



Guernsey
Chamber
OF COMMERCE

Phase 2 Tax Proposals Analysis

Chamber Directors Report

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GUERNSEY CHAMBER OF COMMERCE – FINANCE SECTOR LEAD

PUBLIC

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Basis of Preparation

This note looks at the proposals issued by the Policy and Resources Committee for debate in January (found [here](#)) and considers the following questions:

1. Guernsey's current expenditure problem – How big is the black hole?
2. We are not alone – It feels like we pay a lot of tax. Do we?
3. What is the impact? – What is the likely impact to businesses and everyday people?
4. What is the political position? – A lot of Deputies stood on no tax raises or new taxes platform, what should, or could we do about it?
5. What other options are there? – There is a hole how do we fill it or resize it?
6. What do we think? – The Chamber Executive view.

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. Essentially, we have read the 219 pages and tried to distil it down to aid business leaders consider the proposals.

This note is prepared using government data sources. Other analysis might highlight that government accounts are flawed on the basis that they have not yet transitioned to recognised accounting standards. Whilst we would prefer the government accounts were compiled on a recognised acceptable accounting standard, we do not feel there is sufficient evidence to call into question the government data sets at this time and hypothesise about the scale of the problems which Guernsey faces and which is already quite large using government data and have therefore taken the data at face value although accept it is open to criticism.

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

Guernsey's Current Expenditure Problem

In 2017 the State of Guernsey Policy and Resource Committee proposed a [medium term financial plan](#) linked to the proposed Future Guernsey Plan. This was the first long term analysis and fiscal plan ever approved by the States.

This plan identified that if no action was taken, a fiscal deficit would develop through the period and cumulate in a structural deficit in spending of £70m by 2021.

	FY - 2017 £m
Underlying Income Position:	£408.3
2017 Cash Limits:	(£362.5)
Health Service Grant - 2017 suspension:	(£4.7)
Underlying Expenditure Position:	(£367.2)
Capital Income - Returns from Trading Assets	£5.0
Financial Position before Capital Appropriation:	£46.1
Capital Appropriation: Major Capital	(£43.8)
Capital Appropriation: Routine Capital	(£10.5)
Capital Appropriation: Capital Income	(£5.0)
Total Capital Appropriation	(£59.3)
Overall Deficit	(£13.2)

As highlighted in the above table, this deficit existed in 2017 and was being managed, supposedly in the short term, by reducing the amount of money being put aside for capital projects i.e. not saving up to pay for large one off items such as schools or runways. The short-term plan was to manage that through not saving up as much for these one off projects which might be thought to be sensible course, but was only supposed to be a short term position.

The medium-term financial plan identified that this growing shortfall in cash required to operate government is being driven by the number of people reaching pensionable age exceeding the number of people entering the workforce i.e. the number of pensioners is increasing faster than the number of people working.

The plan in 2017 was to make savings of £26M during the period, raise taxes by £14M during the period which would solve the problem.

The problem with this plan is that plans are only good until they make contact with reality. The States have not made savings of £26M, tax take has increased but not by enough and we have had a global pandemic which has impacted on our existing capital savings.

Fast forward to 2023 and the position is now that no savings are being made for one off projects such as schools and runways.

Guernsey is not in a terrible position, certainly compared to many western nations, but is not in the best fiscal position that it could be in. The ability to manage the deficit through removal of capital saving is now running out as investment is needed if we are to avoid a managed decline in Guernsey's built infrastructure.

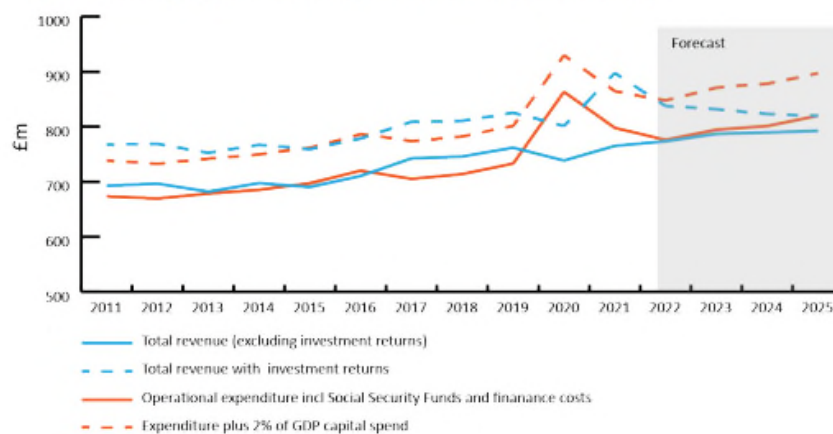
Below is the projected position for 2023.

