States of Jersey

DRAFT BUDGET STATEMENT 2014

Embargoed until after delivery of the Treasury and Resources Minister's Statement on Tuesday 8 October 2013

TREASURY & RESOURCES

States of Jersey

DRAFT BUDGET STATEMENT 2014

Proposition

Draft Budget Statement 2014

The States are asked to decide whether they are of opinion:

(a) to approve, in accordance with the provisions of Article 10(3)(a) of the Public Finances (Jersey) Law 2005, the estimate of income from taxation during 2014 of £639,513,000 as set out in Summary Table A of the Budget Statement, with the sum to be raised through existing taxation measures and the proposed changes to income tax, Goods and Services Tax, Impôts duty, Stamp Duty and Land Transaction Tax for 2014 as set out in the Budget Statement.

(b) to approve, in accordance with the provisions of Articles 10(3)(c) and 11(3) of the Public Finances (Jersey) Law 2005 the appropriation of £2,210,000 in 2014 and £1,460,000 in 2015 from the amount appropriated to growth expenditure in the Medium Term Financial Plan 2013 to 2015 to a revenue head of expenditure for each States funded body as set in the recommended allocation of growth expenditure in Summary Table B.

(c) to approve, in accordance with the provisions of Article 10(3)(d) of the Public Finances (Jersey) Law 2005, a capital head of expenditure for each of the capital projects for States funded bodies to be started or continued in 2014 (other than States trading operations) as set out in the recommended programme of capital projects in Summary Table D totalling £88,892,000.

(d) to approve, in accordance with the provisions of Article 10(3)(e) of the Public Finances (Jersey) Law 2005, each of the capital projects that are scheduled to start during 2014 in the recommended programme of capital for each States trading operation, as set out in Summary Table E that require funds to be drawn from the trading funds in 2014.

(e) to agree –

(i) that, following the approval by the States on 16th May 2013 of the proposition "The Reform of Social Housing" (P.33/2013) and in accordance with the provisions of Articles 10(3)(b) and 21 of the Public Finances (Jersey) Law 2005, the States be authorised to borrow up to a maximum £250 million in 2014 for housing purposes and that, in accordance with the provisions of Article 10(3)(f) of the Public Finances (Jersey) Law 2005, the amount borrowed by the States be transferred from the consolidated fund to the Housing Development Fund;

(ii) in accordance with Article 3(3)(b) of the Public Finances (Jersey) Law 2005 that the purposes of the Housing Development Fund ("the Fund") be varied to enable the further provision and development of housing in Jersey and that –

(A) the Fund be permitted to lend money up to a maximum £250 million to Housing Trusts/Associations/Companies or bodies with the same purpose registered in Jersey in order that they can provide housing for islanders, on terms and conditions to be agreed, after consultation with the Minister for Housing, between the Minister for Treasury and Resources, and the aforementioned Housing Trusts/ Associations/Companies;

(B) all administrative costs associated with the operation and maintenance of the activities of the Fund to be paid out of the Fund;

(C) the fund to be invested through the Common Investment Fund in accordance with its own published investment strategy.

and that subject to the sanction by Her Most Excellent Majesty in Council and the subsequent coming into force of new Articles 3(3)(aa) and 3(3)(ab) of the Public Finances (Amendment No. 4) (Jersey) Law 201-

(D) all money due to the Fund, including any loan repayments and interest due from Housing Trusts/Associations/Companies, be credited to the Fund;

(E) money credited to the Fund does not form part of the annual income of the States.

(f) to refer to their Act dated 5th December 2006 in which they approved a revised policy for the use of the Strategic Reserve Fund established under Article 4(1) of the Public Finances (Jersey) Law 2005 and agreed that the Fund should be a permanent reserve, where the capital value was only to be used in exceptional circumstances to insulate the Island's economy from severe structural decline such as the sudden collapse of a major Island industry or from major natural disaster and to their Act dated 6th November 2009 in which they varied that policy and agreed that the Fund could be used if necessary, for the purposes of providing funding, up to a maximum £100 million to meet the States contribution to the Bank Depositors Compensation Scheme and/or to meet any temporary cash flow funding requirements of the Scheme established under the Banking Business (Depositors Compensation) (Jersey) Regulations 2010 and, in order to enable the creation of new hospital services as part of the proposals agreed by the States on 23rd October 2012 in adopting the proposition "Health and Social Services: a new way forward" (P.82/2012) –

to agree, as an exception to the approved policy for the use of the Fund, that the Fund may be used for the planning and creation of new hospital services in the Island, and to approve the transfer of an initial sum of £10.2 million from the Strategic Reserve Fund to the consolidated fund in 2014 so as to provide for these purposes, in accordance with the provisions of Article 4(3) and 10(3)(f) of the Public Finances (Jersey) Law 2005.

Minister for Treasury and Resources

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PART A – INTRODUCTION

1. 2014 Budget Foreword From The Minister For Treasury and Resources

Introduction

The measures proposed in this draft Budget for 2014 form a package that is designed to support the aims of economic growth and job creation.

This is a Budget that cuts taxes and invests in essential infrastructure for the long-term benefit of the Island.

It is a Budget that gives something back to the hardworking people of Jersey, who have carried on through difficult economic times.

It is a Budget that supports the Island's aspirations for economic growth, job creation, better education, better healthcare, and the development of infrastructure for the long term benefit of Islanders.

Worldwide Economic Recovery

There have been some positive economic developments at the global level in recent months. The Organisation for Economic Cooperation and Development (OECD) has stated that,

> *"the pace of recovery in the major advanced economies improved in the second quarter"*

and that,

> *"activity is expanding at encouraging rates in North America, Japan and the United Kingdom, while the euro area as a whole is no longer in recession."*

However, they also note that growth has slowed in several emerging economies and conclude that while recent improvements are welcome,

> *"a sustainable recovery is not yet firmly established and important risks remain"*

Overall, the OECD expects that the improvements in growth seen in the first half of 2013 will be maintained for the rest of the year.

They also emphasise though, that there is still risk, while the Euro area remains vulnerable to renewed financial, banking and sovereign debt tensions, and the potential remains for withdrawal of quantitative easing in the US.

The OECD policy advice at the global level is to continue to support demand in order to reduce the risk that the recovery will be derailed.

In the UK, the Bank of England has stated that a recovery appears to be taking place but that it will remain weak given the continuing post financial crisis process of adjustment and repair.

With this in mind the Monetary Policy Committee has adopted a new approach to monetary policy, providing explicit guidance regarding the future conduct of monetary policy. That is, that it intends,

> *"at a minimum to maintain the present highly stimulative stance of monetary policy until economic slack has been substantially reduced, provided this does not entail material risks to price stability or financial stability".*

A key consideration will be the unemployment rate and whether it has fallen below 7%.

Jersey Can Now Take Advantage of Its Strong Balance Sheet

In 2012, economic activity in Jersey fell by 4 per cent in real terms, representing the fifth consecutive annual fall.

The overall fall was a result of declines of -5% for the financial services sector and -4% for the non-finance sectors. Although GVA per capita fell in Jersey in 2012 to £36,700 it was still about two-thirds greater than that in the UK of £21,900. The latest survey information for the second quarter of 2013 shows that business activity is improving in the finance sector.

While the news remains negative for the non-finance sector, it is the least negative since September 2010. The headline business activity indicator has improved since September 2011. Five of the ten indicators for the finance sector improved and 7 of the 10 indicators for the non-finance sector improved in the second quarter.

Recent labour market data for Jersey has also been more positive. In particular, real earnings have increased for the first time in four years. Average earnings growth in June 2013 was 2.2%, 0.7% higher than in June 2012 and also 0.7% higher than inflation. This is an early indication that economic trends in 2013 have improved significantly relative to those in 2012 when average earnings growth was 1.5% less than RPI.

However, unemployment reached a new high level early in 2013 and has since remained stubbornly high.

Whilst 2012 saw total employment fall slightly from the record highs of 2011, the overall figure masks an increase in part-time employment at the expense of full-time employment.

