Guernsey International Business Association Responds to the Tax Review

17 October 2023

The Guernsey International Business Association (GIBA) has provided input into the States of Guernsey's (SoG) development of the Tax Review in the interests of resolving the real and pending structural deficit dilemma.

GIBA implores the States of Guernsey's Deputies to act at the earliest opportunity to avoid further delays that will have adverse commercial, economic and social consequences for the Island. The absence of investment in infrastructure, health and education alone will have severe direct and indirect consequences on the lives and prospects of the people of Guernsey with long term ramifications.

Standard & Poor (S&P) Global has warned of further 'negative rating action... if the government fails to implement tax reforms that stabilise its funding needs.' A further downgrade will make Guernsey less attractive to business and increase costs, exacerbating the deficit.

Whilst it is being suggested that capital investment could be withheld or pension funding deferred this will add to costs in the future necessitating more radical revenue raising later i.e. even bigger tax increases.

The island's finance industry generates almost 40% of its GDP and provides employment for around 7,000 islanders. The finance sector 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.

Business is expected to make a significant contribution to revenues under the Policy & Resources Committee's Funding & Investment Plans. However, mechanisms for achieving this do not and should not include changes to the existing corporate tax regime. Guernsey is aligned with Jersey and the Isle of Man with a collective approach to corporate tax OECD's Pillar Two Framework. Remaining in lockstep with the other Crown Dependencies is critical. International accountancy firm, Ernst & Young (EY) considered the introduction of a new corporate income tax on a territorial basis when other competitor jurisdictions maintain their existing regimes and concluded that to do so will lead to a reduction in new business and could also cause existing businesses to relocate.

E&Y also warned 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. This would import further uncertainty and damage to Guernsey's economy by making the island less attractive to do business in, negatively impacting growth in the island's key revenue-generating industry.

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

Other measures that are envisaged in P&R's proposals, such as ISE exemption fees, the introduction of a flat fee corporate levy, and OECD Pillar II compliance are a more effective and simple way to generate additional revenue from corporates without making any changes to the existing corporate tax regime. That said, more clarity and detail is required in these areas and proper consultation with industry, based on a thorough impact analysis, should take place prior to implementation of any of these potential measures.

GIBA accepts the need for revenues to be raised by widening the basis of our tax system with a mitigated consumption tax and increased business contributions to SoG's revenues. However, it is also essential for government to achieve savings from spending cuts. GIBA notes the Chamber of Commerce has highlighted Public Sector Pension Reform as one of the single biggest cost savings that could be achieved. Compensating measures would be required to insulate nurses, teachers and other essential workers but defined benefit/final salary schemes have been closed and confined to history across the private sector across the world because they are unsustainable.

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.