

**THE STATES OF DELIBERATION**  
**of the**  
**ISLAND OF GUERNSEY**

**POLICY & RESOURCES COMMITTEE**

TAX REFORM 2026

The States are asked to decide:

Whether, after consideration of the Policy Letter "Tax Reform 2026" dated 8 June 2026, they are of the opinion:

- 1) To direct the Policy & Resources Committee to implement the package of tax reforms to make Guernsey and Alderney more financially sustainable as set out in sections 9 and 10 with the rates and thresholds as described in Appendix 7.
- 2) To add the Tax Reform Programme to the Major Projects Portfolio and delegate authority to the Policy & Resources Committee to approve funding from the General Revenue Reserve of up to £10.6m following consideration of business cases.
- 3) To direct the Policy & Resources Committee to return to the States with an assurance review in 2030 as set out in section 12.
- 4) To direct the preparation of such legislation as may be necessary to give effect to the above decisions.

**THE STATES OF DELIBERATION**

**of the**

**ISLAND OF GUERNSEY**

**POLICY & RESOURCES COMMITTEE**

**TAX REFORM 2026**

The Presiding Officer  
States of Guernsey  
Royal Court House  
St Peter Port

8 June 2026

Dear Sir

**1. Executive Summary**

- 1.1 The States have had a funding gap – in other words, a shortfall between income and expenditure – since the introduction of Zero-10 in 2008. At the time the decision was taken in 2006, a number of revenue raising and cost reduction measures were put in place, but it was agreed to plug the gap from reserves for no more than five years. The States agreed that in stage 2, having run a deficit for three to five years, and after taking into account economic performance, a balanced package would be developed that sustained the economic position and delivered a balanced budget. Twenty years later, that package needs to be delivered: Guernsey’s reserves have been eroded and the General Revenue Reserve is on course to run out by 2031 unless action is taken now.
- 1.2 The proposed 2026 Tax Reform Package is a balanced and forward-looking set of measures designed to place our public finances on a firmer and more sustainable footing, maintaining the international credit rating. It broadens and diversifies the tax base, reducing over-reliance on income-based taxation while preserving the islands’ competitiveness and attractiveness. In doing so, it strengthens resilience to external economic shocks and supports appropriate, long-term investment in the islands’ future.

1.3 Crucially, the package equips the States to meet the evolving needs of the community as the demographic profile changes, doing so in a way that is fiscally responsible and measured in its impact on households and businesses. It has been shaped with a clear focus on economic security, growth and competitiveness, cost control, and fairness - particularly for those facing current affordability pressures.

1.4 Taken together, the package represents a pragmatic and proportionate response to the islands' fiscal challenges. It delivers £59m of fiscal improvement, comprising £20m of expenditure reductions by 2029 (in line with decisions already made by the States) and net revenue raising measures totalling around £39m<sup>1</sup>. By sharing the burden between savings and taxation, the package provides a credible pathway to addressing the structural deficit while maintaining support for essential services and enabling investment in the islands' future:

***Savings and public expenditure reform (reduction of £20m by 2029 included in baseline as a minimum)***

- 1% per annum in efficiencies in public sector expenditure (not service cuts or increased charges) for the next three years (as agreed in the GWP debate in January 2026).
- Continued roll out of the priority-based budgeting process to help identify efficiencies and opportunities for expenditure reduction year on year thereafter.

***Personal Income tax changes (-£28m)***

- A reduction in the basic rate of personal income tax to 15% on income up to a threshold of £28,000, with a 20% rate applied to income above this threshold.
- An increase of £600 in the personal income tax allowance.

***Social security contributions changes (+£2m)***

- The introduction of a new social security allowance<sup>2</sup> for employed and self-employed contributors set at the level of the allowance for non-employed contributors (currently £11,122), with a long-term aim to increase it to align with the income tax personal allowance, if and when it is affordable.
- An increase in social security employer contributions to 7.6% by 2029, payable on all earnings up to the Upper Earnings Limit<sup>3</sup>.
- An additional social security rate of 2.5% for employers and self-employed individuals between the Upper Earnings Limit and £300,000.

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<sup>1</sup> After allowing for ongoing administration costs of £2.5m

<sup>2</sup> The allowance will be withdrawn at a ratio of 1:5 where income exceeds the threshold (currently £85,000) in the same manner as the income tax personal allowance

<sup>3</sup> Upper Earnings Limit is currently £196,560

- Changes in social security contribution rates from 2028 as follows:
  - Employees increased to 8.5%;
  - Self-employed increased to 14.5%;
  - Non-employed under pension age reduced to 8.5%; and
  - Non-employed over pension age increased to 4%.

***Transport tax changes (+£7m)***

- A reduction in fuel duty of 25% (bringing fuel duty broadly in line with Jersey's) – an estimated average reduction of £130 to £140 a year per private vehicle.
- A new annual vehicle tax – including electric vehicles (EVs) and hybrid vehicles – based on weight and emissions (ranging from £25 to £280 for private vehicles with the median charge being £132).
- A surcharge added to vehicle first registration duty for high-value private vehicles (above the value of £50,000 with exemptions as specified by the Committee *for the* Environment & Infrastructure, including for commercial vehicles) starting at £2,500.

***Consumption tax (+£55m)***

- Implementation of a goods and services tax (“GST”) at 3% from 2028.
- Increases in the States Pension, income support and other benefits to cover the increase in costs of goods and services, with those benefit increases introduced ahead of a GST.
- The introduction of an Essential Costs Relief Payment to cover the increased cost of essential goods and services for those on lower incomes not in receipt of income support.
- A commitment not to increase the rate of GST ahead of the assurance review in 2030, and only then if robust evidence shows that a funding gap persists.
- Introduction of an International Services Entities (ISE) scheme, mirroring the arrangements in Jersey, which allows finance businesses with international clients to pay a fee for an End User Relief Certificate from GST (expected to generate £10-12m per annum).
- A commitment not to increase the Tax on Real Property (TRP) rate for retail and hospitality sectors and specified freight haulers until 2029 at the earliest to assist with the cost of implementation.
- Legal protections against the erosion of the relative value of mitigations should the rate of GST rise in future.
- A £1.1m support package for business to help adopt new systems and processes.

### **Corporate tax reform (+£6m)**

- Modest extensions to the corporate tax system, including the extension of the 10% rate to cover the entire profits of regulated businesses, and applying a 10% rate to prescribed businesses.
- Modest increases to Guernsey Registry fees, working with the Registrar and Committee *for* Economic Development to define this.
- Future consideration of extending the 10% rate to construction and retail business, but no earlier than the assurance review in 2030.

- 1.5 The Policy & Resources Committee (“the Committee”) has thoroughly interrogated the current funding gap, which was around £50m in 2025. This is lower than the estimate in the 2025 Budget of £66m, because income in 2025 significantly exceeded the original estimates.
- 1.6 The 2025 Accounts<sup>4</sup> record a £113m accounting surplus for Core Government. This accounting surplus reduces – but crucially does not eradicate – the funding gap. That is because there are significant differences between annual accounts and the considerations in calculating longer-term fiscal balance, meaning that we can have an accounting surplus in an individual year whilst still having a persistent funding gap. This apparent paradox is explained in more detail in Section 4.
- 1.7 The States’ unallocated financial reserves at the end of 2025 stood at £407m, and with a significant portion of those remaining funds already committed for the Major Projects Portfolio and required for Routine Capital, there is very little financial buffer left.
- 1.8 The funding gap is already reducing the States’ financial reserves. If the status quo continues, the General Revenue Reserve is forecast to run out by 2031.
- 1.9 The money needed to support the long-term position of the Guernsey Insurance Fund, along with the growing pressures on health and care services as demographic changes are taken into account, is expected to grow the funding gap to around £80m in the short term. The States have, however, agreed a super priority to develop during this political term a more sustainable model of health and social care, which might bring that estimate down.
- 1.10 As demand for public services (especially health and social care) is increasing, driven primarily by our changing demographic, so too is our dependency ratio worsening. The dependency ratio is the proportion of working people (those who typically contribute most significantly to the public purse) to retired people (who typically contribute less as they have lower incomes). This demographic change means that revenue is not increasing as fast as

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<sup>4</sup> The [States of Guernsey Group Consolidated Financial Statements 2025](#), p125/6

expenditure, and an increasingly heavy burden is falling upon a shrinking number of shoulders. Although nobody's fault, the effect is that this is becoming increasingly unfair on younger generations required to contribute proportionately more to fund the services primarily used by the now retired older generations. One objective of tax reform is therefore to share the tax burden more fairly across different age groups.

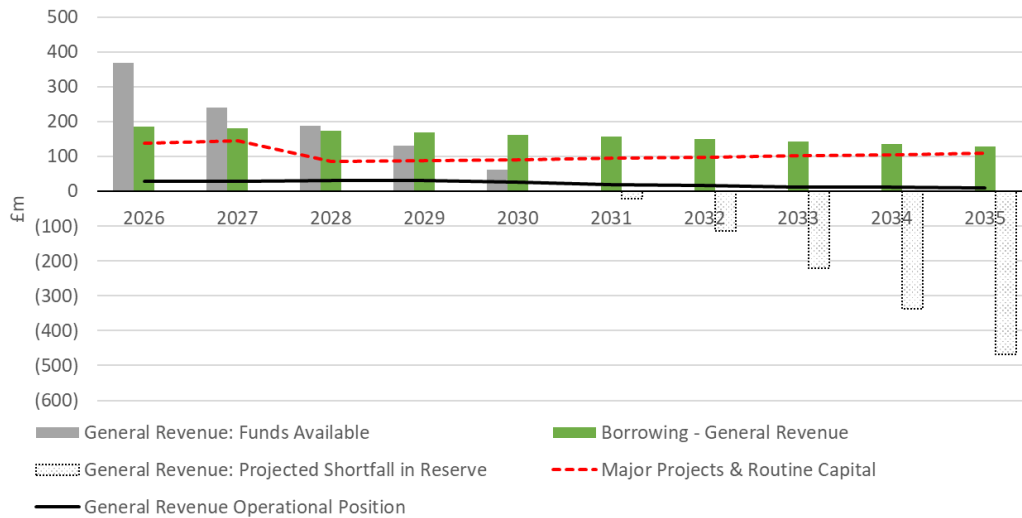
- 1.11 Another important objective of tax reform is to address one of the core weaknesses of our current system: Guernsey and Alderney's heavy reliance on income-based taxes. Approximately three-quarters of revenue is generated from personal income tax and social security contributions, which creates a concentration risk that reduces financial resilience and increases vulnerability to potential employment market shocks, such as the possible impacts of AI. More than half of the islands' current corporate tax receipts are generated by just 10 businesses (a little under £50m in 2023), most of which are in scope of Pillar 2<sup>5</sup>. The same companies and their related employing entities contributed a further £13m in personal income tax and contributions on their employees' earnings. This means revenue is vulnerable both to shifts in the profitability of this small group of companies and potential changes in behaviour, a vulnerability which is exacerbated by Pillar 2.
- 1.12 There is of course uncertainty over future revenue and there are possible upsides. Revenue from Pillar 2 has been accruing since 2025 but will not be confirmed until early 2028, and may be higher than modelled, as may economic growth<sup>6</sup>. There is also the potential for significant annual revenue to be raised from the mid-2030s if offshore wind is successfully developed for an export market. The rapid development and adoption of AI could further deliver potentially significant productivity gains. However, this revenue is by no means certain and will not be any more certain for another few years.
- 1.13 Figure 1 illustrates the projected financial position of the States (assuming the status quo) and why there is a pressing need to make decisions to become more financially sustainable. Such sustainability would mean that the black line in the chart (which shows the level of projected operating surplus) would be above the dotted red line (which shows the necessary minimum level of capital investment) and therefore that reserves would be stable. Instead, with the projected surplus being significantly less than the amount required for investment in capital and infrastructure, the States' reserves are reducing and without action will likely be exhausted by 2031.

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<sup>5</sup> The OECD's Pillar 2 Global Minimum Tax Rules aim to ensure that the profits of large multinational enterprises (global annual revenue of at least €750m) are taxed at a minimum effective tax rate of 15% in each of the jurisdictions in which they operate. It is currently estimated that Pillar 2 will deliver around £40m a year in additional revenue from 2025, however the reporting cycle means that cash receipts are not expected to begin in any volume until mid-2027.

<sup>6</sup> [Finance Sector Growth Strategy 2035](#)

Figure 1: Projected balance of General Revenue Reserve<sup>7</sup>



1.14 The position is clearly worsening over time and continuing the draw on reserves at the current rate would leave public services at risk. However, the stronger-than-expected 2025 result does allow time to introduce changes more gradually and soften the immediate impact of tax and social security reform on the economy and the community. The Committee’s proposals also diversify and strengthen our tax base, reduce costs and deliver at least a significant portion of the revenue we expect to need in future, while avoiding unnecessary harm to the economy by rolling out changes too fast.

1.15 In November 2024, the States agreed in principle a package of measures<sup>8</sup> to address the funding gap (also known as the structural deficit). The Committee was directed to finalise proposals based on the introduction of a 15% income tax rate for individuals below a certain threshold, restructured social security contributions, a broad-based GST at 5% and other mitigation measures.

1.16 Following the general election, the new Committee – which shared some of the concerns expressed by the electorate about the proposals – committed to the continued development of this package so as not to delay any possible implementation, whilst simultaneously exploring various alternative and additional avenues, to make sure no stone was left unturned in identifying the best possible solution for Guernsey and Alderney.

1.17 This policy letter sets out the Committee’s recommendation, the 2026 Tax Reform Package, which supersedes the package agreed in 2024 and addresses some of the key concerns around it. It incorporates additional elements informed by the work carried out by the Committee and feedback from public, industry and political engagement over the past 11 months. It achieves the

<sup>7</sup> Modelling assumptions are detailed in Appendix 10

<sup>8</sup> The States of Guernsey Annual Budget for 2025 ([Resolution XIX of 2024](#))

core aim of putting the islands' finances on a much stronger and more sustainable footing in a way that is measured and manageable, protecting those who are economically vulnerable whilst also maintaining the international credit rating.

- 1.18 In shaping its proposals, the Committee was keen to address a number of different concerns. To mitigate the inflationary impact of GST at a time when inflation may already be high, the Committee has reduced the headline rate from 5% to 3%. The Committee has also responded to concerns raised around the scale and pace of change to the social security contributions system by reducing and more gradually phasing in some rate changes and removing some elements of the originally agreed reform. In particular unearned income will not be brought into scope for employed and self-employed people, until more work can be undertaken with the Committees *for* Employment & Social Security and Housing to understand what the impact of those changes might be on our workforce competitiveness and the private rental market in particular.
- 1.19 The Committee's recommended package is one that blends the various workstreams it has carried out over the past 11 months. It takes a balanced and iterative approach to tax reform, achieving the core aims in a reasonable, considered and pragmatic way.
- 1.20 The current lack of certainty over future revenue from sources such as Pillar 2 and an offshore windfarm has cast doubt over the scale of the future funding gap: greater certainty on each will emerge over the next few years. Similarly, there will be greater certainty in a few years' time around the rate of economic growth resulting from initiatives such as the Finance Sector Growth Strategy 2035.
- 1.21 Another significant uncertainty in relation to the funding gap centres on the potential effects of AI on our economy, employment rates and welfare system; again, it is reasonable to expect a greater degree of confidence regarding the likely impacts – positive and negative – in a few years' time.
- 1.22 It is for these reasons that the Committee is proposing an assurance review following the next general election. This will enable the financial position to be considered in the light of further information becoming available and whether any future revenue-raising measures are required.
- 1.23 In 2030 the Assembly will take stock of the impact of the changes resulting from whatever proposals are agreed once they have had time to bed in. It will also assess economic growth and Pillar 2 revenue, the progress made on containing public sector spending (especially in health and care), the impact of AI, and consider the likelihood of income from offshore wind once that work is

more advanced. A detailed impact analysis of the changes made as a result of the proposals in this policy letter will be carried out and the need - or not - to raise further revenue will be substantiated by evidence.

- 1.24 Building on the additional revenue generated from Pillar 2 (currently estimated as £40m in 2026) and the already agreed need to reduce the baseline cost of public services by £20m over the next three years, the measures in this policy letter are expected to raise a further £39m. This may not entirely close the funding gap but will create a stronger and more flexible tax system and reduce the reliance on direct taxes on income to around 64% from 77%.
- 1.25 **Overall, the plan improves long-term financial sustainability and sets a clear time frame for an assurance review within which the proportionality of those actions can be accurately and responsibly assessed.**

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## THE NEED FOR TAX REFORM

### 2. Background

2.1 Two decades ago, in 2006, the States agreed a major tax reform resulting in the introduction of Zero-10<sup>9</sup>. This would, it was explicitly acknowledged, leave “an imbalance in the Island’s economic base” – in other words, it would create a shortfall between income and expenditure. To redress this imbalance, the States of the day resolved to run annual deficits for up to five years, funded by reserves, whilst various changes (e.g. increases in indirect taxation and social security, the active promotion of economic growth, and robust expenditure controls) were made. They also resolved to investigate fully and legislate for a system of goods and services tax if growth did not deliver increased tax receipts and further revenue raising was required. The intention was to review the position after three to five years taking into account international events, GST history in Jersey and economic performance, evaluating and producing an overall package which sustained the economic position and delivered a balanced States Revenue Budget.

2.2 Since then, there have been multiple debates, including:

- Personal Tax, Pensions and Benefits Review: Principles and Issues (["Green paper", July 2014](#))
  - This document sought to provide more information and facilitate informed public debate on the issues identified, together with some of the options available to mitigate some of the risks and challenges.
- Planning a Sustainable Future: The Personal Tax, Pensions and Benefits Review ([Billet d'État IV of 2015](#))
  - This document presented a package of strategic recommendations to meet the future funding challenges.
- The Review of the Fiscal Policy Framework ([Billet d'État I of 2020](#))
  - This document directed the Policy & Resources Committee to conduct a review to ensure that Guernsey’s tax base is capable of raising sufficient revenue to meet long-term government expenditure needs in a sustainable manner within the boundaries of the Fiscal Policy Framework.
- The Tax Review ([Billet d'État XIX of 2021](#))
  - This “green paper” presented economic analysis around the relative impact of income and consumption taxes, to allow a debate on the principles of taxation.

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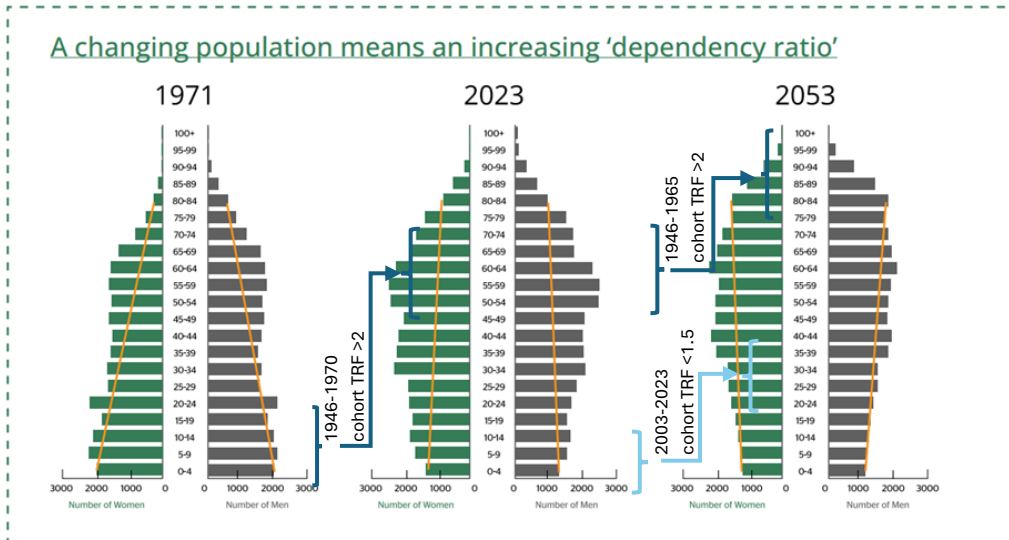
<sup>9</sup> Future Economic and Taxation Strategy ([Billet d'État XI of 2006](#))

- The Tax Review: Phase 2 ([Billet d'État II of 2023](#))
  - This document included additional economic analysis around the relative impact of income and consumption taxes, albeit the package has evolved significantly in the intervening period.
- The Funding & Investment Plan ([Billet d'État XVII of 2023](#))
  - This document set out that the financial position of the States requires urgent attention, and sought agreement to implement the tax package set out in the Tax Review: Phase 2.
- The 2025 Budget ([Billet d'État XIX of 2024](#))
  - This document proposed a temporary increase in the personal income tax rate to 22%, which was rejected; instead the previously proposed package, which included a 15% lower personal income tax rate, a GST and a social security restructure, was agreed by amendment ([Resolution XIX of 2024](#)).
- Tax Reform: Workstream 1 ([Billet d'État III of 2026](#))
  - This document includes analysis around the application of GST to food and commits to legal protections to maintain the relative value of the mitigations to GST.

### **3. Demographics and Guernsey's Finances**

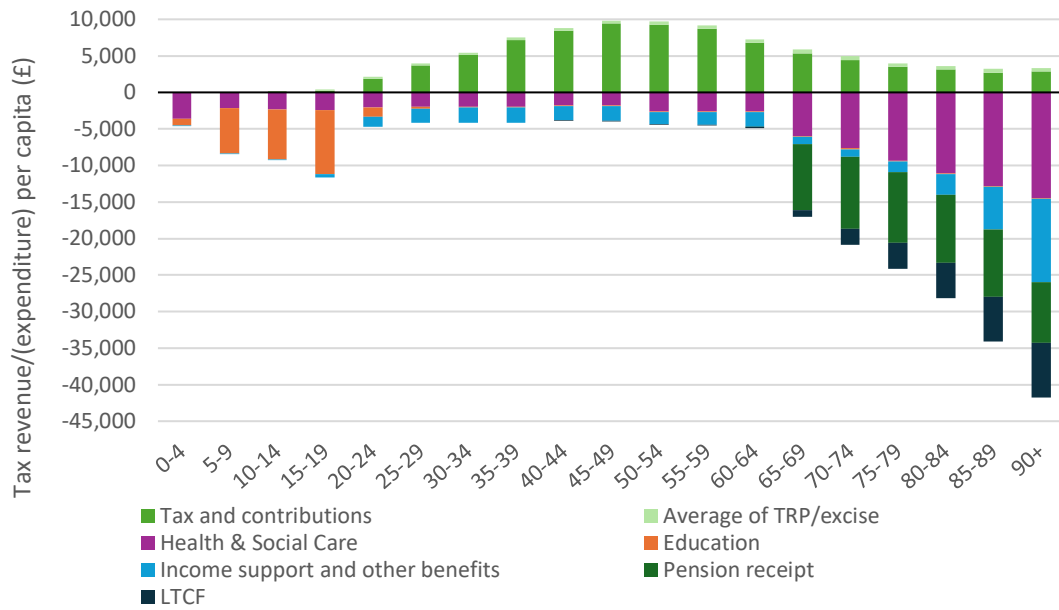
- 3.1 Like almost all developed western democracies, Guernsey's population is ageing. This is a trend that has been evolving for decades and relates to a combination of a fall in fertility rates and a gradual increase in life expectancy since the late 1960s.
- 3.2 The balance of the population has already shifted. There are fewer younger people in the population now than there were in the 1970s, even though the total population is larger. There has also been a significant increase in the number of people over 50. As these trends progress, the increase in the older population is expected to become more pronounced. By 2053 there are likely to be more people aged between 80 and 90 than children under 10.