Fiscal Policy Panel

The Fiscal Policy Panel (FPP), in their 2012 annual report (published in October 2012), forecast further declines in GVA in both 2012 and 2013 – of between 1 per cent and 3 per cent – with risks remaining to the downside. The FPP will be publishing a new Report (planned for 5th November 2013) in which they will comment upon the proposals within this report , Budget 2014.

This represented a downgrade from their previous forecast, on the basis of the continued deterioration in the economic situation within the Island and externally, and sluggish demand as a result of fiscal constraints in many of the advanced economies.

The FPP provide important independent advice for the planning of our finances.

Last year, in the context of a slightly downgraded economic outlook for Jersey in 2012 and 2013, the FPP highlighted seven key recommendations, all of which have been considered as part of this budget.

This Budget is framed against the international backdrop, local economic developments and the advice of the FPP. It supports our key economic objectives of:

- Supporting the economy in the short-term;
- Creating new employment opportunities;
- Laying the foundations for economic growth; and
- Committing to essential investment in our infrastructure.

Progress Made in Tax Policy and Administration

This Budget also continues the work of modernising our tax system and administration, and introduces measures that will support a sustainable return to growth.

The Taxes Transformation programme is proceeding well. The Taxes Office introduced online submission of personal tax returns (for taxpayers using agents) from January and online payments from February this year, while other projects involving internal data processing and ITIS (Income Tax Instalment System) improvement were also started and completed in 2013.

Other projects have also been started, and will have reports completed before the end of 2013. They include:

- Data and information exchange;
- Risk-based approach to compliance; and
- Organisational restructuring.

In addition, substantial work has been carried out to make changes to computer systems ready for the implementation of Long Term Care.

On tax policy, work has this year focused on international matters such as the implementation of FATCA, reviewing independent taxation and modernising the tax law relating to pensions.

Tax Policy and Administration in 2014 and beyond

The main focus on work for the Treasury in 2014 will be the development of a long-term tax programme, which will be published alongside the 2015 Budget. This programme will define the way forward for Jersey's tax regime and will include a proposal to modernise and simplify the personal tax regime, including the introduction of independent taxation and consideration of self-assessment and current year basis of tax. It will be wider than personal tax and will include a detailed programme, for example, of the ongoing property tax review.

Protection of tax revenues will also be an important focus in 2014 through ensuring proper compliance with the new distribution rules.

Further work will also take place to support the Social Security Department in the collection of the Long Term Care contributions, from the 1st of January 2015, subject to the outcomes of the States' debate on this matter.

In addition to Long Term Care work, the Taxes Office plans to make online filing of personal tax returns available to all taxpayers during 2014.

Reports Published and Consultations Launched

Published alongside this draft Budget are two reports and a consultation all of which support this drive towards modernisation and encouraging economic growth.

1. The results of a review of the Tax Regime for High Net Worth Individuals.
2. A feasibility report into the introduction of Independent Taxation in Jersey.
3. The launch of a consultation regarding proposed changes to the tax law in relation to Pension Schemes.

High Net Worth Individuals

This year, the Tax Policy Unit was asked to produce an update report following the introduction in 2011 of the new tax regime for High Net Worth Individuals ("HNWI") to review the success of the new regime and recommend, as appropriate, any further changes.

The report concludes that the regime is working well and proposes that the current system remains in place without any major changes but will continue to be monitored to ensure that it continues to deliver its objectives.

In addition, the report has highlighted some refinements that can be made to enhance economic growth.

It is proposed that the Income Tax Law will be amended in the 2014 Budget to allow certain pre-2011 HNWIs to transition to the 2011 tax regime, provided they meet certain criteria, for example, the capacity to enhance inward investment and create jobs. This will potentially encourage HNWIs to relocate their investment portfolios and active businesses to the Island, generating tax revenues, fees and economic growth through spend and employment.

In addition, to ensure that the contributions maintain their value in real terms, the minimum contribution will be reviewed every three years with a view to increasing the HNWI's tax contributions in line with inflation.

The positive conclusion from this review is that the tax policy introduced in 2011 is working largely as intended and is benefiting Jersey's economy. Meanwhile, the measures introduced in this year's Budget take another step towards creating economic growth by encouraging more inward investment that would otherwise go to, or move to other jurisdictions.

Independent Taxation

As part of the tax system modernisation programme, the Tax Policy Unit was asked to review how Independent Taxation could be introduced into the Jersey system.

The term 'Independent Taxation' refers to the policy of taxing individuals as individuals, regardless of their marital status. In Jersey, there is currently a 'default' for married couples to be taxed jointly. There are also certain allowances that apply to married couples that do not apply elsewhere within the tax regime, resulting in different treatment between married and cohabiting couples.

While married people have been able to opt for separate assessment, rather than joint, since 2003, it is recognized that the tax regime should adapt and evolve so that each individual is treated equally for tax purposes.

It is a widely accepted principle that our tax system should be both efficient and equitable, and that tax policy should not be used to encourage or discourage lifestyle choices; individuals or couples, whether married or cohabiting, should be treated equally. Independent taxation is therefore an important aspect of tax modernisation and provides for the needs of today's families.

This principle of a move to Independent Taxation makes sense in a modern society. However, it is vital that the logistical, administrative and financial impact of this change is managed correctly and makes the tax system simpler.

We are now committed to moving towards Independent Taxation.

However, it is vital that the logistical, administrative and financial impact of this change is managed correctly and makes the tax system simpler. It cannot be achieved, equitably, overnight - it needs a phased approach.

It is proposed that a first important step towards Independent Taxation will be made in this year's Budget by bringing the Marginal Tax Rate and '20 means 20' into closer alignment. This is covered in more detail under 'Specific Budget Measures for 2014'.

Work will now continue on designing an ambitious plan to introduce Independent Taxation to the following timetable:

- Review completed and recommendations included in the 2016 Budget at the end of 2015.
- Commencement of implementation in 2016.
- Implementation fully completed by 2020.

This timetable is based on the assumption that the cost of introducing Independent Taxation, be that to taxpayer or the States, will be acceptable to the States.

In addition, a detailed long-term tax programme will be published in 2014 alongside the 2015 Budget, which will include the Independent Taxation review as well as matters such as self-assessment and current year basis. Consideration will be given to including further changes in the 2015 Budget to facilitate the move towards Independent Taxation.

Tax Policy and Pension Schemes

A consultation is being launched alongside the Budget regarding proposed changes to the tax rules applying to pensions and pension schemes.

Because the interaction of taxation and pensions is inherently complicated, the proposed amendment to the Income Tax Law is being published as a consultation draft. It is hoped that a wide range of interested parties will take the opportunity to review the proposed changes before they are lodged with the States, facilitating the enactment of the most appropriate set of tax rules.

In addition to the proposed amendment, the consultation seeks views on a small number of additional pension related topics. Following completion of the consultation, the comments received in relation to these topics will be analysed and any amendments considered appropriate will be included in next year's Budget.

Specific Budget Measures for 2014

The Medium Term Financial Plan agreed by the States assumed that no significant tax policy changes would take place for a further two years and the proposals in this proposed Budget are consistent with that. This Budget continues to provide the stability and certainty needed, and builds on those foundations to enable growth.

The focus of the 2014 Budget recommendations is to stimulate economic growth by:

- Maintaining the cornerstones of the existing tax regime to promote stability for business.
- Putting more money in the pockets of taxpayers through a reduction in the marginal rate and increases in exemption thresholds.
- Encouraging further inward investment through changes to the tax regime for High Net Worth Individuals.
- Provide targeted tax breaks for parents of children in higher education so as to develop a skilled future workforce.

In addition, there is a strong focus on ensuring the tax law works as intended.

Income Tax

Explaining Marginal Relief

Personal income tax in Jersey is based around a standard 20% rate of tax with limited deductions and allowances.

However, to protect the lower to middle income earners, a separate calculation called 'marginal relief' is also performed using the exemption thresholds.

Further deductions like mortgage interest relief and child care relief may also be taken into account in the marginal calculation.

Taxpayers whose total income is in excess of their exemption threshold fall into what is termed the 'marginal band'.

