Jersey Studies

JERSEY'S PUBLIC FINANCES

CONTENTS

AUTHOR MARK BOLEAT

CONTACT [MARK.BOLEAT@BTINTERNET.COM](mailto:mark.boleat@btinternet.com)

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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 2023 the threshold for paying tax is £18,550 for a single person, £29,750 for a married couple/civil partnership and there is an allowance of £3,450 for each child. Taxpayers receiving the married couples' allowance are taxed as a single unit, and an additional allowance of £7,350 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 (£37,100). 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. In Guernsey the single person threshold in 2022 was £12,175. 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. Estimates for 2023 are in the Proposed Government Plan 2023 to 2026. The statistics in this paper are largely extracted from that report. Table 1 how revenue is estimated to be raised in 2023.

Table 1 Jersey Government revenue, 2023

Category	Amount £m	Percentage
Income tax paid by individuals	620	58
Income tax paid by companies	131	12
Goods and Services Tax (GST)	95	9
Impôts	77	7
Stamp duty and land transfer tax	59	6
Other	90	8
Total	**1,072**	**100**

"Other" includes dividends and a contribution of about £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 planned figures for 2023 as set out in the Proposed Government Plan 2023 to 2026. The figures are all net, that is after deducting income received by the department.

Table 2 Planned revenue expenditure by department, 2023

Composition	Amount £m	Percentage
Health and community services	248	30
Customer and local services	95	10
Children, young people, education and skills	190	21
Justice and home affairs	35	4
Treasury and Exchequer	67	7
Infrastructure, housing and environment	56	6
Cabinet Office	67	7
States Assembly and other bodies	38	4
Overseas aid	18	2
Department for the economy	40	4
States of Jersey Police	27	3
Other	**39**	4
Total	**924**	100

Capital expenditure in 2023 is forecast to be £221 million, made up of –

Estates	£52 million
Infrastructure	£30 million
Information technology	£36 million
Hospital	£80 million
Other capital expenditure	£23 million
Total	**£221 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 and 2021.

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 forecast figure for fund in 2023 is £1,003 million.

The Stabilisation Fund was established in 2019 and is forecast to be £0.6m in 2023. 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 £253 a week and for a married couple based on the husband's earnings £421. In 2023 employees pay a social security contribution rate of 6% on monthly earnings between £1,080 and £5,060. Employers pay 6.5% of employees' monthly earnings up to £5,060 and 2.5% on earnings between £5,060 and £23,072. By comparison, in the UK employees pay 12% and employers 13.8%. In 2023 Social Security contributions are estimated to be £228 million and benefits £301 million. The social security fund is estimated to have a balance of £76 million at the end of 2023. Unlike the UK, Jersey State pensions are funded rather than met by current contributions. The reserve fund to meet future pension liabilities is estimated to be £1,982 million in 2023 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 £60,160 are met by a fund. The scheme is paid for by an additional charge of 1.5% on taxable income. In 2023, contributions are estimated to be £38 million and benefits £63 million. The fund totalled is estimated to be £58 million in 2023.

There is a separate Health Insurance Fund. In 2023 contributions, which are part of social security contributions, are estimated to be £36 million and benefits £37 million. The fund is estimated to be £77 million in 2023.

VI. 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 Proposed Government Plan 2023 to 2026.