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TEL. CENTRAL 30361 EXT. 21.

17.6.70

PLEASE QUOTE IN ANY REPLY: GHH/KGK.

YOUR REF IS:

INCOME TAX PERSONAL ALLOWANCES AND THRESHOLDS OF TAX LIABILITY

INTRODUCTION: The amount of income tax payable by an individual is related to his capacity to pay tax measured against the taxable capacities of other individuals. This relativity is obtained by means of the system of personal allowances deductible from assessable income, the allowances being of statutory amounts dependent upon the particular circumstances of the individual. For instance, a single man or woman is entitled to a deduction of £250 whilst a married man who has his wife living with him is entitled to a deduction of £500. The amount of income remaining after the deduction of the allowances is the amount chargeable to tax.

THE AMOUNTS OF THE ALLOWANCES AND INFLATION: The amounts fixed for personal allowances are not intended to represent the actual cost of maintenance of dependants, i.e. the allowance in respect of a dependent child is £150 but it is not intended that this amount necessarily represents the cost of maintenance of the child. It follows, therefore, that the amounts of personal allowances do not need to be adjusted on account of variations in the cost of living or on account of inflation, but the effect of inflation over the recent past has had the effect of bringing into the taxable range individuals whose present incomes in terms of money values in the past would have left them out of the taxable range.

THE COST OF INCREASING THE ALLOWANCES: The cost of increasing the single and married allowances would be comparatively high because each and every taxable individual would have his liability reduced and individuals with comparatively small incomes would receive only one-half of the reduction of individuals with higher incomes. It would be possible however to limit the cost very substantially if the amount of income chargeable at the reduced rate (2/-) was reduced by such an amount as to cancel the effect of increased allowances in the case of individuals chargeable at the full standard rate. For instance, if the single and married allowances were both increased by £50 to £300 and £550 respectively, and the amount chargeable at reduced rate was reduced by £100 to £150, the liability of individuals with earned incomes in excess of £667 (single) and £1,000 (married) would not be affected. The increase in allowances would however increase the threshold of liability for a married man (income all earned) from the present £667 to £733.

The cost of increasing the present child allowance (£150) and the earned income allowance ($\frac{1}{4}$ with a maximum of £500) would also be comparatively high because considerable numbers of taxpayers would have reduced liabilities.

INCREASING THE THRESHOLD OF LIABILITY: At the present time, all individuals whose incomes, earned or unearned, do not exceed £600 are exempt from tax. This small income exemption was first introduced for 1963 at £420 and was increased for 1967 and subsequent years to £600. In real money terms an annual income of £600 in 1967 is equivalent to an income of £670 in 1970, and it would therefore appear reasonable to consider an increase in the small income exemption to, say, £675.

The starting points of liability for individuals with dependants (wife, children, etc.) are as follows:

Married man	Income all earned	£667:	income all unearned	£600
Married man with 1 child	"	"	"	£650
Married man with 2 children	"	"	"	£800
Married man with 3 children	"	"	"	£950
Married man with 4 children	"	"	"	£1,100

It may be considered from the figures above that if a single individual is exempt at £600, married persons should be exempt at higher ranges. It would be possible to achieve this quite simply and at a comparatively low cost by providing that individuals entitled to the single allowance should be exempt at £600 (or such higher figure as may be considered appropriate) and individuals entitled to the married allowance should be exempt at, say, £900.

AGE ALLOWANCE: Individuals of 65 years of age or over whose incomes do not exceed £750 are entitled to an earned income allowance on all the income whether it is earned or unearned. There is a marginal relief for incomes slightly in excess of £750. The limit of income at £750 was set as far ago as 1957, and it may well be considered that it should now be increased to, say, £1,000. The comparative limits of income in the neighbouring territories for a similar relief are £1,000 (U.K.), £800 (Isle of Man), £760 (Guernsey). The cost of increasing the limit would be quite small.

SUMMARY:

I have restricted this report to a consideration of the liabilities of the lower income group because in the present economic climate it would be unrealistic to consider any general increase in allowances because of the cost of such increases. There is no doubt that inflation has brought into the tax range some individuals whose incomes would not have attracted liability several years ago, and it may be that the Finance and Economics Committee will consider that adjustments should be made so as to increase the threshold of liability. If the Committee so considers, I would recommend the following adjustments -

- (1) Age Relief: An increase in the income limit so as to provide that individuals of 65 years of age and over whose incomes do not exceed £1,000 (now £750) should receive the earned income allowance in respect of their total income whether earned or unearned. A consequential marginal relief, as presently, should operate for incomes slightly in excess of £1,000.
- (2) Small income exemption: The present exemption of individuals with incomes not in excess of £600 should be amended so as to provide that individuals entitled to the single personal allowance should be exempt if their incomes do not exceed £675 and individuals entitled to the married man's personal allowance should be exempt if their incomes do not exceed £900.