The calculation of their liability to tax at the marginal rate of 27% ensures that there is no disproportionate increase in their tax bill if their income exceeds their exemption threshold.

Because of these exemption thresholds being used in the calculation of tax (increased as appropriate by the above allowances or reliefs) it is only those with high incomes who do not benefit from them.

This means that if in any year someone's total income is less than the exemption threshold, the percentage of tax you will pay on that income will be 0%.

As someone's income increases or their circumstances change, the percentage of tax you pay will increase as the marginal relief gradually tapers away until you are paying the maximum 20%.

The practice in recent years has been to increase the exemption thresholds by reference to the lower of the RPI figure and the annual increase in earnings.

Although in both the 2012 and 2013 Budgets, thresholds were increased by slightly higher amounts.

Tax Cuts – Giving Back

Our strategic approach to fiscal policy, in response to both the changes in our corporate tax regime and the need to repair revenues after the global financial crisis, has been consistent:

- Focused on raising revenue through indirect taxation; and
- Recognising the risks that other forms of taxation pose to the economy.

Having taken these difficult decisions in the past and keeping our finances on a strong and sustainable footing we can now afford to give something back.

To achieve this we are proposing three bold measures, namely:

- Increase the income tax exemption thresholds;
- A reduction in the marginal rate of tax; and
- Increase the tax relief for parents in the marginal band with children in higher education.

Exemptions and Thresholds

The income tax exemption thresholds are income levels below which taxpayers do not have a liability to income tax. The practice in recent years has been to increase the exemption thresholds by reference to the lower of the RPI figure and the annual increase in earnings, although in both the 2012 and 2013 Budgets, thresholds were increased by slightly higher amounts.

For the 2014 Budget, it is proposed that thresholds are increased by 1.5%.

This will provide a direct financial benefit for approximately 84% of Jersey tax payers at a cost of approximately £2.5m .

Decrease in the Income Tax Marginal Rate

Additionally, this draft Budget proposes that the marginal rate of tax be cut from 27% to 26%.

Based on the 2011 year of assessment, this proposal will reduce the tax liability of approximately 84% of taxpayers (around 40,000 households) at a cost of approximately £7.8m.

The overall cost of a 1.5% increase in exemption thresholds, combined with a 1% decrease in the marginal rate, will be approximately £10.3m.

Enhanced Income Tax Exemption Threshold for Parents of Children in Higher Education

Additional support is proposed through an increase in the tax relief available to parents currently in the marginal relief bracket with children over the age of 17 years and in full-time higher education from £6,000 to £9,000 per child.

This will mean parents will benefit by up to £780 per child at a cost to the States of approximately £900,000.

In addition, the restriction to child allowance by reference to the child's earned income will be removed at a cost of approximately £420,000.

Changes to the higher exemption threshold

As announced last year, this year's budget proposes to increase the age of entitlement for single, married persons and civil partners to the higher exemption threshold from 63 to 65.

Income Tax Allowances for Standard Rate Taxpayers

It is proposed that income tax allowances for higher earners who pay tax at the standard rate are unchanged for 2014.

Changes to the tax regime for certain High Net Worth individuals

The change to the tax regime in 2011 for High Net Worth Individuals who are granted housing licences under regulation 1(1)(k), now 2(1)(e), was designed to encourage more inward investment to the Island. This budget proposes to take this further by allowing existing residents with housing licences granted under regulation 1(1)(k) to apply to be taxed under the new rules introduced in July 2011 on a discretionary basis, in order to create new employment and investment opportunities that could be created in Jersey by the transfer of business and investments from offshore to onshore, thereby encouraging economic growth.

Protecting revenues

There are a number of measures aimed at protecting revenues including strengthening the Comptroller's powers to effectively challenge tax relief claims for non-commercial debt structures.

Income tax administrative Changes

There are a number of proposed administrative amendments to the tax law to ensure that the law works as intended. This includes amending the ITIS provisions to restrict credit to controlling directors to eliminate potential unintended benefits, amending the rules relating to oil importation and distribution companies and revoking the three year rule of residence for qualifying Lump Sum Donations, among others.

Goods and Services Tax

There is no change in the rate of GST, which remains at 5%. Some minor administrative changes are proposed to ensure that the law works as intended. These measures include clarifying the definition of an 'Existing Building' that is eligible for the 0% rate, clarifying the position regarding white goods, carpets and other removable goods supplied in zero-rate dwellings, and providing increased flexibility in the deregistration process, among others.

Impôts Duty

The proposals for 2014 impôts duties take into account the economic conditions, inflation and the Island's tobacco and alcohol strategies, following consultation with the Council of Ministers and, in particular, the Ministers and Officers from Health and Social Services, Home Affairs and Economic Development.

The Budget proposals are set out in detail in the following document and will raise additional revenue of approximately:

Alcohol duties	£1,254,000
Tobacco duties	£1,466,000
Fuel duties	£399,000
Vehicle emission duty	£44,000

In summary, the proposed increases in the 2014 Budget are:

- Increase the duty on alcohol with:
    - 11% increase in duty on a litre of spirits – £1.27 per litre.
    - 5% increase in duty on a bottle of table wine – 7p per bottle.
    - 5% increase in duty on a pint of weaker beer and cider (not exceeding 4.9% abv) – 2p per pint.
    - 11% increase in duty on a pint of strong beer and cider (exceeding 4.9 abv) – 6p per pint.

- Increase on the duty on 20 king size cigarettes by 11% – 47p per packet of 20 cigarettes
- Increase on the duty on all fuels by 2% – 1p per litre
- Increase on all VED (Vehicle Emission Duty) bands by 5%

These measures support the Health Minister's drive to reduce the adverse effects on health of excessive alcohol consumption and smoking. It is proposed that the increases in duty will take effect from midnight on 31st December 2013.

Stamp Duty and Land Transaction Tax

The proposal in the 2014 Budget is to continue the extension of the maximum threshold for first-time-buyer relief from £400,000 to £450,000 until 31 December 2014.

Growth Proposals for 2014

In the debate of the Medium Term Financial Plan (MTFP P69/2012) in November 2012, the States agreed an amendment by the Chief Minister to the proposals by the Corporate Services Scrutiny Panel for a central growth allocation in 2014 and 2015.

The amendment by the Chief Minister resulted from a review by Ministers of those growth bids, which could be held centrally and allocated in future years' annual Budget.

The Council of Ministers is now proposing that the Allocation of Central Growth for 2014 of £2,210,000, and associated funding of £1,460,000 for 2015, be allocated to departments in line with the original allocation.

Capital Programme

The Medium Term Financial Plan (MTFP) set out the capital programme for each of the years 2013-2015 and the debate on the MTFP approved the capital programme, in total, for each of these years. The budget for each of these years will approve the detailed list of projects.

The total allocation approved for 2014 was £88,892,000.

The review of the proposed programme has identified a reduced cost for additional primary school accommodation. It is proposed that this variance is reallocated to accommodate an additional allocation to Transport and Technical Services for works at Green Street Car Park, Education Sports and Culture for work required to meet their Sports Strategy and Fiscal Stimulus and Parish Projects.

More detail of individual projects can be found in the main body of this document, but, departmentally, the approximate allocations for 2014 are:

Chief Minister's Department	£1.04m
Education Sport and Culture	£15.76m
Department of the Environment	£0.65m
Heath and Social Services	£14.73m
Home Affairs	£1m
Transport and Technical Services	£25.8m
Treasury and Resources	£2.5m
Other Capital	£5.2m
Social Housing Programme	£22.2m

Major Capital Projects: Hospital, Housing and Liquid Waste

The Island faces a need for major infrastructure investment in housing, hospital facilities and liquid waste infrastructure. This Report brings forward innovative and cost effective ways of funding these projects that will minimise the cost, maximise the use of existing resources and safeguard our Island for the long term.

A Budget to Support Growth and Create Jobs

At a time when unemployment remains at high levels, it is vital that the public sector does what it can to support the economy, particularly when private sector activity may take time to recover.

