

**PERSONAL TAX, PENSIONS AND BENEFITS REVIEW:  
COMMENTS TO GIBA COUNCIL FROM DEPUTY GAVIN ST PIER**

At the end of March I spoke to both the IoD and the Chamber of Commerce. At both, I set out the scope, purpose and aims of the Personal Tax, Pensions and Benefits Review. I asked for only one thing from those present: a balanced and informed debate.

A month later the Guernsey Press ran opinion columns on two consecutive days: “Warming us up for the pensioner tax”, 28<sup>th</sup> April 2014 and “Diversification can become a dirty word”, 29<sup>th</sup> April 2014. The basis for these comments was the publically available briefing paper to Deputies on the revenue and expenditure risks that our community will face in 2025.

In our view, focussing on the single issue of the potential need for a broad-based consumption tax is over-simplistic. I think, on this occasion the Press failed to properly inform or reflect public debate on the wider matter of the wholesale review of our pensions, tax and benefits system, which is so much bigger than one tax.

Seeking to characterise a broad-based consumption tax as a ‘pensioner tax’ may make a good headline, but it is sensationalism at its worst. To state that pensioners are ‘the target’ irresponsibly serves only to frighten the elderly in our community, who have worked hard and contributed all their lives and are not the cause of the pressures our public finances may face in 10 years’ time. We are concerned for a future generation of pensioners, those who are now of working age, and many of whose old age will be grossly under-provided for – unless we take steps sooner rather than later.

The grouping together of “pensioners, the poor and the out of work” is a lazy characterisation, which fails to recognise the different needs of each group. We recognise that consumption taxes, such as our current excise duties or a goods and services tax, are ‘regressive’ in that the burden is proportionately greater at lower income levels. It is for this reason, that if in due course any proposals are tabled for a broader-based consumption tax, it would be essential that they are accompanied by measures to ameliorate those on lower incomes - of whatever age.

The briefing paper we published notes that the tax paid by those below pensionable age is approximately 57% greater than that paid by the average person of pensionable age. That is not pejorative. It is simply a fact; and not a surprising one – why shouldn’t the retired enjoy the labours of their years of work? However, the Press claimed that “pensioners and the non-employed pay 43% less tax than those in work.” They have invented the statistic about the non-employed without any basis in fact; and arithmetically, the inverse statement – if that is what is intended – would be that those of pensionable age pay 36% less tax than those below pensionable age.

The opinion columns suggested that “Ministers have given up on restraining what they spend.” This ignores the inconvenient truth: of the Ministers’, Policy Council and the entire States’ commitment to delivering the Financial Transformation Programme, which has already cut £24m per annum from government spending; of government’s successful delivery since 2009 of the Fiscal and Economic Plan’s commitment to no real-terms increase in spending; and of the real terms reduction in 2014’s budgeted expenditure of 2.6% or £6m. It also ignores the Policy Council’s commitment to ongoing transformation beyond the end of the FTP; neither does it acknowledge the view expressed in the separate briefing paper to Policy Council (published in March) “that it would be appropriate to establish an overall limit to public revenues”; nor does it refer to any of the mitigation measures identified as possible responses to the pressure on spending.

Our approach was dubbed “the ultimate political white flag,” and quotes from the the briefing paper that “neither is it realistic to consider mitigating the risk of revenue shortfall by planning to cut spending to match falling revenues.” This is a realistic acknowledgement that the community are unlikely to want to cut core services including pensions and healthcare, constituting approximately 40% of total government spending, simply to match any falling tax receipts, if that risk can be mitigated in other ways. It is not saying that government will not seek to contain and reduce public spending wherever it can.

Characterising ‘diversification’ of the tax base as a ‘dirty word’ ignores the opportunities which could arise from broadening our tax base:

- the opportunity to lower both the direct and total tax burden of the hard-working majority of the population in middle income brackets by increasing their tax-free income tax allowances;
- the opportunity to redress the uncompetitiveness of our personal tax system for lower income earners now that the UK has higher personal tax allowances than we offer, allowing us to attract our young talent back to the islands;
- the opportunity to provide a more stable and sustainable tax base to provide the services (for example, pre-school education) which many in our community and many other jurisdictions now regard as ‘standard,’ but which we will struggle to provide so long as we seek to fund everything from an increasingly narrow tax base;
- the opportunity to increase the contribution from that part of the corporate sector which consumes goods and services in our islands, but no longer pays corporate income tax;
- the opportunity to obtain a contribution to our services from those who visit our islands, just as we do when we travel overseas; and
- the opportunity for the community to share in some of the inflated profit margin which some UK based retailers trading here enjoy, when they charge us the equivalent of their UK, VAT inclusive prices; and
- the opportunity for all citizens to have a stake in the size of government, not just the 32,000 or so who at any one time are earning and paying income-related taxes and contributions.

So, I would like to ask again for a measured, informed and constructive debate about the future of public services in Guernsey, about the size and shape of government in Guernsey, and about our shared future.

The message that I am giving GIBA tonight on this issue is fully supported by the Minister of the Social Security Department who unfortunately is unable to be present this evening.

I know that GIBA cares as much about Guernsey as I do – and even if we don’t agree in the end, I hope that you can play your role in an informed and fair debate.

I will, as I did with my comments to the Chamber and the IoD, make these comments available to the Press and other media and organisations in Guernsey.

**Deputy Gavin St Pier, Minister for Treasury & Resources**

**On behalf of Deputy Allister Langlois, Deputy Chief Minister and Minister of the Social Security Department**

**20<sup>th</sup> May 2014**