Figure 3: Forecast structural deficit

	2023 Budget
General Revenue Income	582
General Revenue Expenditure (incl GWP)	(573)
Revenue Surplus/(Deficit)	9
Capital income	3
Investment Return	27
Provision for trading losses	(6)
Assumed capital requirement (2% GDP)	(76)
Overall General Revenue Surplus/(Deficit)	(43)
Combined deficit on States' pension and long term care scheme	(14)
Combined Surplus/(Deficit)	(58)

As you can see per the above, the deficit is now standing at £43m after capital requirements, increasing to £58M after the deficit of the pension and long term care funding is factored in.

Figure 2: States aggregate income and expenditure 2011-2025 (at 2021 prices)



For those of you with an appreciation of business forecast metrics, the above neatly demonstrates the negative jaw ratio effect with revenue falling/flat and expenditure increasing. This scenario can't be sustained in the longer term.

Figure 8: Aggregate operational expenditure including pensions and long-term care (at 2021 prices)

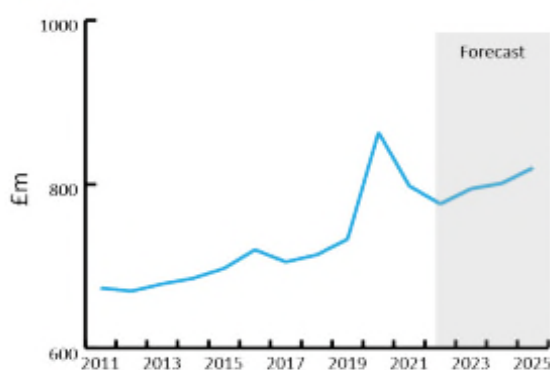
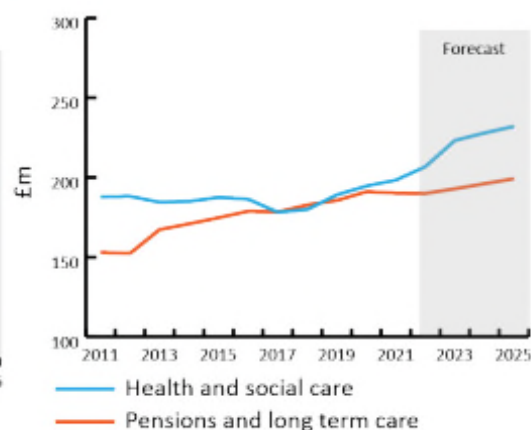


Figure 7: State expenditure on key services 2011-2025 (at 2021 prices)



This reasoning ties back with the original 2017 analysis. Not only that, forecasts in 2017 did not factor in a global pandemic nor a recession in the medium term, both of which will affect medium term revenue generation through tax.

The government forecast that the funding gap will continue to grow every year resulting in a funding gap of between £80-£90M by 2040. This could easily rise to £100M as no savings are being made or even higher if new expenses are agreed by the government.

To be clear, the gap as identified is only based on business as usual and does not factor in any new costs that could be agreed to by future governments. As such the deficit could be larger, or smaller depending on spending and investment decisions.

For example, the current approach to pensions contributions and investments taken by this P&R committee is high risk (in terms of pension planning) and could lead to significant down side exposure in the event of equity market volatility. That and the delay to pension reform (where even some relatively minor changes could save money) by successive administrations leads to much higher pension costs than is necessary, even under a defined benefit scheme.

