



Funding and Investment Plan Review

Chamber Executive Directors Report

ABSTRACT

Chamber Supports tax reform but wants a commitment for Civil Service pension savings. The Chamber of Commerce Executive believes the island to be at a critical crossroads. The fiscal deficit has been made extremely clear, and a decision must be made on the direction of travel for the island. The Chamber executive has taken an in-depth look at the Tax reform Billet and has published a detailed brief for its membership, ahead of surveying members this week to understand their views on the new proposals

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PUBLIC

Executive Summary

Another day, another attempt at introducing a fiscal reform package. You may be forgiven for thinking Guernsey is collectively suffering a time loop paradox, but it is clear both from the detail of the Billet published by P&R and from anecdotal discussion with industry participants, things are getting a lot clearer now.

Broadly, P&R have listened to much of the input from Chamber and its members and they have put together a more holistic set of propositions that clearly set out why there is a need for tax rises (which was a substantive concern in January), all the tax rises currently under consideration (rather than GST and its mitigation package along with the social insurance changes as in January) as well as setting out spending cut targets (a red line for the Chamber Executive and its member).

What Chamber wanted was a demonstration that tax rises were needed, a full tax package (not just GST or an Income Tax) covering all likely tax rises/reform, a cost cutting strategy and policies for revenue raising, particularly in growing tax take through workforce growth.

So, are tax rises needed?

With regards to making the argument that tax rises are needed, this argument has, in the view of the Chamber Executive, now clearly been made and was underlined with a budget deficit in 2022 due to poor investment returns. The reasoning sets out how Guernsey is and will continue to dip into savings to fund government spending, particularly infrastructure, if something is not done in the medium term. This is backed up by the 2022 credit assessment from S&P.

Whilst it is possible to resize the hole through reduction of capital investment, this will only cost more money in the longer term. Equally, short term support through policy change or positive investment performance will only mask the problem, not address it. As such, it is the Chamber Executives view that whilst the introduction of any new tax or any tax rises is not palatable or desirable, any discussion now urgently needs to move away from “do we need a tax rises” to “what taxes should we raise”. Deputies planning their re-election campaigns early, take note.

So what taxes?

The argument for the introduction of GST was long and laboured with the arguments against higher rated income tax (the only other viable option for the level of income needed) rather shorter on detail. That said, the argument was made and the Chamber Executive, after due consideration, agree that the introduction of GST is more compelling than the introduction of a higher rate of income tax or a much higher level of corporation tax due to the downside impacts to business and government of the introduction of the other two types of tax.

The Chamber Executive have produced a summary of the pro’s and con’s for GST to help business leaders and the public understand the high level arguments for and against GST, Income Tax higher rate tax banding, significant corporation tax changes.

The Chamber Executive has also suggested several tax initiatives that, whilst will not contribute substantially to the deficit through short term revenue generation, could decrease costs (producing a dual effect of short-term revenue and longer-term cost reductions). Examples would be a cardboard tax or a sugar tax.

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What about cost savings?

The Chamber Executive was underwhelmed at the ambition of the spending cuts and have suggested areas that need to urgently be looked at through amendment such as targeting Civil Service pension reform. Whilst it is accepted tax rises are needed, a more serious approach to cost reduction needs to be adopted by both this States and any future assembly and any tax rise should only ever be considered if a serious attempt at fiscal prudence is adopted, something that has been missing from this States Assembly.

What else is missing?

The Chamber Executive has set out what they believe is missing from the propositions, being targeted policies at increasing economic activity (which will add to tax revenue/funding) and which we would urge P&R to investigate.

The Chamber Executive would also like to see more vision for the use of any tax take, such as using it to boost housing stock, longer term economic growth incentivisation (both of which would help to keep GST at a low level).

And finally ...

The Chamber Executive has set out what it sees as the political position facing P&R. It notes the “simple” silver bullet suggestions being raised by some cynical Deputies such as revenue through wind generation or the suggestion that Guernsey can live without infrastructure investment. This could be viewed at best, as unhelpful, and at worst as negligent and would urge Deputies to focus on the arguments in front of them, not cynical ruse de guerre, targeting future re-election campaigns.

