to rates, increasing it gradually, having a monthly payment system, and having just an island-wide rate. Other ideas included linking the rate to the property size or a person's ability to pay, and increasing rates on second properties.

... If this was the chosen route to raise taxation, consideration should be given to a pre-payment/annual system as works for the UK council tax, rather than having to pay the bill in full in the space of a couple of months. A staggered increase may be more palatable, moving over three years to reach the required taxation level... (individual online)

Many thought there would be no impact on business, or it would be negligible, as it applies to domestic rates rather than commercial rates. However, others were concerned about the impact on business. A few commented that the States should pay rates as well in the name of fairness. Others thought that the difference between domestic and non-domestic rates was unfair.

Organisation views

The majority of companies that responded did not think there would be a significant impact on business; with a few saying they prefer this to other options. Reasons given included that it is still

favourable compared to other locations. Those commenting come primarily from finance and legal sectors.

...If tax increases are needed (a view that we do not necessarily share), then increasing domestic rates would be the least damaging way of doing so... (Jersey Finance)

However, there were a few organisations and companies who were opposed to a rise. The reasons included the impact it would have on the cost of living and the potential to put pressure on wages and business costs.

The Connétables also raised a number of specific concerns.

..In the opinion of the Connétables any increase in rates is likely to result in many more problems of hardship for ratepayers. Rates are a tax which is not related to the ratepayer's ability to pay - it is based on the assessed rateable value of property. It is also paid by both owners and occupiers thus it includes those in social rented accommodation who generally have limited means. Further, the widow left with a substantial property who is "asset rich, cash poor" would be required to pay an inequitable tax should this option be chosen... (Supervisory Committee)

3.6 Income Tax

Current situation: Jersey's finance industry attracts skilled, high earning individuals who generate business and employment, and contribute a significant amount in tax. Their financial contribution has enabled Jersey to provide high quality services while keeping the overall personal tax rates lower than many other places.

Option: To introduce a higher rate of income tax - 30% for income above £100,000. This would raise about £30 million a year.

Income tax really divided those who took part in the consultation. More people felt this would be bad for business than those who felt it would be bad for Jersey as a place to live and work. This question elicited the highest number of positive views of all options from those who responded via the electronic questionnaire (note however that even so there were twice as many negative views than positive ones). Views were divided between those who were very concerned about undermining Jersey's international competitiveness and felt that the 20% tax rate was part of Jersey life, and those who felt that the wealthy are currently paying less than their fair share towards public services.

Individual views

Some supported a rise in income tax, and felt it would be fairer. Others thought the impact would be minimal. Reasons for supporting it included that even after the increase Jersey would still compare favourably to other locations, that those on higher incomes could afford it, and that it would not affect the majority of residents.

Personally? Do it tomorrow, for everyone's sake and especially Jersey's; we need to become a more honest and fairer society. The rich will still be rich but as a society we may all be just that bit richer. Can we continue to justify the differential between standards for people living in Jersey? (individual online response)

It would improve things considerably for those of us on much lower incomes. We are important to Jersey -without us, the island can't survive - yet we are treated as if we are irrelevant... (individual online response)

However, many thought the option would be detrimental to business, and to the island as a whole, and strongly opposed it. Those who felt it would have a predominately negative impact cited a number of issues; some felt it was unfair that those who worked hard would be taxed higher than others; some were concerned that businesses and high earning residents would relocate or that Jersey would be less attractive to new businesses, entrepreneurs and/or 1(1)K residents. A few thought it could negatively impact on the economy and reduce tax revenues for the island.

Potentially disaster. Jersey benefits from those fed-up with the unfair taxation in the UK moving to a fairer jurisdiction. Our most important industry would be hardest hit as employers relocate to more competitive jurisdictions. In the long term this would probably reduce the amount of tax income for the States. (individual online response)

It is difficult to overestimate the danger to Jersey of such a move. Jersey is well known for its long-standing and stable tax regime which people understand. Jersey faces strong and increasing competition from other financial centres and would find it much more difficult to attract talented people at the specialised and high earning end of the pay spectrum and once business leaves it would not return. The 20% income tax rate should be sacrosanct... (individual online response)

A number of respondents expressed concern about the impact on middle earners who may be coping with a number of high living costs such as mortgages. One aspect of the option that was considered unfair was the possible inclusion of joint incomes.