We Are Not Alone

A lot of people like to talk about the “Guernsey” way, and understandably there is a great deal of respect for this. Guernsey is and always will be unique. That said, we can always look at our overseas territories’ cousins such as Jersey for things such as fiscal and governmental structures even if only to decide not to do what they are doing.

The current tax proposals are looking to increase revenue generation up to 24% of GDP (which is relatively low compared to most developed nations where 30%+ is the norm). But what might that mean for each individual person?

NOTE: the data selected is for comparison purposes as annual data refresh does not allow for true comparison using 2022 data.

Guernsey – 2021 Working Population 30,883 (Q3 Sept 2021) and a total population of 63,448 (Q1 2021)¹

We currently have a very simple tax arrangements being a 20% tax rate on income and no GST.

In 2021 Guernsey raised £472M in income tax and other taxes. Guernsey spent before losses etc., £475M in delivering services in 2021.

Roughly this breaks back to:

Average Tax Contribution Per working age Person – £15,283

Average Tax Spend per person - £7,486

NOTE – It is not known what the current population of the island is from official data sources but the current workforce has risen to 31032 as at the last data point.

Jersey – 2021 Working Population 59,400 (2021) and total population of 103,267 (2021)²

Currently Jersey has a very similar tax environment to ours. They have 20% income tax; they operate a 0/10 corporate tax regime similar to us. The one substantive difference is that they also operate a 5% GST.

In 2021 Jersey raised £903M through income tax, GST and other taxes

Roughly this breaks back to:

Average Tax Contribution Per working age Person – £15,202

Average Tax Spend per working age person - £9,092

Tax take is not solely borne by Jersey residents as the GST is borne by visitors as well. As such the tax take per person is lowered. There is no analysis available on this but if we assume 439,200 visitors who spend £100 each, this equates to £2M in tax and would reduce the overall number by a further £33 per each working age person (to £15,170).

Why are we already paying more tax per working age person than someone in Jersey if they have already have a GST?

¹ Guernsey Annual Electronic Census Report, States Of Guernsey, 27th January 2022

² Census 2021 – Bulletin 4 Employment, States of Jersey, March 2021

This comes down to Jersey working population which is 9% higher as a percentage than the Guernsey population. Jersey has a 57% of its population working (68% economically active). Guernsey only has 48.67% of its population that is in full time employment.

If you adjust Jersey's working age population down to the same percentage as Guernsey, then the average tax per person is £17,966. But Jersey has already taken steps (although it is still debated on whether they have taken enough) to stabilise its working population and as such is in a better financial, although not necessarily a better population, position than Guernsey.

What does any of this tell us?

Guernsey has a smaller working age population (and shrinking) which currently pays about the same as a Jersey resident in tax, but this is not enough to balance the books. Jersey has a higher population of working people to carry the burden so can spread its higher tax take across more people lowering the overall tax burden per working (i.e. paying) person.

Guernsey would need to increase its taxes, or its working population by 5800 people or both or drastically cut government spending to keep its total tax take per person equivalent with Jersey or decrease the services that it expects of its government (for example - have a much lower delivery of health service). There has been a policy move to set the target at 350 net migration but more needs to be done to attract workers into the market (both those already on island as well as through migration) such as urgent action to increase housebuilding levels which are at a historically low level. Until something is done, Guernsey will continue to have a higher burden on its working population unless it does something to broaden its tax base and broaden its taxpayers.

What is the impact?

At this time, the only proposals being brought forward are:

1. To agree that the long-term financial position of the island is not sustainable given current fiscal framework.
2. To approve the development of a package of revenue raising measures by 2025 by:
 - a. Restructuring social security contributions and introduce a contributions allowance set at the same level as income tax
 - b. The introduction of GST
 - c. Introduce a lower rate of income tax at 15% for the first £30K
 - d. Increase personal tax allowances by £600
3. To arrange that there are to be appropriate transitional arrangement in place.