Basis of Preparation

This note looks at the proposals issued by the Policy and Resources Committee for debate in, likely October, (found [here](#)).

This paper will consider the proposals against the findings of our membership survey in January as well as any new information presented and answer the following questions:

1. What are the Proposals?
2. Has P&R listened to the feedback presented by Chamber?
3. What is Chambers executive view of the proposals?
4. Would Chamber Executive recommend any amendments to the proposals?
5. What are the political realities?

As ever, this note is specifically designed for non-finance sector (i.e. you should not need to be a tax accountant to read it) business participants. This note is prepared using government data sources.

Finally, this note is not exhaustive. Please do your own research if you want to be fully informed.

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What are the proposals?

The plan as tabled asks the States to agree the following:

- That the financial position of the Government is unsustainable, and that core spending cuts, and tax raises are needed being:
 - Transportation tax (motor tax) to raise £10M.
 - Apply [OECD Pillar 2](#) corporation taxes of 15% on all businesses part of a group that earns more than €750m annually, expected to raise £10M.
 - Other smaller corporation tax changes to raise a further £5M total.
 - Cost savings of £10M over the next 5 years.
- That the core inflight projects totalling £96M continue to be funded.

The plan then gives three options on infrastructure spending and how it could be achieved:

Scenario 1

- Limit spending to £190M (including inflight schemes) from existing government reserves and agree a specific portfolio of spending (see page 134 [here](#)).
- Rescind the government approval of £200M extra borrowing.

Scenario 2

- Agree portfolio spending of £440M (including inflight schemes) from existing government reserves and borrowing of £200M (as previously agreed). Portfolio is agreed (see page 132 and 133 [here](#)).
- As well as reconfirming borrowing of £200M to agree that the hospital modernisation will come from the Health Service Reserve.
- Reconfirm ability to borrow £200m.

Scenario 3 – The P&R Proposal

- Implement the tax reform package as set out in January 2023 being the introduction of a broad-based GST (no details), increase in personal tax allowance, introduction of 15% tax rate for first 30K of income, reform to social security. Package found [here](#).
- Development of £2.5M fund for community initiatives
- Agree portfolio spending of £520M of infrastructure spending details of which can be found on page 131 and 132 [here](#).
- Agree that to fund this further borrowing will be needed and so to increase the borrowing limit of £200M previously agreed to £350M.

If scenario 3 is approved (however amended) P&R then seek approval for GST to be approved:

- At a 5% rate with no exemptions; or
- At as 6% rate with exemptions for food and non-alcoholic drinks.

If this is all agreed the implementation will be in January 2026 and will last until 2032 unless extended.

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Did P&R listen to the Chamber feedback?

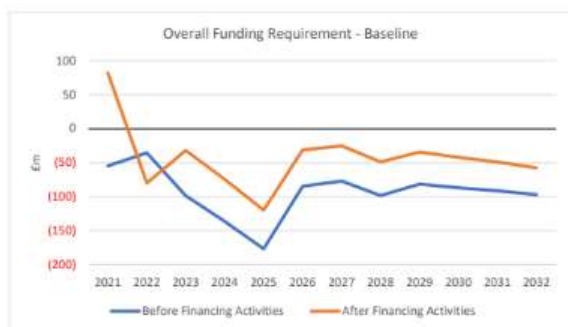
The answer to this is Yes and No. P&R have attempted to put together a response that meets those set out by Chamber but not entirely.

So, what did we ask? And, more importantly, what did they do?

1. Demonstrate that there is a fiscal hole.

Chamber members wanted the government to demonstrate that there was a fiscal hole and it needed filling.

To answer, detail on the amount of spend per capita (and how much lower it is here than in Jersey or the UK, both good comparators) as well as setting out the funding requirement just to stay flat on spending were provided. When it comes to justification of spending these are good comparators as it is the benchmark through which the Guernsey populace can gauge government services and deliver.



