GIBA Response to G7 Finance Ministers statement on Tax Agreement

The joint communique following the G7 summit in London included two important statements in relation to international tax reform, neither was unexpected but may impact on Guernsey's own tax regime which will likely need to adapt but the jurisdiction will remain competitive and compliant.

In responding to the recent announcement from the G7, GIBA Chair Paul Hodgson comments on the potential impact on Guernsey.

The G7 gave its agreement last week to back steps to ensure large multinationals, such as large technology firms, pay taxes in the countries in which they operate and not only where they have headquarters. This is referred to under the general heading of taxation of the digital economy. In addition, they endorsed the concept of a minimum rate of corporate tax of 15 per cent on a country-by-country basis.

The G7 agreement is a political statement and joint negotiating position which will be implemented through the individual G7 members positions in the development of the OECD's proposals under their Inclusive Framework, which includes the so-called Pillar 1 and Pillar 2 proposals. A process which Guernsey is involved in.

In respect of the taxation of the digital economy, Guernsey does not have a wide network of double tax agreements and as such has not historically been favoured by such businesses. Accordingly, this aspect of the G7 announcement is unlikely to have a significantly impact.

The agreed minimum rate of corporate tax of 15% represented a compromise among even the G7 and will be extremely complex to implement in light of the high levels of complexity in domestic tax regimes of OECD members. However, it is particularly significant to note that proposals in this area include exemptions in relation to the taxation of investment funds, which are a very important component of the island's economy.

In the event the G7 commitments become the global normal, which should not be assumed, Guernsey will adapt its existing regime accordingly to remain competitive and compliant. What should not be underestimated is the level of complexity involved in several aspects of maintaining these agreements.

As has been the case for some time, new business locally is more likely to be attracted to the jurisdiction by the quality and capabilities of local service providers, strong existing relationships or the characteristics of our regulatory environment than being principally around tax.

It has been clear for some time that there would be agreement in relation to these points, so it comes as no particular surprise. What is very clear is that the States' Policy & Resources Committee has a detailed understanding of the potential changes and will ensure that Guernsey continues to follow a regime that is compliant with any new global standards while maintaining a level playing field with our principal competitor jurisdictions.