Figure 2: Changing demographic



- 3.3 This is a natural evolution from historic fertility rates and increased life expectancy, but one that has fundamentally changed the balance of public services over generations. There is growing pressure on the working age population and an increased reliance on migration to sustain the size of the workforce that supports Guernsey's economic activity. Income, and the tax liability on that income, tends to peak in the age groups between 45 and 55. The average tax take of the population tends to reduce beyond 55 as those who can afford to do so work less or exit the workforce entirely as they approach pension age.
- 3.4 At the same time, there is an increase in the older population who need the most support from public services (see Figure 3). Similarly, while the number of younger people is falling, the schools are increasingly managing a greater range of educational needs. As a result, government finances are under pressure from both ends of the age spectrum as illustrated in Figure 3 below. This chart shows the contribution of taxes above the line and consumption of services below for different age groups:

Figure 3: Tax revenue/(expenditure) per capita by age group



- 3.5 This pressure is exacerbated by the fact that Guernsey’s tax base is small (Figure 4) and gains an unusually high proportion of its revenue from income-based taxes and contributions (Figure 5), because typically, people in retirement have less income than those of working age. This does not necessarily mean pensioners are poorer: many have accrued a significant value of assets over the course of their lives which support their lifestyle. It does mean that focusing taxes almost exclusively on income places a larger burden on the working population, while those who may have a lot of wealth but limited taxable income pay less.
- 3.6 This heavy reliance on income-based taxation also makes Guernsey particularly sensitive to changes which might impact employment and earnings. The islands are therefore also especially exposed to the impact that AI may have on the economy in the long term if it changes the nature of the workforce or reduces workers’ pay. Conversely, if AI increases workforce productivity, it may allow for the repatriation of some work which has been taken offshore.

Figure 4: OECD total tax revenue in 2023-2024 as a % of GDP

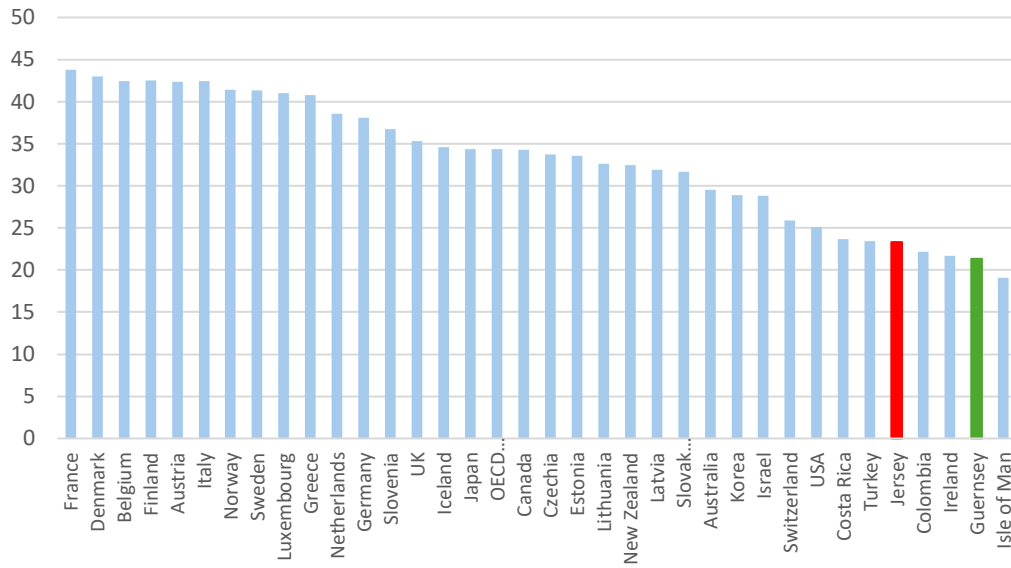
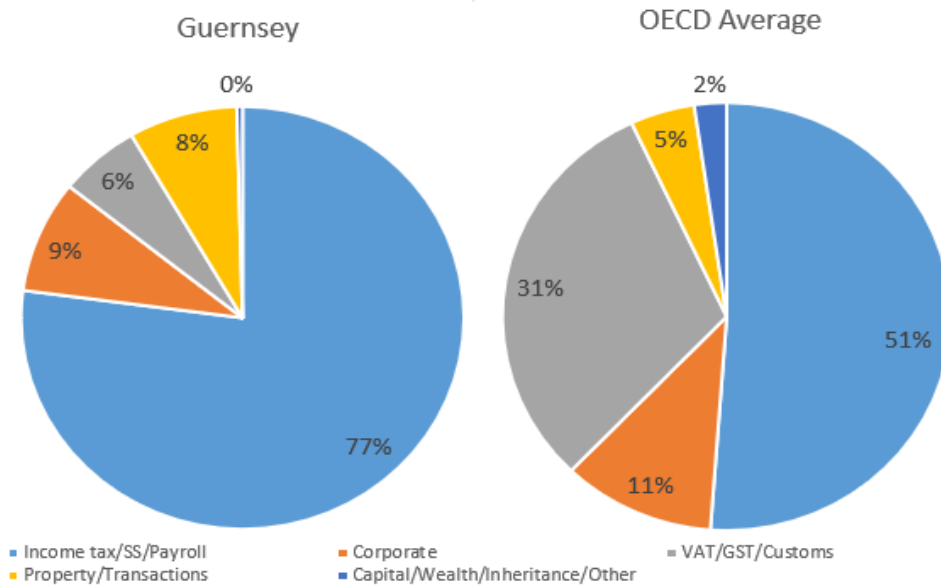


Figure 5: Sources of tax revenue in 2023-2024 compared to OECD average as a percentage of GDP



3.7 The evolution of taxes and services has also created challenges with intergenerational fairness – in other words, the differences in how some generations are impacted compared with others. Guernsey has significantly expanded the services it offers over the last 50 years and the tax base, and social security contributions in particular, have expanded with it. However, because there is separation between the time in someone’s life where they may be making the largest tax contributions and when they might have the greatest need for services, younger generations get significantly less value for money than their elders. Those now of an age to be getting the most immediate benefit from these services in the form of pensions, health and

long-term care will have contributed what was required of them throughout their working lives, but will have contributed substantially less than those entering the workforce today will. That is because the lifetime tax liability of younger people has expanded greatly to support the provision of services to the generations that preceded them.

3.8 This younger group also bear the risk that services will be withdrawn or reduced before they are of an age to need them, as the funding is not currently sustainable long term. This means that the younger generation are paying a larger share of the cost of public services over their lifetime and carry a greater share of the risk of those services proving unsustainable than their parents and grandparents. For example, the Long-Term Care Insurance Fund was opened in 2003 to support grants for nursing and residential care. While pensioners are required to make contributions to the Fund, those currently making the most use of the provisions – typically in their 80s and 90s – are likely to have made relatively limited contributions across their lifetime, particularly since the income threshold for contributions liability for pensioners is relatively high. The Fund is currently expected to be exhausted by the mid-2060s unless changes are made, which means the way in which support is provided may look quite different by the time those under 40, who will have been contributing since the beginning of their working life, are likely to need the services it supports. More detailed examples are incorporated in Appendix 1.

3.9 In summary:

- **The population is ageing, increasing demand on the public purse to meet expanding health, care and pension needs.**
- **The size of the working population relative to the overall population is shrinking, eroding revenue.**
- **The tax base is both small and narrow relative to international norms, meaning Guernsey and Alderney’s population is taxed significantly less than most other places but an unusually large percentage derives from income-based taxation, making us particularly vulnerable to potential labour market shocks as the economy evolves to integrate AI.**
- **These pressures will continue to grow for several more decades and must be addressed and planned for over a long-term horizon. A short-term fix will not change the long-term trends in demographics.**

- **Those in younger age groups face higher lifetime tax burdens than previous generations, but also bear the risk that services are unsustainable in the long term.**

#### **4. The Current Financial Position**

- 4.1 Given that the 2025 accounts show a surplus, people may reasonably question whether there is a genuine problem that needs urgent attention.
- 4.2 However, it is important to recognise that the accounts do not tell the whole story. Investment appreciation, which is included as income in the Statement of Financial Performance (income and expenditure account), cannot be relied on for ongoing funding of day-to-day government expenditure. Neither can one-off income (in other words, windfalls), nor an historic underinvestment in capital and infrastructure assets, which also shapes the surplus in the accounts.
- 4.3 When these factors are taken into consideration, despite the surplus recorded in the accounts, there is still a significant underlying funding gap that must be addressed. A more detailed explanation is provided in Appendix 10.

#### **Medium Term Forecasts**

- 4.4 There is inherent uncertainty in this kind of modelling, but it is nevertheless an important tool to inform long-term planning. The base assumptions are detailed in Appendix 10, but include in summary:
- £40m per annum additional revenue from Pillar 2 at 2026 prices.
  - £20m per annum reduction in baseline spending by 2029 through delivery of 1% efficiency savings agreed by the States.
  - Nominal annual return on investments of 5.5%.
  - Baseline health expenditure to increase by c£5m a year owing to demand pressures arising from the ageing community.
- 4.5 A further key assumption is that these projections are based on existing policies, meaning they do not factor in any changes that could result from ongoing reviews or super priority workstreams (or from any of the proposals in this policy letter). Although these pieces of work may lead to policy changes in the future which might impact the cost base, no assumptions can be made on their impact at this stage. As a result, the projections reflect what might happen without reform.

4.6 The baseline case is show in Figure 6.

Figure 6: Projected balance of General Revenue Reserve

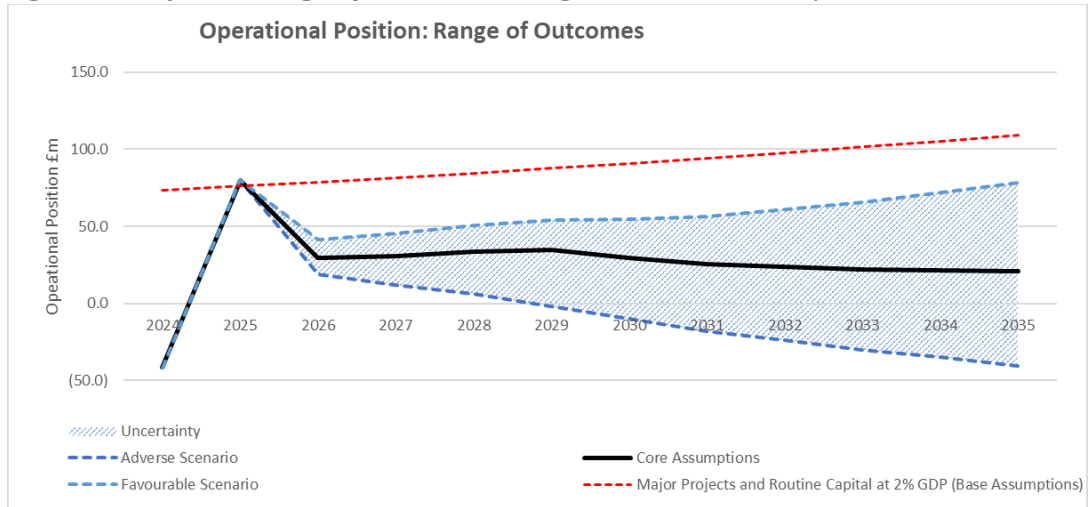


4.7 The chart above shows that the projected annual operational surplus before any spending on major or routine projects or depreciation (represented by the black line) is projected to reduce from £30m to £10m over the next decade. If the States were in a financially sustainable position, the black line in the chart above would be level with or above the red dotted line, which shows the amount required annually to invest in capital and infrastructure assets. Since the States’ finances are not in balance, reserves (which are shown as the grey bars) have to be used to balance the books.

4.8 This means that Guernsey is expected to continue to use its reserves to support investment in assets and infrastructure (through both routine and major projects). As a result, the forecast shows the General Revenue Reserve (the money available to support short-term deficit positions and capital investment) being exhausted by 2031.

4.9 Sensitivity analysis has been performed on the range of assumptions and reasonable favourable and adverse scenarios modelled which are set out in Appendix 10 and summarised in Figure 7.

Figure 7: Projected range of outcomes using alternative assumptions



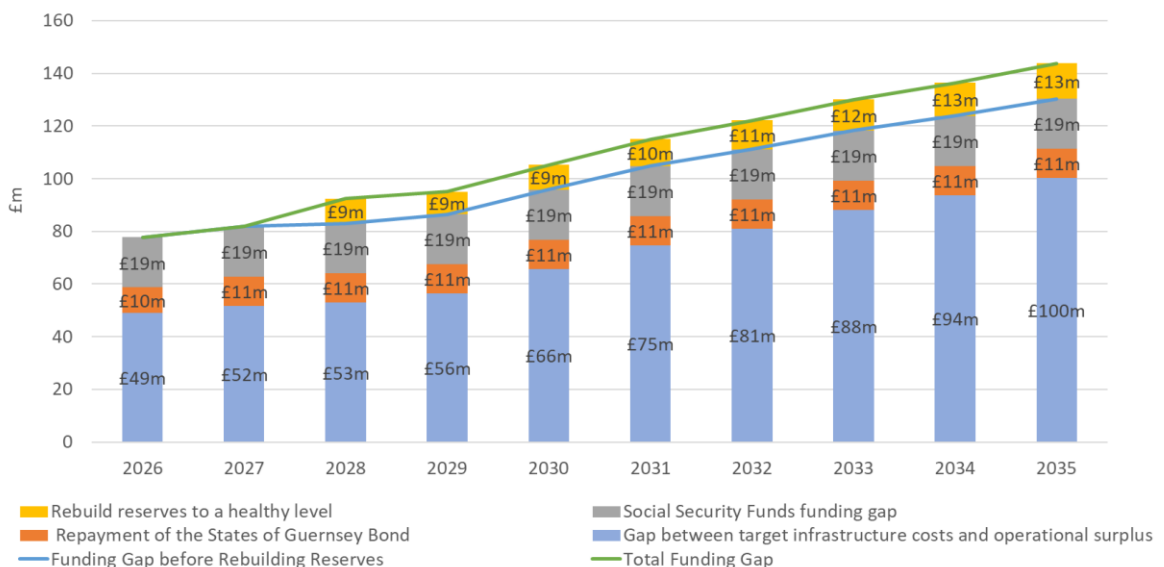
- 4.10 The favourable scenario significantly improves the operational position by 2035. However, when the required infrastructure spend is offset, it still results in the General Revenue Reserve being exhausted during 2034 (see Figure A10.6).
- 4.11 Turning to the more adverse assumptions, these would lead to a projected deficit before spending on major and routine projects from 2029. This means that insufficient revenue would be generated to cover the day-to-day expenditure of the States and would result in the General Revenue Reserve being exhausted during 2030.
- 4.12 In summary, the 2025 position and the medium-term forecasts clearly show that the current funding model is unsustainable.
- 4.13 In addition to generating enough revenue to pay for essential services and infrastructure spend, the States should be aiming to maintain reserves at a healthy level.
- 4.14 For the General Revenue Reserve, the States have previously agreed a minimum level of £315m. If this were maintained as a proportion of GDP, it would equate to approximately £492m by 2035. Ideally any package should generate sufficient surplus to be able to build reserves to that level as a minimum. Appendix 10 includes more analysis on reserves.
- 4.15 In summary the funding gap is made up of:
- The gap between General Revenue planned infrastructure costs and operational surplus.

- Repayment of the element of the States of Guernsey Bond that has been lent to General Revenue.
- The need to rebuild reserves to a healthy level.
- The revenue required to support the Guernsey Insurance Fund over the long term.

4.16 Figure 8 shows that the funding gap will be approximately £80m by 2027, increasing to £130m by 2035, noting this does not factor in the rebuilding of reserves.<sup>10</sup>

4.17 Should the States wish to ensure that reserves are maintained relative to GDP, either baseline expenditure would need to be reduced or revenue increased (or a combination of both) by a further £10m rising to £13m by 2035.

Figure 8: The funding gap



4.18 In summary:

- **On the current trajectory, the States cannot support both day-to-day service delivery and the necessary investment in infrastructure.**
- **The General Revenue Reserve available to support short-term deficits and major capital could be exhausted by 2031, with no way to replenish it.**

<sup>10</sup> This does not include the funding shortfall on the Long-Term Care Insurance Fund which also requires action to be sustainable in the long term and is being addressed through the Supported Living and Ageing Well Strategy (SLAWS) workstream.

- **The States cannot borrow their way out of financial difficulty without the surplus required to repay the debt.**
- **To invest in infrastructure at the target rate of 2% and deliver equivalent levels of public services as now in the equivalent way in the future, given the demographics-led rise in demand, the States will need to bridge (through cost reductions and/or revenue raising) of at least £80m a year based on the current modelling assumptions (rising to £90m if reserves are to be maintained relative to GDP).**
- **The scale of the issue means that additional revenue raising must form part of the solution.**
- **These assumptions could change depending on the outcome of work on the health and care super priority, future revenue sources such as Pillar 2 and offshore wind, and the impact of AI, meaning that the projected funding gap could also change – which is why the Committee is recommending an assurance review in 2030.**

## **REDUCING COSTS: CONSIDERATIONS & RECOMMENDATIONS**

### **5. Efficiency in Public Services**

- 5.1 Cost control is a necessary part of the way forward. For the community to accept that it needs to pay more, the States must also demonstrate that they are doing everything possible to manage expenditure, reduce waste and inefficiency and reduce or remove non-essential services.
- 5.2 Following the January 2026 debate on the Government Work Plan<sup>11</sup> the States resolved to put in place a structured public service efficiency programme targeting a 1% real-terms annual reduction in public expenditure for three years. Applied to all services that are funded from General Revenue, that is equivalent to annual expenditure reductions of £20m by 2029. The Committee's interpretation is that these savings should be delivered by a genuine drive for efficiency: they should not include increases in consumer charges or reductions in service provision. The Committee is working with other committees to deliver this, irrespective of this debate.
- 5.3 This improved efficiency will need to be delivered against rising demand in some of the States' largest service areas. Committees are being asked to build efficiencies into their budget submissions for 2027 and, while the 1% savings target is not mandated for each committee individually, it is a target we will need to achieve in aggregate, and so each committee will need to address its own specific challenges.
- 5.4 In the 2026 GWP debate the States also resolved to progress a programme of zero-based budgeting under which material areas of States' expenditure are reviewed from first principles rather than by reference to historic baselines. A similar methodology called priority-based budgeting is being rolled out which will meet this requirement<sup>12</sup>, providing a means to challenge expenditure from the bottom up. This process involves reviewing and costing existing services, exploring opportunities for method changes which would deliver savings, identifying minimum or statutory service requirements and looking at different options around future service levels. It also explores the relative priority of services and where best to focus limited resources.

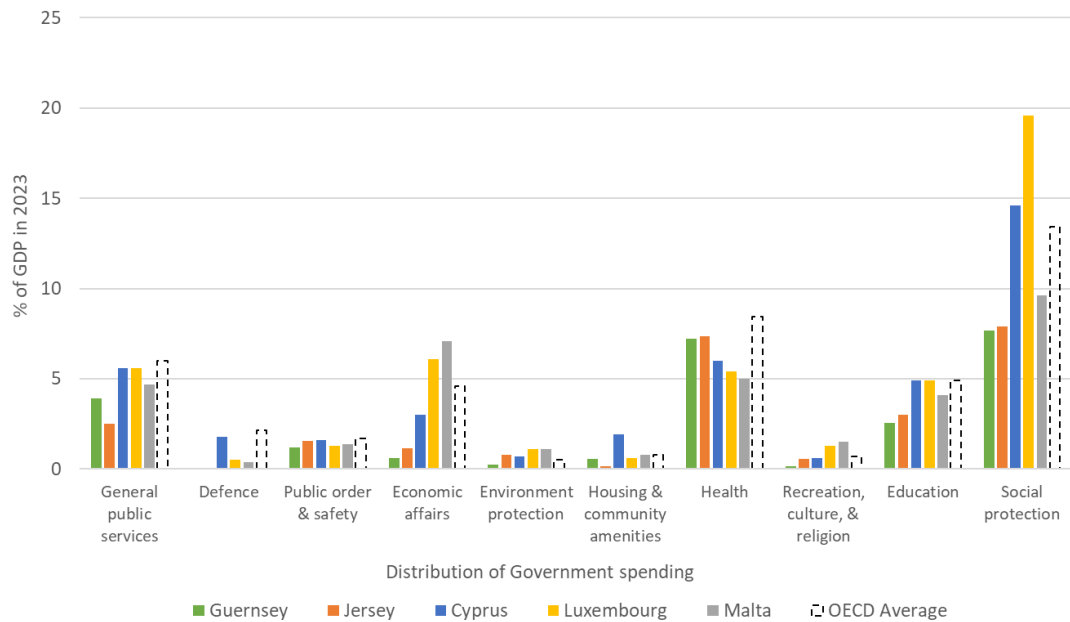
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<sup>11</sup> Government Work Plan: 2026-2029 ([Billet d'État II of 2026, Article 4](#))

<sup>12</sup> There are some service areas provided by government that have statutory minimums – i.e. they cannot be set at zero – which is why priority-based budgeting is used rather than zero-based budgeting which requires all costs to be set at zero as a starting point and is a more labour-intensive process, but both processes challenge business-as-usual expenditure and are effective in delivering efficiencies, cost-savings and better value for money.

- 5.5 The initial phase covers Adult Disability Services, the States Property Unit and the majority of the services provided by the Committee *for the Environment & Infrastructure*. The plan is then to extend the approach across all services on a rolling basis.
- 5.6 The workstream has already uncovered areas where efficiency might be delivered with appropriate investment – for example with the implementation of e-rostering in Adult Disability Services – but has also identified areas where the allocated resources are already very stretched.
- 5.7 Priority-based budgeting is expected to identify scope for improved efficiency and value for money and identify any areas where service levels can and should be altered.
- 5.8 The Committee, working with and through the Chief Executive & Head of the Public Service, has also instigated a programme to reduce expenditure on consultancy, challenging the needs for consultants and, where possible, finding more cost-effective ways of delivering the same outcomes – including providing more in-house facility for common requirements such as project and programme management and business analysis.
- 5.9 These are necessary steps to ensure the organisation is run efficiently, but realistically they are only likely to deliver relatively small reductions in baseline expenditure, the effect of which will likely be to slow the growth in costs driven by the changing demographics. There are natural limits to how much can be delivered through efficiency.
- 5.10 Guernsey’s public sector is small. Per capita, Guernsey spends approximately £12,900 a year on public services compared to £14,700 in Jersey and £15,000 in the UK (excluding defence spend) in 2023 terms. As a percentage of GDP Guernsey spends less than the OECD average in almost every category and generally less than other micro jurisdictions in all areas other than health (see Figure 9).

Figure 9: Government spending by category as a percentage of GDP in 2023



- 5.11 There is a desire for more substantial reductions in public sector spending to form part of the solution to the funding gap. These reductions need to be delivered in a comprehensive form which may include reducing service levels. Continually putting pressure on budgets without considering what is delivered and how is not sustainable.
- 5.12 The States have resolved to reduce expenditure in real terms by 1% each year between 2027 and 2029, and this is already incorporated into the baseline. The objective of work on cost control is to gain better visibility about where the scope or delivery of public services might be changed in the medium to long term to deliver additional meaningful reductions in public spending, and what the consequences of those changes might be.
- 5.13 Such changes need to be sustainable, and that means making structural changes in what and how services are delivered. Cutting public spending is difficult to deliver in practice and requires difficult decisions that may mean the community may receive less or have to pay more for services. In the past, the States and the public have struggled with decisions that could meaningfully shift the long-term balance between income and expenditure where they involved a significant change in what people are entitled to. Debates have proved controversial and usually reflected a desire to maintain or enhance services and benefits.

5.14 In summary:

- **Public expenditure budgets for 2027, 2028 and 2029 will incorporate a 1% real terms saving, to be delivered through efficiencies.**
- **A programme to reduce expenditure on consultancy has already been implemented and will continue.**
- **Priority-based budgeting is being rolled out across the States to challenge spending from the bottom up and to ensure that service delivery is effective and efficient.**
- **Guernsey's Public Sector is already small and there is a limit to how much expenditure reduction can be delivered by greater efficiency alone.**

#### **Cost control and service reduction**

5.15 A series of short case studies presenting examples of debates where the States have been asked to consider policies which could materially impact the States' baseline expenditure is presented in Figure 10. Some of these have successfully delivered significant reductions in long-term expenditure, including the increase in the pension age to 70 by 2049 and the restructure of the public sector pension scheme. Others, such as the approval of the extension of NICE TAs in 2020 to provide a larger range of medical treatments to islanders and the decisions taken around Long-Term Care Benefit in 2020 and 2025 have significantly increased baseline expenditure.