Spend per Capita £	Guernsey (incl Alderney, 2022)	Jersey (2022)	UK (2022-2023)
Population	65,747	103,267	67,220,000
Health, Social and Long-term Care	3,600	3,700	3,100
Pensions and benefits	3,800	3,500	4,800
Education	1,200	1,900	1,600
Other costs*	3,700	4,000	4,100
Total Cost per Capita**	12,300	13,100	13,600

*Including centralised services such as HR and IT

**excluding financing charges, defence cost, and non-cash costs

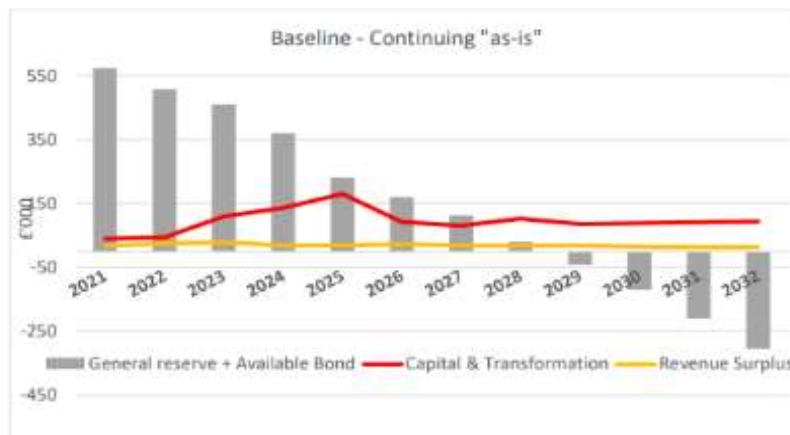
As you can see from the above, Guernsey already spends less than nearest comparators and given current levels of spending, Guernsey is not going to have enough money to meet all its obligations even with good investment returns. Increased tax receipts (such as the modest increases in the recent [financial update](#)) will certainly help (Chamber has been calling for policy to encourage this as an active means to reduce the need for higher taxes) but cant be relied on yet to remain stable.

Infrastructure spending, which has been neglected for the last decade and which drives growth and a stable society, will continue to be under invested if nothing is done. Front line services will start to be impacted (a good read across would be health services – look at the UK now where wait times are currently in the months rather than weeks for specialists and months rather than days for GP – this could be Guernsey in 5 to 10 years if nothing is done to raise revenues – sooner if we have an economic contraction).

We are told the major reason that we currently meet our obligations (and have been doing so) is due to our reserves (the rainy-day money) which provide an investment return. If there is poor investment return (as there was last year) this will impact on our ability to keep up with core spending if things stay flat. As we saw this year with poor investment returns, the government returned a deficit on spending targets overall. This is not sustainable in the long run.

Equally, if we spend all our reserves on infrastructure spending (the so called “live within our means” option so beloved of some deputies), our ability to meet obligations (including infrastructure spend) will shrink further as we lose investment return.

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- Put together a mixed response covering spending cuts, portfolio spending and all proposed tax increases, not just a headline tax.

Chamber members agreed with the Chamber Executive that details were needed on spending cuts (which should include Civil Service pension reform), a package of all proposed tax rises (which could include GST or Income tax rises if needed) and a policy set to increase tax revenue by encouraging more economic activity from the 40-60 demographic.

Spending cuts

There is a commitment to try to achieve spending cuts of £10M but no details as to what or how. Rather there is a shoulder shrugging attitude to cost saving saying it is unlikely to be achieved. Whilst Chamber agrees that committee budget cost savings are unlikely to net more than £7M, but can suggest ways in which to make savings.

Chamber has consistently called for public sector pay reform and civil service reform. The civil service (central civil service – not policemen, teachers, nurses etc) pay has increased to such an extent now that it now matches large sections of the private sector whilst they continue to receive gold plated pensions (compared to the private sector). Pension reform is the single biggest cost saving that could be achieved and is desperately needed.

Equally, savings could be achieved in committee. An example would be through the implementation of the devolution of decision making to school's management teams as envisaged by the Mulkiere report in 2011. The current ESC and Director of Education have dismantled this notion of reform and have systematically re-introduced centralisation and the corresponding increased CS cost.

There are as many cost saving opportunities as the government could want. All that is needed is a cohesive attempt at targeted cost saving. This is missing.

