Jersey Studies

Paper 6

JERSEY'S PUBLIC FINANCES

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I. Introduction

Jersey's status as a British Crown Dependency means that it is financially independent. It needs to raise revenue through taxation, levies and charges sufficient to finance Government expenditure.

II. Tax system

Jersey has a tax system that is simple and stable. There are few changes over time in the structure or rates of taxation unlike what happens in many other jurisdictions.

Jersey's tax policy is developed in accordance with the tax policy principles that have been agreed by the States Assembly.

1. Taxation must be necessary, justifiable and sustainable.
2. Taxes should be low, broad, simple and fair.
3. Everyone should make an appropriate contribution to the cost of providing services, while those on lowest incomes are protected.
4. Taxes must be internationally competitive.
5. Taxation should support economic, environmental and social policy.
6. Taxes should be easily implementable and administrable at a reasonable cost.
7. No one individual type of taxation will meet all these principles. But overall, the tax regime should represent a sustainable balance.

Taxes, and the mix of taxes, are reviewed and considered in light of these principles. These principles are very similar to those in other jurisdictions, although there is plenty of scope for different interpretations of what they mean. A distinguishing point for small jurisdictions with significant international business is that tax rates are to some extent a "price" for living or operating in the jurisdiction. It follows that it cannot automatically be assumed that any increase in tax rates will increase revenue; it is possible that the effect will be to reduce activity and therefore total tax revenue. Analysing the wider effects of possible tax changes is therefore critical in determining policy.

Personal income tax is capped at the rate of 20%. In 2021 the threshold for paying tax is £16,000 for a single person, £25,700 for a married couple/civil partnership and there is an allowance of £3,060 for each child. Taxpayers receiving the married couples' allowance are taxed as a single unit, and an additional allowance of £6,300 is given if both individuals are working. This means the sum of the allowances given to two working, married, individuals is the same as two unmarried individuals (£32,000). Married couples' taxation – as it is known - is being phased out and a system of independent taxation introduced.

Once income exceeds the tax allowance, a marginal rate tax band of 26% is applied to taxable income until tax due is equal to an effective tax rate of 20%. From that point tax is paid at 20%.

By comparison, in the UK the single person threshold is £12,570 (2022/23), the basic rate of tax is also 20% but higher rates of 40% are levied on income over £50,270 and 45% on incomes over £150,000. The high thresholds mean that a significant proportion of workers in Jersey pay no income tax and about 50% of personal income tax revenue is paid by just 12% of taxpayers. Jersey has special provisions for high value immigrants. In 2019 169 high value residents paid around £21 million in income tax, an average of £124,000. Jersey has no capital gains or inheritance taxes.

In addition to large corporate retailers (annual turnover in Jersey in excess of £2 million), a number of specialist businesses including property development, residential and commercial letting business and utilities are taxed on their profits at the rate of 20%. Companies that are financial services businesses are taxed at 10% and all other companies are taxed at 0%. This is known as the 0/10 model of company taxation. These low rates help to bring business to the Island and increase the yield of personal income tax from those working for the businesses. As with personal income tax, company income tax is designed to attract business to the Island and therefore takes account of tax rates in other jurisdictions.

Impôts are similar in effect to excise duties in the UK. They are levied on imports of road fuel, vehicles, alcohol and tobacco.

There is no Value Added Tax in Jersey. Rather there is a goods and services tax (GST). This is levied at the rate of 5% on all goods and services with the exception of accommodation, exports, financial services, medical services, charities and school fees (provided the school is a registered charity). There is a £300,000 threshold for GST, so small retailers are exempt.

III. Government finances

Like other nations Jersey has to raise taxes to finance public expenditure. The detailed statistics for 2021 are published in the States of Jersey 2021 Report and Accounts. The statistics in this paper are all extracted from that report. Table 1 how revenue was raised in 2021.

Table 1 Jersey Government revenue, 2021

Category	Amount £m	Percentage
Income tax paid by individuals	558	56
Income tax paid by companies	85	9
Goods and Services Tax (GST)	106	11
Impôts	80	8
Stamp duty	61	6
Other	108	11
Total	**998**	**100**

"Other" includes dividends and a contribution of £30 million from Andium Homes, the Government-owned social housing provider (which can be regarded as the equivalent of notional interest on the value of the housing stock transferred to it) and dividends.