5.16 This list is not exhaustive but intended to provide some examples of what measures to change substantively the entitlement to public services can look like in practice and the kind of challenges such measures can face.

Figure 10: Case studies of substantive spending decisions

<b>St Andrew's Primary &amp; St Sampson's Infant Schools</b>	These two schools were closed in in 2013 and 2015 respectively, reflecting the falling intake in the primary sector. This was delivered but was done so in the face of significant public resistance.
<b>The States Pension</b>	Guernsey formally confirmed an increase in its pension age to 70 (by 2049) in 2015 <sup>13</sup> , but overturned a proposal to limit the long-term uprating on pensions to RPIX from 2025 in 2020 <sup>14</sup> . The current policy increases pensions by, on average, slightly more than RPIX, and this policy increases the revenue requirement for the Guernsey Insurance Fund by around £6-7m relative to a policy of increasing by RPIX only.
<b>The Public Sector Pension</b>	In 2016 the States changed the public sector pension scheme from Final Salary to Career Average, allowing the States to reduce the employer contribution to the scheme from 14.1% to 10.3% in 2018 and to 7.5% in 2024 at an estimated saving of £15m to £20m <sup>15</sup> a year while maintaining the scheme at a 99% funding level. The States have faced an extended legal battle over the changes which continues.
<b>The Expansion of NICE TAs</b>	The decision to expand the provision of NICE approved TAs in 2020 <sup>16</sup> was estimated at the time of debate to add around £8m a year to the States' costs. This was approved against the recommendation of the sitting Committee <i>for</i> Health & Social Care, and without a long-term mechanism to support the additional spend.
<b>Means testing of Family Allowance</b>	In 2020 <sup>17</sup> the States placed a household income limit on entitlement to Family Allowance, saving an estimated £2m a year, but the savings were redirected to the delivery of new services, rather than addressing the underlying deficit.
<b>The Long-Term Care Scheme</b>	The Long-Term Care Scheme was known to be financially unsustainable from its inception. Contributions were increased to extend the Scheme in 2017 while more policy work was undertaken, followed by further decisions in 2020 <sup>18</sup> and 2025 <sup>19</sup> to increase the level of benefit paid to support the private care home market. These were partially balanced by further contributions increases (applied between 2022 and 2025) and an increase in the share of costs which are self-funded. The Long-Term Care Insurance Fund is still unsustainable with an estimated revenue requirement of around £7m (pending actuarial review). Proposals which could fully stabilise the Fund without increasing revenue were rejected in 2020 and were not brought back to the States in the last political term.

<sup>13</sup> Planning a Sustainable Future – The Personal Tax, Pensions and Benefits Review ([Billet d'État IV of 2015](#))

<sup>14</sup> Uprating Policy for States' Pension ([Billet d'État V of 2020, Article 9](#))

<sup>15</sup> Estimates derived from savings quoted in 2024

<sup>16</sup> Review of the Funding of Drugs, Treatments and Devices, ([Billet d'État I of 2020, Article 6](#))

<sup>17</sup> Building a Better Future: Children's Health and Education ([Billet d'État XVI of 2020, Article 13](#))

<sup>18</sup> Supported Living and Ageing Well Strategy: Extending the Life of the Long-term Care Insurance Scheme ([Billet d'État XVI of 2020, Article 13](#))

<sup>19</sup> The Need to Stabilise the Private Care Home Market and Incentivise Growth to Meet Demand ([Billet d'État V of 2025, Article 3](#))

- 5.17 Towards the end of the last term, the States undertook an exercise, including a public consultation, to identify potential savings. From the submissions, ten “tier 1” workstreams were identified as having potential to deliver savings, but not all have proved to have the full expected savings potential when considered in more detail. Some were proved to be unworkable in practice, and others require additional funding to progress, which is not currently available. The Committee has sought updates from all committees on the progress of the viable initiatives, as well as requesting input on any other opportunities for reducing expenditure that committees have identified (summarised in more detail in Appendix 5).
- 5.18 As part of this exercise, all grants and subsidies have been discussed and challenged. Grants and subsidies had a budget allocation of around £30m in 2026, ranging from support to the finance sector and libraries, to subsidised prescriptions and bodies supporting international relations. Across these areas, committees have identified little scope for savings. These represent services delivered by third parties that are either being delivered more efficiently than government could or are services that provide additional value to the community. Across these areas, Committees note that the pressure is generally for additional spend requirements to sustain the existing levels of service.
- 5.19 The Policy & Resources Committee also discussed with the Committee *for* Employment & Social Security the potential for cost savings through the benefits system. The Committee *for* Employment & Social Security has recently set up a Savings Working Party to investigate the various opportunities for making savings in this area. The work of the Savings Working Party is ongoing, so there are no specific recommendations at this stage.
- 5.20 Similarly, the Committee *for* Health & Social Care is undertaking a review of the sustainability of health and care in the Bailiwick. This workstream will look at both ensuring that healthcare provision meets the needs of the community and that it does so in an affordable way. It will include a review of the current range of services provided, as well as pharmacy and administrative efficiencies, and work on this is ongoing.
- 5.21 The workstreams being progressed by the Committees *for* Employment & Social Security and Health & Social Care are the most likely to produce material savings but are still in the early stages of development. They require careful consideration to avoid unintended consequences for the delivery of other public services and the associated expenditure. Any potential changes may also impact workforce participation, earnings potential and have longer term impacts on individual and household financial resilience and so need to be carefully considered.

5.22 As such, these workstreams cannot contribute to addressing the States' funding gap at the current time. However, the work being carried out by the Committees *for* Health & Social Care and Employment & Social Security, and findings from the priority-based budgeting that all committees and service areas will carry out over the next few years, will be complete by the future review scheduled for 2030 and can therefore more usefully and accurately inform an assessment at that point as to the extent to which savings could potentially help further contribute.

5.23 In summary:

- **Committees continue to work through potential savings identified in the initiative called Reducing the Cost of Public Services. It is important that this work is carefully considered so as to avoid unintended negative consequences.**
- **All grants and subsidies have been challenged, but there is little scope for cuts without creating a false economy.**
- **The potential for expenditure reduction beyond efficiencies, for example through reducing or limiting access to public services and support, will be more comprehensively examined through priority-based budgeting and through the specific workstreams established by the Committees *for* Health & Social Care and Employment & Social Security.**

## INCREASING REVENUE: CONSIDERATIONS & RECOMMENDATIONS

### 6. The Role of Economic Growth

- 6.1 Creating appropriate conditions for growth is important. Growth, where it generates more employment, higher earnings, more consumer spending and taxable profits can make a significant contribution to resolving the financial challenges. Increasing the Guernsey average growth rate from its current modest average of 0.5% to 1.0% each year could generate additional revenue growth of £2.5m to £3m each year. Compounded over time, this effect could be significant.
- 6.2 However, Guernsey has relied on the hope of growth to resolve financial challenges in the past. It has proved an unreliable strategy, highly dependent on external influences over which the States have no control. The States opted to rely on economic growth to generate a portion of the additional revenue needed when the Zero-10 corporate tax regime was introduced. The agreed strategy was that the States would use reserves to support the deficit position in the short to medium term and that a GST would be introduced if economic growth had not filled the gap. The implementation of Zero-10 was successively followed by the global financial crisis and a series of other global economic events which suppressed growth worldwide. As a result, the growth that was intended to mitigate the need for further revenue-raising measures did not materialise, so further revenue-raising measures now need to be put in place.
- 6.3 **Guernsey is and should be prioritising growth.** Central to this is the Finance Sector Growth Strategy 2035<sup>20</sup>, which sets out a highly ambitious plan to grow Guernsey's financial services sector. If effective to the full extent of its ambition it could, over time, provide a meaningful increase in government revenue. Alderney's Island Plan<sup>21</sup> includes developing the economy as one of its key themes. However, to deliver growth both islands will need to overcome some key economic constraints, particularly around size of workforce, access to the right mix of skills and the physical infrastructure and housing to support that workforce.
- 6.4 To unlock that growth potential, Guernsey needs to address some structural constraints. That means delivering on the States' existing key priorities: investment in housing and infrastructure; building resilience to external risks; supporting a healthy and educated workforce; and delivering a competitive and fit-for-purpose tax base.

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<sup>20</sup> [Finance Sector Growth Strategy 2035 – Driving Growth for Guernsey – February 2026](#)

<sup>21</sup> [Alderney Island Plan – March 2022](#)

- 6.5 If Guernsey cannot deliver these priorities, it is limiting its potential. Guernsey has underinvested in its economy for years: there is a critical shortage of housing; substantial investment is needed at the harbours and airports to maintain key transport links; and the island's energy infrastructure needs enhancement to accommodate a future with more consumption of electricity and computing power.
- 6.6 Capital investment is often the easiest thing to squeeze in financial stress. Cutting or delaying the outlay on major projects may seem like prudent management and "living within our means" but sustained over a long period it erodes public confidence, hampers economic growth and hinders the effective delivery of public services.
- 6.7 To realise Guernsey's economic potential, investment is needed and making that investment needs a sustainable financial base.
- 6.8 We should aim for growth, and we should invest in growth, but to do that it is necessary to release Guernsey from the financial bind in which it finds itself so that growth can also play a bigger role in the community's financial future.
- 6.9 In summary:
- **Supporting and investing in economic growth is key to Guernsey's long-term success and could deliver financial dividends.**
  - **To do that, the States need to deliver on their existing key priorities, particularly in respect of housing and infrastructure.**
  - **Delivery needs investment, and this is constrained by the States' current financial position.**
  - **Economic growth is always subject to external factors outside the States' control, and continuing to rely on economic growth to resolve the current financial challenges is high risk.**

## **7. Pillar 2: 15% Effective Rate for Large Multi-National Enterprises**

- 7.1 The legislation for Pillar 2 of the OECD Inclusive Framework's anti-Base Erosion and Profit Shifting (BEPS) initiative was put into effect from 1 January 2025. This requires large multinationals (with a global turnover of €750m or more) and their subsidiaries to pay a minimum effective tax rate of 15% on their activities taking place here.
- 7.2 It is currently estimated that Pillar 2 will deliver around £40m a year in additional revenue from 2025 (after adjusting for behavioural changes). These estimates are already incorporated into both the 2025 accounts and the

estimates of the size of the funding gap. However, the reporting cycle means that cash receipts are not expected to begin in any volume until mid-2027<sup>22</sup>. It is likely to be early 2028 before it is possible to confirm the first full year of revenue relating to 2025.

- 7.3 To date 1,018 companies have registered with the Revenue Service as in scope of Pillar 2, about 85% of the anticipated total in terms of both numbers of companies, and also in terms of forecast revenue. Approximately 125 further companies were expected to have registered by now; enquiries are being made to identify whether they are now out of scope. Other companies have or are expected to notify that they are ceasing their activities in Guernsey in the next few years as companies adjust their structures to the new global landscape.
- 7.4 Further impacts may manifest within existing businesses. For example, one of the primary revenue sources for local banking subsidiaries is the placement of large intragroup deposits and the application of a 15% rate means the benefit from a lower (0%) tax rate is no longer available. This may shift business decisions around intragroup placements.
- 7.5 These behavioural impacts may take longer to play out, particularly as the international landscape is still evolving. **This means that the medium-term revenue from Pillar 2 are likely to take three to five years to establish.** However, it is anticipated that revenue from this source will be at their greatest in the early years and are likely to then decline.
- 7.6 In summary:
- **Pillar 2 will deliver a substantial increase in revenue from the corporate sector which is already incorporated in the States' baseline forecasts.**
  - **The initial revenue generated from Pillar 2 remain uncertain and will not be confirmed until late 2027 or early 2028.**
  - **Behavioural changes may extend for a much longer period, and revenue may change further over time.**

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<sup>22</sup> Note on registration and filing:

Companies captured by the new legislation are required to register with the Revenue Service within 15 months of the start of their first in scope financial year (starting after 1 January 2025). The returns for the first year are due 15 months after the end of the financial year (18 months if first year in scope), therefore the first filing deadline (for companies with a 31 December year-end) may not occur until June 2027. Tax becomes due at the time of filing. International reporting for Pillar 2 is complex and conducted at group management level. As a result, local representatives generally cannot confirm their 2025 liability. This means it is unlikely that there will be significantly more certainty on receipts until early 2028

- **Whatever the 2025 revenue turns out to be, it is likely to represent the high-water mark of income from this source.**

## **8. Income from Renewable Energy**

- 8.1 Guernsey has been exploring the potential for marine (offshore) renewable energy within Guernsey's waters since 2008, both for local consumption and potential export. Initially, this work was focused on tidal stream energy, owing to the notable resource in the Big and Little Russell; however, the technology to harness this energy is still some way from being commercially viable. If we were to install tidal stream generators in our territorial waters now, it would cost significantly more than our current electricity mix costs and is therefore not a viable option in the short or medium term as a source of local power or income. Alderney also maintains an interest in tidal power, with a greater resource potential than Guernsey, and whilst no development has yet taken place in Alderney they continue to explore this opportunity.
- 8.2 Offshore wind, on the other hand, is a mature technology that is already commercially viable and is delivered around the world at large scale, with standard installations now far larger than Guernsey's energy needs. The States has an ongoing workstream to assess the opportunities and viability of offshore wind power as a means of revenue raising for the Bailiwick. While there may be long-term economic and financial benefits to a project of this kind, this work is still very much in development, and its revenue-raising potential is still too uncertain to use as the basis for any long-term planning. The progression of this workstream continues, but there is a lot more work including some key factors beyond our direct control – particularly around access to market – that could reduce the chances of a windfarm being developed in Bailiwick waters. If access to market can be established from the necessary legal, regulatory, commercial and technical perspectives, significant income would still ultimately depend on the successful implementation of a windfarm of sufficient scale.
- 8.3 The current indicative timeline suggests that - assuming the project can be delivered - it will be ten years before commissioning is completed and a wind farm is operational. While there is some potential for a more limited income in advance of that through seabed leasing, any revenue generated would not maximise the economic opportunity for the Bailiwick. Despite the current uncertainties, it remains a source of potentially significant income, and with that in mind, it makes sense to factor it into the future review scheduled for 2030 when we will have more clarity and certainty on the likely progression of offshore wind. A more detailed summary of that work is included in Appendix 6.

8.4 In summary:

- **Tidal stream generation is not yet commercially viable and so cannot be included in any future revenue projections.**
- **Offshore wind does have the potential to raise significant revenue for the public purse, although that revenue is dependent on a number of variables with associated uncertainties at this time and - if an offshore wind farm can be successfully delivered - will not provide meaningful income until the mid-2030s.**
- **More clarity on the viability and quantum of that revenue will be gained as the work progresses over the next few years.**

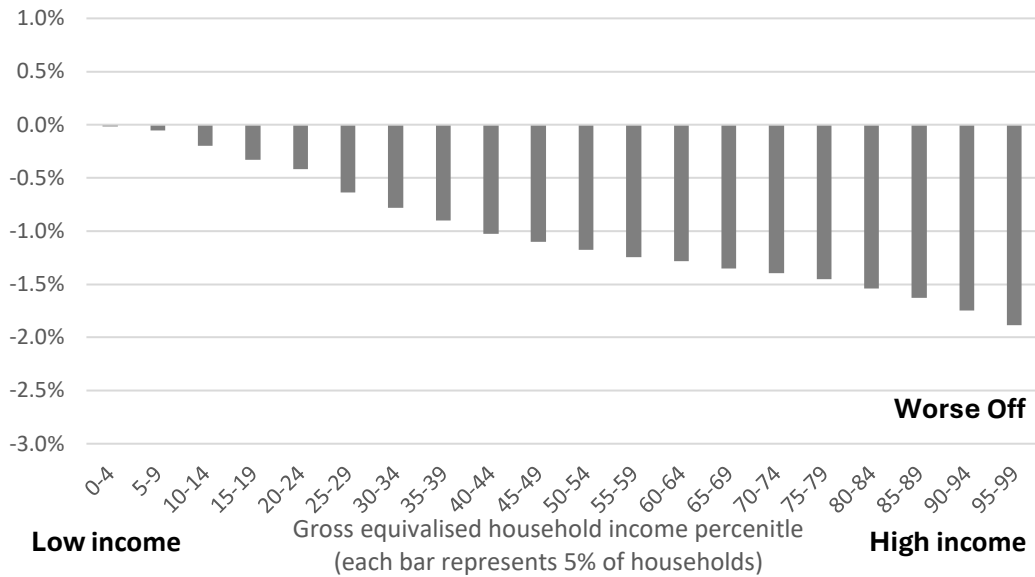
## 9. Tax Measures – Alternatives to GST

9.1 The Committee explored or revisited a number of different approaches to assess their viability and efficacy compared with the package agreed by the States in November 2024.

### ***Income Tax Rate Increase - not supported or included in the package***

9.2 This option was revisited by the Committee, which concluded - as previous Assemblies had done - that a rise in the rate of income tax would exacerbate the core problems that tax reform is aiming to address. While it could raise significant revenue – £17m net for each 1% increase at 2026 prices – it would do so in a way which further increases reliance on direct taxes. It would also add to the concentration of the tax burden on working age people and would not capture those who may have significant means but little taxable income. All households would be worse off (Figure 11), and Guernsey’s competitiveness would be adversely affected – not just with our usual comparators, but even with the UK. **This option was therefore rejected.** More detail is included in Appendix 9.

Figure 11: Impact on households of a 2% increase in the headline income tax rate



**Property Taxes – not included in the package**

- 9.3 The Committee explored the potential for both iterative and wholesale reforms of property taxes, in terms of both domestic and commercial property. While at the lower end of application for residential property rates are still relatively low compared to the UK, for the largest residential properties in Guernsey, TRP rates exceed the highest level of council taxes applied in the UK. In some cases, annual liability exceeds £20,000 a year. Commercial rates (especially for office space) are also comparatively high, so **there is no realistic scope to generate significantly more revenue from our current TRP system.**
- 9.4 The Committee also explored the potential for wholesale reform of the property taxation system to move away from charging on the basis of area to a system that charges on the basis of value. An advantage of the concept of taxes on high-value property is that it is a rare example of a tax on a form of wealth that cannot leave the island. However, in practice, a move to such a system would be very complex. It would need a long lead-in time, and would require significant and ongoing resource to implement and administer. **The Committee recommends that a value-based system of property taxation is considered in the context of a longer-term review in future, but not included as part of this package.**

***Income Tax Caps and the Standard Charge – included as part of the budget process***

- 9.5 The income tax caps and the standard charge are reviewed annually as part of the budget process, with the Policy & Resources Committee agreeing that a fundamental review of the tax caps and the standard charge will be undertaken as part of the 2027 budget. **The revenue potential from changing these is limited given the very small number of people to whom they apply** (approximately 60 for the various tax caps and 60 subject to the standard charge, noting the latter increased following the introduction of independent taxation). As such they are better addressed in the budget rather than through the wider package of tax reform.

***Capital Taxes – not supported or included in the package***

- 9.6 **The application of capital taxes is and remains out of scope of this review as they are incompatible with Guernsey’s core economic activity.**

***Transport Taxes – included in the package***

- 9.7 The States have several extant Resolutions in relation to the progression of transport taxes. There are several policy issues to be addressed, covering both fiscal and environmental policy, including:
- The erosion of revenue from fuel duty as the community moves towards more fuel-efficient and electric vehicles.
  - The unfairness of the impact on people who cannot upgrade to more fuel-efficient vehicles.
  - The lack of any ongoing taxation on electric vehicles beyond first registration duty.
  - The need to progress an integrated transport strategy which aligns the revenue generated from transport with the transport needs of the wider community, the impact that personal transport has on the community, the economy and the environment, and infrastructure needed to support access to transport for islanders.
- 9.8 The Policy & Resources Committee agreed with the Committee *for the Environment & Infrastructure* (“the CftE&I”) that the latter should build on the existing work undertaken to compose a medium-term structure for transport taxes which could be considered in this context. It was agreed that this work, which the CftE&I is under resolution to progress irrespective of any wider tax reform, would be focused on those measures which might be delivered in the

short-term, noting that further development would be needed for longer-term measures.

9.9 It was agreed that the extent of the revenue to be raised from these structures be determined by the Policy & Resources Committee.

9.10 The proposal in this policy letter recommends:

- **A 25% reduction in fuel duty (bringing the rate of fuel duty broadly in line with Jersey's).**
- **A new annual tax on vehicle ownership (bringing electric vehicles into scope of ongoing revenue streams), charged on the basis of the weight and emissions of the vehicle.**
- **The application of a high-value vehicle surcharge for private vehicles valued over £50,000 as part of the Vehicle First Registration Duty as endorsed by the Assembly in the 2026 Budget.**

9.11 Parking charges are not included in the 2026 Tax Reform Package, but charges for corporate parking and long-stay commuter parking will be further considered by CftE&I, and proposals (for implementation no earlier than 2029) may be brought to the States in due course. For the avoidance of doubt, the CftE&I is specifically keen to protect the retail sector and householders without off-street parking from any additional impacts in the context of the introduction of a GST, and therefore will not be considering charges for either short-stay parking or residential parking in this political term, but focusing on workplace and commuter parking.

9.12 The current structure of the data makes it difficult to perform detailed household analysis of the above measures. Specifically, the data on the number of vehicles in circulation has been increasingly unreliable since the removal of motor tax in 2008, and the States do not hold comprehensive, granular detail on factors such as mileage driven per vehicle and the market value of vehicles for individual households. However, there are characteristics of households that are likely to increase the potential impact of changes.

9.13 Figure 12 adds a broad analysis of the impact of adding transport taxes to the package, specifically the combination of the annual vehicle tax and the reduction in fuel duty with very limited net revenue raising. The proposed changes to transport taxes would be expected to have a positive impact on households with petrol or diesel vehicles and with more than average mileage, which is likely to include families with children and those living in the outer parishes. Households with low mileage or those with electric or hybrid cars

would likely pay more overall in transport taxes. This is likely to include higher income households, and those living in urban centres.

*Figure 12: Qualitative analysis of the impact of transport taxes*

Characteristics of those likely to be advantaged or less impacted by proposed changes in transport taxes	Characteristics of those likely to be disadvantaged or more impacted by proposed changes in transport taxes
<ul style="list-style-type: none"> <li>• High mileage using petrol or diesel cars including families and those living outside the urban centres</li> <li>• Single car households</li> <li>• Commercial entities with light weight/high mileage petrol or diesel fleets</li> </ul>	<ul style="list-style-type: none"> <li>• Owners of EV or hybrid vehicles</li> <li>• Owners of high-value (&gt;£50k) private vehicles</li> <li>• Low mileage users of petrol or diesel cars likely including those living in urban centres</li> <li>• Commercial entities with heavier or lower mileage petrol or diesel fleets, or electric or hybrid fleets</li> </ul>

### ***Corporate Tax Reform***

9.14 Following the 2025 General Election, the Committee established the Tax Review Sub-Committee to consider the options for amending the taxation of corporate entities and whether these could provide alternative or additional opportunities for revenue raising compared to the measures agreed by the States in November 2024<sup>23</sup>.

9.15 The Sub-Committee completed its review in April 2026 and the full report on its conclusions is appended (see Appendix 3).

### ***Substantive Corporate Tax Reforms - not included in the package***

9.16 Pillar 2 will have already captured much of the revenue potential from a substantial change in the corporate tax structure and is expected to bring substantial additional revenue as set out in section 7 above. **The analysis presented suggests that further major corporate tax reform cannot deliver sufficient revenue to address Guernsey’s financial challenges, and that the economic disruption and uncertainty caused by a wholesale restructure to the sector that contributes around 43% to GDP could not be justified.**

### ***Adjustments to existing Corporate Tax Regime - included in package***

9.17 The Sub-Committee does support a number of modifications to the existing corporate tax regime which are discussed in more detail within its report (see Appendix 3).