Portfolio Spending

This package clearly sets out options on portfolio spending and how it will be paid for. This is a strong response in this regard with a detailed options tablet of potential spending.

Some of the portfolio spending is essential (for example, the Castle emplacement). Some of the portfolio spending is debatable (many, for example, will have views on the scope of the Alderney Airport project) and some are simply economically and operationally illiterate but politically the only option left (the secondary school's transformation) but this package at least seeks to holistically set out a funding plan rather than, as has historically been the case, splitting the funding and spending.

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Details of the comprehensive portfolio options are found in appendix 2 of the [Billet](#) (page 112).

Composite of Tax Increases

Chamber was aware that multiple new taxes were being considered and wanted to see all new revenue raising streams set out at the same time. This proposition does this setting out the argument for:

- GST at 5% or 6% (food exempt) – with the mitigation strategy of higher tax allowance and a 15% income tax band up to £30K
- Changes to Social Insurance
- 15% tax on large multinational corporations' revenue in Guernsey
- Re-introduction of motor tax

Other taxes that could, and perhaps should, have been brought forward are:

- Sugar tax – to disincentivise unhealthy eating (reducing health costs at the same time).
- Cardboard tax – A so called “Amazon” tax to level the playing field with local retailers with a waste charge for online retailers.
- Commercial Void Tax – A charge on commercial building owners with no tenants to discourage empty buildings and encourage rent concessions and other tenant incentives (improves business environment and encourages economic growth).

Overall, an effort has been made to bring forward a tax package and it is tied to a spending package. It is not ambitious or linked to behaviour changes which could reduce costs or encourage economic growth, but it is a composite tax package as requested.

Overall, Chamber members were not supportive of GST and the P&R mitigation plan as a stand-alone proposition (as presented in January) but agreed that if an attempt was made to curb spending, there was an attempt to increase productivity and if the case was made, they would support a tax increase of some sort. This package is an attempt at answering that challenge.

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What is the Chamber Executives View?

The Case for Tax Increases is Made

The fiscal deficit has now been made extremely clear. Whilst it has historically been stated that it exists, details of how and why have not been particularly transparent unless you are willing to read through multiple documents and make your own judgement about what assumptions are being made by the States accountants and economists.

This Billet does, laboriously at times, make the case very clearly and links together the States accounts and budget.

It is clear from the data that Guernsey is at an inflection point. Either Guernsey must accept, however unpopular and unpalatable, tax rises are needed or, it must curtail infrastructure spending (which it has been doing now for decade) and enter a managed decline of public sector services. The managed decline or “live with our means” option will see many of the services we take for granted and can be proud of, such as our enviable health care system, slowly reduced (recent decisions on [cancer costs](#) would be an example of this).

Regardless of how much savings can be made on operations (Chamber still believes £7M recurring savings from committee spending is possible day to day with more available if pension reforms for CS were brought in), tax rises ARE needed given the demand for services (which remains high), the increase in cost of services (which remains high) and the shrinking economically active population (which, even with increased net migration, looks likely to stay static).

Looking at the below chart, which shows sensitivity analysis on what would happen in the best/median/worst case of implementation of GST (as P&R propose) government economists predict that the proposed tax changes will just be enough to match sending demand and meet capital expenditure.



Figure 17

Without GST and with the current spending plan, things get worse.



Figure 18

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Cost Savings – Action this ... wait, what were we talking about?

To say that P&R's attempt at articulating cost savings was short of detail would be doing an injustice to the words "short" and "detail". Aspirational is probably closer to the mark with the best that could be said about it being that it added tone to the Billet.

Whilst it is acknowledged that a subcommittee has been established to sift through the ideas from the public and CS staff with Deputy Dave "Lord Kitchener" Mahoney chairing the committee, there were not even a suggestion of what could be on the cards. Much less a strategy or key targets.