If this is not done on individuals but on household income you are going to cause hardship. Many hardworking couples have stretched themselves to afford the vastly inflated accommodation costs... (individual online response)

Some suggested a smaller percentage or a higher income level. Others proposed a sliding scale as taxable income increase, or phasing changes in gradually. In contrast, a few thought the percentage could be higher.

There was strong opposition to the income tax option from all the organisations who have commented on this option. There were a number of concerns. Jersey is known for its 20% tax - it was described as its unique selling point (USP) - and without this its reputation as a competitive and stable jurisdiction would be in jeopardy, making other locations more attractive for business and personnel to be based. A few felt that the option may already have negatively impacted the island's reputation.

... We would strongly argue against a higher income tax rate as it will transmit all the wrong signals about Jersey. Internationally mobile businesses and employers will undoubtedly view a higher tax rate unfavourably. This will influence decisions about where businesses are established or grow... (Ernst & Young)

Organisation views

Organisations raised similar concerns to individuals who oppose this option. Businesses and high earners might relocate and the island would be less appealing to new business and entrepreneurs. Some highlighted the difficulty in recruiting now, how mobile the international workforce is, and the impact it will have on retention. Many commented on the negative affect this could have on the growth of Jersey's economy, on tax revenues and on local opportunities.

If higher levels of taxation were imposed on these individuals there is a substantial risk that they will leave the island. Besides losing the direct tax contribution, there is also a fundamental risk that

without their input businesses would not grow, jobs and opportunities will not be created and therefore overall tax revenues will actually fall ... (Grant Thornton)

3.7 Package of smaller measures

The final section was a package of smaller measures:

Impôts – increased tax on fuel, alcohol and tobacco, **Stamp duty** – a tax on buying properties, **Remove mortgage interest relief** – reduced tax allowance for mortgage holders, **Land development tax** – paid by landowners developing their land. A package of the measures above - new stamp duty rates, increasing impôts by 10%, introducing a land development tax and reducing mortgage interest tax relief by 10% - would raise about £15 million in total.

These options attracted fewer comments than the other options. Amongst those who responded via the questionnaire (online or via mail) this option received the fewest number of negative comments for its impact on businesses of all the options (but the negative views still dominated). The view was overall more negative for the impact on Jersey as a place to live and work .

Individual views

Some thought that the impact of the package would be minimal. However, a number of concerns were mentioned repeatedly. These included how the measures would unfairly affect low and middle earners, concern about the impact on business and increased bureaucracy, and Jersey becoming a less attractive and more expensive place to live. The potential for social divisions was also raised under this option.

This would create a two tier society with inherent social issues that the Island could not solve (individual online response)

Some respondents mentioned specific options that they opposed or supported. For example, views were divided on the proposal to remove mortgage interest relief. A number expressed strong reservations over this option.

Reducing mortgage relief will crucify many who are just making ends meet because of the high cost of property locally. Many people I know will have to sell their homes if this happens - again all the measures seem to be hitting those in the 20K-30k bracket - earn too much for income support etc but not enough to be comfortable, acquire any savings (individual online response)

However, there were a few who supported the introduction of this option, or questioned whether it was already happening under '20 means 20'.

Mortgage interest relief should have been removed a long time ago. If you are able to take on a mortgage you should be able to cover every part of the repayment without getting tax relief on it – why is it needed?... (individual online response)

A number of comments were made on property including concerns about the cost of buying, especially for first time buyers, and the impact on the property market.

Why keep penalising those wishing to buy a house. Higher stamp duty and reductions in tax relief on mortgage interest could deter young buyers from stepping onto the property ladder as the funds they need to raise are too high...(online response)

There was some opposition to rises in impôt duties, although a few supported increases on alcohol, tobacco and fuel on health and environmental grounds.

Some respondents suggested changes to the proposals including exempting first time buyers from stamp duty and ring fencing tax generated by impôts towards health.