<sup>23</sup> [States of Guernsey Billet d’État No XIX, Resolutions 1B and 1C](#), 8<sup>th</sup> November 2024

- 9.18 In aggregate, these corporate tax proposals could raise up to a maximum of £15m in addition to Pillar 2 revenue. However, the Sub-Committee felt care must be taken to avoid inappropriate duplication or overloading businesses with change, when taking into account other elements of the package agreed in November 2024. The Sub-Committee has recommended that only some of these changes are implemented in addition to other measures.
- 9.19 The Sub-Committee further noted that attempting to apply major changes to the corporate tax regime at the same time as implementing a consumption tax and significant changes to the personal income tax and social security contribution structure risks overloading the economy with too much change too quickly. This means limiting the extent and carefully managing the timing over which measures are applied – which is indeed part of the Committee’s rationale for the proposed changes to the package agreed in November 2024.
- 9.20 Appendix 4 includes details of the considerations given to date on measures intended to incentivise distributions which are not part of these recommendations but included for information.
- 9.21 Taking the Sub-Committee’s input into careful account, the Committee recommends, in combination with the measures outlined in Section 10, the following changes to corporate tax:
- **The 10% company intermediate rate to be applied to full profits of companies rather than specified activities from 2027. (£0.5m).**
  - **A limited real increase to company registry fees, working with the Company Registrar and the Committee for Economic Development to define this. (RPIX +5% would raise £0.5m).**
  - **Any further real increases in company fees should be deferred until 2030 or later to allow the ISE scheme to become established and the aggregate impact considered.**
  - **The extension of the 10% company intermediate rate to registered prescribed businesses to be applied from 2027. (£2m).**
  - **Any extension of the 10% rate to retail and construction activity should be deferred until at least 2031, to allow time for the GST to become established and to limit the amount of change applied to these sectors in a short timescale (£2.5m).**

## 10. Income Tax Rate, Social Security Reform and GST

10.1 The advantages of the introduction of a goods and services tax include in summary:

- A broader, stronger tax base.
- Reduced dependency on income-based taxation (which provides additional resilience, for example in the context of some possible impacts of AI).
- A blend of income from businesses and households (with businesses contributing more overall, including through the ISE Scheme<sup>24</sup>).
- Greater financial contribution from those with more wealth (including high net worth individuals with very significant wealth but comparatively low levels of income-based contributions).
- Income contributed by visitors to the island.

10.2 **Without mitigating measures, GST is regressive – in other words, it disproportionately negatively impacts people with less disposable income. That is why the Committee considers it essential that GST should only be introduced with strong mitigating measures to reverse that impact, so that people with less disposable income are positively impacted and only those better able to afford additional expenditure are negatively impacted.**

### ***Mitigations***

10.3 The mitigations that were agreed as part of the package in November 2024 and refined through the Tax Reform policy letter debated in February 2026 are summarised as follows:

- An increase of £600 in the personal income tax allowance (£15,800).
- A new basic rate of income tax of 15% charged up to a certain threshold (£33,550).
- The introduction of a social security allowance (£15,800).

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<sup>24</sup> The proposals include provision for an ISE scheme, which would mirror arrangements in Jersey. The ISE scheme will allow finance businesses with international clients to pay a fee in order to get an End User Relief Certificate that they can provide to their own suppliers, so they are not charged GST on their inputs. The intent of this scheme is to minimise the administration to both businesses and the States in relation to activity that would generate very little net revenue if applied in the traditional way. The fixed fee structure attached to this scheme is expected to generate an estimated £10-12m

- Pre-emptive increases in the States Pension, Income Support and other benefits to compensate for inflation increases (3.2%).
  - An Essential Costs Relief Payment for people on low incomes that are not in receipt of Income Support (£520 for a single adult, £860 for a couple).
- 10.4 A Resolution agreed in February 2026 committed to protecting in legislation the value of these mitigations relative to GST. In other words, the legislation would ensure that if the rate of GST were ever to increase then the value of the mitigations would increase proportionately, so as to provide the same degree of support for those that most need it.

***Changes to the approach agreed in November 2024***

- 10.5 Having reviewed the feedback from extensive engagement undertaken with industry stakeholders and feedback from the community, the Committee has considered how the package agreed in November 2024<sup>25</sup> might be adjusted to address some of the concerns raised (see Appendix 2). Specifically:
- The impact that the introduction of a GST at 5% would have on inflation.
  - The impact the higher rate of employer social security contributions might have on businesses, particularly in respect of costs and competitiveness.
  - The concerns raised over the impact of applying contributions to all income, particularly in respect of the private rental market.
  - The complexity of the proposed social security contributions changes for payroll systems.
  - The potential impact on the economy of so much change at once.
- 10.6 To address these concerns, the Committee has developed its own proposals which address these points, and which could iterate further if necessary following a review in 2030.
- 10.7 **As well as reducing the economic impact of the initial implementation, this iterative approach acts now to provide a more stable structure for the taxbase and some of the required revenue, while also allowing time to confirm or assess the likely revenue from other sources, such as from Pillar 2 and offshore wind, the success of the Finance Sector Growth Strategy 2035 and other economic growth initiatives, and the realistic potential for efficiencies and expenditure reduction.**

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<sup>25</sup> The States of Guernsey Annual Budget for 2025 ([Resolution XIX of 2024](#))

10.8 The income tax, GST and social security reform elements of the proposal:

- Raises a smaller amount of net revenue than the November 2024 package: an estimated £30m as opposed to £51m (noting that there are other revenue-raising measures incorporated into the 2026 Tax Reform Package, so this is not the net overall revenue).
- Will set the **GST at a 3%** rate rather than 5% to reduce the inflation impact from an estimated 3.2% to 1.9%.
- Limits the increase in **employer social security contributions to 7.6%**, noting that the increase from the current 7.1% to 7.6% will be phased between 2027 and 2029.
- Defers the application of social security contributions to all income until further work can be done to understand and manage the impacts generally and on the private rental market in particular, given the current housing situation.
- Commits to no increase in the TRP rate for retail and hospitality sectors and specified freight haulers until at least 2029 to assist with the cost of implementation.

10.9 To balance the impact of this on the net revenue:

- The allowance applied to social security contributions will be adjusted to that provided to contributions for non-employed and pensioners (currently £11,122), with a medium-term objective to increase this to match the personal income tax allowance over time if revenue permits.
- The upper limit on the 15% headline personal income tax rate will be adjusted to £28,000.
- The adjustments to pensions and benefits to reflect the reduced anticipated impact on RPIX from 3.2% to 1.9% for the initial implementation, and the Essential Costs Relief Payment adjusted to reflect the lower rate.

10.10 Further details of the changes are included in Appendix 2. Full details of the rates and thresholds to be applied in various models is provided in Appendix 7.

10.11 For households, this lighter touch presents the same basic pattern of impact as the package agreed in November 2024: it is generally beneficial for lower- and middle-income households. Higher-income households will pay more.

However, it has less impact in both directions with less net benefit for low-income households and less impact on higher income households.

Figure 13: Comparison of the two approaches - percentage change

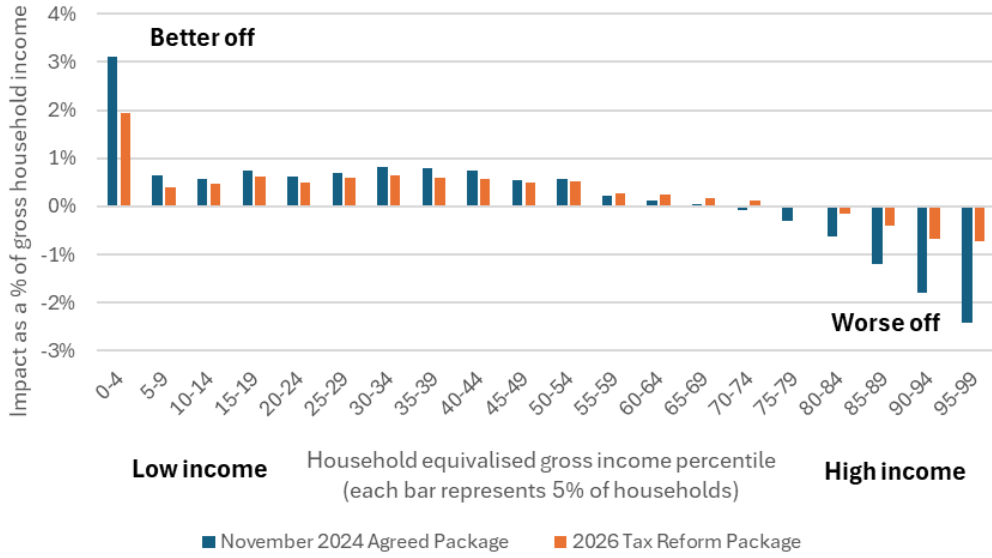
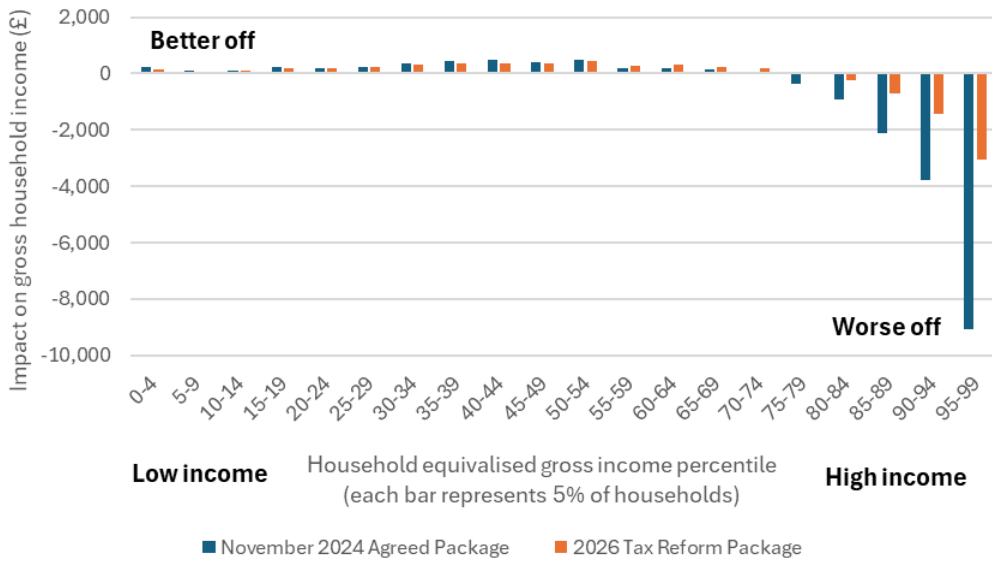


Figure 14: Comparison of the two approaches – monetary change



## IMPACT ANALYSIS

### 11. Impact of the Proposed 2026 Tax Reform Package

#### *Households*

- 11.1 The analysis below examines the impact of the measures in the proposed 2026 Tax Reform Package which directly impact households. Figures 15 and 16 present the impact that income taxes, social security contribution changes, GST and benefit changes will have on average household income. Figure 17 provides a descriptive analysis of how households are likely to be impacted by transport taxes.
- 11.2 More detailed impact analysis of the Committee’s 2026 Tax Reform Package is included in Appendix 8, including the impact on public sector pay and pensions and the States Pension.

*Figure 15: Percentage Change comparison of the impact on households of the 2026 Tax Reform Package*

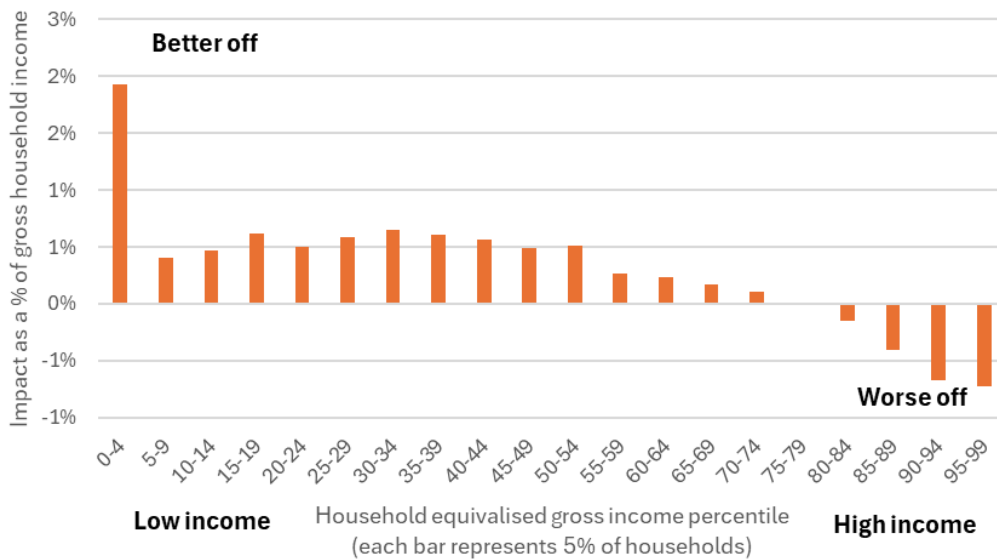
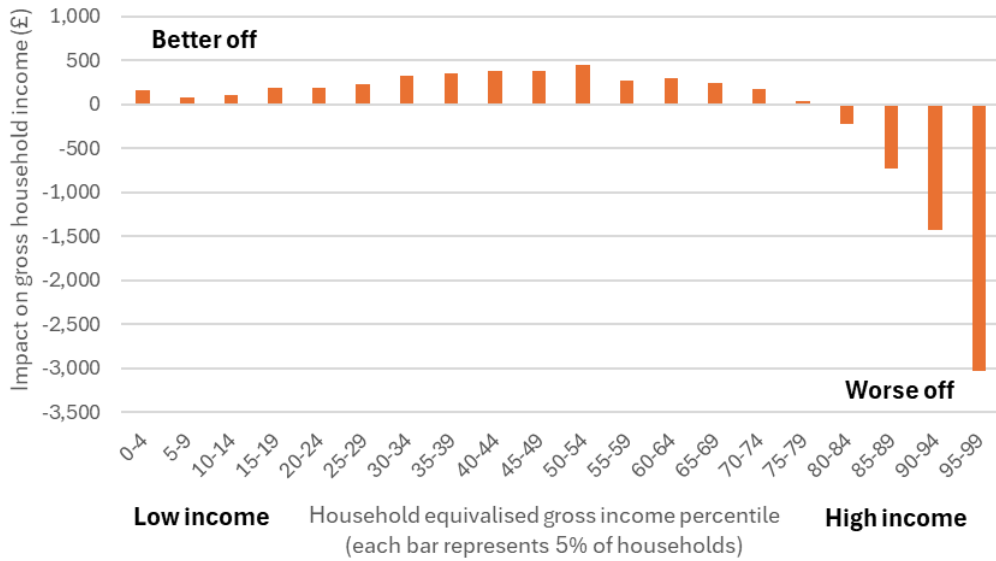


Figure 16: Monetary comparison of the impact on households of the 2026 Tax Reform Package



- 11.3 At a household level, the impact of a tax package incorporating a GST along with a lower basic rate of income tax, the introduction of a contributions allowance and other mitigations has been analysed in detail through its various iterations. The majority of lower- and middle-income households are likely to be better off under the proposed 2026 Tax Reform Package than they are currently.
- 11.4 At the lower end of the income scale this reflects the extent of the benefit gained from the application of an allowance to social security contributions. While under these proposals the social security allowance will not be matched in full to the personal income tax allowance, the Committee remains of the opinion that this is a worthy medium-term objective that should be considered as part of the 2030 assurance review.
- 11.5 Across the middle of the income profile the impact of the allowance applied to the social security contributions and the threshold applied to the progression from the 15% to the 20% tax bands, marginally exceeds the impact of the GST.
- 11.6 Higher income households, where allowances start to be withdrawn above £85,000 and the 15% band represents a small proportion of their taxable income, will contribute proportionately more than people on lower incomes, especially if they consume a lot of goods and services locally.
- 11.7 Figure 17 adds a broad analysis of the impact of adding transport taxes to the package – specifically the combination of the annual vehicle tax and the reduction in fuel duty with very limited net revenue raising.

11.8 The proposed changes to transport taxes would be expected to have a positive impact on households with petrol or diesel vehicles with more than average mileage, which is likely to include families with children and those living in the outer parishes. Households with low mileage or those with electric or hybrid cars would likely pay more overall in transport taxes. This is likely to include higher income households, and those living in the urban centres.

*Figure 17: Qualitative analysis of the impact of transport taxes*

Characteristics of those likely to be advantaged or less impacted by proposed changes in transport taxes	Characteristics of those likely to be disadvantaged or more impacted by proposed changes in transport taxes
<ul style="list-style-type: none"> <li>• High mileage using petrol or diesel cars including families and those living outside the urban centres</li> <li>• Single car households</li> <li>• Commercial entities with light weight/high mileage petrol or diesel fleets</li> </ul>	<ul style="list-style-type: none"> <li>• Owners of EV or hybrid vehicles</li> <li>• Owners of high-value private vehicles</li> <li>• Low mileage users of petrol or diesel cars likely including those living in urban centres</li> <li>• Commercial entities with lower mileage or heavy or electric or hybrid fleets</li> </ul>
Est minimum private vehicle liability	£25 per year
Est mean private vehicle liability	£130-£135 per year (approx. 0.2% median gross household income)
Est max private vehicle liability	£280 per year
Average household benefit of reduced fuel duty	£130-140 per year (0.2% median gross household income)

## 12. Assurance Review in 2030

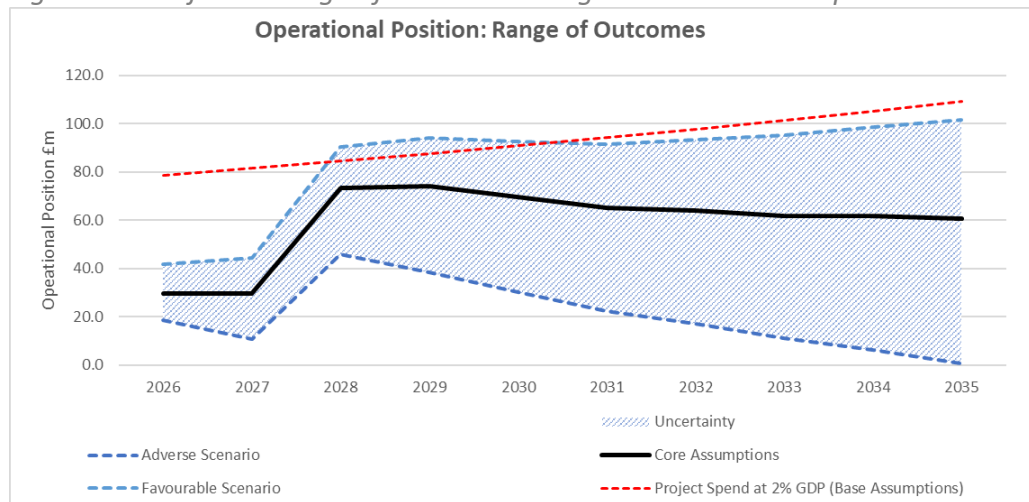
12.1 As part of the package, the Committee proposes a review of the impact of any tax reform measures agreed and implemented, including:

- Assessing the impact changes have had on economic factors like inflation and employment and whether these aligned with expectations.
- Assessing the financial situation at the time, giving particular consideration to public sector efficiencies and savings that have been implemented, Pillar 2 receipts, economic growth, the viability of offshore wind income, the impact of AI on the islands' workforce participation rates, housing supply, population projections etc in order to assess the efficacy of the measures that have been implemented.

- Working with the Committee *for* Employment & Social Security, further examination of the potential impacts of any elements of the originally proposed social security contributions restructure that have not been agreed or progressed at that time, with particular consideration for the impact they might have on business costs, competitiveness and the private rental market.

12.2 The purpose of this review is to provide assurance around the impacts and efficacy of the measures that have been introduced and to update the income, expenditure and demand projections using well-informed data and insights. This analysis can give the next States Assembly assurance as to the extent to which the funding gap has been closed. Figure 18 illustrates the range of potential outcomes following the introduction of the 2026 Tax Reform Package.

Figure 18: Projected range of outcomes using alternative assumptions



12.3 If this blend of measures has been successful, further measures can be avoided. If the funding gap (or any other of the core problems) persists to some extent the Assembly can consider what steps would be most appropriate and proportionate at that point in time. Again, a range of measures spanning expenditure reduction and revenue raising could be considered, but should the next Committee recommend any increase to the rate of GST to, say, 4% or 5%, there would likely be only a modest inflationary impact and there would be legislation in place to protect the relative value of the mitigations.

12.4 It is proposed that this review commences after the next general election for presentation to the Assembly in 2030 to allow sufficient time for the measures in this package to have been in place, and for further clarity to have been gained on any or all of the outstanding questions.

### **13. Implementation Process and Cost**

- 13.1 The proposed 2026 Tax Reform Package involves a significant but deliverable programme of work. Preparatory activity since November 2024 has already established the core design, scoped delivery options and engaged with industry, providing a strong foundation for implementation within the planned timelines.
- 13.2 The programme is large because it brings together several major changes: the introduction of GST, adjustments to income tax and social security contributions, corporate tax updates and transport-related measures. However, the Committee's changes to the previously agreed package have reduced complexity in key areas, particularly through limiting changes to social security contributions, making implementation more straightforward for both government and businesses.
- 13.3 The approach is structured across five coordinated projects: GST; income tax and social security contributions; transport taxes; policy and legislation; and change and technical guidance. Each includes defined workstreams covering systems development, procurement, recruitment and training. This structured approach ensures that delivery can be progressed in parallel and managed effectively.
- 13.4 Delivery capability has been carefully considered (see also Appendix 11). The programme will require additional staffing (estimated at around six roles within the Revenue Service and ten within the Guernsey Customs and Immigration Service), alongside targeted system enhancements. These requirements are proportionate to the scale of change.
- 13.5 At the border, the operational model has been designed to minimise disruption. Around 90% of goods are expected to be processed through supplier registration arrangements for GST, allowing them to move through established channels with limited intervention. A phased approach to low-value imports will further support implementation, with an initially higher de minimis threshold (indicatively £280) that will be reduced over time as systems and processes mature and volumes stabilise.
- 13.6 The programme also recognises the importance of business readiness. A minimum lead-in period of 18 months for GST implementation has been built into planning assumptions, alongside a £1.1m support package to help businesses adapt systems and processes. This support will be developed in partnership with industry to ensure it is targeted and effective.
- 13.7 A temporary support centre will also be established to provide focused assistance to businesses and individuals in the lead-up to implementation and during the initial operating period.