The Chamber Executive would urge P&R to draw a line in the sand with cost saves they would at least like to try and tackle. This can be by way of a strategy or tactical plan. The Chamber Executive would like to see:

- Public Sector Pension Reform - This is happening [globally](#) and Guernsey should be no different. Is it easy? No. Will it fill the hole by itself? No. Will it help? Yes! Ideas can be found [here](#).
- Combination of Social Insurance and Tax systems (rationalisation of data sets and teams) – will reduce dual processing.
- Co working with Jersey on externally driven policy issues to reduce cost and officer time, share consultancy costs.
- Rationalisation of Education Central Team – Decentralisation of decision making and reduction in ESC central headcount
- States Governance – Reduction of Alderney Representatives to 1 and transform to Alderney/Herm/Sark representative covering all other islands (election held for rep from populations of all islands). Reduction of Guernsey Deputies (whilst purely symbolic in a cost sense, there needs to be a change to an odd number). Review of the following States Committees who have delivered little in the way of policy:
 - Economic Development – (merge P&R)
 - Transport Licencing (merge – STSB)
- Third Party Commissioning Reform – drive more collaboration between government the third sector (who deliver a lot of Guernsey's social support). Ideas can be found [here](#).
- [Civil Service Reform](#) that delivers the following which we believe will be more flexible and cost effective in the medium to longer term:
 - Prioritises horizontal mobility and government working as a whole.
 - Remote working (building rationalisation).
 - A reskilled digital workforce.
 - A learning and risk accepting workforce, who understand risk management and tolerance.
 - Targeted and flexible recruitment with a variety of employment modalities.

Infrastructure Spending

The Chamber Executive does not want to get into a detailed analysis of each portfolio investment options as, set out above, some are clearly needed, some are arguable, and some are politically the only choice left in the chocolate box. Each has been through debate or will be restabled for debate and that is the time to challenge the benefits/disbenefits of each.

To Borrow or Not to Borrow?

Well, that is a good question. The easy (and wrong) answer is "no, we should live within our means". This is a short-sighted answer and does not consider what the role of government is. Whilst Guernsey This document is for information only and the views and opinions currently held by the Chamber of Commerce Executive Committee. It is not a comprehensive analysis of all inputs and should not be used as a source of empirical data. Errors and omissions excepted.

is, by and large a free market economy, the people of Guernsey demand certain services and social solutions such as healthcare, education, waste management. Borrowing is not a dirty word. We all do it, and we all make the calculation – do I need to borrow? Can I afford to borrow?

Does Guernsey need to borrow? The short answer is, yes, if we want to achieve the capital portfolio as set out by the States, or in fact any capital projects (regardless of what they might be). We could reduce the capital portfolio, but there is a large pipeline of capital projects (backed up from decades of under investment) so even if we don't want these capital projects, we will need some. The cost of capital projects is only ever going to increase. As such, the quicker you can move from pen to concrete, the cheaper a project will be (accepting it will always be more than you expect it to be).

Can Guernsey afford to borrow? In that regard, P&R have clearly set out why they think Guernsey can afford to borrow, not just the £200M already approved, but a further £150M (although the extra borrowing comes with the prerequisite that GST is implemented to pay for it).

The borrowing requirements are set out clearly with the recommendation to match borrowing to cash flow (this is good cash management) with short term facilities (either committed overdraft or revolving credit) drawn until borrowing hit £250M at which point a new bond would be issued to pay down the short-term debt.

The argument is that if we don't borrow to achieve, we will spend our investment returns which, will reduce our ability to borrow. Catch 22. As such, the best option is to borrow.

The quantum of borrowing will be determined by the level of tax we can raise, and it is right to link the two in that way.

What Taxes and When?

The Billet sets out the arguments for GST and, to a lesser extent, sets out the arguments against an income tax rise being the only other viable option.

To help, we have prepared the following table on GST (being the main proposition) which tries to draw on the Billet provided data but also information provided to Chamber Executive from global tax advisors working in Guernsey.