The government proposals suggest GST implementation that has:

- A low level of de minimis (target of £60) – this provides some form of level playing field for retailers with online retailers.
- Very limited exemptions.
- Finance Sector specific scheme to GST fees in line with other finance centres for example a flat fee rather than complex service return. It should be noted that this, along with irrecoverable GST from business will generate 40% of all GST raised so business is very much part of this deal.
- A reduction in income tax for earners below £30K which will see an increase in disposable income offsetting the proportional percentage of tax increase they will take in GST.

Given the above, the logical outcomes from the implementation of a GST are that:

- There should be a low impact on low value transactions. If people bought Pokémon cards or skin care products from a local retailer before, they are not likely to change.
- There will be greater impact on higher value sales (above £60 but realistically above £200-£300). Any business that has a business model on no GST on high value products as its sole USP will be significantly adversely impacted. Businesses that had a slight advantage over online retailers because of GST will face the same uplift. However the local retailers have the same USP that brought customers to local stores before GST (point of contact for after sales for example) should still exist.
- There will be a one-off impact to Guernsey GDP and inflation in the first year of implementation.
- The transitional arrangements should allow for a feathering effect to individuals with those on over £30K being impacted most.
- The implementation will have an impact on point of sales businesses which will have to introduce systems. Given the prevalence of GST around the globe, relevant systems and processes already exist and should be easily accessible but some form of support for smaller businesses should be considered.

Overall, the proposals as set out go a long way to address the major down sides of the introduction of a consumption-based taxation system in so far as the lowest earners will theoretically be no worse or even slightly better off given reduction in income tax.

That said, whilst GST does broaden the tax base, GST does not specifically target those who have accreted wealth but no longer pay into the system (wealthy pensionable age persons) although a GST will ensure some form of tax is levied on such persons. Some might say this could be an avenue to explore. There is a population of Guernsey residents who live off of standard charge or capital who are currently outside the scope of income tax and as such, contribute little into the infrastructure of the island they live in.

What is the Political Position?

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. Even though the 2017 report presented by the then P&R clearly highlighted a need for some action to be taken and the pandemic could have only made things worse, many of our elected representatives have no political mandate to introduce an increase in taxation or any new form of tax.

Of the 38 Guernsey Deputies elected only one deputy actively stood on a platform for GST with 12 Deputies actively saying no to GST or any new tax rises.

Most prospective Deputies called for some form of cuts to civil service but as there have been no such cuts made in the first 2 years in office, it seems unlikely that there is likely to be a concerted effort in that direction.

Overall, there are 12 Deputies who will need to vote against the proposals or break published election promises. This is not a majority but it is a sizable proportion of the house and leaves only 26 Deputies (plus the Alderney Reps) to vote on the matter. Only 10 of the remaining deputies need to vote with the 12 Deputies who have actively called for no new tax to see this fail.

Given how things stand, it would seem that Guernsey's financial position should have been more of a substantive election issue than how many School buildings are built (given there is no clear way to fund future school building purchases).

To date there has been no clear public debate on whether Guernsey wants to keep its low working population, to lose governmental service or to increase taxes. The debate in January between our elected representatives, many of whom obviously had no clear idea there was a fiscal deficit when they stood, may be a poor proxy given the level of understanding so far demonstrated by many Deputies.

All that said, decisions need to be made, the question is, are the right options for Guernsey on the table. Time will tell.

What other options are there?

The GST proposal is not, in and of itself, the only proposal that will be put forward in the coming weeks and months. Changes to corporation tax environment have been put on hold pending outcomes on international tax agreements. Equally, behavioural taxes such as plastic bag taxes, empty buildings tax or sugar taxes have not been considered as they would not generate significant revenue but would be designed to reduced cost sustainably in the longer run.

These could have been added in for reference but have been left out as such there is no data on what amount of revenue this could generate. Estimates can be made. For example, the UK generated £301M on sugar taxes which equates to £4.40 per person. Guernsey could hope to achieve, on a like for like basis, £277,000. Not a huge amount.

So, just what kind of tax could be implemented that would meet the scale of the problem?

Extra Income Tax

This could be badged as income tax with higher tiered rates. This could be structured as a health tax that is bifurcated to only pay for the health service. There are many ways it could be structured but would in essence be more of the same.