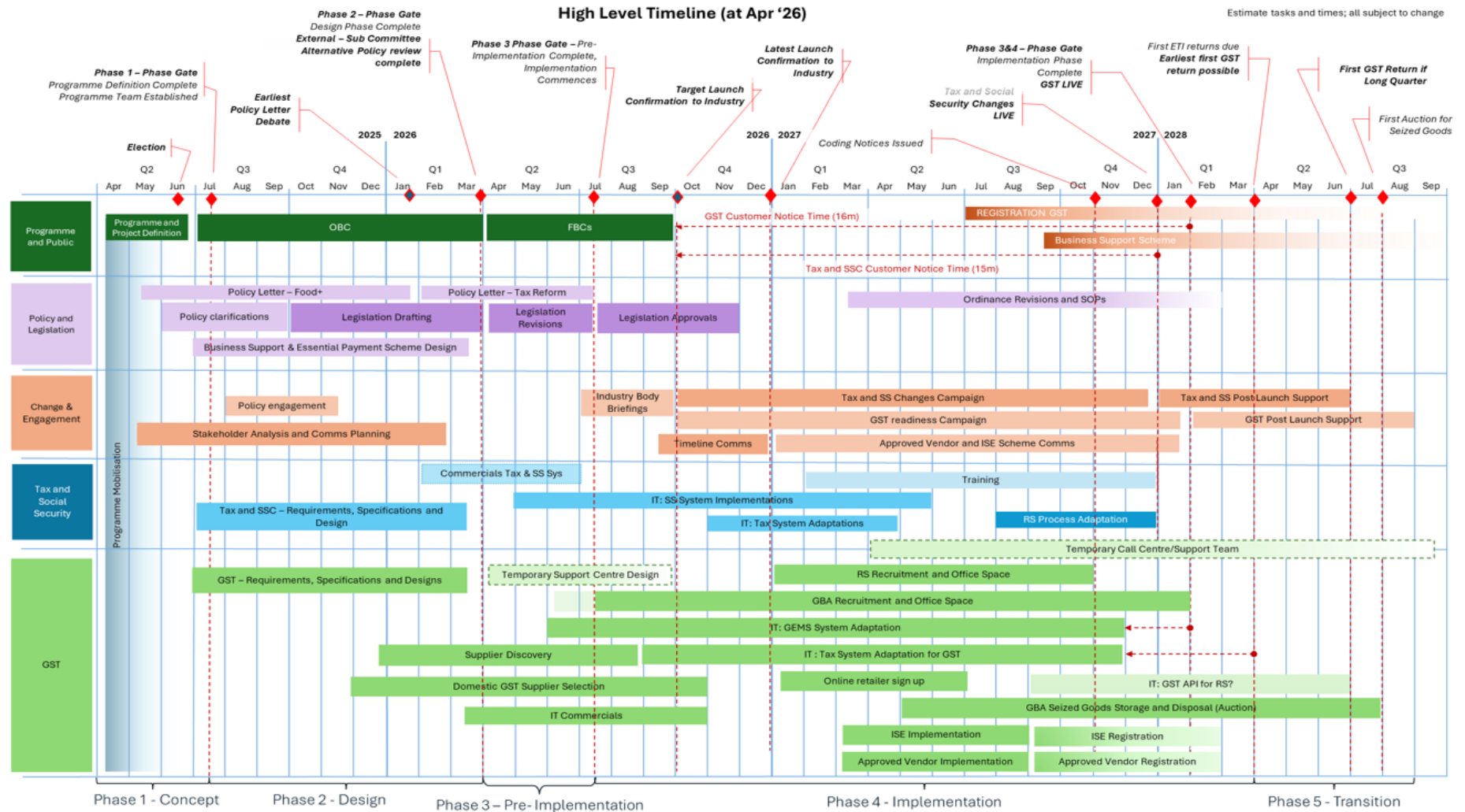
- 13.8 Current one-off cost estimates for implementation reflect the scale of system and process changes required. The core programme - covering GST, income tax and social security changes – is estimated at between £5.45m-£8.8m depending on the technical solution that is selected. Additional costs of £0.4m-£0.5m for transport measures and £0.1m-£0.2m for corporate tax changes bring total programme costs to between £5.95m-£9.5m, rising to £7.05m-£10.6m including the business support<sup>26</sup>.
- 13.9 These estimates include appropriate contingency and reflect the current stage of procurement. The range will narrow as final technical decisions are taken following formal policy approval.
- 13.10 While the programme is complex, it is also expected to deliver substantial and sustained benefits, generating approximately £39m per annum in ongoing revenue. On this basis, the one-off upfront investment is recovered in less than four months.
- 13.11 The Committee therefore recommends that the programme be included within the Major Projects Portfolio, with delegated authority to release up to £10.6m from the General Revenue Reserve to enable timely delivery.

*Figure 19: Implementation costs from the point of political decision to final implementation*

Workstream	Estimated Spend to Completion (LOW)	Estimated Spend to Completion (HIGH)
Implementation, Change and technical guidance	£400,000	£650,000
GST	£3,600,000	£6,100,000
Policy & Legislation	£150,000	£200,000
Tax & Social Security	£1,300,000	£1,850,000
<b>Total</b>	<b>£5,450,000</b>	<b>£8,800,000</b>
Corporate tax changes	£100,000	£200,000
Transport taxes	£400,000	£500,000
<b>Total Implementation cost</b>	<b>£5,950,000</b>	<b>£9,500,000</b>
<b>Provision for business support</b>	<b>£1,100,000</b>	<b>£1,100,000</b>
<b>Total cost including support</b>	<b>£7,050,000</b>	<b>£10,600,000</b>

<sup>26</sup> Fulfilling the States resolution of November 2024 has incurred £1.6m of cost since then in preparatory activities (such as scoping the existing systems, preliminary procurement activities, etc) which would bring the total cost of implementation of tax reform to £8.65m-£12.2m.

Figure 20: Implementation timeline



## 14. Ongoing administration costs

- 14.1 Figure 21 below outlines the expected ongoing revenue costs in relation to the application of the proposed package, estimated at between £1.5m and £2.6m a year, with a further provision for a real increase in benefit costs of approximately £1m. For the avoidance of doubt, these costs have been factored into the net revenue projections. For reference, the policy letter published in late 2022 placed the ongoing administration cost of the original income tax, social security and GST changes at approximately £2.8m (adjusted for inflation).

Figure 21: Ongoing revenue cost of administration

Workstream		Estimated Spend to Completion (LOW)	Estimated Spend to Completion (HIGH)
Income tax, social security and GST	IT systems including licencing support and development	200,000	600,000
	GCIS Staff costs and office space	700,000	1,100,000
	Revenue Service Staff cost	300,000	400,000
	Additional digital and technology support	100,000	100,000
	<b>Total</b>	<b>1,300,000</b>	<b>2,200,000</b>
Corporate tax	Staff cost	100,000	200,000
Transport tax	IT Systems cost and staff cost	100,000	200,000
<b>Total Administrative costs</b>		<b>1,500,000</b>	<b>2,600,000</b>
Provision for increase real terms benefit costs		1,000,000	1,000,000
<b>Total increase in ongoing revenue costs</b>		<b>2,500,000</b>	<b>3,600,000</b>

## 15. Application of a Two-thirds Majority in Order to Change the Rate of GST

- 15.1 At the debate in February 2026<sup>27</sup> the States directed the Policy & Resources Committee to further consider the inclusion of a requirement in the legislation for a two-thirds majority to increase the rate of GST. The Committee has now given this careful thought.

<sup>27</sup> Tax Reform: Workstream 1 ([Billet d'État III of 2026, Article 4](#))

- 15.2 A basic two-thirds requirement may not in and of itself, be legally or constitutionally improper. There are examples in the Reform (Guernsey) Law, 1948 where such provisions are applied. However, there are no examples of where a two-thirds majority is applied in the context of taxation, and it would be an unusual step to do so.
- 15.3 In practice, were a two-thirds majority to be introduced, it could ultimately be removed by a simple majority at a later date, limiting its effectiveness. Consideration was given to whether this could be strengthened – for example, by requiring a two-thirds majority to repeal such a provision. However, this introduces increasing constitutional complexity and may still be capable of being circumvented, reducing the clarity and robustness of the legislative framework.
- 15.4 From a policy perspective, applying a higher voting threshold to GST alone would also create an imbalance within the tax system. It would make changes to GST more difficult than changes to other taxes, which could influence future decision-making and reduce flexibility in how the States responds to changing fiscal circumstances.
- 15.5 More broadly, if such an approach were extended to other taxes, it could constrain the States' ability to respond effectively to changing financial conditions. If it were not extended, it risks distorting the relative use of different taxes. Either outcome would be undesirable.
- 15.6 For these reasons, after full consideration, the Committee does not recommend this measure. **However, the States have agreed to legislate to protect the proportional value of the mitigating measures against any potential increase of GST, which gives significant assurance that the value of those mitigations will not be eroded over time.**

## 16. Conclusion

- 16.1 The fiscal challenges facing the States are significant and require timely action to ensure that the right foundations are in place for the future. While the stronger-than-expected outturn in 2025 provides some additional breathing space, it does not remove the underlying funding gap. With reserves projected to be exhausted by 2031, and with the lead time required to implement structural changes, action cannot be deferred.
- 16.2 Over the past 11 months, the Policy & Resources Committee has undertaken extensive work to explore all viable options – both for raising revenue, and for reducing expenditure. The Committee's recommended package brings together that work into a balanced and coherent set of measures. It adopts a more measured and iterative approach to reform, addressing immediate fiscal pressures while maintaining flexibility for the future.

- 16.3 Importantly, this package is not simply about moving towards closing a funding gap. It is about putting in place a more effective, more resilient, and more sustainable system for the long term. For the community, this means a tax structure that is less heavily reliant on income alone, helping to spread the burden more evenly across society and across generations. It supports those who need it most through targeted mitigations, while seeking to ease the pressure on lower and middle earners through reductions in income tax and an allowance on social security contributions. It will also provide assurance to international ratings agencies with respect to Guernsey's financial resilience and sustainability.
- 16.4 At the same time, the package is designed to protect what matters most to islanders: essential public services, including healthcare, education and support for those who are vulnerable delivered at better value for money. By acting now, the States can avoid more abrupt or severe measures in the future, providing greater certainty and stability for households and businesses alike.
- 16.5 The proposals also ensure that the position can be reviewed as greater clarity emerges on future revenue and wider economic developments – particularly in relation to economic growth, Pillar 2 and other potential new income streams. The States can take stock and consider whether any further changes are required, or whether they can be avoided.
- 16.6 On that basis, an assurance review in 2030 will provide an opportunity for the Assembly to assess the impact of these changes once they have had time to bed in, alongside a clearer understanding of the wider fiscal and economic outlook. This provides an important safeguard, ensuring that any further decisions are grounded in evidence and can be taken proportionately.
- 16.7 Taken together, these changes provide a clear and credible path towards long-term financial sustainability in a way that protects key services, supports the community, and places the islands on a stronger and more secure footing for the future.
- 16.8 **The Committee therefore commends the 2026 Tax Reform Package to the Assembly and to the islands. It represents a pragmatic and blended approach: reducing the standard rate of personal income tax; simplifying reforms to social security contributions, and introducing a low-rate GST at 3%, alongside targeted measures on corporate taxation, transport and public expenditure.**

## 17. Compliance with Rule 4

- 17.1 Rule 4 of the Rules of Procedure of the States of Deliberation and their Committees sets out the information which must be included in, or appended to, motions laid before the States.

- 17.2 In accordance with Rule 4(1)(a), the Propositions which this Policy Letter accompanies relate to the super priority set out in the States' Government Work Plan (Billet d'État II of 2026) to 'Decide and deliver tax reform'. This forms part of the 'Island Resilience' area of focus.
- 17.3 In accordance with Rule 4(1)(b), the Propositions relating to income tax, social security contributions and GST have been developed following significant industry wide and public consultation and engagement. Reducing costs has involved consultation with all Principal Committees and the elements of the Propositions relating to transport taxes have been developed in conjunction with the Committee *for the* Environment and Infrastructure. The Committee would also like to thank the Committee *for* Employment & Social Security for its thoughtful input into the elements of the Propositions around social security reform, notwithstanding that there remain some aspects on which the committees' views do not wholly align.
- 17.4 In accordance with Rule 4(1)(c), the Propositions have been submitted to His Majesty's Procureur for advice on any legal or constitutional implications. She has advised that there is no reason in law why the Propositions should not be put into effect.
- 17.5 Rule 4(1)(d) concerns the financial implications to the States of carrying into effect the proposals which are set out throughout this policy letter, and in particular in sections 9, 10 and Appendix 7.
- 17.6 In accordance with Rule 4(2)(a), the Propositions relate to the duties of the Committee to co-ordinate policy including leading the policy planning process, the allocation and management of resources, including the States' budget and facilitating cross-committee policy development.
- 17.7 In accordance with Rule 4(2)(b) of the Rules of Procedure of the States of Deliberation and their Committees, it is confirmed that the Propositions above have the unanimous support of the Committee.

Yours faithfully

H L de Sausmarez  
President

Y Burford  
Vice President

A Niles  
C N K Parkinson  
S J Falla

## Appendix 1.

### Worked illustrations of intergenerational inequality

A1.1 The examples below are included to provide worked examples of how the evolution of public services over a 70 to 80 year time frame has impacted different generations.

- **Someone starting work in 1950** might expect to receive **six times** what they contributed in social security contributions over the course of their life via the State pension alone (with suitable adjustments for inflation). They will also have been entitled to specialist medical benefit from their mid-60's and long-term care benefit from their late 60's meaning these services would have been available as their needs began to increase.
- **Someone starting work in 1986** might expect to receive around **twice** what they contributed in social security contributions over the course of their life via the State pension. They will have been covered by specialist medical cover and long-term care benefit for most of their life, but they will likely have to pay for a greater share of their own long-term care than the first example.
- **Someone starting work in 2026** might expect to receive around **one and a half times** what they contributed in social security contributions over the course of their life via the State pension. They will have been covered by specialist medical cover and long-term care benefit for their whole life, but on the current projections the long-term care fund will be exhausted before they are likely to need it.

## Appendix 2.

### Detailed expansion of changes incorporated in the preferred 2026 Tax Reform Package compared to the package agreed in November 2024

A2.1 The 2026 Tax Reform Package includes most of the primary levers included within the original Resolutions but applies these in a more gradual manner. This appendix provides more detail on these changes, why they are being proposed and their impact on business and households, separately and in combination.

#### ***Reducing the initial rate of GST from 5% to 3%***

A2.2 **Why is this being proposed?** There is significant concern about the impact a GST might have on inflation at its introduction, particularly given the current high level of uncertainty around inflation in the current climate. While compensation for the impact on prices is incorporated into the overall package agreed in November 2024, it is a large adjustment for the economy to absorb in one go.

Approaching this in a phased way reduces the upward pressure on inflation from 3.2% at implementation to around 1.9%, which means inflation at implementation will be much closer to the normal range of variation in RPIX.

A2.3 **What is the impact on revenue?** This has a significant impact on the projected revenue from the previously approved package, reducing them by around £30m. Even with adjustments to offset this in other areas, this reduces the net revenue from the package.

A2.4 **What is the impact on households and businesses of the proposed change?** Reducing the rate will mean the increase in prices will be lower. This will reduce the negative impact of inflation on household costs.

For businesses, if it is assumed the GST is passed in full to consumers, there may be less difference. The administration of the GST is the same regardless of the rate, but there may be less impact on those businesses who are most sensitive to marginal consumption impacts.

#### ***Reducing the social security contribution rate for employers (current 7.1%, November 2024 package 8%, 2026 package 7.6%)***

A2.5 **Why is this being proposed?** Feedback from industry engagement has highlighted that employers have already faced significant increases in staffing costs as a result of changes in policy over the last few years. This includes the increases in employer social security contributions made to date, significant increases in minimum wage in real terms and the roll out of compulsory (for

employers) secondary pensions. The expressed concern was that the further increase in employer social security contributions proposed would place undue pressure on employers and could have negative consequences for the workforce, prices and Guernsey's competitiveness as a place to work.

The proposal included within the Committee's preferred 2026 Tax Reform Package is that the increase in employer social security contributions would be limited to 7.6% – the maximum level set in principle as part of the phased increase in social security contributions agreed in 2022.

- A2.6 **What is the impact on revenue?** Limiting the increase in employer contributions reduces net revenue by around £6m relative to the previously approved package.
- A2.7 **What is the impact of this change?** This change reduces the potential negative impacts on the labour market, such as reduced employment or slower wage growth.

***Removing the extension of social security contributions for employees and self-employed to include unearned income***

- A2.8 **Why is this being proposed?** Concerns were raised from various parties about the potential of extending the application of social security contributions on unearned income to employees and self-employed people (noting that non-employed contributors and pensioners are already liable on this income). Concerns varied between different stakeholders but included:

- The potential impact on the private rental market if employed and self-employed landlords become subject to contributions on rent for the first time, and specifically the risk that it might drive landlords out of the market, increasing supply constraints and exacerbating problems of unaffordable levels of rent.
- The negative impact on employment and workforce participation rates by removing the incentive for those with significant unearned income to maintain some employment to reduce their liability.
- The impact on Guernsey's competitive position of bringing additional income into charge (albeit capped by the Upper Income Limit).

The Policy & Resources Committee felt that these concerns were significant enough that this should not be progressed until further work can be done to review the potential unintended consequences, particularly in relation to the private rental market.

- A2.9 **What is the impact on revenue?** Removing this feature negatively impacts projected revenue by around £5m.
- A2.10 **What is the impact of this change?** This change would reduce the impact of the package on employed and self-employed people with significant unearned income when compared with the previously approved package. These people tend to be over 50 but under pension age, who have accrued enough wealth to be semi-retired.
- A2.11 Removing this feature does retain the existing inequity in the social security contributions system regarding the different treatment of unearned income in different contribution classes.

***Adjusting the allowance applied to social security contributions (current £nil, 2024 package £15,800, 2026 package £11,122)***

- A2.12 **Why is this being proposed?** In order to balance the reductions in revenue from the measures described above (in particular a lower 3% GST rate), it is necessary to make proportionate reductions to the measures applied to mitigate the impact on lower- and middle-income households.

With a lower rate of employer social security contributions and a lower rate of GST, it is not financially feasible to match the allowance provided to employed and self-employed contributors to the personal income tax allowance. Instead the allowance will be set to match that currently available to non-employed contributors and pensioners (currently £11,122).

- A2.13 **What is the impact on revenue?** Reducing the allowance on contributions from the figure set in the previously approved package means less benefit for contributors, and therefore a smaller reduction in the expected revenue from employed and self-employed contributors. This approximately balances the impact of targeting a smaller increase in employer contributions and removing the extension to unearned income. The overall outcome for the generation of revenue from the social security contribution system is approximately the same as it would have been had the proposals been implemented as agreed in 2024 - that is approximately the same as the revenue forecast for 2026.
- A2.14 **What is the impact of this change?** This change reduces the degree of redistribution in the package. While those on lower incomes will still be better off on average overall, it would be by a lesser amount. Relative to the proposals as originally agreed in 2022, this reduces the benefit of the allowance by up to £398 a year for an employed person (while retaining a monetary benefit of up to £945 from the smaller allowance).

Because allowances are withdrawn for higher income households, the impact on higher income households is much less.

***Adjusting the threshold for the application of the 20% higher personal income tax rate (current n/a, 2024 package £33,550, 2026 package £28,000)***

A2.15 **Why is this being proposed?** As above, in order to balance the reductions in revenue from the measures described, it is necessary to make proportionate reductions to the measures applied to mitigate the impact on lower- and middle-income households.

Reducing the threshold at which the 20% higher rate tax band is applied reduces the benefit of the 15% band for those with an income above £28,000 (those with an income below this will be unaffected). The overall impact is to reduce the degree of redistribution achieved via the personal tax system, particularly for middle income households.

A2.16 **What is the impact on revenue?** This change reduces the extent of revenue lost by reducing the headline rate, increasing the overall net revenue of the package by around £8m.

A2.17 **What is the impact of this change?** Lowering this threshold will have no impact on anyone with an income below £28,000 but it will mean that anyone with an income above that level may pay more income tax than they would have done under the original proposals agreed in 2024 proceeded unamended (but they will still pay less than they do now).

In monetary terms the maximum impact of the change on any one person is equal to around £275 when compared with the previously approved package. Considered relative to income this will have the largest impact on individuals with an income around £33,000 to £35,000. For those with much higher incomes they will see the same monetary reduction, but this will represent a much smaller proportion of their income.

***Proportional adjustments to benefits (current n/a, 2024 package 3.2%, 2026 package 1.9%)***

A2.18 The benefit adjustments incorporated within the 2026 Tax Reform Package will also be adjusted in proportion to the changes in other elements. This will mean:

- A smaller reduction in income support payments because of reduced tax and contributions liability.

- A smaller increase in income support payments, pensions and other benefits to reflect the impact of inflation on benefit rates, (noting that this will still be applied at implementation rather than people waiting for the next routine uprating the following January).
- Proportionally lower Essential Costs Relief Payments, to reflect the lower GST rate.

*Combined impact on households*

A2.19 The combined impact of the changes is that while the basic shape of the household impact remains the same, with lower income and middle-income households being on average better off than they are now, the extent of the redistribution is less, reflecting the lower net revenue gain.

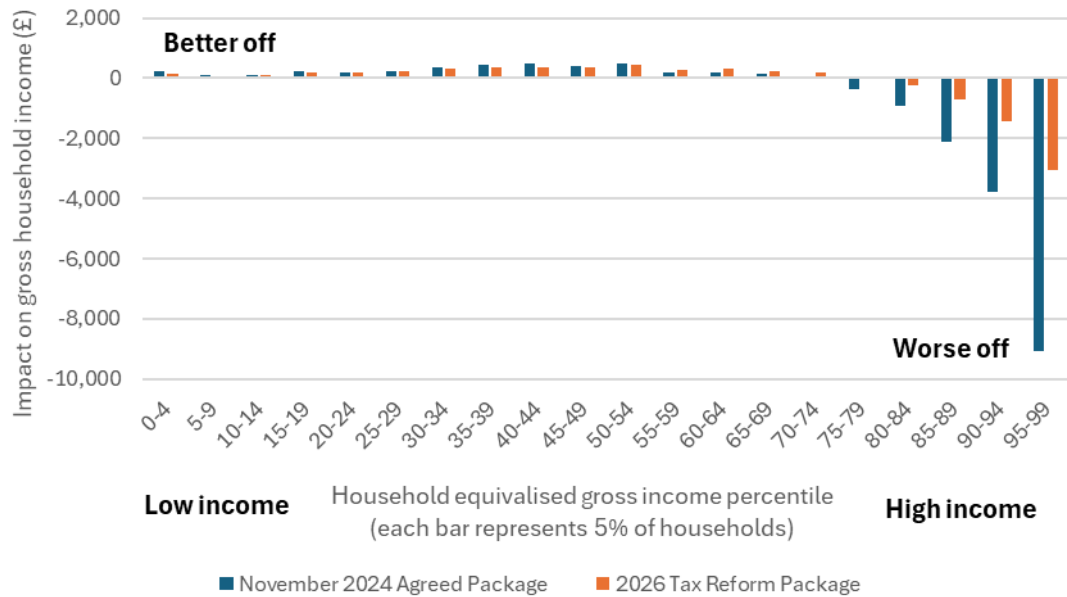
A2.20 This means that:

- Lower income households (in the bottom third of the income profile) will on average still be better off but by a little less than they might have been under the November 2024 proposals because they gain less benefit from the redistributive measures. This benefit still exceeds the impact of reducing the GST rate to 3%.
- Middle income households (the centre third of the income profile) will on average be better off by about the same amount as they might have been under the November 2024 proposals because they will gain less benefit from the redistributive measures, and that is about the same as the impact of reducing the GST rate to 3%.
- Higher income households (the top third of the income profile) will be worse off but by less than they would have been under the November 2024 proposals because they will gain little benefit from the redistributive measures in the original proposals, and the impact of reducing the GST rate to 3% exceeds the impact of reducing those measures.

Figure A2.1: Comparison of the two approaches – percentage change



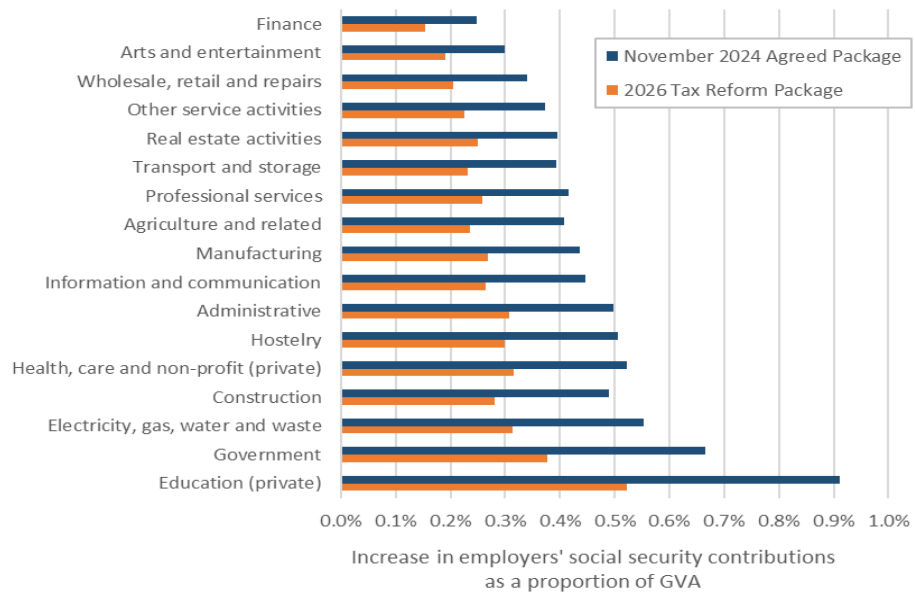
Figure A2.2: Comparison of the two approaches – monetary change



*Combined impact on businesses*

- A2.21 Overall the simplified application of the social security contributions should be easier for businesses to implement and the reduced employer contributions means less upward pressure on employment costs.
- A2.22 Assuming the GST is passed in full to consumers, the application of a lower rate will have less pressure on prices, but requires no less administration than a 5% GST.