GST

Negative	What does that actually mean?	Actual impact	P&R Mitigation Strategy
It's a regressive tax.	Regressive tax is a tax term meaning a tax which takes a higher proportion of tax revenue from those on low income	Those on low incomes feel the tax as they will pay the same tax on a like for like consumption basis as those on a higher wage who can afford to pay more. Although those on a higher wage would like to consume more and as such, pay more tax.	P&R are trying to transform GST from a Regressive Tax to a more balanced tax with the introduction of 15% income tax the first £30K and higher tax-free allowance for those who qualify. All paid for by GST. This removes its "regressive" badge to some degree.
Its expensive to run, will impact small business	There is a cost of compliance with the tax which will be borne by the	This depends on the type of GST implemented. A GST	P&R are recommending low levels of exemption rather

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	government and by businesses.	with low levels of exemption will cost less. Equally, retail systems today are built in with optionality for GST. IT should not impact retailers (large or small) substantially. However, a food exemption for example, will be very costly and not efficient. The main beneficiaries to its introduction will be accounting firms.	than introduction of targeted exemption. They have brought a food exemption to the house (as required by amendment in January) but it is not recommended as it will cost more and likely not deliver the benefit intended. Finally, the tax burden is not going to be borne by small business but by the consumer. As such, the cost will only be the implementation of a tax system (if registered) or no registration cost if not registered.
IT removes Guernsey unique way of life / unique selling point	Guernsey is one of hand full of places left in the world without a form of consumption tax and wants to stay that way (only 7 sovereign nations still do not have some form of GST being Aruba, Kuwait, Liberia, Suriname, Palau and Malaysia – quite the club)	Guernsey does not get the same revenue and tax base as other nations. As such can't afford the services and infrastructure of other nations.	IT is implied that P&R believe that not having a GST is detrimental to Guernsey as a state given it reduces ability of Guernsey to afford infrastructure projects and government services other nations enjoy.
It adds to inflation	GST introduction will add to the cost of living in the year it is introduced.	There will be a one-off hit adding at least 5.5% to inflation in the year it is introduced. This impact will only be in year one.	P&R are not proposing implementation until 2026 by which time it is hoped inflation will have dropped. Inflationary impacts cannot be mitigated. The best mitigation would be the introduction of a) rent control b) positive house building policies to see house price reductions. Which would be more feasible with higher tax take (more social housing and affordable housing support policies).

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Positive	What does that actually mean?	Actual impact	Guernsey Benefits
It broadens the tax base.	Currently Guernsey is reliant on income tax receipts. This means only people in work or receiving a pension income stream in Guernsey are paying tax in Guernsey.	GST would ensure that tax is paid by visitors (who use our amenities), those who are not economically active (those who don't need to work but have large capital or non guernsey income streams) both groups currently do not contribute but do get the benefit of Guernsey and its services.	More people paying tax than currently do.
It brings needed revenue to Guernsey Governmental services and infrastructure	Guernsey will be able to afford its enviable healthcare system, social benefits system. It will be able to invest in the future of the island.	Guernsey will be able to afford the infrastructure investment it needs.	If things work out better than expected Guernsey will have budget surpluses and will be able to either reduce tax take or spend more on social policies or economic development initiatives such as support for affordable housing.
Introduction of a 15% tax rate will be a market differentiator for the retail and hospitality recruitment	Guernsey will be more likely to recruit into hospitality sector and retail sector.	Guernsey will have better recruitment and retention rates than our competitors.	Restaurants, shops and hotels will be staffed again rather than restricted opening.
It has a higher tax stability than a substantive income tax rise or substantive corporation tax rise.	P&R contend that a higher income tax rate would make Guernsey less attractive to higher income earners (who are more mobile and will leave). The same argument is used for substantive increases in corporation tax.	Not dramatically raising income tax or corporation tax should keep Guernsey tax base stable.	
40% ¹ of all GST will be borne by the finance sector	The finance sector, whilst they will be "exempt" will pay a competitive market facing fee to be exempt.	Nearly half of all revenue will be generated through a fee (less cost of compliance) from the finance sector.	
A consumption tax like GST is more sustainable than income tax as it is designed to limit consumption. This can impact on the	IF we buy less goods, then this is good for the environment.		

¹ Finance sector and ancillary business such as lawyers and accountants

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economy but is positive for the environment.			
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The above sets out the substantive positive and negative points as far as the Chamber Executive is concerned. The Executive remains of the view that, if a tax must be introduced, as has now been demonstrated, GST as proposed by P&R is a viable option. Chamber is not convinced that the implementation date of January 2026 is appropriate and would rather see implementation kept under review with a framework for best implementation time when inflation has dropped historical trend rate of between 1 and 3% with a hard back stop date of 2028.