The 2014 Budget goes further than providing stimulus in the short-term and continues to provide support for the key policy areas of Back to Work and the Economic Growth and Diversification Strategy.

Back to Work will help to minimise the costs to both the individual and society of the current levels of unemployment and ensure we do everything we can to get those out of work, particularly the young back into employment as quickly as possible.

We must build for the future and lay the foundations for economic growth now, which will benefit us in the future.

This Budget provides support for the Economic Growth and Diversification Strategy in all key areas including:

- The new £5m Innovation Fund;
- Supporting the continued growth and diversification of the financial services sector; and
- New enterprise strategy that will deliver new high value and high growth business and raise the productivity of the whole economy.

The Minister for Social Security has already published a report in August on the new Long-term Care scheme that will help Islanders pay for care, either in their own home or in a care home.

If the States agree, the new long-term care scheme will start in July 2014, offering greater protection for hard working Jersey families.

However, although the benefits from the scheme would be available from next year, contributions to the scheme would not begin until 2015 at 0.5% of taxable income, rising to 1% in 2016.

To prevent money being taken out of the economy while it is still under pressure, the Treasury has worked with Social Security to make it possible to reallocate existing Social Security budgets so as to avoid the need to introduce a 1% contribution in 2014. Current proposals are to reduce the planned contribution to 0.5% in January 2015 and 1% from January 2016.

This will prevent a further squeeze on Islanders disposable incomes and at a time when we are supporting the economy through fiscal stimulus.

Additional Income Tax proposals

- Remove restrictions to child allowance by reference to the child's earned income.
- Increase the age of entitlement to the higher exemption threshold from 63 to 65.
- Amend ITIS provisions to restrict credit available to controlling directors.
- Create a level playing field for oil importation and distribution companies.
- Introduce mandatory online filing for ITIS returns.
- Remove 3 year rule of residence for making lump sum donations .
- Permit certain residents with housing licences granted under regulation 1(1)(k) to apply to be taxed under the post July 2011 regime.
- Strengthen legislation on interest deductions to counter non-commercial debt financing.

- Revise the relief due to the self employed in respect of social security contributions in response to changes to the social security law.

- Repeal the tax credit due for the electronic delivery of income tax returns.

- Amend the distribution rules introduced in the 2013 Budget to ensure they operate as intended

Conclusion

This is a Budget that cuts taxes and invests in the long-term infrastructure of the island. It balances the needs for short-term fiscal support to boost employment with the need to underpin economic growth and job creation policies in the medium term.

It provides the fiscal stability and certainty that will help growth flourish and at the same time commits to the essential investment the Island needs in areas such as health and housing.

Supporting the economy and investing to improve our competitiveness now will mean we are in the strongest position possible as the global economy continues to improve.

This is a Budget that provides direct financial relief to the majority of hardworking, taxpaying islanders, and helps to get money back into the economy.

This is a Budget that reflects the emerging signs of economic growth around the world, and positions Jersey to take advantage of these improvements.

I commend this Report, Budget 2014 and associated papers in Independent Taxation, High Net Worth Individuals and Pensions to the States Assembly.

Philip Ozouf

Senator Philip Ozouf
Minister for Treasury and Resources

October 2013

PART B – BUDGET STATEMENT 2014

2. Income Tax Proposals

Background

The Minister for Treasury and Resources considers annual Budget measures so as to ensure the States revenues are sufficient to meet spending proposals. The spending proposals were set out for three years from 2013 to 2015 in the MTFP adopted last year.

The tax proposals in the 2014 Budget seek to support the key Strategic Plan themes of creating employment and economic growth.

The economic climate remains challenging for both individuals and businesses. The proposals in this Budget seek to maintain certainty and stability in the tax regime for Business so that businesses can focus on growth, which can lead to increased employment. It goes further in providing additional help to individuals through the reduction in the marginal rate of tax which is also an important first step towards modernising and simplifying the personal tax regime.

The commitment not to increase income taxes and GST during the period of the MTFP is being maintained. There are no changes in this Budget to the cornerstones of Jersey's tax regime, being the general rate of 0% for companies, a standard rate of income tax of 20% and 5% GST.

It is important to ensure that the tax system operates as intended. Many of the proposals in this Budget are aimed at clarifying the law to provide certainty of treatment and to safeguard tax revenues.

Exemptions and Allowances

Income tax exemption thresholds

The income tax exemption thresholds are the level below which taxpayers do not have a liability to income tax.

The practice in recent years has been to increase the exemption thresholds by reference to the lower of the RPI figure and the annual increase in average earnings. In Budget 2012 however, exemption thresholds were increased by a higher amount to provide greater benefit to lower income taxpayers. In 2013 the 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 two figures as the increase in average earnings in the period to June 2012 was 1.5%.

The RPI at 30 June 2013 was 1.5%. The annual increase in average earnings at 30 June 2013 was 2.2%.

The Minister proposes that thresholds are increased by 1.5% in combination with a reduced marginal rate (see below).

The affected population will include all marginal relief taxpayers and a number of taxpayers that currently pay tax at the standard rate that are brought into the marginal rate as a consequence of the increase in the thresholds.

The cost of increasing the income tax exemption thresholds by 1.5% will be approximately £2.5m.

Decrease in the income tax marginal rate

The Minister proposes that the marginal rate of tax be decreased from 27% to 26%.

The affected population will include all marginal relief taxpayers and a number of taxpayers that currently pay tax at the standard rate that are brought into the marginal rate as a consequence of this proposal.

Based on data from the 2011 year of assessment, the proposal will reduce the tax liability of approximately 84% of the taxpaying population (around 40,000 households).

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

The overall cost of a 1.5% increase in exemption thresholds combined with a 1% decrease in the marginal rate will be approximately £10.3m. The income tax forecasts in the MTFP have been prepared on the basis of a 3% increase in the income tax exemption thresholds only, being the estimate of the RPI at the time the forecasts were prepared. There will therefore be an increased cost over that forecast of £4.9m (£10.3m less £5.4m currently forecast).

FIGURE 1 – TAXPAYERS IN THE MARGINAL RATE BAND FOR 2011

Single persons	23,046
Single persons (aged 63+)	2,893
Married couples / civil partnerships	10,753
Married couples / civil partnerships (aged 63+)	3,048
TOTAL	**39,740**

Enhanced income tax exemption threshold for parents of children in higher education

In the 2012 Budget the Minister provided substantial additional support to working parents with young children by almost doubling the amount of child care tax relief available for pre-school children. As a result additional tax relief of approximately £1.5m is granted annually to these parents. In this budget the Minister is proposing to bring in a measure aimed at helping middle income households with children at university.

At present taxpaying parents (both marginal and “20 means 20”) with children over the age of 17 years and in full time higher education receive a tax allowance of £6,000 per child – compared to the standard child allowance of £3,000 per child. This allowance can be claimed by parents with children at university off Island or with children on Island studying qualifying university degrees. The amount of the allowance is also added to the income tax exemption thresholds therefore ensuring that marginal rate taxpayers receive benefit as well as standard rate taxpayers.

The Minister proposes to allow additional tax relief to parents by adding £3,000 per child in full time higher education to the income tax exemption threshold. The effect of increasing the tax exemption threshold rather than the higher child allowance will be to target those taxpaying parents currently within the marginal relief bracket and those parents who by virtue of the increase in the thresholds will be brought into this bracket. The majority of taxpaying parents that currently pay tax at the standard rate will not be affected.

This proposal will mean a tax reduction for those taxpaying parents currently in the marginal relief bracket and those brought within it of up to £780 per child.

The cost of the enhanced income tax exemption threshold for parents of children in higher education will be approximately £900,000.

The effects of these proposals are outlined in Figures 2 and 3.