Figure A2.3: Comparison of the impact of employer social security contribution increase



**Appendix 3.**

**Tax Review Sub-Committee Report on corporate taxes**



States of  
Guernsey

# Tax Review Sub-Committee Report

April 2026

# Sub-Committee Membership

## Political representatives

**Deputy Charles Parkinson (Chair)**

**Deputy Gavin St Pier**

**Deputy Haley Camp**

(observing on behalf of the Committee for Economic Development)

## External members

**Mr Bill Dodwell**

International Tax Policy Expert

Head of Tax Policy at Deloitte UK between 2005 and 2018 following a career in the field of taxation. President of the Chartered Institute of Taxation in 2016/17, and Chair of its Technical Committee for six years. Tax Director at the UK Office for Tax Simplification from 2019 until its closure in 2023. Currently a non-executive member of the board of HM Revenue and Customs, member of the Closing the Tax Gap sub-committee and Editor in Chief of Tax Adviser magazine.

**Professor Peter Harris**

International Tax Policy Expert

Professor of Tax Law at the University of Cambridge since 2014, where he is also Director of the Centre for Tax Law. Professor Harris has taught courses at 16 universities across 9 countries. The author of five international tax books and holder of key editorial posts in the tax field. Technical Assistance Advisor for the International Monetary Fund since 1998 (over 80 missions) and has assisted numerous countries in drafting reformed tax legislation and developing tax treaty policy. Professor Harris has also acted as a consultant to the Department of Economic and Social Affairs of the UN and contributed two chapters to the United Nations Handbook on Protecting the Tax Base of Developing Countries.

# Sub-Committee Membership

## External members

### **Mr Mike Williams**

International Tax Policy Expert

Director of Business and International Tax at HM Treasury from 2010 to 2024 (having been Director of International Tax from 2004 to 2007 and Director of Personal Tax and Welfare Reform from 2007 to 2010), responsible for all business taxes, including company tax and value added tax, and for property and capital gains taxes. UK delegate to the OECD's Committee on Fiscal Affairs from 2004 to 2024, deputy chair for four years. Chaired the ad hoc group that created the multilateral instrument to change countries' bilateral tax treaties to reflect the outcomes of the OECD-G20 BEPS project.

## Advisor

### **Mr Tony Mancini**

Local Tax Expert

Tony holds a BA (Hons) in Combined Arts from the University of Liverpool and qualified as a Chartered Tax Adviser in 1994. HM Inspector of Taxes before joining KPMG in Scotland in 1991. He worked at KPMG and other Big Four firms until moving to Guernsey in 2003. In 2006, he rejoined KPMG in Guernsey, becoming a Partner in 2007 until his retirement in September 2025, during which he was Head of Tax for the Crown Dependencies from 2022-2025. Member of the British Venture Capital and Private Equity Association (BVCA) Tax Committee from 2018 to 2025. Chair of the Guernsey International Business Association (2019-2021) and previously a board member of Guernsey Finance. Non-voting member of Guernsey's Committee for Economic Development from 2021 to 2025. Involved in various industry working parties with the Revenue Service over the last 17 years, assisting on many aspects of local and international tax policy.

# Foreword

Context is key. The task of this Sub-Committee is to review the scope for amending or extending Guernsey's corporate income tax system, and consider whether this offers opportunities for revenue raising as an alternative or in addition to the personal and consumption tax measures agreed in November 2024.

This is not an academic exercise, and it cannot begin with a blank sheet of paper. Guernsey has a high value service economy, with strong expertise in international financial services. As such it operates in an intensely competitive global market, where reputation is critical and the pressure to meet international expectations is high.

It is estimated that around 46% of all States of Guernsey revenue comes either directly, (through corporate income tax) or indirectly (through tax on the distribution of profits to individuals, or via personal income tax and social security contributions paid by or on behalf of employees) from the financial services sector. In this context, any change in the corporate tax system comes with economic risks. A core function of this panel is to carefully weigh these potential risks against the potential rewards; to consider both the academic arguments and the practical realities; both the long-term goals and the short-term requirements.

These considerations include Guernsey's capacity to make significant changes to its tax regime in isolation from its closest peers and the competitive and regulatory risk that might pose. The advantage of Pillar 2 of the OECD/G20 Inclusive Framework BEPS initiative is that it is a global standard – in applying it Guernsey is not creating a competitive disadvantage relative to its closest peers. Nonetheless, while it is expected to deliver a significant increase in revenues for the Bailiwick, there are credible reports that its application has also created some loss of business. Both the short- and long-term consequences are still to play out. Until the first round of reporting is completed in 2027, Guernsey cannot be sure how much revenue it will gain or how much economic activity it will lose in the short-term as a result of its application. The longer-term effects will take substantially longer to play out, particularly since the international landscape on corporate tax is likely to continue to evolve.

This report considers a range of options, from modifications to the existing corporate tax structure, which pose limited risk, but also offer limited returns; to wholesale reform of the corporate tax system, which might address issues of fairness, but come at the risk of increased international scrutiny in the medium-term with the uncertainty and economic risk that might accompany that.

What has become evident is that there is no simple answer and no silver bullet. There is a gap between what might be the longer-term objectives for the tax system, and what is practical and prudent in the short-term given both the local and global economic environment in which this decision rests.

Globally there has been a steep decline in economic growth rates in developed economies since the financial crisis of 2008, particularly since this has been followed by significant economic and inflationary pressure from the Covid-19 pandemic, the Russian invasion of Ukraine and the current conflict in the Middle East. This means that economic growth has not played as significant a role in resolving the gap in public finances as was anticipated at the introduction of the Zero-10 corporate tax regime in 2008. Looking forward, it also highlights the need for Guernsey's tax base to provide certainty, stability and resilience where possible.

This report does not recommend a fundamental reform of Guernsey's corporate tax system at the current time. Guernsey must first address the immediate financial issues with the measures best suited to doing so in the short- to medium-term and allow these changes to bed in.

In the longer-term, like any good government, Guernsey should continue to ask the fundamental questions about the role taxation plays in the community. Where is the appropriate balance between the provision of public services and taxation for Guernsey's community? Is there a fair and appropriate balance between the taxation of individuals and corporate entities? Does the tax system meet international standards and support the economy? How do factors like demographic change, climate change, and technological advancement change Guernsey's outlook and what roles does taxation need to play in addressing these challenges?

In presenting its report the Sub-Committee seeks to balance the immediate and longer-term considerations. The recommendations presented are intended to support a pragmatic way forward.

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# 1. Executive summary

- 1.1 The Tax Review Sub-Committee has reviewed options for reforming Guernsey's corporate tax system. This forms Workstream 2 of a multi strand approach to tax reform and public service delivery (see section 2).
- 1.2 Guernsey's current system, termed 'Zero-10' and summarised in section 2, was introduced in 2008, alongside the Isle of Man and Jersey because the EU Code of Code Group on Business Taxation (the Code Group) deemed the previous regime "harmful", on the basis that it offered preferential treatment to international business. Although the Zero-10 regime is not typical internationally, and domestically faces some criticism around its fairness, it is compliant with the Code of Conduct and provides a competitive tax basis for Guernsey's core industry.
- 1.3 The introduction of OECD/G20 Inclusive Framework Pillar 2 rules is expected to increase corporate tax revenues by approximately £40 million a year, offering a significant revenue uplift without the risk of attracting unwelcome international scrutiny. However, the revenues remain uncertain. The first round of reporting will not be complete until 2027 and it is likely to take three to five years for behavioural changes to play out and for a settled picture to emerge.**
- 1.4 While the Sub-Committee might make different recommendations were the tax system being designed from a blank slate, major corporate tax reform (such as a move to a territorial system) would present considerable economic risk and cannot deliver sufficient revenues to address Guernsey's immediate financial challenges. Guernsey's reliance on highly mobile international financial services means that any substantial change could expose the Island to uncertainty, including potential review by the Code Group and the OECD Forum on Harmful Tax Practices (FHTP), and make Guernsey less competitive. Further, if Workstream 1 is progressed to address the immediate financial requirements, implementing major reforms to the corporate tax base within the same time frame as introducing a Goods and Services Tax (GST) risks overloading the business community and the tax administration with too many new administrative activities.
- 1.5 The Sub-Committee therefore concludes that the additional revenues achievable through a territorial system are insufficient to justify such risks at this time.**
- 1.6 Engagement with industry also highlighted the importance of maintaining broad alignment with the other Crown Dependencies, particularly Jersey. Although raising the existing 10% rate to 15% would not trigger international review, it would increase the risk of competition between the Islands and also other jurisdictions. **The Sub Committee therefore advises that any increase in the 10% rate should only be considered after engagement and dialogue with the other Crown Dependencies.**

- 1.7 The immediate changes, both in terms of the application of Pillar 2 and the potential introduction of a new consumption tax and changes to income tax and social security contributions, need time to become established before the next steps in the evolution can be considered in any detail. The Sub-Committee's recommendations therefore focus on relatively short- to medium-term options which might be applied alongside other changes, while recognising that the international environment on business taxation continues to evolve, and that in the longer-term further structural changes to Guernsey's corporate tax base may become necessary.

## Short term recommendations

- 1.8 Although significant structural reform is not recommended at this stage, the Sub-Committee has identified several targeted adjustments that could strengthen the existing corporate tax regime while maintaining stability.

### **Apply the intermediate (10%) company rate to entire corporate entity**

- 1.9 Currently, the 10% rate applies only to specific activities, creating complexity, volatility, and scope for errors in tax returns. Extending the 10% rate to cover the whole corporate entity undertaking these activities would simplify compliance and reduce the risk of revenue impacting corrections, though only modest additional revenue (up to £0.5m a year) is expected given some corporate entities are already in scope of the OECD/G20 Inclusive Framework Pillar 2 rules, and due to expected restructuring within the sector.

### **Extend the intermediate (10%) company rate to apply to registered businesses, taking into account the interaction with any other proposals resulting from Workstream 1**

- 1.10 Regulatory developments mean some businesses undertaking financial activities—such as accountants, legal firms, and other professional service providers—are now required to register with the Guernsey Financial Services Commission (GFSC). These firms form an integral part of the international financial services ecosystem. Given that regulation already underpins application of the 10% rate, extending the intermediate company rate to these businesses aligns with the current logic of Zero-10 and is likely to remain acceptable to the Code Group and the FHTP. Allowing for the fact that many of these businesses are already taxed as partnerships at the personal tax rate (20%), the net revenue raising is expected to be relatively modest (up to £2.5m a year).

While this group is considered less impacted by the introduction of a GST than others (such as retail), the application of Workstream 1 does require additional administration and other elements, such as increases in employer contributions, which will impact businesses. This should be considered when planning the implementation if a combination of measures is to be applied.

**Consider extension of the intermediate (10%) or higher (20%) company rate to apply to retail and construction businesses, taking into account the interaction with any other proposals resulting from Workstream 1**

- 1.11 If further extensions to non-zero rates are sought, the 10% or 20% rate could be applied more broadly to retail and construction. Larger retailers already pay 20% if their profits are in excess of £500k a year, and much of the construction sector is owned by locally resident shareholders whose profits are taxed at 20% on distribution. As such, the additional revenue potential is relatively limited (£3.4m–£8.1m at 20%). This option also carries some risk of being seen as diluting the primacy of the 0% headline rate.
- 1.12 These sectors may also be among the most affected by the introduction of a GST and will also be contributing more through increased social security contributions for employers if Workstream 1 is progressed. The timing of the application would therefore be important, if wider recommendations also include progressing Workstream 1, and it may be appropriate for these to be made at a later date.

**Consider limited increases to company fees or the introduction of a company levy, taking into account the interaction with any other proposals resulting from Workstream 1**

- 1.13 Consultation feedback indicates some willingness to consider higher annual company fees, although fixed-fee structures do not reflect company profitability and therefore remain a blunt instrument. Any changes must also be considered alongside the International Services Entity (ISE) Scheme within Workstream 1, which already proposes a fixed-fee approach for international financial services. Care must be taken to avoid inappropriate duplication.
- 1.14 As an indication of revenue raising potential, an additional levy set at £250 a year for each registered business is expected to raise additional revenue of around £5m. However, 75%-80% of this revenue is generated by companies which might also be captured by the ISE Scheme under Workstream 1. If, in the short-term, increases to fees are restricted to those entities not likely to fall under the ISE Scheme within a GST, the revenue is substantially lower, at around £1m a year.

**To progress Workstream 1**

- 1.15 While the Sub-Committee has not examined every technical detail, the Workstream 1 package is well developed and has the potential to deliver around £50 million in additional revenue. It includes measures designed to mitigate the impact of a new consumption tax on lower and middle income households. Although implementation would be complex for both government and business, the package offers a credible means of placing public finances on a more sustainable footing in the near term.
- 1.16 While not risk-free—particularly regarding short-term inflation and consumption effects—the risks are materially lower than those associated with major changes to the corporate tax system.

## Longer term recommendation (see Appendix 3)

- 1.17 As international tax standards continue to develop, Guernsey will need to adapt. Although future international requirements cannot be predicted, Guernsey may need to respond quickly as global standards evolve. Maintaining flexibility, clarity of purpose and a long-term strategic direction will be essential to safeguarding the Island's tax competitiveness and fiscal stability.
- 1.18 There are two advantages of Pillar 2 of the OECD/G20 Inclusive Framework BEPS initiative. The first is that, as a global standard, it provides an initial basis for an internationally agreed set of rules for how to determine company profits in an international context. Secondly, in applying Pillar 2, Guernsey is not creating a competitive disadvantage relative to its closest comparators.
- 1.19 Nonetheless, while it is expected to deliver a significant increase in revenues for the Bailiwick, there are credible reports that its application has also created some loss of business. Both the short- and long-term consequences are still to play out. Until the first round of reporting is completed in 2027, Guernsey cannot be sure how much revenue it will gain or how much economic activity it will lose as a result of its application. The longer-term effects will take substantially longer to play out, particularly since the international landscape on corporate tax is likely to continue to evolve.
- 1.20 There may be more revenue opportunities for Guernsey as these standards evolve, and the opportunity to align Guernsey's tax legislation to these standards on a broader basis and provide for Guernsey to develop a modernised and more internationally typical legal structure for corporate tax. There may also be new risks.
- 1.21 During this transition period, while both the implementation of Pillar 2 and any other changes Guernsey might implement in the short term become established, Guernsey should take the opportunity to shape a clear vision for its future tax base. Key questions include whether the Island will have the right mix of fiscal levers once the tax base is broadened, how best to balance different taxes in light of a highly specialised economy and an ageing population, and how Guernsey can build resilience to future international changes.
- 1.22 In line with its remit, the Sub-Committee therefore proposes a scope for a future piece of work to consider these longer-term strategic issues in detail (see Appendix 3).

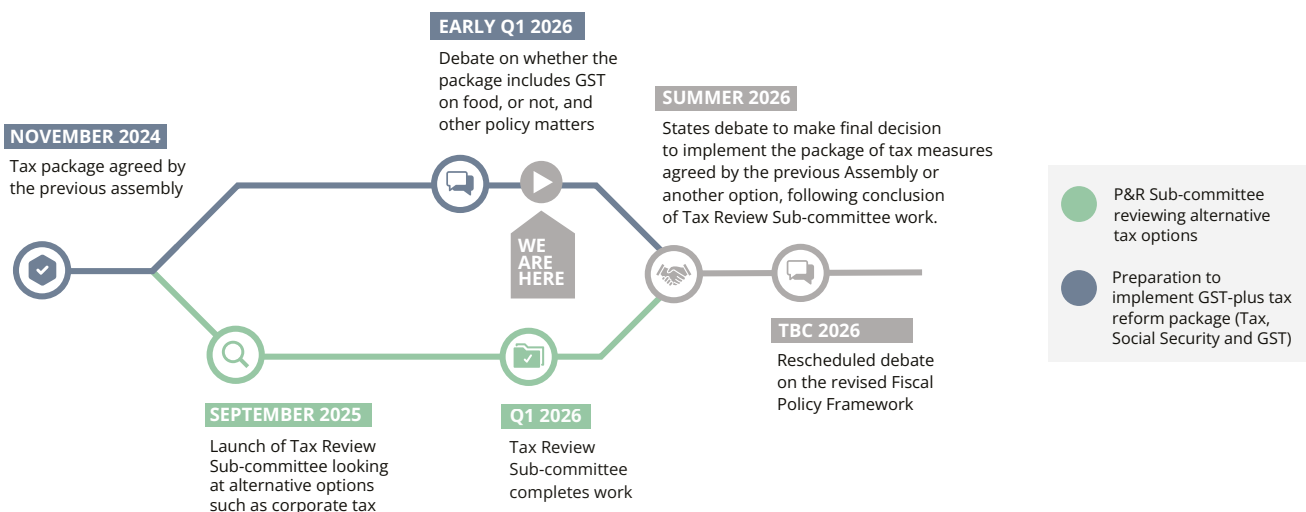
## 2. Background

2.1 In 2023, the last States of Deliberation resolved that the present financial situation in Guernsey is unsustainable<sup>1</sup>. In seeking to address this situation, the States resolved in November 2024 to introduce a package of measures<sup>2</sup> (now referred to as Tax Reform Workstream 1) incorporating: a reduction in the standard rate of personal income tax to 15% (with 20% becoming the higher rate applied to income above £32,400)

- a progressive restructure of the social security contributions system
- a broad-based consumption tax at a rate of 5%
- a pre-emptive increase in the rates of the States Pension, Income Support and other benefits payable
- an Essential Cost Relief Payment targeted at low-income households not receiving means tested benefits.

2.2 Following the 2025 General Election, the new Policy & Resources Committee committed to a dual approach to tax reform. This included launching a Tax Review Sub-Committee<sup>3</sup> to review alternatives (including investigating the possibility of reforming corporate tax), while continuing the preparation for implementing the Workstream 1 package, should the new States of Deliberation resolve in due course to proceed with it. This approach was intended to minimise any potential delays to the Workstream 1 programme should the States wish to progress it to completion, while allowing for the States to have a fully informed debate on the available options to enable a final decision for how best to proceed on tax reform in mid-2026.

### The timeline for tax reform



1 [States of Guernsey Billet d'État No III, The Tax Review Phase 2, Resolution 1](#), 15th February 2023

2 [States of Guernsey Billet d'État No XIX, Resolutions 1B and 1C](#), 8th November 2024

3 Tax Review Sub-Committee terms of reference, <https://gov.gg/taxreviewsubcommittee>

- 2.3 The Government Work Plan lists “decide and deliver tax reform” as a super priority (within the Island Resilience area of focus) for the duration of this political term to support sustainable economic growth<sup>4</sup>. This recognised that Guernsey has operated with a structural deficit for several years, with expenditure outpacing revenues and reserves being used to bridge the gap. This is unsustainable, particularly with increasing demands on pensions, health, children and long-term care, alongside the need to invest in critical infrastructure and housing. This super priority commits the States to making a definitive decision on tax reform and implementing agreed changes to taxation and social security during this term. Achieving this will support those most in need, while providing fiscal stability and the funding required to progress other important workstreams and protect essential services.
- 2.4 The Sub-Committee is charged with delivering recommendations to the Policy & Resources Committee regarding the best package of sustainable revenue raising measures over the next 10 years. The Sub-Committee’s terms of reference state that in scope are:
- The taxation of company profits and whether a system of territorial corporate tax should be implemented having due regard to the need to maintain a tax system which is competitive, internationally acceptable and maintains tax neutrality
  - A review of the tax package previously developed and agreed by the States which consists of a restructuring of the social security contributions system, amendments to the rates and allowances of personal income tax, and a broad-based low-rate Goods and Services Tax, and
  - A terms of reference for future work which will consider and examine the ideal longer term tax structure.
- 2.5 The Sub-Committee considered its recommended package of tax measures using the principles set out in the terms of reference. The tax system:
- must support the achievement of balanced public finances over the next ten years in a way that is economically and socially sustainable
  - should be transparent, credible and simple to understand and administer
  - should be resilient to demographic change
  - should improve resilience to economic shocks
  - must ensure that Guernsey remains both internationally competitive and compliant with international tax standards
  - should create reasonable certainty and stability to enable businesses and individuals to be able to plan for the future
  - should ensure that all individuals and businesses who benefit from Guernsey’s public services make a fair and appropriate contribution
  - for individuals, should reflect their ability to pay and generally be progressive
  - should seek to achieve tax equity, and
  - should support the delivery of environmental and social objectives if they can be achieved without breaching the previous principles.

4 [States of Guernsey Billet d’État No II, Government Work Plan 2026-2029, Resolution 2](#), 30th January 2026

- 2.6 The Sub-Committee's investigations do not extend to the following areas which were agreed as out of scope:
- Personal income tax (beyond the changes considered within Workstream 1)
  - Capital taxes including inheritance tax
  - Transport taxes which are being considered through a separate workstream
  - Income streams which may in the future be available from offshore wind contracts due to the uncertainty and likely timescales involved in the project, and
  - Reductions in expenditure, as this responsibility lies with the Policy & Resources Committee and the States of Deliberation.
- 2.7 The Sub-Committee membership includes two political representatives of the Policy & Resources Committee and three international tax policy experts. There is also a local tax expert providing advice to the Sub-Committee, together with a political representative of the Committee for Economic Development who attends as an observer.

## Fiscal developments since Zero-10

- 2.8 Zero-10 was implemented in 2008 in response to a determination from the EU Code of Code Group (Business Taxation) that key aspects of the former corporate tax regime were harmful, and specifically that it offered preferential treatment to international businesses relative to domestic businesses.
- 2.9 Initially, Zero-10 applied a standard rate of tax on corporate income of 0%, with an intermediate company rate of 10% applied to banking activities. A higher 20% rate was applied to regulated utilities<sup>5</sup> and property/land ownership. Estimates suggest that in this original form, Zero-10 resulted in a loss of revenue amounting to around £89m a year at 2025 prices, which was expected to be offset by a combination of increases in taxes, reductions in public spending and higher economic growth.
- 2.10 The intermediate 10% company rate was subsequently extended (between 2013 and 2016) to include other financial service providers that are regulated by the Guernsey Financial Services Commission (GFSC)<sup>6</sup> such as domestic insurance, fiduciary services, international insurance management, and fund and investment administration. The 20% rate has also been expanded to include additional activity, such as large retail business and the cultivation and use of cannabis.<sup>7</sup>

<sup>5</sup> [The Regulation of Utilities \(Bailiwick of Guernsey\) Law, 2001](#)

<sup>6</sup> [Industry Sectors in Guernsey — GFSC](#)

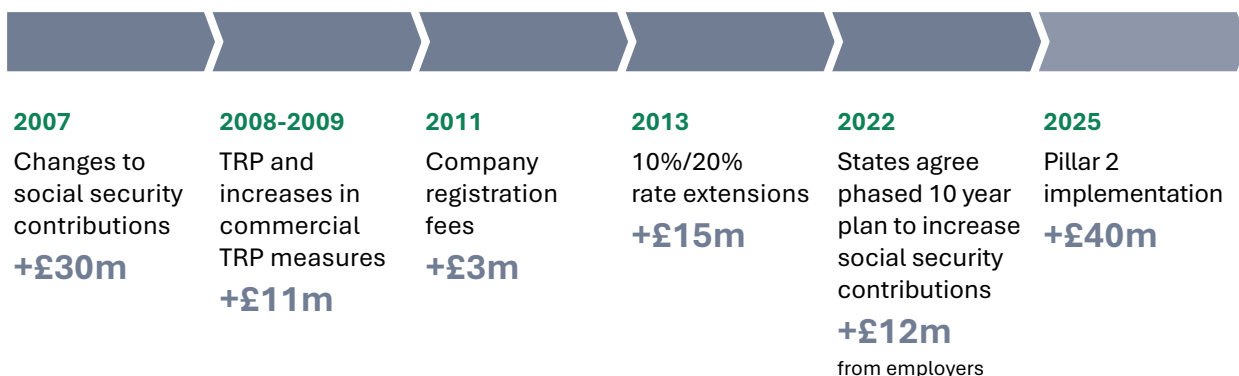
<sup>7</sup> [Tax information for companies - States of Guernsey](#)

2.11 Broader changes to the tax treatment of businesses and employers have also been applied in the intervening period. Some of these changes were tied specifically to the implementation of Zero-10 and intended to recover some of the projected loss of revenues from corporate entities (and in some instances began before the formal implementation of Zero-10), while others have been implemented later. These include:

- increases in social security contributions<sup>8</sup> from employers , including a significant increase in the upper limits applied and increases in the rate;
- the conversion of Tax on Ratable Value to Tax on Real Property (TRP) with a significant increase in rates applied to businesses; and
- increases in company fees.