Organisation views

Not many organisations commented on the package of measures and there were a range of opinions amongst the few that did. A few made general points, either that the impact would be negative or neutral, whilst others mention specific measures.

Views were divided amongst the few organisations who comment on impôt duties. A few opposed duty on fuel and tobacco due to the potential impact on inflation and the pub business, and a concern that it could result in drinking in uncontrolled places.

... You talk about your tax rises being made with one eye on health, however the actual reality is that a 10% duty increase would increase prices further driving any problems of alcohol misuse out of the legally controlled environment of the pub and into the completely unlicensed home environment where under age and excessive drinking could increase unchecked... (Liberation Group)

However, a few did support duties on alcohol and tobacco on health grounds.

*...Smoking accounts for one fifth of all premature deaths in the island. Economic models show that a 10% increase in the general price of tobacco leads to a 2% drop in smoking prevalence across the population. There is considerable evidence to show that making tobacco less affordable is an effective way of reducing the prevalence of smoking, particularly for children and young people....
Public Health Department*

Opinions varied amongst the handful of organisations that have commented on stamp duty, mortgage tax relief and land development tax.

3.8 Other ideas proposed

Respondents were given the opportunity to add any other ideas or preferences that they had for the States to raise tax revenue. Many ideas were put forward. This section gives an overview of the ideas and concerns raised, although many lie outside the scope of the taxation review.

Individual views

A lot of individuals obviously put a lot of thought and effort into their replies for this question. Although many of the ideas do not relate directly to personal taxation, we have included a summary to give a sense of the ideas raised.

A key theme raised by many respondents was the need to cut costs and find efficiencies before raising taxes. Some were surprised this was not part of the consultation.

All of these questions work on the basis that the gap must be met by taxes to give the Government more income. The States budget has been inflating out of control for years and must be reigned in. When will there be an opportunity to complete a survey focusing on cuts ... (individual online)

Some commented on how States expenditure could be reduced. A few suggestions related to staffing including reducing levels of employment, cutting the salaries of senior staff, reviewing redundancy payment and the pension scheme. A few proposed reducing the number of States members and the benefits they receive. Some talked about the need for departments to review where they can make cuts, or considered how they can do things more efficiently. Other ideas with regard to controlling spending ranged from using consultants less to reviewing capital projects.

... try cutting costs including the vast raft of middle management in civil service and stop spending on projects which are unnecessary in the current climate. Lastly stop hiring outside consultants and get your staff to do what they are paid to do, take decisions. (individual online)

A number had concerns about the benefits system and thought the focus should be on reducing income support and the costs of social security.

The states should take a leaf out of the UK Governments proposal to review the social security/benefits system and get more people out of the benefits system and working! Thus leaving the social security system to people who need it... (individual online)

Alternative taxation measures were proposed by a few. These included increasing business tax, taxing the finance sector, and taxing non Jersey owned companies. A few suggested introducing capital gains and inheritance tax; however some opposed these measures. A few other suggestions were made, such as increasing tax on marine fuel, taxing cars with large engines, and other areas which relate to lifestyle choice. Other ideas included reducing free services, such as medical prescriptions if you can afford to pay.

A few respondents referred to 1(1)k residents, with the majority who commented feeling they should make a bigger contribution. One or two commented on the value of 1(1)ks.

Various respondents reiterated their views on the options, which they opposed and which they preferred, and how taxes should be spread over the island population. A few proposed reviewing plans after the financial crisis and returning tax to previous levels once things have improved. A few commented on the need to avoid tax loopholes.

A few respondents criticised the questionnaire or the consultation. Some commented on question 6 which asked about the spread of tax across the island, for example asking how “better off household” should be defined. Other points included if the States would take into account people’s opinions and concern they had not been asked about cuts.

Organisation view

A clear message that also came from the majority of businesses that responded was that the States needed to cut costs before raising taxes. This point was made by the finance sector and a few organisations in retail. Suggestions included reducing government running cost and reviewing capital projects. Some commented there should be no changes to personal taxation until this has been addressed.