FIGURE 2 – EXEMPTION THRESHOLDS FOR 2013 AND 2014

	2013	2014
Single Person	£13,780	£14,000
Single Person (aged 63+; 65+ for 2014 onwards)	£15,370	£15,600
Married Couple/Civil Partnership	£22,090	£22,400
Married Couple /Civil Partnership (aged 63+; 65+ for 2014 onwards)	£25,280	£25,700

FIGURE 3 – ADDITIONS TO EXEMPTION THRESHOLDS

	2013	2014
Wife / Civil Partner 'B' working	£4,500	£4,500
Child	£3,000	£3,000
Child in higher education	£6,000	£6,000
Child in higher education enhanced exemption	_	£3,000
Single Parent	£4,500	£4,500
Child care tax relief	£6,150	£6,150
Enhanced child care tax relief (pre-school age children)	£12,000	£12,000
Mortgage interest relief for a home*		

*Mortgage interest relief for homeowners is available for interest paid on mortgages up to £300,000.

Figure 4 illustrates the impact of these proposals on sample households.

FIGURE 4 – IMPACT ON SAMPLE HOUSEHOLDS

	Income	2013 liability	2014 liability	Saving
Single, no children	£20,500	£1,814	£1,690	£124
Married, 2 children, wife not working	£36,000	£2,136	£1,976	£160
Married, 2 children (1 child at university), wife working	£40,000	£1,191	£286	£905
Married, 2 children, £240k mortgage (at 5% interest), wife working	£62,000	£4,701	£4,446	£255
Married, 2 children (1 child at university), wife working	£70,000	£9,291	£8,086	£1,205
Married, 2 children (1 child at university), wife working	£140,000	£26,200	£26,200	Nil
Single pensioner	£20,500	£1,385	£1,274	£111
Married pensioner	£26,000	£194	£78	£116

Income tax allowances for standard rate taxpayers

The Minister proposes that the income tax allowances for higher earners who pay tax at the standard rate are unchanged for 2014. These allowances are shown in Figure 5.

FIGURE 5 – INCOME TAX ALLOWANCES FOR STANDARD RATE TAXPAYERS

	2013	2014
Child	£3,000	£3,000
Child in higher education	£6,000	£6,000
Single Parent	£4,500	£4,500

Tax facts

The following tax facts provide an illustration of the existing personal tax structure, and also provide relative comparisons against other jurisdictions.

The tax threshold (i.e. the point above which an individual starts to pay income tax) is determined by the individual's personal circumstances. For example, a married couple, who are both working and have two children (one at university), paying mortgage interest of £7,500, do not become liable to income tax in 2013 until their income exceeds £43,090. For 2014 this would increase to £46,400 under the current proposals. Figure 6 refers.

FIGURE 6 – INCOME TAX THRESHOLDS

	2013	2014
Married Couple Exemption	£22,090	£22,400
Wife's Earned Income (max)	£4,500	£4,500
Child Allowance	£3,000	£3,000
Child Allowance (higher)	£6,000	£6,000
Child in higher education enhanced exemption	-	£3,000
Mortgage Interest	£7,500	£7,500
Total	**£43,090**	**£46,400**

Tax Comparisons

The income tax thresholds in Jersey mean that many residents pay less tax than in most neighbouring territories. Figure 7 refers.

FIGURE 7 – COMPARISONS OF TAX PAYABLE

The income tax payable by a married couple, where both spouses are working, in 2013 with a joint income of £41,000, without children or a mortgage, is as follows:

Jersey	£3,891
Isle of Man	£2,380
Guernsey	£4,410
UK 2013/14 (based on one person having an income of £40k)	£6,312
UK 2013/14 (based on each person having an income of £20k)	£4,224

The income tax payable by married pensioners in 2013 (aged 63+) with an income of £26,000 without a mortgage, is as follows:

Jersey (wife not working) (aged 63+)	£194
Isle of Man (aged 65+)	£538
Guernsey (aged 64+)	£710
UK 2013/14 (based on one person having an income of £26k) (age 65–74)	£3,100
UK 2013/14 (based on each person having an income of £13k) (age 65–74)	£1,000

Additional Income Tax Proposals for 2014

The Minister proposes amendments to the Income Tax (Jersey) Law 1961 ("Income Tax Law") in respect of the following:

Remove the restriction to child allowance by reference to the child's earned income

At present a child's income (earned and unearned) above £3,000 is taken into account when calculating both the standard and higher child allowance due to the parent. The only occasion when the child's earned income is not taken into account is any income earned in the year of assessment after the child has completed a course in full-time higher education.

It is proposed that the restriction in the relief based on the child's earned income is removed so that any earned income of the child is not taken into account when calculating both the standard and higher child allowances. The restriction will remain for unearned income. The cost of this proposal will be approximately £420,000.

Increase the age of entitlement for single, married persons and civil partners to the higher income tax exemption threshold

It was announced in the 2013 Budget that a proposal would be brought forward in the 2014 Budget to increase the age at which taxpayers can benefit from the higher exemption thresholds.

Currently a single person, married couple and civil partnership are entitled to a higher income tax exemption threshold if the single person, husband or wife or either of the civil partners are aged 63 years of age or over at the beginning of the income tax year of assessment.

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

'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. The estimated additional revenue resulting from this proposal will be approximately £750,000.

Income Tax Instalment System (ITIS) provisions – restrict credit to controlling directors

When an employer deducts tax from an employee's salary or from a director's fees under the ITIS provisions he is obliged within 15 days of the end of the calendar month to pay that tax over to the Comptroller. If the employer fails to pay that tax to the Comptroller the employee is protected and will receive a tax 'credit' under the ITIS provisions for the amount of tax deducted.

'Controlling directors' are equally entitled to a tax credit for the tax deducted but not paid over to the Comptroller.

If a business ceases and the company is dissolved, the Comptroller may be unable to recover all or any of the outstanding tax due under the ITIS provisions to settle both the employees' and the 'controlling directors' tax liabilities. Whilst in these circumstances the provision of a tax credit is fair and equitable for employees who have had the tax deducted from their salary, for an individual who has had control of the company and its financial affairs such a provision seems unduly generous.

The Minister proposes that the Income Tax Law is amended to ensure the provision of a tax credit in circumstances where income tax deducted has not been paid over to the Comptroller no longer applies to controlling directors. It was never the intention to allow a tax credit in the circumstance described above so this proposed amendment seeks to ensure no further tax credits are afforded to controlling directors.

Create level playing field for oil importation and distribution companies – liable to tax at 20%

The Income Tax Law was amended to tax the profits arising from the importation and supply of hydrocarbon oil at the standard rate of 20% with effect from 1 January 2012.

The legislation also provides that where a company carries on a trade of importing and supplying hydrocarbon oil (the importing company) and supplies oil to another company which is a subsidiary of, or connected with, the importing company, the profits of that other company arising from the trade of supplying hydrocarbon oil shall also be taxed at 20%.

The players in this sector operate in different ways. Some are both importers and suppliers which operate through one entity, some split their activities and some do either the importation or the supply. It was intended to subject all of these activities to tax at 20% but as drafted the law could be applied such that some escape tax which creates an unlevel playing field in the sector.

There was never an intention to discriminate in this way. It is proposed that a minor change is made to the legislation to ensure that the law operates as intended.

The Income Tax Instalment System (ITIS) – Mandatory online filing

ITIS was introduced in January 2006. It obliges employers to deduct tax from all employees and company directors receiving a salary or fee and to pay over that tax and provide the accompanying data within 15 days of the end of the calendar month to the Comptroller. Employers have the opportunity to submit their monthly returns either in a paper format or online.

The Taxes Office is promoting an e-business environment, reducing the amount of paper processed and encouraging taxpayers and employers to engage with the Office online.

It is the Comptroller's intention to move to mandatory online filing for ITIS returns in 2014.

The Comptroller may, at his discretion, allow certain organisations or employers to continue to file in paper format. These could include for example, bodies such as small charities and Non Profit Organisations or very small employers.

Lump Sum Donations – revoke 3 year rule of residence prior to making Lump Sum Donation

An individual may not make a donation qualifying for income tax relief until he has been resident in Jersey for more than three tax years. Whilst in the past this time limit may have been necessary so that the Taxes Office could be sure that an individual donor paid income tax before the Taxes Office were asked to repay that tax to a charity, the combination of changes made to the personal tax system in recent years means that this is no longer necessary.