**Figure 2: Revenue raising since Zero-10**

**Recent revenue raising from non tax and tax measures**



2.12 Guernsey is a member of the Inclusive Framework on Base Erosion and Profit Shifting (BEPS), a global body of over 145 countries and jurisdictions, supported by the OECD and the G20. In 2023, the Inclusive Framework reached agreement on a global minimum corporate tax to be borne by the largest global multinationals (known as “Pillar 2”). The reform seeks to set a minimum corporate tax charge at 15% for entities with a global turnover in excess of €750m.

2.13 Accordingly, Guernsey introduced corporate tax reforms with effect from 1 January 2025 to implement Pillar 2. This levies a 15% effective corporate tax on activities attributable to Guernsey-based entities and places of business of very large multinational groups via a Qualified Domestic Minimum Top-up Tax and a Qualified Income Inclusion Rule. These require companies in scope to “top-up” the tax paid on their activities in Guernsey to a total effective tax rate of 15%.

2.14 Tax receipts arising from Pillar 2 are forecast to amount to £40m in 2026. While these are incorporated as accrued income in the annual Budget, revenues will not be collected until the first round of returns are submitted and processed in 2027, and there is still uncertainty around their ultimate value.

2.15 However, the nature of corporate tax receipts is inherently volatile. Even in large jurisdictions, taxes on company profits are among the most volatile sources of revenue. In Guernsey, this is exacerbated because receipts are dominated by a relatively small number of larger companies who are particularly sensitive to both global conditions and who have a high degree of mobility.

8 [Ten year plan to increase Social Insurance Contributions](#), States Meeting 13 October 2021

- 2.16 More than half of Guernsey's current corporate tax receipts are generated by just ten businesses (a little under £50m in 2023), most of which are in scope of Pillar 2. The same companies and their related employing entities contributed a further £13m in personal income tax and contributions on their employees' earnings. This means revenues are vulnerable both to shifts in the profitability of this small group of companies and potential changes in behaviour, and it is not clear that Pillar 2 will remove this vulnerability.
- 2.17 Given that one of the key drivers of this review is addressing a long-term structural issue with revenues, the Sub-Committee considers the volatility of corporate tax receipts an important part of its considerations.

## 3. Current fiscal and economic situation

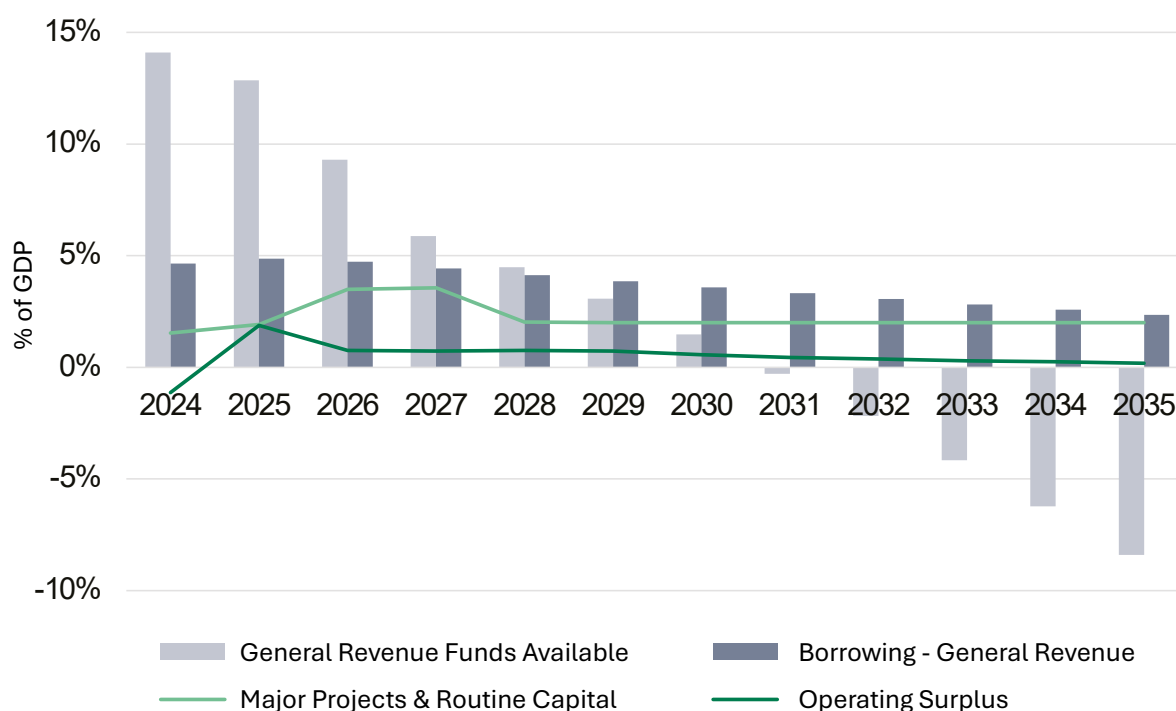
### A structural deficit

- 3.1 In resolving in 2023 that Guernsey's financial position is unsustainable, the previous Assembly acknowledged that Guernsey faces a growing gap between its long-term income and expenditure requirements.
- 3.2 While the accounts for 2025 are expected to show a surplus in year, the accounting position does not provide a full illustration of the underlying challenges. A structural deficit is distinct from an accounting deficit in that it attempts to ascertain the underlying financial position, adjusting for factors like the cyclical swings in income and expenditure resulting from the movement through the economic cycle and one-off pressures. This is generally established by examining the time-series of accounting deficits to establish a "normal" level for various different factors.
- 3.3 In Guernsey's current circumstances, this means adjusting for the volatility of revenues from corporate tax and investment returns, acknowledging that depreciation defined in line with accounting standards underestimates the cash requirements needed to support infrastructure investment in the island, and the long-term under funding of the social security Funds when considered on an actuarial basis.
- 3.4 An estimate of the structural deficit was included in the 2026 Budget<sup>9</sup> based on the States' existing Fiscal Policy Framework. This placed the size of the current funding gap at £77m in 2026. This estimate assumes that the desired level of infrastructure spend is 2% of GDP, and that this is provided entirely from General Revenue. It also makes no provision for any requirements to maintain or increase the value of the States' reserves, which are projected to decrease if the current path of income and expenditure is maintained.

<sup>9</sup> <https://parliament.gg/parliamentary-business/assets/propositions/P2025-121>

3.5 The most evident symptom of this structural deficit is the projected erosion of the States' financial reserves over time. As shown in Figure 3 the States' available financial reserves have reduced significantly relative to GDP in recent years, despite a persistent under investment in major projects relative to the States' own Fiscal Policy Framework objectives. Without tax reform the reserves are projected to reduce further over the next 10 years, because the current revenues are not sufficient to support both the day-to-day cost of providing public services and the necessary investment in infrastructure. The analysis suggests that over this period the States require additional resources equivalent to around 2% of GDP (£70m in current terms) to prevent its net debt position worsening while sustaining its target level of infrastructure investment.

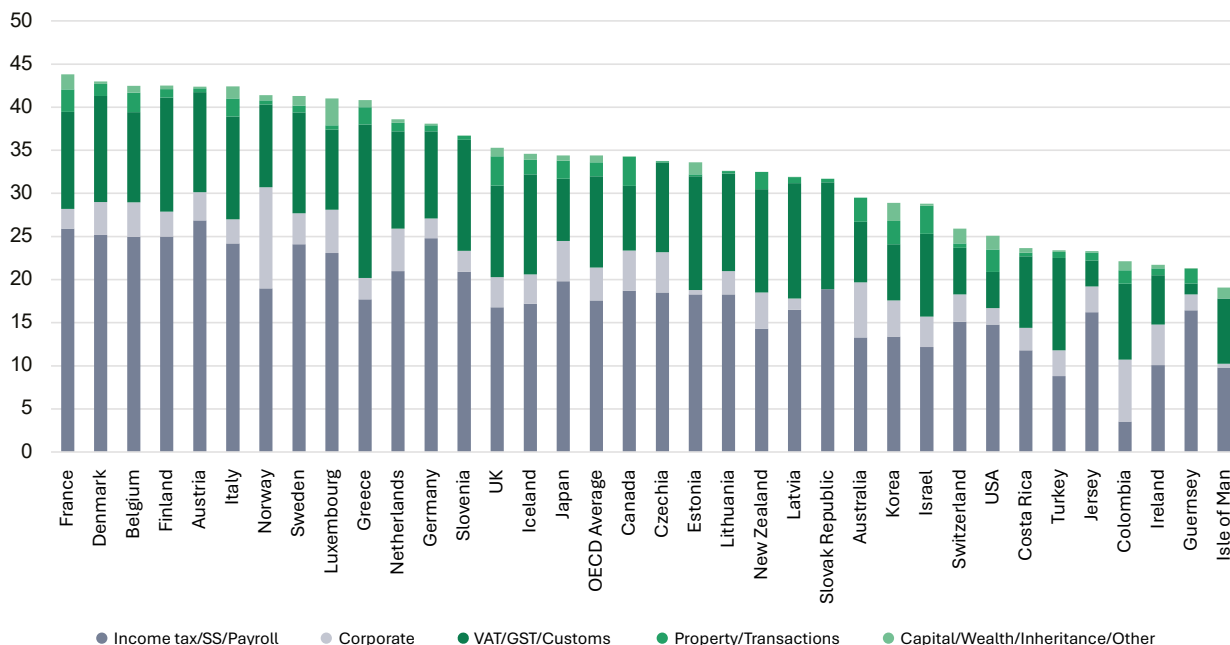
**Figure 3: Change in reserves**



## A narrow tax base and reliance on personal income tax

3.6 The chart in Figure 4 illustrates that Guernsey’s tax base is relatively small, estimated at around 21% of GDP in 2024. By comparison, Jersey’s tax base is slightly larger (around 23% of GDP) and the Isle of Man’s slightly lower (estimated at around 19% of GDP).

Figure 4: OECD Sources of Tax Revenue in 2023-2024 as a % of GDP<sup>10</sup>



3.7 In Guernsey, around three quarters of all tax revenue is raised from individuals or their employers in the form of social security contributions and personal income tax. This compares to 70% in Jersey, 51% in the Isle of Man and an OECD average of around 57%. This means Guernsey’s tax base is more vulnerable to labour market shocks than most jurisdictions. However, the number of people in Guernsey of working age is reducing relative to the population as a whole, which means it is no longer practical to rely so heavily on this group for future revenues.

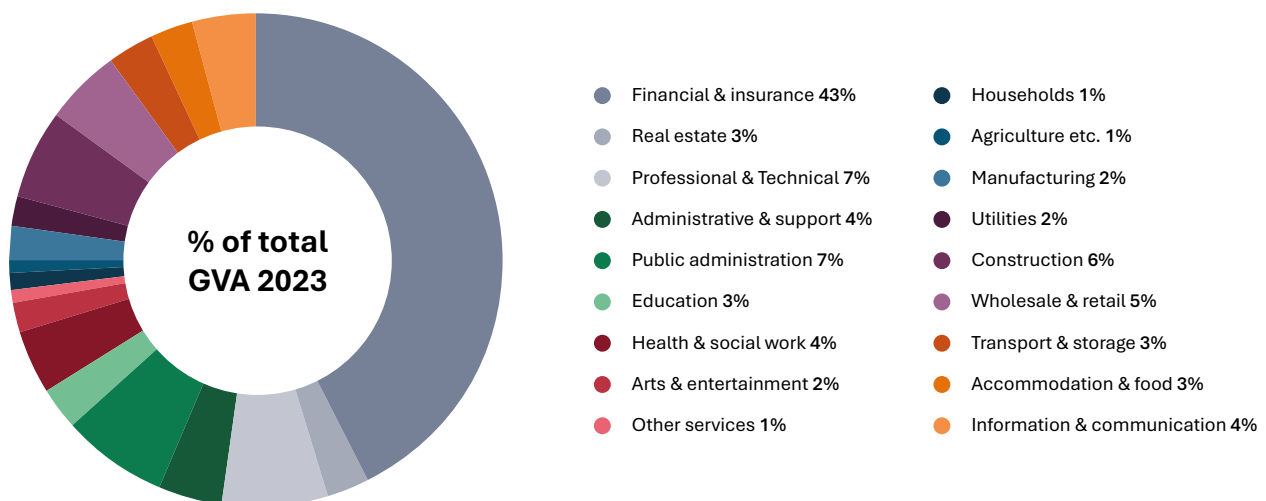
3.8 From 2025, with the inclusion of Pillar 2 revenues, it is estimated that 13%-15% of Guernsey tax revenues will be generated from taxes on corporate income. This compares to 12% for the OECD average in 2023.

10 [OECD Data Explorer](#) and States of Guernsey Treasury Calculations

## A highly specialised economy, with a high sensitivity to uncertainty and tax changes

- 3.9 Guernsey's economy is dominated by the finance and insurance sector, which according to the most recently published data from December 2023 contributes 43% of total Gross Value Added (GVA). This definition encompasses legal and accounting services which are closely related to the finance & insurance sector.
- 3.10 Figure 5 illustrates that outside of the finance and insurance sector (and excluding public administration), the contributions to GVA are relatively balanced in sectors including professional & technical (7%), construction (6%), wholesale & retail (5%), administration & support, information & communication and health & social work (all 4%)<sup>11</sup>.

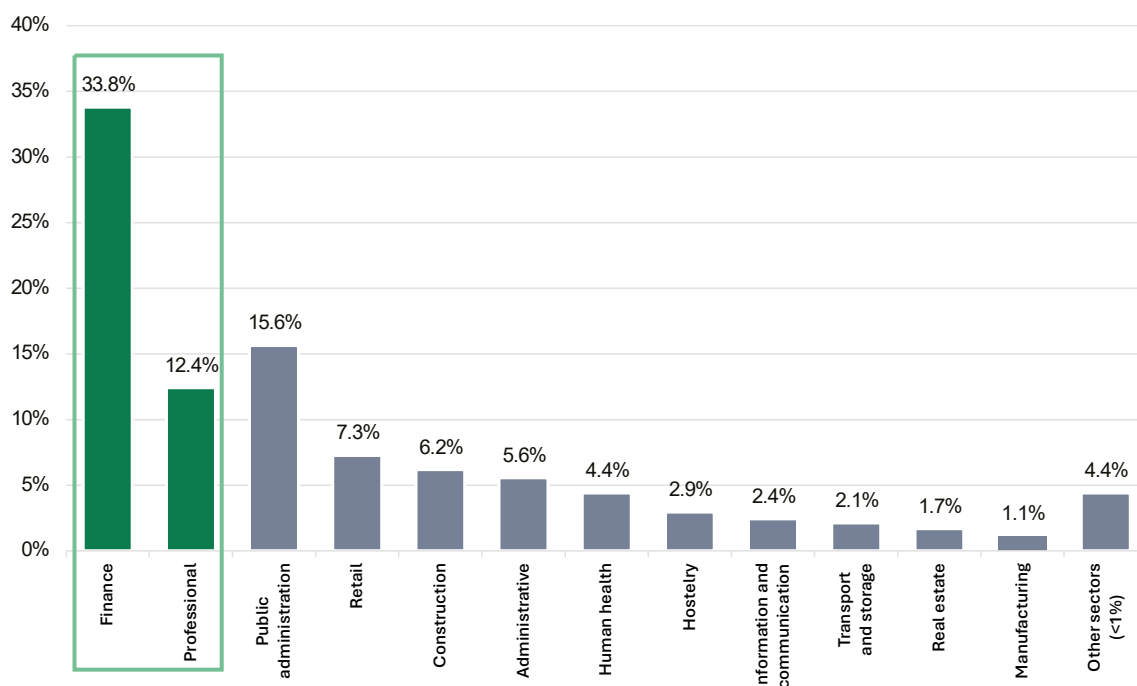
Figure 5: Split of GVA between industry sectors



11 Note that public administration covers all public sector activity including States operated schools and medical facilities.

3.11 This largest contribution to GVA is derived from a relatively small number of larger firms primarily in banking. Of the organisations employing over 50 people, 31% were in the finance sector. These firms not only employ a larger number of people than average, but they also pay above average salaries and therefore tend to be the largest contributors to personal tax and contributions revenues. Figure 6 illustrates that the finance & insurance and professional & technical sectors, the latter of which includes accounting and legal activity (which is closely related to the finance industry), contribute around 46% of all tax revenue. This includes corporate tax, personal income tax and social security contributions paid by and on behalf of their employees, as well as tax on distributions and income from those who are self-employed.

**Figure 6: Proportion of total direct tax revenue arising from sector activity in 2023**



3.12 The 10 entities paying the most corporate income tax all form part of the finance sector and eight of these are expected to be in scope of Pillar 2. In 2023 these ten entities generated 53% of total corporate income tax receipts (just under £50m) and a further £13m of personal income tax and social security contributions (via their employees). Although most of these 10 entities would not be directly affected by tax reform as they will be subject to Pillar 2 rules, it provides an example of the degree of concentration risk that exists in Guernsey’s economy and the extent to which potential disruption to this sector might risk government revenues.

- 3.13 It is important therefore to try and understand how entities within the finance sector, as well as other sectors, would react to a change in the corporate tax environment. This will vary depending on the scope and extent of any revised regime. Possible behavioural responses to changes in the tax regime include:
- A reduction in new business opportunities for entities with an international client base
  - Relocation of international service entities or their client base to another jurisdiction
  - Restructure, cessation or outsourcing of certain areas of business
  - Conversion of taxable income into capital gains (which is not subject to tax in Guernsey)
  - Adjustment of decisions around employment, earnings, benefits, distributions and investment – lower earnings growth and investment typically result in lower personal income tax and social security receipts and fewer jobs
  - Increase in fees and charges – higher costs typically have a negative effect on economic growth
- 3.14 Anecdotally, the continued uncertainty around Guernsey’s corporate tax regime has been to the detriment of the economy, with entities deferring decisions regarding expansion or entering the market until the position is more certain, or deciding to invest somewhere that the corporate tax regime is more stable. This too limits the potential for economic growth.

## 4. The options and revenue forecast

4.1 In line with its terms of reference, the Sub-Committee focused its considerations on the current system of corporate taxation and how this might be adjusted to increase revenues while also retaining Guernsey's competitive tax position. The Sub-Committee identified five corporate tax reform options for consideration. The options are as follows:

- **Option 1** – apply the 10% intermediate rate to full company profits, not just certain activities
- **Option 2** – expand the range of sectors to which the 10% intermediate and 20% higher rates apply
- **Option 3** – move from a Zero-10 to a Zero-15 regime, either unilaterally or in conjunction with the other Crown Dependencies
- **Option 4** – move to a territorial tax regime at either a 10% or 15% rate
- **Option 5** – introduce an annual, fixed levy of around £250 or £500 payable by all companies

4.2 A potential revenue analysis was carried out for each of the options identified. In carrying out the analysis, data from 2023 corporate tax returns were used, being the latest available at the time the analysis was undertaken. This provided data on corporate profits for around 24,700 entities from which an estimate of the impact of a change to the tax regime could be made.

4.3 This section sets out each of the identified options in detail, together with the potential revenues from each and whether the Sub-Committee is recommending it for further consideration by the Policy & Resources Committee.

### Approach to potential revenue analysis

4.4 As noted above, the revenue analysis for all options was undertaken based on reported company profits for the 2023 tax year. Companies that fall within scope of Pillar 2 were excluded from the analysis, so all potential revenues set out in this report are in addition to the £40m already anticipated from the implementation of Pillar 2.

4.5 A significant proportion of the profits made by holding companies in the 2023 data arose from either capital gains (not taxable in Guernsey), non-Guernsey source income (not taxable in Guernsey under a territorial regime) or dividends from Guernsey resident entities (which would be subject to corporate tax before distribution under tax reform). Where this is the case, these profits have been excluded from the analysis of potential revenues.

4.6 Where relevant, allowance has been made for the amount of personal tax paid on distributions to individual company shareholders to be reduced if the option being considered applies corporate tax at a higher rate than it is currently. This is on the basis that any tax paid on profits is deductible from the tax due on distribution.

- 4.7 Finally, allowance has been made for how companies may react to corporate tax reform under each option. The extent of any response is likely to depend on the circumstances of each individual company. For example, it will depend on:
- the sector in which they operate – a sophisticated fin-tech company is able to move their operations more easily than a company running a local hotel for example
  - their reasons for operating in Guernsey – the current corporate tax regime may have been a driving factor in establishing a business in Guernsey instead of elsewhere, so if this changes there might be a reduced incentive to remain in Guernsey
  - how many, if any, employees they have in Guernsey – it is easier to move a business or reduce operations if there are fewer staff likely to be affected
  - how much change is being proposed – for example, a company moving from a 0% to a 20% tax rate is more likely to react than one moving from 10% to 15%.

Given this variability, it is difficult to determine how individual companies will react to the options presented, except to say that additional revenues will likely be lower than if no allowance is made for their responses. To account for this, a broad brush assumption for how much profits could reduce by for a given change in the tax rate has been made for each sector. Furthermore, to illustrate the sensitivity of the potential additional revenue to the extent of behavioural change amongst companies, three scenarios have been considered where appropriate: a minimum change scenario (which gives maximum additional revenue), a moderate change scenario, and a maximum change scenario (which gives minimum additional revenue). A table setting out the sector-by-sector assumptions for behavioural change under each scenario is provided in [Appendix 2](#).

## Option 1

- 4.8 Under the current corporate tax regime, the intermediate 10% rate for GFSC regulated business only applies to profits arising directly from that line of business. If a single company operates two lines of business, where one is regulated and one is not (for example bookkeeping), it would only be charged the 10% rate on profits arising from the regulated activity. Its other activity would be subject to the headline tax rate of 0%.
- 4.9 This is different to the approach adopted in Jersey, where all of an entity's profit is subject to the intermediate rate of tax, even if only a small element of that profit relates to regulated business.
- 4.10 The first option considered by the Sub-Committee is to expand the current 10% intermediate rate so that it applies to all of the profits of a company that undertakes regulated business<sup>12</sup>. This subtle change would align with the approach taken in Jersey, ensuring a consistent method for entities that operate in both islands, with no adverse impact on Guernsey's competitiveness with its nearest competitor. It would increase revenues and make administration simpler for the Revenue Service. It would also simplify administration for the companies themselves, and reduce the likelihood of errors in tax returns such as the misallocation of expenses between business lines. It also poses very little regulatory risk as the Jersey approach is already known to be acceptable to the European Union's Code of Code Group on Business Taxation (the Code Group) and the OECD's Forum on Harmful Tax Practices (FHTP).
- 4.11 On analysis of the corporate tax data, there are fewer than 100 entities (excluding those already captured by Pillar 2) that currently pay tax at 10% on just a part of their profits. Some of these distribute part of their untaxed profits to shareholders, which are then subject to personal income tax at 20% for the individual receiving the distribution. If the regime was expanded such that these entities paid 10% on all their profits, then distributions are likely to be lower as a result. Given the number of entities involved, and allowing for a reduction in tax from distributions if all profits are subject to corporate tax at 10%, Option 1 is estimated to raise around £0.5m a year in additional revenue.
- 4.12 However, this is before any allowance for how entities might respond to the change in approach to taxation. For example, an entity whose business is primarily unregulated, with a small element of regulated business, might be expected to restructure their operations such that the regulated activity is undertaken through a separate company to avoid the unregulated activity from falling within scope of the intermediate 10% tax rate. If this occurs, then actual additional revenues may be lower than the £0.5m estimated.

