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Guernsey International Business Association Responds to the Tax Review

The Guernsey International Business Association (GIBA) has been providing input into the States of Guernsey's development of the Tax Review – Phase Two proposals and believes the proposed tax package published in a policy letter on 28 November represents a sound first step in a longer-term solution to address a structural deficit created partly through the problem of an ageing population and rising costs.

The island's existing finance industry has grown on the basis of tax, regulatory stability and certainty so GIBA supports measures which seek to redress the deficit with a clear and timely plan on the implementation of tax reforms.

In advance of the States' debate on 25 January, two amendments have been published which reference a territorial tax system.

The amendment proposed by Deputies Parkinson and McKenna envisages the design and introduction of a new corporate income tax on a territorial basis to raise a minimum of £20m per annum from Guernsey-registered companies and other companies doing business in Guernsey.

A separate amendment proposed by Deputies Soulsby and St Pier envisages developing proposals for raising further revenues from the corporate sector through engagement with local industry, Jersey and the Isle of Man, including full consideration of territorial tax.

Guernsey's corporate tax system has been a critical factor in attracting new business and clients to Guernsey for decades. Uncertainty about a possible change to the corporate tax system will have a range of negative consequences.

The States of Guernsey engaged the international accountancy firm, Ernst & Young (EY) to undertake an extensive review of corporate tax options for consideration ahead of the development of the Tax Review. That report explicitly considered the introduction of a new corporate income tax on a territorial basis when other competitor jurisdictions maintain their existing regime and concluded that to do so will lead to a reduction in new business and could also cause existing businesses to relocate. GIBA members endorse this view.

Moreover, the report's assessment also warns that any move to a territorial system can be expected to trigger a reassessment by international standard setters in relation to corporate taxation, including the EU's Code of Conduct Group and the OECD Global Forum. Such a review will result in an indefinite period of uncertainty over the compliance status of Guernsey's tax regime. It is also worth noting that a territorial regime operated in Hong Kong was recently found to be "harmful" and requiring material changes to the corporate tax system there and causing uncertainty among businesses and clients. Further, recent announcements from the EU's Code of Conduct Group suggest that they are considering changing the code to outlaw territorial-type regimes.

Guernsey's finance industry is the primary direct contributor to GDP, accounting for 36% of the total which doesn't include other aligned sectors, which are almost entirely focused on financial services, such as accountancy and law, which contribute significantly to the island's GDP.

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Businesses and clients typically have a choice as to where they base themselves. Aside from the tax regime, other key factors they will consider are stability, simplicity and certainty. Ongoing uncertainty over the tax regime could damage the island's attractiveness and have a negative impact on growth in the island's key revenue-generating industry.

A territorial tax results in a similar fiscal outcome to the effect of Zero 10 in that many local trading businesses are taxable while the international client structures do not pay Guernsey tax. Hence, this change would most likely not deliver any technical advantages, such as a network of double tax treaties, but would certainly come with a number of damaging disadvantages.

The EY report also confirmed that a territorial tax is unlikely to generate more than £20m and hence could never be a solution to the structural deficit.

In short, the unilateral adoption by Guernsey of a territorial tax regime brings significant risk without substantive reward.

Other measures, such as the introduction of a flat fee corporate levy, would be a more effective and simple way to generate additional revenue from corporates without making any changes to the existing corporate tax regime.

GIBA concludes, the introduction of a territorial tax on a "go it alone" basis, would result in significant risks to existing businesses and make Guernsey uncompetitive with key competitor jurisdictions, such as Jersey. This would also necessitate a review of the corporate tax regime by the EU Code of Conduct. During any reassessment, there would be a period of uncertainty leading to a reduction in new business, the relocation of existing businesses and inevitably, a knock-on decline in the size of our economy and working population.

We recognise that these are challenging issues for Deputies to consider. However, the policy letter does contain a combination of elements that offer a sound basis on which to move forward. The proposals also attempt to rebalance the island's sources of tax revenue in line with other jurisdictions, such as Jersey. We welcome the opportunity to engage directly with Deputies who wish to understand more about the potential impact of the different tax options being proposed in the policy letter and in the various amendments over the coming week.

Media enquiries

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