Jersey does not publish public expenditure figures by activity, but rather by government department. Table 2 shows the figures for 2021. The figures are all net, that is after deducting income received by the department.

Table 2 Public expenditure by department, 2021

Composition	Amount £m	Percentage
Health and community services	228	28
Customer and local services	92	11
Children, young people, education and skills	157	19
Justice and home affairs	30	4
Treasury and Exchequer	75	9
Infrastructure, housing and environment	46	6
Office of the chief executive	8	1
Chief operating officer	33	4
States Assembly and other bodies	29	4
Overseas aid	12	1
Strategic policy, planning and performance	9	1
Covid response	109	13
Total	**828**	100

The significant figure for the Covid response will be noted. Covid led to huge additional expenditure in 2020 and 2021, although the Island's finances remained in good shape largely because much economic activity increased and tax revenue increased accordingly.

Capital expenditure in 2021 totalled £258million, made up of –

Expenditure on housing by Andium Homes	£83 million
Roads, drainage and sea defences	£12 million
Hospital development	£52 million
Housing and office development by Jersey Development Company	£32 million
Airport and harbour	£13million
Other capital expenditure	£66 million
Total	**£258 million**

IV. Reserves

The Government's policy is to fund revenue expenditure from income rather than borrowing and to hold reserves in a number of funds. However, the nature of Covid was such as to require a significant budget deficit in 2020.

The Strategic Reserve Fund was established in 2005 to be used in exceptional circumstances to insulate the Island's economy from severe structural decline or from major natural disasters. The fund totalled £1,032 million at the end of 2020.

The Stabilisation Fund was established in 2019 and totalled £0.6m at the end of 2021. The intention is to build up the fund in buoyant economic conditions and make payments from it at times of economic downturn. £50 million was paid into the fund in 2019, almost all of which was spent in 2020 in response to the pandemic.

V. Social security

Jersey has its own social security system, providing the full range of benefits. The basic pension for a single person is £235 a week and for a married couple based on the husband's earnings £391. Employees pay a social security contribution rate of 6% on earnings between £1,064 and £4,764. Employers pay 6.5% of employees' monthly earnings up to £4,764 and 2.5% on earnings between £4,764 and £21,724. By comparison, in the UK employees pay 12% and employers 13.8%. In 2021 Social Security contributions totalled £174 million and benefits were £261 million. The contribution figure was affected by a payment holiday introduced as a consequence of the pandemic. The social security fund had a balance of £66 million. Unlike the UK, Jersey State pensions are funded rather than met by current contributions. At the end of 2020 the reserve fund to meet future pension liabilities totalled £2,264 million.

In addition there is an income support scheme funded by general taxation.

The funding of long-term care is a challenge for all countries. Jersey operates a long-term care scheme under which care costs in excess of £58,230 are met by a fund. The scheme is paid for by an additional charge of 1.5% on taxable income. In 2021, contributions totalled £32 million and benefits £547million. The fund totalled £41 million at the end of 2020.

There is a separate Health Insurance Fund. In 2020 contributions, which are part of social security contributions, were £36 million and benefits £37 million. The fund totalled £100 million at the end of 2020.

International comparisons

International comparisons of taxation are fraught with difficulty for a variety of reasons, but are still useful in explaining how one state raises its finance compared with others. A Government answer to a question raised by a States Assembly member, published on 19 July 2021, compared Jersey with the UK and the average for OECD countries (broadly, the richest countries). Table 3 shows the figures.

Table 3 Breakdown of Government revenue, Jersey, UK and OECD

	Personal Tax %	Corporate Profits %	Goods and services %	Social security %	Property %
Jersey	50	12	9	25	4
OECD average	25	10	33	26	6
UK	20	7	33	28	7

The table shows that –

- Jersey raises proportionately much more in personal tax than either the UK or the OECD average.
- Jersey raises significantly more in tax on corporate profits than the UK.
- Jersey raises significantly less from taxes on good and services than either the UK or the OECD average.

Further information

The most accurate statistics on the Island's finances are in the Government's Annual report and Accounts. However, this is a long, technical and complex document. There is a better analysis of the figures and forward projections in the Government Plan 2022 to 2025.