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Guernsey International Business Association responds to Tax Proposals

In response to the Guernsey Budget 2025 tax proposals, scheduled to come before the States of Guernsey on 5 November 2024, the Guernsey International Business Association (GIBA) notes that, at the time of writing, 19 amendments have been submitted. The immediate fear is therefore that the States will not take any decisions to address the fiscal deficits of 2022, 2023 and currently forecast for 2024 and the serious structural challenges facing our economy in the medium and longer term.

The States has failed to make decisions on revenue and investment strategy on multiple occasions in recent years. GIBA yet again implores the States of Guernsey's Deputies to act to avoid further delays that will have adverse commercial, economic, and social consequences for the Island.

GIBA acknowledges the States of Guernsey's efforts in the 2025 budget to stabilise public finances and prioritise investment in critical infrastructure. However, GIBA suggests that stronger fiscal and public finance discipline and more comprehensive solutions are essential to meet Guernsey's longer-term financial needs effectively.

While the proposed 2% temporary income tax increase seeks to address immediate budgetary pressures, GIBA is concerned that this approach primarily impacts the majority of working individuals and does not address contributions from those with capital-based income or other sources of revenue generation. Income tax does not capture revenue from wealth that remains untaxed under the current system. Raising income tax alone is not progressive in this context.

GIBA would like the States to attempt to rebalance the island's sources of tax revenue in line with other jurisdictions, such as Jersey and Isle of Man. Other forms of taxation should be deployed to broaden and diversify Guernsey's tax base. A combination of taxes on consumption, on empty properties, maritime fuel, motor cars or the removal of mortgage tax relief on investment properties, should all be considered.

Raising personal income tax alone, while aimed at securing financial stability, is unlikely to provide a sustainable solution for the escalating costs of essential services, particularly long-term healthcare, housing, and education. Income tax is an inadequate tool not only because it is a tax on working people but because the pool of working people in our primary revenue generating sector, the finance industry, is reducing. The finance sector today accounts for 17% of the workforce. Furthermore, the civil service has increased by around 400 new civil servants in the same period. The Government is now the largest employer representing 18% of the workforce. It has been reported by the Guernsey Press that Guernsey "is becoming an Island where more people work for the people than work to raise revenue to pay for those people".

Furthermore, GIBA wishes to remind Deputies that rating agencies including Standard & Poor (S&P) Global have 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. Guernsey's credit ratings have a direct impact on its Banking industry in particular. A lower credit rating translates into counterparty and jurisdictional limits that clients place on our banks in terms of attaching deposits and doing business with the island's banks versus other jurisdictions. Guernsey's banking sector is by a distance the biggest single contributor of tax revenues to the island, but they will be damaged and reduced by a downgrade. Government borrowing costs will also increase pursuant to a downgrade.

GIBA must also remind our politicians that changing our corporate tax system to a territorial tax regime would have a range of negative consequences. Tax experts[1] concluded that it will lead to a reduction in new business and could also cause existing businesses to relocate. They also reported 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. 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, IoM, Cayman, and newer competitor jurisdictions like the UAE.

GIBA proposes that stabilising the economy and addressing deficits requires more than just relying on additional tax measures. There is a pressing need for policies that drive economic growth and create opportunities that can generate new revenue streams. GIBA urges the States to consider a more long-term, strategic approach that balances immediate financial needs with policies that foster economic growth and support Guernsey's competitiveness as a jurisdiction. Sustainable financial planning and a balanced approach to taxation, one that considers contributions from all sources of wealth, as well as policies that take a wider view of economic development and public spending, are essential for a resilient and prosperous future.

It is essential for government to demonstrate that it has made every effort to achieve savings and halt increases in public spending. Public sector payment practices and pension reforms are obvious areas where more prudent and disciplined financial management and control can be achieved.

The island's existing finance industry has grown based on 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 now and beyond 2026.

GIBA looks forward to engaging constructively with the States to explore viable solutions that ensure Guernsey remains an attractive, competitive place for both businesses and individuals.

GIBA's Chair, Paul Sykes commented, "It is laudable that P&R have accepted the urgency to act in the current term of this States and we hope other members of the States will also take responsibility to ensure that positive action is agreed upon and taken.

"A temporary income tax increase might appear as an expedient immediate response to address the recent deficits, but income tax rises are not the answer. A more strategic approach is needed to broaden and diversify the tax base, one that will have a more equitable impact on all members of our community, protecting those on lower incomes whilst including greater contributions from its wealthiest citizens. At the same time, it is imperative to retain Guernsey's competitiveness as a

[1] 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.

place clients and investors want to do business.   Measures must include explicit public spending restraint and encourage investment in infrastructure and economic growth.”

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