Abolishing the time limit for new residents means that charities would be able to claim refunds of income tax on donations made by individuals regardless of how long they have been resident.

Allowing existing residents with housing licences granted under regulation 1(1)(k) to apply to be taxed under Article 135A(3A)

This proposal will allow some taxpayers who were granted a housing consent under regulation 1(1)(k) of the Housing (General Provisions) (Jersey) Regulations 1970 to be taxed under the 'new' (post July 2011) tax regime.

The tax regime in place prior to July 2011 actively encouraged these individuals to hold their businesses and investments outside of Jersey, which does not support the objective of inward investment growth. This was one of the drivers for changing the regime in 2011.

The advantage of allowing this would be the new employment and investment opportunities that could be created in Jersey by the transfer of business and investments from offshore to onshore, thereby encouraging economic growth.

This would be a discretionary regime, which requires the individual to formally apply to the Minister and to commit to pay the current minimum tax contribution of £125,000. Consideration will be given to applications that demonstrate an identifiable economic benefit to the Island through creating employment and/or other economic activity.

Guidance notes have been published alongside this Budget Statement setting out the criteria that should be satisfied for an application to be accepted.

Strengthening the law on tax relief for interest

A number of taxpayers utilise the availability of tax relief for interest incurred to inappropriately shelter their income from Jersey tax. An amendment to the interest relief rules is proposed that will give the Comptroller the power to limit the amount of interest that may be deducted where the interest incurred exceeds the amount that could reasonably be expected to be charged on a commercial basis. This power strengthens the Comptroller's ability to effectively challenge situations where the interest relief rules are being abused.

Allowable deduction on account of social security contributions revised for self employed

An individual who conducts a trade or profession is subject to pay Class 2 contributions to Social Security. The Income Tax Law provides that the individual may deduct as an expense from his business profits 52% of the Class 2 contributions (being equivalent to the 'employer's element' of the total contributions).

The Social Security Law has been amended such that with effect from 1 January 2012 Additional Class 2 contributions, above the earnings ceiling, became effective. The additional contributions are 2% on income between the Standard Earnings Limit and the Upper Earnings Limit. As a result the amount that an individual may deduct as a business expense is no longer a set amount of 52% - but varies between 52% and 65% of the contributions paid.

The Minister proposes that the Income Tax Law is amended to accommodate the changes to the Social Security Law to ensure the correct relief is available to taxpayers.

Repeal of tax credit for electronic delivery of income tax return

An amendment was made to the Income Tax Law in 2008 which provided for a deduction of £20 from the amount of tax payable by an individual if they filed their personal tax return online.

The purpose of the amendment was to encourage as many individuals as possible to file online as processing an electronic tax return is far more effective and efficient than processing a paper return.

The Taxes Office is in the process of developing an online filing facility for individuals which should be available on or before 1 January 2015.

It is now recognised that the £20 deduction is very generous and could involve a significant reduction in income tax revenue; particularly if there is a large number of taxpayers who use the facility and the deduction is applied each year. It is proposed to remove this deduction.

Changes to the Distribution Rules

A number of minor changes are proposed to the Distribution Rules introduced in the 2013 Budget to ensure that they are operating as intended. This includes measures to address the situation where a shareholder switches from the simplified basis of taxation to the calculated basis of taxation.

Launch of consultation regarding pensions

A consultation is being released alongside the Budget regarding the tax rules applying to pensions and pension schemes. The consultation document primarily consists of proposed amended legislation (which has been released for comment) which is aimed at simplifying and modernising the applicable tax rules.

In particular under the existing tax rules it is not possible for members of occupational pension schemes to draw a pension from their scheme whilst continue to work and accrue further benefits within the scheme. Broadly it is necessary for a member to "retire" before they are able to draw a pension from their scheme.

This means that the members of occupational pension schemes are ordinarily required to make a choice between working and retiring, preventing them from having the option of a "flexible retirement" where they combine working and the receipt of pension income in a way that suits their particular circumstances. It is proposed that the tax rules which prevent "flexible retirement" are removed entirely.

Subject to the findings of the consultation, it is anticipated that the amended legislation will be lodged with the States in spring 2014.

3. Goods and Services Tax Proposals

Background

The Minister proposes amendments to the Goods & Services Tax (Jersey) Law 2007 in respect of the following:

Definition of existing building – clarification and strengthening of existing policy

Current GST legislation and policy allows the zero rating of construction of new build dwellings but requires GST to be charged on building works applied to existing buildings, such as alteration, conversion, enlargement, improvement, reconstruction, repair and extension.

There is not an explicit definition of the term “existing building” in Jersey GST legislation but existing policy and publicity says that an existing building only ceases to exist when it is demolished to ground level, or if one wall is retained purely for planning reasons (or two if it is a corner site). Unless these conditions are met, the building works are standard rated works of alteration, conversion, enlargement, improvement, reconstruction, etc. and not of a zero rated construction of a new dwelling.

This proposal introduces a definition of the term “existing building” in the legislation to ensure that only the construction of new dwellings from the ground up will be eligible for the 0% rate and building services on existing residential property are subject to the 5% rate. There will be a 2 year “grandfathering” provision to allow for construction works that are in progress at 1st January 2014 and have been commenced under the former legislation to remain liable at 0%.

Input tax blocking order on white goods, carpets and similar goods supplied in zero rate dwellings

Current GST policy and practice requires developers and vendors of new dwellings zero-rate to account for GST on the sale of any “white” goods, carpets and other removable goods commonly supplied in new residential units. This proposal clarifies this position in the legislation.

Deregistration process

This proposal allows the Comptroller, taxpayers and their agents greater flexibility in agreeing the date from which GST deregistration should apply. This will overcome a difficulty created in the original drafting which limits the possible date to a current date or earlier but not later. This proposal provides greater flexibility to agree a suitable prospective deregistration date with a business.

Align the GST treatment of imported goods with domestically sourced goods

This proposal aligns the treatment of goods that have been imported by a Customs approved importer with those that have been sourced in Jersey with a recovery of the GST to ensure that both categories of goods are considered when applying the provisions which exist to apply a GST charge when goods (e.g. cars), are taken to private use or when a business deregisters for GST.

Discretionary power to the Comptroller to allow input tax claims that would otherwise be capped at 3 years

Current GST legislation places a 3 year time limit on the period for which a taxpayer may seek credit for GST that has been incurred. This exists to limit the time period during which a GST registered taxpayer may seek reimbursement of GST and effectively "caps" the period for which GST input tax credit is available.

In a limited range of circumstances, the 3 year restriction has placed otherwise compliant taxpayers at a financial disadvantage. This proposal gives the Comptroller a limited discretionary power to allow, upon application, input tax claims that would otherwise be capped.

4. Impôts Duty Proposals

Background

Each year, in advance of the Budget, the proposals for impôts duties are reviewed against the prevailing economic conditions, the Island's financial position and the States strategies on alcohol and tobacco.

The Minister's proposals for 2014 take all the above factors into account.

To help inform his decision the Minister has considered the following:

- The most recent rate of inflation.
- The tobacco and alcohol strategies.
- Informed consultation with the Council of Ministers and in particular the Ministers and Officers from Health and Social Services, Home Affairs and Economic Development.

It is proposed that the increases in duty will take effect at midnight on 31 December 2013.

The Budget proposals are set out in detail below and will raise additional revenue of approximately:

- Alcohol duties – £1,254,000
- Tobacco duties – £1,466,000
- Fuel duties – £399,000
- Vehicle Emissions Duty – £44,000

(The above amounts are the estimated additional revenue that will be collected by the Customs and Immigration Service in 2014 and do not take into account any increases already calculated as a result of the MTFP forecast).

Alcohol

Following consultation with the Council of Ministers, it is proposed to increase alcohol duty rates above the most recent rate of inflation.

Accordingly the Minister proposes the following:

- An 11% increase on spirits (£1.27 per litre)
- An 11% increase on strong beer/cider (exceeding 4.9% abv) (6p per pint)

- A 5% increase on wines (7p per bottle)
- A 5% increase on weaker beer/cider (not exceeding 4.9% abv) (2p per pint)

As a result of these Budget proposals, the forecast is that the annual duty collected on all alcohol will total £18,965,000 in 2014. This would be £463,000 more than forecast for 2014 in the MTFP, and £770,000 more than forecast for 2013 in the 2013 Budget (see Figure 13).