Income Tax Rise

P&R do not go into substantive details on income tax as an option (page 76 of the Billet). They contend that the social security changes represent an increase in income tax revenue. They further contend that the headline rate of 20% needs to remain as it is or Guernsey risks losing higher income earners (who are more mobile and pay more of the current tax base) to competitors such as Jersey or the Isle of Man.

Chamber asked the States Treasury team what work had gone into determining this and we received the following response asking particularly to what extent elasticity (the rate at which people will leave rather than pay tax) has been assessed.

“Higher tiers of tax on high incomes have, to date, not reached the final presented packages given the relatively limited revenue gained from them relative to the potential economic risk. To elaborate, in the UK the 40% rate is pegged to the point at which taxpayers stop paying full rate national insurance (just over £50k) to avoid brackets of income with exceptionally high combined marginal rates. In Guernsey the equivalent threshold is £168k (compared to £55k in Jersey). Under a first round economic analysis, at this level higher rates of marginal tax raise fairly little – each 1% on income above £168k raises less than £2m. That increases to a little over £3m if the threshold is dropped to £100k, but it creates an income bracket between £100k and £168k with a marginal rate of, for example, 25% income tax plus 7% (employed) or 11.6% (self-employed) contributions, plus the 4% additional impact on marginal rates resulting from the withdraw of tax allowances. This could quickly add up to marginal rates in excess of 35% or 40% for a section of the community, who would face a marginal rate of 21.5% in Jersey.

Computing elasticities is always challenging and the range of international estimates for the top 5% and 1% of income earners is wide. However, given our particularly mobile professional population and the obvious opportunities for a skills arbitrage with Jersey (who already charge less in tax and contributions for individuals in this earnings bracket) sensitivity to higher rates of tax on high incomes is considered to be higher in Guernsey than it might be in larger jurisdictions. This increases the economic risk and reduces the revenue raising potential. The conclusion of the Tax Review Steering Group and P&RC is that the economic risk outweighs the relatively modest revenue raising potential for a step of this nature.”

Whilst we don’t want to put in technical tax analysis detail into this report, suffice to say the bottom line on P&R’s assessment is that a higher tax rate would reduce competitiveness for Guernsey, not see This document is for information only and the views and opinions currently held by the Chamber of Commerce Executive Committee. It is not a comprehensive analysis of all inputs and should not be used as a source of empirical data. Errors and omissions excepted.

enough tax raised before we see a loss of taxpayers and as such a loss of tax revenue (when trying to raise it).

Corporation Tax Rise

The lion's share of any corporation tax rise envisaged will come from a globally mandated tax rate of 15% on all multinationals operating in Guernsey (tax on the revenue generated in Guernsey). This should not impact business decisions to leave as business will suffer the tax wherever they are based. This will be implemented on the global timetable.

4 options for other tax reform have been investigated with tax consultants at E&Y. The result is that P&R will be looking at reform in conjunction with Jersey and Isle of Man to ensure that there is the lowest chance of business flight due to tax dislocation. This approach seems sensible given the marginal amounts extra that can be raised.

The Chamber Executive agrees with this cautious approach to changes to corporation tax to ensure that there is no impact on competitiveness. Chamber Executive would expect to continue to be consulted with on changes to ensure that any impact on all our members (small and medium sized enterprises outside the finance sector especially) are considered.

Other Tax Options Investigated

Motor tax (which P&R hopes will raise a further £10M) and increases to TRP (a further £1M) are also under consideration.

Chamber is of the view that the investigations to date have been a little uninspiring and believe that other options such as set out below, whilst not raising substantial revenue, could and should be looked at.

- Sugar tax – to disincentivise unhealthy eating (reducing health costs at the same time).
- Cardboard tax – A so called “Amazon” tax to level the playing field with local retailers with a waste charge for online retailers.
- Commercial Void Tax – A charge on commercial building owners with no tenants to discourage empty buildings and encourage rent concessions.

What is missing?