This could raise the amount of money needed but, so its opponents will say, could put Guernsey at a competitive disadvantage in attracting wealth generators. There needs to be data to back up this claim which seems to be lacking.

On a more practical level, Guernsey is already heavily reliant on its income tax. It already gets more than 75% of its tax revenue through income taxes. As opposed to Jersey who have reduced it burden down to 70%. The Isle of Man only gets 21% of its income from income taxes with most of its revenue coming from VAT!

This is a viable option and one that could be used to tax the wealthy more successfully (through tiered rates) than a GST and avoid needing complicated rebalancing as is proposed with GST.

That said, it could put Guernsey at a competitive disadvantage. Whether or not a (relatively) small additional tax for high net worth individuals would be off putting is perhaps questionable. We have no data to do anything other than speculate on this point. Equally there is no data to suggest that it would be anti-competitive so any argument for or against this is, at this time, largely baseless.

More Aggressive Corporate Tax

The analysis that has been presented to the Chamber Executive is clear that whilst there will be a move to increase corporation tax, there is little room to manoeuvre in this regard. It seems clear from the data provided that there is scope to raise more corporation tax without becoming uncompetitive but not a huge amount more. Under the GST proposals Business will shoulder more than 40% (circa 49%) of the burden under GST.

We await developments in this space and expect this to raise a further £10 - £20M.

It is important to note however that corporate tax already contributes 10% of tax take which is in line with OECD norms (which range between 8-12%) so there is very little room for significant tax take from business.

Increase Working Age Population

This document is for information only on 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.

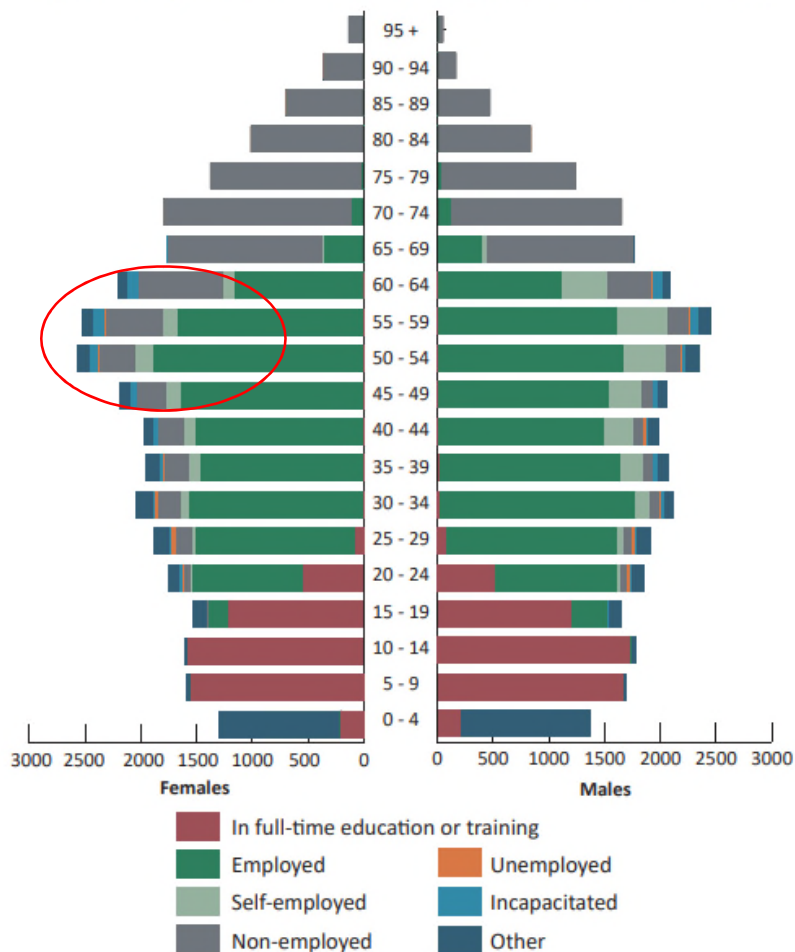
To do this there would need to be some or all of the following:

- a) an increase in current productivity rates.
- b) targeted policy for getting women between 40-60 back into the work force (see below).
- c) aggressive housebuilding plan and incentive plan specifically targeting young professional persons (young workers are more desirable than workers closer to retirement) and
- d) a careful look at the population management regime.