... There should be no changes whatsoever in personal taxation, either directly or indirectly, until the States has demonstrated a rapid and significant reduction in its own expenditure which has doubled in the last 10 years, over twice the rate of inflation. This is supported by the vast majority of Chamber's Membership... (Jersey Chamber of Commerce)

Some were of the opinion that the spending review needs to go further than planned. A few suggested a split of 80:20 between costs and taxes.

...The Bank strongly endorses the sentiments expressed in the Review aimed at controlling public spending. However, the Bank is of the firm opinion that the States spending review must go significantly further than contemplated in the Review and must include a fundamental assessment of the appropriate size, range and quality of public services in the island... (Standard Chartered Bank)

A few organisations criticised the consultation as it is treated separately from other reviews taking place such as the spending review and business tax.

...It is difficult to divorce the consultation on personal tax from other reviews that are currently being performed – primarily business tax and social security costs... the difficulty for us suggesting 'preferred options' is the lack of clarity on the fuller picture.. (Jersey Electricity)

A few businesses reiterated which options they preferred. This was generally GST and domestic rates; however some added they should only be implemented if absolutely necessary. Some reemphasized their opposition to the social security and income tax proposals. Others said they are opposed to all tax rises.

A few other concerns and ideas were put forward on taxation. These included some opposition to 0/10 and a recommendation that changes in personal taxation should not be decided until this regime has been reviewed. A number supported addressing the taxation of non Jersey owned businesses.

We must assume that 0/10 will be with us for the foreseeable future. This tax does not follow the criteria of "a level playing field" for local companies, and, indeed, highlights the dysfunctional make up of our system... A solution must be found to ensure non-locally owned businesses pay their share of tax and contribute to the costs and amenities they currently enjoy in the island... (Malcolm & Lewis, Business & Accounting Services)

A few other ideas were put forward, for example one or two expressed their support for a single tax system.

... We would support a reform of the Jersey personal tax system whereby we return to a single system of taxation which is a truly progressive tax and levies taxation from zero to 20%. We would suggest that any review should also encompass the current benefits system....(Chartered Institute of Taxation)

A number of other ideas not directly related to tax were made by a few organisations. These included outsourcing some public services to the private sector, supporting local businesses and tourism, and the development of charities.

4. Conclusions

Jersey faces difficult decisions ahead. There is a need to reduce expenditure or increase income to overcome an ongoing deficit. The Treasury believes that both will be necessary if Jersey is to address the underlying problem and not tap into contingency funds or borrow. The consultation shows that personal taxation invokes strong opinions in those who have chosen to respond to the consultation. Negative impacts were reported far more frequently than positive ones for all four tax options by a wide margin. Many respondents stated that their preference was for cost cuts before tax increases.

Overall the options of increased GST and Rates were seen to be relatively less damaging to businesses but more negative for residents and workers. The opposite was the case for the options of Income tax and Social Security, where more people and organisations identified negative impacts on Jersey as a place to do business than for Jersey as a place to work and live.

A number of themes were repeated across the consultation.

Competitiveness: A number of concerns were raised that increased taxation would reduce Jersey's international competitiveness and lead to emigration and loss of State's revenue, in particular related to the finance industry. Others were worried that taxes would make small businesses struggle. A smaller number of responders felt that the concern over companies deserting Jersey due to taxes was exaggerated.

Fairness: Our analysis has found that fairness was a term used by a lot of people. However responders were divided on the exact definition of the term. Some people felt that those on higher incomes should be made to pay proportionally more income tax in the name of fairness; others opposed an increase and felt it was unfair for people who worked hard for a high income to pay more. The interpretation of fairness varied across the people who responded. Responders were both concerned that increases in rates and GST would force low income people out of Jersey and that increases in Social Security payments and Income Tax would lead to high income residents leaving the island.

Savings: One theme which did receive broad support was the principle that tax rises should be less of a priority compared to cost savings in public sector spending. One of the most common themes was a sense that the public sector was inefficient and that savings were needed. The consultation provides a strong mandate for the State's ongoing Comprehensive Spending Review, which many of those who responded to the consultation view as a necessary precondition to tax increases.