Tobacco

It is proposed that the policy of increasing duty on tobacco at a level above the cost of living is continued.

As a result the Minister is proposing to increase the rate of duty on all tobacco products by 11% (47p per packet of 20 king size cigarettes).

There is evidence to show that both locals and tourists are increasingly turning to duty free sources for their tobacco supplies and that this is because of the high cost of tobacco in the Island.

The Customs and Immigration Service has previously reported a significant increase in passengers attempting to import cigarettes in excess of their statutory allowance and there has been no change in this trend during 2013. The Service continues to monitor this activity and though it is having an impact on the revenue yield, at this time there is neither evidence nor intelligence to suggest that commercial quantities of cigarettes are being smuggled into the Island.

As a result of the Budget proposals, the forecast is that the annual duty collected on all tobacco will total £14,789,000 in 2014. This would be £2,976,000 more than forecast for 2014 in the MTFP and £785,000 more than forecast for 2013 in the 2013 Budget (see Figure 13).

Fuel

The Minister continues to consider all issues regarding the duty on fuel, including the current worldwide price of hydrocarbon oil and the retail price of fuel at garages in the Island.

Having taken this into account and having considered the fact that there has been no increase in fuel duty for the last 2 years and an increase of only 2p per litre over the last 5 years, it is proposed to increase fuel duty by 2% (1p per litre).

As a result of the Budget proposals, the forecast is that the annual duty collected on fuel will total £20,363,000 in 2014. This would be £1,174,000 less than forecast for 2014 in the MTFP and £772,000 less than forecast for 2013 in the 2013 Budget. The reduction is mainly due to lower levels of importation than previously forecast.

Vehicle Emissions Duty

Vehicle Emissions Duty (VED) was introduced in September 2010 with an estimated annual revenue yield of £2 million.

The number and type of new vehicles registered has not proved consistent with the original modelling used to formulate the duty banding and in 2012 the total yield for VED was approximately £840,000. It is estimated that the yield will be similar in 2013.

It is not known the extent to which the introduction of VED has influenced consumers' decisions on vehicle purchases, but the current economic situation must have also been a factor. In addition it is apparent that new vehicles are being manufactured with reduced carbon dioxide (CO^2) emission figures. As a result these vehicles are either falling into a lower revenue VED band or the band where the revenue collection is zero.

For 2014 the Minister proposes an increase of 5% to all VED bands.

As a result of the Budget proposals, the forecast is that the annual duty collected for VED will total £924,000 in 2014. This would be £76,000 less than forecast for 2014 in the MTFP and £126,000 less than forecast for 2013 in the 2013 Budget. This is mainly due to different numbers and types of vehicles being imported and registered to those originally modelled.

Detailed Duty Increases for 2014

FIGURE 8 – DUTY INCREASES PROPOSED FOR 2014

	Current Duty	Proposed Duty	Increase (rounded to the nearest penny)
Litre of whisky at 40%	£11.49	£12.76	127p (11%)
Bottle of table wine	£1.38	£1.45	7p (5%)
Pint of beer ≤ 4.9% abv	£0.33	£0.35	2p (5%)
Pint of beer > 4.9% abv	£0.51	£0.57	6p (11%)
20 King size cigarettes	£4.29	£4.76	47p (11%)
Litre of unleaded petrol	£0.43	£0.44	1p (2%)

FIGURE 9 – PROPOSED RATES OF VEHICLE EMISSIONS DUTY BASED ON CO^2 MASS EMISSION FIGURE

CO^2 mass emission figure:	LPV first registered in Jersey	LPV first registered outside Jersey 1 year or less ago	LPV first registered outside Jersey more than 1 but 2 years or less ago	LPV first registered outside Jersey more than 2 years ago
120g or less	£0	£0	£0	£0
More than 120g but not more than 150g	£46	£46	£28	£23
More than 150g but not more than 165g	£139	£139	£92	£69
More than 165g but not more than 185g	£208	£208	£133	£105
More than 185g but not more than 225g	£348	£348	£226	£174
More than 225g but not more than 250g	£695	£695	£453	£348
More than 250g but not more than 300g	£1,158	£1,158	£753	£579
More than 300g	£1,448	£1,448	£944	£723

Note: LPV means a light passenger vehicle, being a motor vehicle designed and constructed for the carriage of passengers and comprising no more than 8 seats in addition to the driver's seat.

FIGURE 10 – PROPOSED RATES OF VEHICLE EMISSIONS DUTY BASED ON CYLINDER CAPACITY OF ENGINE

Cylinder capacity of engine	Vehicle first registered in Jersey	Vehicle first registered outside Jersey 1 year or less ago	Vehicle first registered outside Jersey more than 1 but 2 years or less ago	Vehicle first registered outside Jersey more than 2 years ago
1000cc or less	£0	£0	£0	£0
More than 1000cc but not more than 1400cc	£174	£174	£116	£87
More than 1400cc but not more than 1800cc	£290	£290	£191	£145
More than 1800cc but not more than 2000cc	£440	£440	£284	£221
More than 2001cc but not more than 2500cc	£579	£579	£376	£290
More than 2501cc but not more than 3000cc	£868	£868	£568	£435
More than 3001cc but not more than 3500cc	£1,158	£1,158	£753	£579
More than 3500cc	£1,448	£1,448	£944	£723

Comparisons with neighbouring jurisdictions

FIGURE 11 – 2013 RETAIL PRICE MARGINS – COMPARISONS WITH THE UK (JUNE 2013)

	Jersey Retail Price	Jersey Duty	GST	Price net of duty & GST	Duty & GST as % of price	UK Retail Price	UK Duty	UK Vat	Price net of duty & VAT	Duty & VAT as % of price
Litre of whisky	£20.18	£11.49	£0.96	£7.73	62%	£19.00	£11.29	£3.17	£4.55	76%
Pint of standard beer	£3.79	£0.33	£0.18	£3.28	13%	£3.30	£0.49	£0.55	£2.26	31%
20 King size cigarettes	£6.80	£4.29	£0.32	£2.19	68%	£7.77	£4.68	£1.30	£1.80	77%
Litre of Unleaded Petrol	£1.23	£0.43	£0.06	£0.74	40%	£1.34	£0.58	£0.22	£0.54	60%

Note: These figures are before the impact of the Budget proposals and the prices shown are based on a narrow range of sources but are for equivalent products. There will be considerable price variations in each jurisdiction, especially for wine and beer. Fuel prices are also subject to rapid change.

The Figure below illustrates that in all of the above examples of dutiable products the proportion of price made up by duty and tax is lower in Jersey than the UK. Even allowing for other cost factors in Jersey there would still appear to be a much greater margin in the retail price of products in Jersey than exists in the UK.