It should be possible to add at least 1000 net new workers (a workforce of 50%/50% instead of 48%/52%) into the workforce over the next 3 years and whilst the net migration policy of 350 would achieve this, it is not a proactive policy. There should be a stated proactive policy and work stream and this should be a stated policy objective of getting 1000 new people into the work force (through whatever means). This does not necessarily mean more people on island. Just more people working on island.

For example, if we can increase the number of women working in the 40 – 55 age range this could be achieved without any new workers on island. Getting 1000 new workers could add more than £7M to the revenue pool. See below extract from current census which shows there is capacity within this demographic.

Figure 2.3.2 Population by economic status and age (at 31st December 2021)



This is not a policy proposition but there should be something to tackle this in the policy propositions and there should be a concerted effort by government to make this happen.

Resize the hole

The proposals do call for P&R to look again at savings initiatives. There is no specific savings initiative plan as there was in the last States Assembly with that plan being thrown out as unworkable. With more than 2 years on the clock, the electorate deserve to see a plan that will work if the last plan does not.

Further, and as mentioned above, there is work to be done on pensions reform where even minor changes can save money and given the quantum, it could save a material amount over the longer term.

We need to see detailed plans on how this Assembly will show some fiscal restraint through meaningful savings from all the major committees (such as Home, Health, and ESC). This won't make a material difference to the deficit, but it should be done simply to demonstrate the required fiscal restraint. To be clear we don't believe that there are meaningful savings to be had without core service cuts in any committee cost initiatives. At most it is expected that £5-7M could be saved over the medium term.

What do we think?

There has been a growing structural deficit in the States of Guernsey accounts which has been known about for some time. This is driven by:

- (a) Policy decision to save for capital investment.
- (b) Growing demographic issue with a shrinking work force and an increase in health and pensions spending.
- (c) No sufficient action being taken to find solutions to these problems or to find relevant cost savings.

These problems are made worse by the global pandemic, the fall out of Brexit on cost of living and the looming recession. Fiscally Guernsey is not in a bad position with circa 25% of GDP going on government expenditure but this is due to worsen over the coming years. Guernsey has no central bank so cannot print money to buy its way out.

We also have issues in so far as we are unable to prioritise and spend effectively due to discord in our political system. We make no comment on the effectiveness of island-wide voting or consensus government but do highlight the concern over electing Deputies who have limited understanding of the fiscal position. The effectiveness of the current administration has not been proven with many deputies elected based on no new taxes or tax rises which suggests a significant disconnect between election promises and reality.

There needs to be agreement that either we are going to stop investing in our future or we are going to need to raise taxes or cut core services.

What those tax raises or cuts should or could look like might include these GST proposals, it is a viable option. It has been described as a “get out of jail” option for politicians and in many ways that is true. But making that argument does not answer the issue that Guernsey is running out of money.

The proposals put forward address many of the issues that make GST unappealing. If not this proposal, it would seem an increase in income tax is really the only other viable option that has been investigated. This could be anticompetitive or at least provides disincentives investment and entrepreneurs and would likely need more research before it could be considered.

Is GST the best answer to the problem? No. Is it a good answer to the problem? No. Is it a viable answer to the problem? Yes.

This government must however, as a matter of urgency, investigate increasing the working population size. As set out above, this does not need to be through net migration (although this could be a way to achieve it) but could be through targeted back to work for women aged 40 to 65. We do not seek to restrict policy in this direction and would urge the government to prioritise the policy for how this might be achieved as a matter of urgency.

Further this government must make pension reform a priority. Small changes in this space could provide significant savings and government has so far been very poor in leading in this area.

Finally, this government must start to show some form of fiscal constraint. This will not solve the problem to any great extent but there needs to be real action on constraining some of the larger departments such as Home and Education budgets which have been expanding rather than the

targeted contractions. In the case of Education largely due to ill-informed policy making driven by sound bite politics.