If these adjustments were made, the starting points of liability would be as follows -


Single individual -	£675	(now £600)			
Married man -	£900	(now £667 (earned) or £600 (unearned))			
Married man with 1 child	£900	(now £867 (earned) or £650 (unearned))			
Married man with 2 children	£1,067	(earned) (now same) - £900 (unearned) (now £800)			
Married man with 3 children	£1,267	(earned) (now same) - £950 (unearned) (now same)			
Married man with 4 children	£1,467	(earned) (now same) - £1,100 (unearned) (now same)			

The effect of the increase in the age relief income limit would be -

Married man - Income £1,000 unearned - Present liability	£75	-	Reduced liability	£25
Single person - " £1,000 " " " " £125 - " " " £75				

The exercise of costing the increases will be somewhat lengthy but I anticipate that the total cost would not exceed £100,000.

G. H. HAMON,
Comptroller of Income Tax
17th June, 1970.



G. F. HAMON,
COMPTROLLER.

MAYO HOUSE,
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TEL. CENTRAL 30361 EXT. 21.

PLEASE QUOTE IN ANY REPLY: GHH/Est.45A.

YOUR REF IS:

8th September, 1970.

Senator C. Le Marquand,
President,
Finance & Economics Committee,
States' Offices,
Royal Square,
St. Helier,
Jersey, C.I.

Dear Senator,

Income Tax Personal Allowances and
Thresholds of Tax Liability

With reference to your Committee's Act of the 1st July, 1970, I have consulted with the Economic Adviser on the methods to be adopted to raise the thresholds of tax liability for individuals with modest incomes and we have agreed to recommend to the Committee that my original suggestions should be extended to take into account the number of children in a family. We recommend that, in the case of a single person the limit of income below which that person should not be liable to tax should be raised from the present amount of £600 to £675, that a limit of income in the case of a married man should be fixed at £900, and that these limits should be increased by £200 for each child in respect of which the person is entitled to an allowance for Income Tax purposes. In the cases of incomes slightly in excess of the limits, a marginal relief as presently in use will operate so as to reduce liabilities to 50% of the excess of the income over the limits. It is estimated that the cost of introducing these limits in a full year would be £120,000.

The effect of the new limits can be illustrated briefly as follows:-

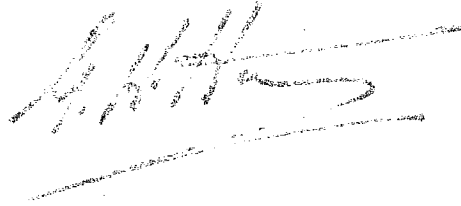
<u>Status</u>	<u>New Limit</u>	<u>Old Limit</u>
Single - no children	675	600
Married - no children	900	667 (income all earned) and 600 (income all unearned)
Married - 1 child	1,100	867 (income all earned) and 650 (income all unearned)
Married - 2 children	1,300	1,067 (income all earned) and 800 (income all unearned)
Married - 3 children	1,500	1,267 (income all earned) and 950 (income all unearned)
Married - 4 children	1,700	1,467 (income all earned) and 1,100 (income all unearned)

It will be noted that the new limits do not differentiate between earned and unearned incomes and it is suggested that, in the case of modest incomes, no such differentiation should logically exist. I think I should emphasise that if the Committee accepts these recommendations, the tax liabilities of individuals with incomes above the new limits will be unaltered except for the marginal cases.

Continued

I will be pleased to explain these recommendations more fully at a Committee Meeting, if necessary, and, if the recommendations are agreed, it will be necessary for the Committee to instruct the Law Draughtsman in consultation with me to prepare the necessary legislation for presentation to the States at the time of the Debate on the Estimates.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'A. H. S.', written in a cursive style. The signature is positioned below the closing 'Yours sincerely,' and is underlined with a single horizontal line.

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G. H. HAMON,
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YOUR REF IS:

24th September, 1970.

Senator C. Le Marquand,
President,
Finance and Economics Committee,
31 Broad Street,
St. Helier.

Dear Senator,

Income Tax Personal Allowances

I understand that your Committee will be considering my letter to you of 8th September concerning personal allowances and thresholds of tax liabilities at its next meeting on 7th October and it will be appropriate at that time to consider also the following connected matters:-

- (a) An increase in the income limit for age relief from £750 to £1,000 as recommended in my note of 17th June. Your Committee provisionally agreed this increase at its meeting on 1st July.
- (b) An increase in the income limit for dependants in respect of whom an individual is granted an allowance for maintenance from the present £210 to £270 in order to keep in step with the increased retirement pensions payable from 15th February, 1971, under the Insular Insurance Scheme. This increase will need to be effective for 1971 and subsequent years in order that individuals who are maintaining dependants will not lose any part of their income tax allowance by reason only of the increase in the retirement pension.

If your Committee agrees to the above recommendations it will of course be necessary to instruct the Law Draftsman to include amending legislation in the next Finance Bill.

Yours sincerely,