FIGURE 12 – A COMPARISON OF TYPICAL 2013 TAX AND DUTY LEVELS FOR A RANGE OF COMMODITIES

	Jersey Duty	Jersey GST @ 5%	Guernsey Duty	UK Duty	UK Vat @ 20%	France Duty	France TVA @ 19.6%
Litre of Whisky @ 40%	£11.49	£0.96	£10.62	£11.29	£3.17	£5.79	£3.16
Bottle of table wine	£1.38	£0.31	£1.48	£2.00	£1.17	£0.02	£0.99
Pint of beer/lager @ 4.5% abv	£0.33	£0.18	£0.37	£0.49	£0.55	£0.16	£0.82
Pint of beer/lager @ 5.5% abv	£0.51	£0.19	£0.37	£0.60	£0.55	£0.19	£0.82
20 King size cigarettes	£4.29	£0.32	£3.48	£4.68	£1.30	£3.56	£0.80
Litre of Unleaded Petrol	£0.43	£0.06	£0.47	£0.58	£0.22	£0.53	£0.23
Litre of Diesel	£0.43	£0.06	£0.47	£0.58	£0.23	£0.38	£0.20

FIGURE 13 – SUMMARY OF DUTY REVENUES

	MTFP (July 2012)		Budget 2013 (Dec 2012)		Budget 2014 (Oct 2013)	Contribution to Budget measures 2014
	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2014 £'000	2014 £'000
Impôts on Spirits	4,157	4,133	4,161	4,137	4,747	610
Impôts on Wine	7,248	7,504	7,256	7,512	7,729	217
Impôts on Cider	1,039	1,107	1,040	1,108	930	(178)
Impôts on Beer	5,732	5,758	5,738	5,764	5,559	(205)
Impôts on Tobacco	12,392	11,813	14,004	13,425	14,789	1,364
Impôts on Motor Fuel including Fuel Duty Rebate	21,221	21,537	21,135	21,451	20,363	(1,088)
Impôts on Goods Imported	150	150	150	150	150	-
Vehicle Emissions Duty	1,000	1,000	1,050	1,050	924	(126)
TOTAL IMPÔTS DUTY	**52,939**	**53,002**	**54,534**	**54,597**	**55,191**	**594**

Note: the 2013 Budget agreed increases to Impôts duties for alcohol, tobacco and VED.

FIGURE 14 – EXPLAINING THE NET VARIATION TO FORECASTS

	2014 Budget Proposals 2014 £'000	Less: Original MTFP Assumptions 2014 £'000	Changes in Volume assumptions 2014 £'000	Net variation to Forecasts 2014 £'000
Impôts on Spirits	470	(107)	247	610
Impôts on Wine	368	(184)	33	217
Impôts on Cider	65	(21)	(222)	(178)
Impôts on Beer	351	(131)	(425)	(205)
Impôts on Tobacco	1,466	(334)	232	1,364
Impôts on Motor Fuel including Fuel Duty Rebate	399	(498)	(989)	(1,088)
Vehicle Emissions Duty	44	0	(170)	(126)
TOTAL IMPÔTS DUTY	**3,163**	**(1,275)**	**(1,294)**	**594**

The table shows the estimated net variation to forecasts after allowing for the duty assumptions in the MTFP for 2014 of 2.5% and the estimated effect of the changes in the assumption for the volume of each commodity imported since the MTFP and Budget 2013 assumptions in March and September 2012.

5. Stamp Duty and Land Transaction Tax Proposal

The Minister proposes an amendment to the Stamp Duties and Fees (Jersey) Law 1998 in respect of the following:

First time buyer relief

Amongst other things, Stamp Duty (SD) is charged on transactions involving land, and on the registration of charges associated with land. Land Transactions Tax (LTT) imposes similar charges on transactions in the shares of companies which own residential dwelling accommodation.

First-time buyers are currently eligible for relief from SD and LTT in respect of transactions regarding dwelling accommodation up to a maximum of £450,000. This maximum threshold was temporarily increased from £400,000 in the 2012 Budget for a period of twelve months from 1 December 2011. The application of the increased maximum threshold was extended in the 2013 Budget to cover the period from 1 December 2012 to 31 December 2013.

The Minister proposes to extend the application of the increased maximum threshold for a further 12 months to 31 December 2014. The cost of this proposal will be approximately £300,000.

6. On-going and Future Reviews

Long term tax strategy

Following the establishment of long term tax strategy principles in the Medium Term Financial Plan 2013-2015, the Treasury is in the process of producing a detailed programme which will set out the key tax objectives to be delivered over the next 5 to 10 years. This will include, for example, a step plan and timetable to deliver the modernisation of the personal tax regime, such as self assessment and independent taxation.

The long term tax programme will be aligned with the long term tax principles and support the Strategic Plan and Economic Development Strategy. It will also incorporate the Taxes Transformation Programme.

The report will be published alongside the 2015 Budget proposals.

The on-going development of tax policy

As noted above, the main focus of tax policy in 2014 will be the development of a long term programme which will define the way forward for Jersey's tax regime. Alongside that a number of projects will continue to be progressed although these will also be incorporated into the long term programme. These will include:

- Continuation of the property tax review.
- Modernisation and simplification of the personal tax regime. Work will continue during 2014 to identify steps that can be taken in the near term to aid the modernisation and simplification programme.
- Protection of tax revenues. There will be increased focus on implementing the new company distribution rules to ensure proper compliance.

Taxes Transformation Programme

The Taxes Office is now in the second year of this major modernisation programme but since 2012 the main focus has been working with the Social Security Department to implement the new Long Term Care scheme. The Long Term Care contributions will be collected by the Taxes Office as agents on behalf of the Social Security Department.

It was announced earlier this year that the Long Term Care contributions will not start until 2015, which is a delay of one year from the original plan and is subject to States approval. The Taxes Office will continue to develop their Income Tax computer system to include Long Term Care functionality and complete all necessary preparations for the successful launch of contributions from January 2015.

The Taxes Transformation Programme has been re-scheduled as a result of developing the Long Term Care project. Notwithstanding this, certain discrete components of the transformation programme have been run in parallel.

In terms of modernisation, the Taxes Office introduced online payments from February and online submission of personal tax returns (for taxpayers using agents) from March this year.

Project components covering:

- data and information exchange;
- risk based approach to compliance; and
- organisational restructuring.

have been started and reviews will be completed before the end of 2013.

Other projects involving internal data processing and ITIS improvement were started and completed in 2013.

In 2014 the Taxes Office will continue Long Term Care work and plan to further extend the provision of online filing of personal tax returns so that all taxpayers are included on or before 1 January 2015.

2013 Budget Consultations update

International Services Entities ("ISE")

A Green Paper was issued alongside the 2013 Budget which looked at ways of improving the transparency and equity of the fees charged to companies in the trust company business sector and their clients. The outcome of the consultation was published on 12 April 2013.

The responses to the consultation indicated that there is no clear consensus amongst trust company businesses on the best way to charge ISE fees on their sector. By a slim majority the respondents favoured retaining the current method of charging ISE fees and therefore no changes have been proposed in the 2014 Budget.

The Minister will continue to listen to feedback from the trust company business sector and if a consensus develops around a new approach to calculating the ISE fees that they pay, whilst maintaining the same amount of overall revenue collected by the Treasury, this approach can be examined in greater detail.

7. Financial & Manpower Implications

FIGURE 15 – ESTIMATED FINANCIAL IMPLICATIONS OF THE 2014 BUDGET PROPOSALS COMPARED WITH THE MTFP

Measure	Estimated 2014 Taxation Revenue (£)
Goods and Services Tax	Neutral
Impôts Duty	
Alcohol duty increases	444,000
Tobacco duty increases	1,364,000
Fuel duty increases	(1,088,000)
VED duty increases	(126,000)
Sub Total	**594,000**
These figures represent the increased/decreased revenue compared to the 2014 MTFP forecast and not the total increase revenue that will be collected on these goods by the Customs and Immigration Service in 2014 compared to 2013.	
Stamp Duty	
Extend for a further 12 months the first time buyer relief in respect of property costing between £400,000 and £450,000	(300,000)
Sub Total	**(300,000)**
Total Financial Implications 2014	**294,000**

Measure	Estimated Impact on 2015 Taxation Revenue (£)
Income Tax	
Increase Income Tax exemption thresholds by 1.5%	2,900,000*
Decrease in the Income Tax Marginal Rate from 27% to 26%	(7,800,000)
Enhanced income tax exemption threshold for parents of children in higher education	(900,000)
Remove the restriction to child allowance by reference to the child's earned income	(420,000)
Increase the age of entitlement for single, married persons and civil partners to the higher exemption threshold	750,000
Sub Total	**(5,470,000)**

The income tax measures relate to the income tax year of assessment 2014. These will impact on the tax revenues to the States in 2015. However, most current year basis taxpayers under ITIS will see the benefit of these measures during 2014. This is because the measures will impact on the calculation of their provisional ITIS effective rate.

* Note: this is an updated figure after allowing for the most recent tax data (YOA 2011).

Manpower Implications

The proposals within the Budget Statement 2014 will be implemented without any increase to current approved staffing levels.