The consultation responses make it clear that responders thought there would be positive and negative effects for each of the options set out.

4.1 What happens next?

Timeline

2011 Budget published by the Treasury Minister
Deadline for Budget amendments from States Members
States debate begins to agree the Budget for 2011

Tuesday 26th October
Tuesday 23rd November
Tuesday 7th December

5. Appendices

5.1 Statistics

This section outlines some key figures

Mechanism	Number of attendants or responses
Events	~300
Letters, emails and paper questionnaires	102
Online survey	548 (excluding those who did not answer any questions)
TOTAL	Around 950

Outline of events

Event	Location	Date	Participants
Public meeting	St Paul's Centre	1 st July 2010 evening	20
Public meeting	Royal Jersey Agricultural & Horticultural Society	7 th July 2010 evening	20
Public meeting	Les Quennevais School	12 th July 2010 evening	25
Public meeting	St Paul's Centre	21 st July 2010 lunchtime	30
Group meeting – Standing Conference of Women's Organisations	Royal Jersey Agricultural & Horticultural Society	24 th August evening	25
Group meeting – Age Concern	St Helier town hall	25 th August afternoon	80
Group meeting – 6 th form students	Hautlieu School	19 th July morning	200
TOTAL			Around 400

5.2 Copy of questionnaire

1. If taxes are required to help balance States finances from 2012 how do you think they should be spread over the Island population? (tick one)

- i. *Better off households should pay a lower percentage of their income (but a similar amount in cash terms)*
- ii. *Each household should pay the same percentage of their income*
- iii. *Better off households should pay a higher percentage of their income*

2. What do you think the impact would be of the various tax options outlined below, that would raise about £30 million each?

a) Increase GST by 2% to 5% raising £30 million per year

- i. *What would be the impact on Jersey as a place to do business?*
- ii. *What would be the impact on Jersey as a place to live and work?*

b) Raise the Social Security ceiling for employees and employers to £115,000 raising £30 million per year

i. What would be the impact on Jersey as a place to do business?

ii. What would be the impact on Jersey as a place to live and work?

c) Increase in Island-wide domestic rates – total domestic rates up x3 raising £30 million per year

i. What would be the impact on Jersey as a place to do business?

ii. What would be the impact on Jersey as a place to live and work?

d) Introduce a higher rate of income tax of 30% over £100,000 raising £30 million per year

i. What would be the impact on Jersey as a place to do business?

ii. What would be the impact on Jersey as a place to live and work?

3. On page 7 a package of smaller measures is outlined, including new stamp duty rates, increasing impôts by 10%, introducing a land development tax and reducing mortgage interest tax relief by 10%. This package would increase revenue by about £15 million in total.

i. What would be the impact of such a package on Jersey as a place to do business?

ii. What would be the impact of such a package on Jersey as a place to live and work?

4. Please add any other ideas or preferences you may have for the States to raise tax revenue

5.3 Organisations who took part

Organisations

ACET Jersey

Annesley Limited Group

Baccata Trustees Ltd

BDO Alto Limited

Bedell Cristin

Carey Olsen

Chamber of Commerce

Channel Island Tobacco and Manufacturers' Association

Chartered Institute of Taxation

Contrail Hotels Ltd

Crystal Cleaning Company

Ernst & Young

Grant Thornton Accountants

GP practice (unknown)

Herald Trust Company

Hettich Jewellers

HLB Jackson Fox Limited

IceCap Partners

Institute of Directors

Island Music

Jcap Treasury Services

Jersey Construction Council

Jersey Electricity plc

Jersey Farmers Union

Jersey Finance

Jersey Hospitality Association

Jersey Small Business Forum

Jersey Society of Chartered and Certified Accountants (JSCCA)

KPMG

Liberation Group

Malcolm Lewis Business & Accounting Services Limited

Medland Leadworks Ltd

Millbrook House Hotel

Mourant Ozannes

ND Holdings Limited

Ogier

PricewaterhouseCoopers

Romerils

Standard Chartered Bank

Supervisory Committee

Sybling investments

Volaw Trust & Corporate Services Ltd

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