As we set out in our last paper, Chamber Executive is firmly of the view that policies need to be developed to bring more people in the 40 to 60 age demographics, who already live on Guernsey, back into the workforce.

To do this there would need to be some or all the following:

- a) an increase in current productivity rates
- b) aggressive housebuilding plan and incentive plan specifically targeting young professional persons (young works are more desirable than workers closer to retirement) and
- c) a careful look at the population management regime.

The recent review of the population management regime has been concluded and the move away from medium term licencing should be beneficial and help. However, an aggressive housebuilding plan with incentives (which could be paid for out of any new tax rises) is needed.

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Chamber Executive is also of the view that it should be possible to add at least 1000 net new workers into the workforce over the next 3 years and this should be a stated policy objective. This does not necessarily mean more people on island. Just more people working on island.

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PUBLIC

What amendments would Chamber Executive like to see?

The Chamber Executive is of the view that amendments should be considered by P&R and other Deputies of the House that:

1. Amend GST implementation timetable to be based on a review of inflation rate to ensure it is implemented in a year when inflation has dropped to between 1% and 3% albeit with a back stop date of 2028.
2. Direct P&R to investigate Civil Service pension reform as a matter of urgency with a view to achieving an appropriate level of cost savings in line with global public sector pension reform developments.
3. Direct P&R to develop a proper cost cutting strategy for committee cash limit spending targeting £10M recurring savings and if no savings are achievable without front line service reductions, enforce committees to bring the savings to Debate within the States chamber.
4. To direct P&R and the relevant committees to investigate:
 - a. Sugar tax – to disincentivise unhealthy eating (reducing health costs at the same time).
 - b. Cardboard tax – A so called “Amazon” tax to level the playing field with local retailers with a waste charge for online retailers.
 - c. Commercial Void Tax – A charge on commercial building owners with no tenants to discourage empty buildings and encourage rent concessions.
5. To Direct P&R and the relevant committee to bring an action plan to the states for increasing productivity and economic activity, including (but not limited too) through increased economic activity in island residents in the 40 -60 demographic who are currently inactive with a target of 1000 new workers in the workforce.

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What is the political position?

As we said in January the problem the States has is that, at the last election, many of the Deputies elected stood on a platform of no new taxes, no tax rises or only spending cuts to help balance the books. During the period there have been a number of Deputies who have been converted which suggests P&R may be more likely to win the day.

Added to this, anecdotally, it seems that the Guernsey public is seeing a shift toward an understanding that tax rises are needed but that GST is now an anathema. However, it remains true that many members of the public are so vehemently opposed to any tax rises because (a) they have been told by the Deputies they elected that none were needed and (b) until now P&R has been presenting GST as a *fait accompli*.

The major problem facing P&R now is that GST as an option has a significant public relations problem. P&R's argument in January did not focus on the benefits that introduction of the tax and its mitigation package could bring such as improved services, capital projects, reduced income tax for lower earners. People of Guernsey, Donkeys all, do not like being told that they must do something or else. Particularly if the tax in question is an inflationary tax whilst suffering some of the highest inflation Guernsey has seen in the last 20 years.

All in all, Deputies who take the time to read the Billet (not all of them do) and understand it (we will of course send them our paper), are more likely to be persuaded that action does need to be taken on tax rises. Some may also be persuaded that GST is the right tax. However, P&R need to win hearts and minds of the public if they are to translate votes and that is a big task.

The Executive note the cynical introduction of silver bullet unsubstantiated revenue rising schemes such as the infrastructure project for wind generation and note there is no basis to suggest that it could remove the need for tax reform (on the basis that any revenue would not be generated for at least 10 – 15 years and Guernsey needs tax reform within the next 2-3 years, suggestions to the contrary are risible). Any such scheme should look to build out Guernsey's sovereign wealth fund and improve our economy. Yes such a scheme could deliver economic return, but it is not something that can be relied upon for prudent fiscal planning at this stage.

The Executive also note the Say No to GST campaign and would suggest that any NO campaign needs urgently to suggest a credible alternative that does not involve low capital investment (managed decline) service reduction or tax reform that would damage our standing as a stable and competitive jurisdiction.

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