<sup>12</sup> Note that it would not be appropriate to do the same for the higher 20% rate which typically either already applies to a company's whole operations (e.g. for large retail companies) or which relates to ownership of land and buildings and may not be the company's primary activity.

- 4.13 Most responses to the consultation argued that alignment with Jersey was logical. However, some respondents noted that there were drawbacks to Option 1, including the following:
- It removes Guernsey's unique selling point over Jersey
  - It could potentially be discriminatory as businesses undertaking similar activity but with no regulated element would not be paying the same amount of tax, giving competitive advantage. This raises the possibility of legal challenge.
- 4.14 In isolation, the potential revenues from Option 1 are very limited. However, it could ease administration by addressing some previously identified issues with the misallocation of expenses between business lines that are subject to different tax rates.
- 4.15 It also has some capacity to partially protect against potential future changes to the application of Pillar 2. As currently applied Pillar 2 will automatically bring all activities within scope of a 15% effective rate. Should changes to the application of Pillar 2 mean potential revenues from it are lost or eroded, the application of this change to entities which are currently in scope of Pillar 2 could allow Guernsey to retain around £5-8m of those anticipated revenues (noting that this would be generated largely from banks where there is expected to be limited scope to separate banking activity currently taxed at 10% from other revenue streams, like service charges, currently taxable at 0%).
- 4.16 On balance, **the Sub-Committee recommends that the Policy & Resources Committee proceeds with implementing this option to simplify administration and align with the approach in Jersey.**

## Option 2

- 4.17 The current corporate tax regime charges tax at 0%, 10% or 20% depending on the business activity being carried out. The headline rate applicable to most businesses is 0%. However, an intermediate rate of 10% is levied on the following activities:
- Banking
  - Domestic insurance
  - Fiduciary
  - Insurance intermediary/management
  - Fund administration
  - Provision of custody services
  - Provision of investment management individual client services
  - Operation of an investment exchange
  - Compliance and other related activity
  - Operation of an aviation registry

Initially, the 10% rate only applied to banking activity, with the other regulated activities being brought within scope at various stages since 2008.

4.18 The higher rate of 20% is applied to trading income from:

- Activity regulated by the Guernsey Competition and Regulatory Authority
- Ownership of land and buildings
- Import/export of hydrocarbons
- Large retail business (profit over £500,000)
- Cultivation or use of the cannabis plant
- Prescribed production or prescribed use of controlled drugs

4.19 Option 2 considered the possibility of bringing more sectors within scope of either the existing 10% or 20% tax rates. Currently, the 10% rate mainly captures regulated finance entities, which forms part of the industry making the largest contribution to Guernsey's economy. The next largest economic contributors (excluding public administration) are businesses undertaking the following activity:

- Professional, business, scientific and technical activities
- Wholesale, retail and repairs
- Construction

Bringing some or all activity within these sectors into scope of either the 10% or 20% tax rate could increase revenues.

4.20 The Sub-Committee is mindful of the need to ensure that any tax reform measures continue to comply with international standards. Adding additional sectors within the scope of the intermediate and higher rate has not previously triggered a review by the FHTP or the Code Group. However, the more sectors that are brought into scope, the fewer are subject to the headline rate of 0% that forms the basis of the approved Zero-10 regime.

4.21 The sector covering professional, business, scientific and technical activities includes legal professionals and accountants that operate through companies (rather than partnerships). Most of these entities are registered by the GFSC as prescribed businesses under Schedule 5 to the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999<sup>13</sup>. Bringing these into scope of the intermediate rate could form an extension of the approach adopted for regulated financial services entities and thus is likely to be most acceptable to the FHTP or the Code Group.

4.22 Similarly, estate agents are also classed as prescribed businesses<sup>14</sup> under the same law and are required to be registered with the GFSC, so bringing these into scope of the 10% intermediate rate at the same time as legal professionals and accountants would result in consistent treatment of all prescribed businesses.

4.23 The construction and retail sectors are both largely making profit from the provision of services within Guernsey and are not subject to the same regulatory requirements as prescribed businesses. As such, bringing them into scope of the intermediate or higher tax rates comes at a higher risk of a review by the Code Group and the FHTP. For retailers, those with profits over £500,000 a year are already subject to the higher rate, and the application of an arbitrary threshold is arguably creating a distortion. Bringing all retail into scope of either the 10% or 20% rate could reduce the potential distortion with limited risk of significant loss of business.

<sup>13</sup> [The Criminal Justice \(Proceeds of Crime\) \(Bailiwick of Guernsey\) Law, 1999](#)

<sup>14</sup> [Prescribed Businesses in Guernsey — Industry Sectors — GFSC](#)

- 4.24 In isolation, bringing new sectors into scope of a higher tax rate would be expected to increase revenues. However, as discussed in section 4.7, the net financial impact will depend on how companies within the sector respond to the change in the tax regime. For example, if a company chooses to relocate or reduce operations as a result of the changing tax regime, not only would Guernsey not get the full increase in revenues predicted by the increased rate of tax, it would also lose some of the existing revenue from that entity (if part of the business is already subject to 10% or 20%).
- 4.25 Furthermore, Guernsey would also lose some of the personal income tax and social security contributions being paid by, or in respect of, anyone that company employs. Although those individuals would likely seek alternative employment in Guernsey, it may not be at the same level as previously, especially if all companies in that industry are re-evaluating their operations in light of the changed tax regime. Individuals may need to train for an alternative role or potentially leave the Island to find employment in a similar role.
- 4.26 Conversely, other entities may make no changes to their operations or may increase their prices to maximise post tax profits. In this case the estimated additional revenues would be recognised in full, with the impact felt by either the company or the end consumer (if prices are increased).
- 4.27 Given the uncertainty around how companies will react to tax reform, a range of behavioural adjustments have been applied to the expected revenues from each sector. For this purpose, for legal and accountancy services which are closely linked to the finance industry, a minimum adjustment equivalent to reducing profits by 5% and a maximum of 20% was applied. For estate agents, retail and construction sectors which are not linked to the finance sector, profits were assumed to be unchanged in the minimum scenario and reduced by 10% in the maximum scenario.
- 4.28 In 2023, 98% of companies that were prescribed businesses (including legal and accountancy companies and estate agents) were subject to corporate income tax on all their operations at 0%. Bringing these entities into scope of the 10% tax rate, results in a range of potential revenues from £0 to £1m a year, depending on the assumed level of behavioural change.
- 4.29 Some respondents to the consultation noted that there were drawbacks to Option 2, including that it would act as a disincentive to start-ups as it would have reduced post-tax profits to reinvest in their business, potentially preventing them from growing to a significant size. However, other respondents noted that it provides some companies with a welcome opportunity to contribute directly to the local tax base without having to take distributions from company profits in order to do so.
- 4.30 Although the potential revenues are low relative to the funding requirement, even a small amount of additional revenue reduces the amount of additional income, or expenditure savings, that need to be found from elsewhere. For this reason, and given that registered entities form a natural extension to the coverage of the 10% intermediate rate, **the Sub-Committee recommends that the Policy & Resources Committee seeks to extend the intermediate (10%) company rate to apply to prescribed businesses.**

- 4.31 The equivalent analysis for the construction and retail sectors, where 92% and 75% of profits respectively are currently subject to the 0% rate and which are both assumed to be less sensitive to a change in the tax rate than legal and accounting, estimates that a 10% rate would raise between £0 and £2.1m and £0.9m and £2.8m respectively.
- 4.32 However, large retailers (profits in excess of £500,000 a year) already pay tax at 20%. If the higher rate of 20% was also applied to the construction and retail sectors, it is expected to raise between £0.8m and £3.3m and £2.6m and £4.8m respectively.
- 4.33 In response to the consultation, some respondents warned against bringing these sectors into scope, noting that:
- These sectors provide an essential service which is at risk of collapse if placed under additional tax pressure, especially for those that are capital-intensive such as retail and construction.
  - Companies in retail and construction are already struggling to make a profit, with competition from online retailers also causing locally based retailers to struggle.
  - Guernsey is suffering from a housing shortage which will not be helped by increasing the financial pressure on construction companies.
  - The already high construction costs for Guernsey residents will likely increase even further if this option is pursued.
- 4.34 While the Sub-Committee acknowledges the points raised, it is important to note that under Option 2, a company becoming liable for a higher rate of corporate tax would only pay tax to the extent that they make a profit. A company making little or no profit would pay little or no tax. However, what the application of a tax on profits may do is reduce the money available to reinvest in the business.
- 4.35 There is some risk that bringing construction and smaller retail entities into scope of the intermediate or higher company tax rates might trigger a review by the Code Group and the FHTP as it may be seen as diluting the primacy of the 0% headline rate. Furthermore, these two sectors are likely to be more affected than most if Workstream 1 is progressed, both due to the consumption and administrative impact of a GST and because employer contributions to social security will increase. As such, careful consideration of the impact of the overall tax package, and the timing of bringing these sectors into scope, is required before proceeding.
- 4.36 Overall, **the Sub-Committee recommends that the Policy & Resources Committee gives consideration to extending either the intermediate (10%) or the higher (20%) company tax rate to apply to retail and construction businesses within its final proposals for tax reform, taking into account the timing of any other proposals resulting from Workstream 1.**

## Option 3

- 4.37 The third option considered by the Sub-Committee is to move from a Zero-10 to a Zero-15 regime, whereby all activity that is currently subject to tax at 10% is charged at 15% instead. This would bring the intermediate rate into line with that levied on entities that are subject to Pillar 2.
- 4.38 Such a change is unlikely to trigger an external review as there is no change to the regime itself, just to the rate payable. Under this option, any additional revenue will come predominantly from regulated financial services entities, with the tax position for most other sectors unchanged.
- 4.39 However, the financial services sector is highly mobile, meaning that there is a higher likelihood of companies responding by moving their business elsewhere than in other sectors such as construction and retail, especially if Guernsey's main competitors (Jersey and the Isle of Man) continue to levy 10% on this sector.
- 4.40 It is estimated that moving from Zero-10 to Zero-15 could raise up to an additional £5.8m a year. However, this assumes no response from businesses. If Guernsey proceeds with implementing Zero-15 and Jersey and the Isle of Man do not, it is expected that the loss of business profits and associated personal income tax and social security receipts from employees would completely offset the potential additional income from having a higher rate. This is the case under both the minimum and maximum behavioural response scenarios, and aligns with feedback received from respondents to the consultation. As such, **the Sub-Committee does not recommend that the Policy & Resources Committee seeks a unilateral move to Zero-15.**
- 4.41 It may be possible to engage with Jersey and the Isle of Man to implement a co-ordinated change from Zero-10 to Zero-15, much in the same way that the islands worked together to develop mechanisms for Pillar 2. However, both Jersey and the Isle of Man have a General Election taking place later this year, so it is unlikely that there will be political appetite to consider it at this stage. There is still also the risk that it would increase the competition between Guernsey and other jurisdictions.
- 4.42 The Sub-Committee recommends that the Policy & Resources Committee enters into discussions with Jersey and the Isle of Man about the possible implementation of Zero-15 following their General Elections in June 2026 and September 2026 respectively.**

## Option 4

- 4.43 The fourth option considered was that of a territorial tax. Under such a regime, corporate profits are taxed based on source of income. Thus, only profits arising in, or derived from activity in, Guernsey would be subject to tax.
- 4.44 Unlike the other options, a territorial regime would see the headline 0% rate removed completely, and replaced with a higher rate, initially considered at either 10% or 15%. In both cases, the existing 20% higher rate would remain. However, if a 15% headline rate was introduced, then this would also apply in respect of profits currently subject to the intermediate 10% rate.

- 4.45 This option would be a significant structural change from the current regime, and would trigger a full review by the Code Group and the FHTP, a process which would seek to determine whether the new regime is harmful or not. Such reviews may take 12-18 months to complete, sometimes longer, during which time there would be considerable uncertainty for businesses that may or may not be in scope depending on the outcome of the review. If the territorial regime is deemed to be harmful, then remedial action would be required, creating even further uncertainty.
- 4.46 In addition, under a territorial regime it can be difficult to determine where revenue is truly earned, and hence what constitutes local versus foreign source income. While it may be straightforward for physical activities, such as construction or retail, it is not always obvious for the various types of financial services. This adds administrative complexity for both companies and the tax administration, particularly where it is necessary to reach a consistent conclusion with other jurisdictions to ensure that an entity is taxed appropriately overall.
- 4.47 It is estimated that moving to a territorial regime at 10% could raise somewhere between £3.3m and £14.8m a year. This is a wide range reflecting the significant uncertainty around how businesses would react to such a significant change. Adopting a 15% headline rate is expected to raise £18.4m a year under the minimum change scenario, but reduce revenues by around £5.1m a year under the maximum change scenario.
- 4.48 Again, the maximum potential additional revenue from a territorial regime is small relative to the size of the overall funding required, although it is higher than under the other options considered.
- 4.49 In determining these estimates, international insurance activity and the management of investments/funds have been excluded from the scope of the territorial regime. This reflects feedback from the insurance industry that a territorial tax poses an existential threat to the international insurance sector in Guernsey, with the application of Pillar 2 legislation already having resulted in a loss of client business. Companies undertaking the management of funds and investments are also believed to be particularly sensitive to taxation. The exclusion of these areas from a territorial regime would certainly result in a review by the FHTP and the Code Group as ring-fencing is considered to be a key indicator of a potentially harmful tax regime.
- 4.50 Feedback from the consultation suggests that a considerable proportion of business respondents (70%) consider a territorial regime to be an obstacle to the growth of their business, with over 80% believing it would have a high impact on Guernsey's international competitive position and over half saying it would cause them to consider relocating or downsizing business operations in Guernsey.
- 4.51 Given the significant levels of behavioural risk associated with a territorial regime, the feedback from businesses and the extensive Code Group and FHTP review it would trigger, **the Sub-Committee does not recommend that the Policy & Resources Committee pursues a territorial regime at the current time.** It is the Sub-Committee's view that the risks of doing so are likely to significantly outweigh the rewards. Furthermore, the implementation of complex corporate tax reform, with the associated administrative and compliance requirements, is not recommended if Workstream 1 is also to be progressed at the same time.

## Option 5

- 4.52 The final option considered by the Sub-Committee is that of a fixed annual fee, levied on all companies that are registered in Guernsey. The levy could be for a specified amount, potentially varying by type of entity, and would be specified each year in the annual Budget.
- 4.53 The Guernsey Registry already collects fees from companies on a regular basis. In 2026, it expects to collect around £13m, primarily in the form of annual validation fees which apply to all registered companies. However, the amount raised significantly exceeds the costs of operating the Registry (around £2.3m in 2026) and generates a net gain to General Revenue of around £10m a year. This means that a revenue raising levy already exists within the current fee structure and any consideration of a further company levy needs to consider this.
- 4.54 Currently, the Registrar sets the Registry fees meaning that the raising of revenues via Registry fees sits outside of the annual Budget process and isn't aligned with other taxes. It also means that fees charged by the Guernsey Registry (£500-£1,000 for annual validations) are much higher than equivalent fees charged in other jurisdictions, including Jersey (£75 for annual validations) which has separate registry and governmental fees (albeit these are administered together).
- 4.55 If there is a desire to raise significantly more revenue from some form of annual fixed fee, in their current form it would be difficult to do this from Registry fees without opening the possibility of a challenge over the roles these fees should play. This suggests that a reduced Registry fee coupled with a separate Government Levy (potentially still collected by the Registry, but set through the annual Budget) might be a better option. This would require a review of the Registry's governance structure.
- 4.56 As an illustration, an additional levy set at £250 or £500 a year for each registered business is expected to raise additional revenue of around £5m or £10m respectively. This excludes any allowance for behavioural responses from companies, as the majority (over 90%) of businesses responding to the consultation suggested that the introduction of such a levy would not cause them to consider relocating or downsizing their local operations.
- 4.57 However, some respondents did highlight the regressive nature of a flat rate levy and its impact on smaller businesses, noting that a flat rate disregards the overall profitability of a company. It was also suggested that registry fees were already expensive compared to Jersey and increasing them would make Guernsey comparatively even less attractive.
- 4.58 It is important to note that the previously agreed Workstream 1 package includes an International Services Entity (ISE) Scheme, which is a voluntary scheme whereby primarily international finance sector entities who provide the majority of their services to customers outside of the Bailiwick pay a fixed fee in order to remove the requirement to file annual returns in relation to GST. This is on the basis that the majority of their services would be zero rated, with their net GST payment being minimal. Estimates suggest the ISE Scheme would raise around £10m to £12m a year, with annual fees similar to the levels observed in Jersey which range from £300 for collective investment schemes to £78,300 for registered banks in 2025. This potential revenue is built into the total amount expected to be raised from the Workstream 1 package if it is progressed.

- 4.59 Around 75%-80% of revenue from the Guernsey Registry is estimated to be generated by companies which might also be captured by the ISE Scheme under Workstream 1. If an additional £250 or £500 annual charge is levied only on those companies not within the scope of the ISE, total revenues from Option 5 are expected to be in the region of £1m-£2m respectively. As such, if this option is pursued in conjunction with the Workstream 1 package, potential revenues would be significantly lower than if it were introduced in isolation.
- 4.60 Given that a levy is not strictly a tax and that a similar levy (albeit at a lower level) already exists in Jersey, this option is unlikely to trigger further investigation by the Code Group and the FHTP in the same way as a significant reform of corporate income tax would. However, it is worth noting that a levy would not be classed as a creditable tax in a foreign jurisdiction for foreign tax purposes, potentially leading to double taxation.
- 4.61 Overall, **the Sub-Committee recommends that the Policy & Resources Committee considers introducing a company levy (or a limited increase to the existing company fees), taking into account the interaction with any other proposals resulting from Workstream 1. This could be a short-term measure pending a longer term review.**

## 5. Options vs previous tax package

- 5.1 In its terms of reference, the Sub-Committee was charged with recommending *“the best package of sustainable revenue raising measures capable of addressing the structural deficit in States’ finances over the next 10 years”*. In developing its recommendations, the Sub-Committee has considered the extent to which the previously agreed tax package (Workstream 1) and the various options for corporate taxation (Workstream 2) meet the agreed principles of tax reform.

### Raising required revenues

- 5.2 As discussed in Section 3, the States’ structural deficit is estimated to be in the region of £77m a year. This is after allowing for the expected £40m in additional revenue from Pillar 2 for 2025 onwards. The Workstream 1 package is estimated to raise around £50m a year. This is more than any of the options identified as part of Workstream 2, and would go some way to addressing the shortfall, but it still falls short of the amount required to meet the structural deficit in full.
- 5.3 This suggests that further measures would be needed in addition to Workstream 1 in order to raise the required revenues. The Sub-Committee’s recommendations set out in Section 4 could potentially raise a further £10-15m a year towards this. Other, smaller measures (e.g. motoring taxes or taxation to support environmental issues) could be developed in the longer term but fall outside the scope of this review.
- 5.4 Overall, the Sub-Committee is of the view that a combination of various revenue raising and cost reduction measures are likely to be required to address the structural deficit, including the implementation of both the Workstream 2 recommendations in this report and the measures within the Workstream 1 package.

### Transparency, credibility and simplicity

- 5.5 A Goods and Services Tax (GST), which is included within Workstream 1, typically provides a relatively stable level of revenue each year and is less volatile than revenue based on corporate profits which can vary significantly from year to year.
- 5.6 A GST is widely used and understood in almost all other jurisdictions and can be relatively simple to administer if applied broadly as was agreed by the States in February 2026<sup>15</sup>.
- 5.7 Implementing Option 1 for corporate tax reform is expected to simplify administration for both the Revenue Service, and companies which undertake both regulated and unregulated activity. This should reduce the risk of errors in tax returns and reduce some of the volatility in corporate tax receipts observed in recent years when mistakes have been rectified.
- 5.8 Option 2 could be used to address the perceived inequity between companies that are regulated with the GFSC (taxed at 10%) and those that are registered (taxed at 0%), and between large retailers (taxed at 20%) and small retailers (taxed at 0%).

- 5.9 Finally, Option 5 would require a review of the Guernsey Registry's governance structure which would improve transparency around the element of the current fee payable that goes towards the operational cost of the Registry, and that which is levied as additional revenue for the States of Guernsey.

## Resilience to demographic change

- 5.10 As discussed in Section 3.7, the number of people in Guernsey of working age is reducing relative to the population as a whole. As a result, the current reliance on income and employment taxes to provide adequate revenues is unlikely to be sustainable in the future.
- 5.11 The GST in the Workstream 1 package helps to broaden the tax base by bringing all residents, visitors and companies into scope of the tax, rather than targeting the working age population through additional income based taxes.
- 5.12 Furthermore, those who rely predominantly on capital or savings to supplement any income (which is more common among those over pension age) currently pay very little in income tax but would be subject to GST on their purchases in the same way as someone relying solely on income.

## Resilience to economic shocks

- 5.13 Corporate taxation is vulnerable to economic shocks as companies may make less profit during times of economic uncertainty, which reduces the tax revenue. Option 5 considers an alternative to a tax by implementing a fixed, annual levy payable by companies. This would be payable by all companies, irrespective of economic conditions, so is likely to be more resilient to economic shocks than a tax based on profits.
- 5.14 The GST under Workstream 1 is also less vulnerable to economic shocks as it is related to levels of consumption, which are less likely to be impacted by economic conditions, particularly amongst the most affluent in society.

## Internationally competitive and compliant

- 5.15 The current corporate tax system is competitive, complies with international rules and has been whitelisted by both the EU and the OECD. It is not anticipated that any of the recommendations in this report would jeopardise this approval.
- 5.16 Most jurisdictions, including Jersey and the Isle of Man, already have some form of consumption tax so introducing it in Guernsey is not likely to impact on competitiveness.

## Certainty and stability

- 5.17 Businesses value certainty, and it is key to economic growth. The recommendations in this report broadly maintain the current corporate tax system while expanding it slightly to remove certain inconsistencies. This should provide some certainty to businesses in the medium term.
- 5.18 However, it is not clear that the existing corporate tax regime will remain stable in the longer term as the international tax landscape evolves. Therefore, in the longer term, it will be necessary to monitor and evolve the corporate tax system in line with international developments in the years ahead.
- 5.19 The Workstream 1 package is generally expected to have a limited impact on the economy. However, the introduction of a GST is likely to have an inflationary impact in the short term which will impact the wider economy.

## Fair and appropriate

- 5.20 Many would argue that the current corporate tax regime is not fair, as many companies pay 0% tax on their income, whereas those individuals that structure their businesses as self-employed or partnership arrangements are taxed at the personal income tax rate of 20%. Publicly there is also a lack of understanding about who pays the intermediate (10%) and higher (20%) rates meaning there is a perceived unfairness around the contribution of the financial services sector, despite the fact that regulated financial services businesses make up the significant majority of company tax receipts in the existing system. It is also necessary to consider the total tax contribution, rather than simply looking at corporate tax in isolation.
- 5.21 In the long-term there is an argument that a tax regime that aligns more closely to international norms would be considered fairer. However, this would be complex to transition to from the current system, with a high-level risk in terms of uncertainty for businesses and international competitiveness. In the view of the Sub-Committee, these risks outweigh the expected financial rewards in the immediate term, however as the international tax landscape evolves, there may be opportunities to transition towards a regime more in line with international norms.
- 5.22 In the immediate future, given the extent of the financial challenges and the timeframe in which they need to be resolved, Workstream 1 goes some way to improving fairness by ensuring that visitors and companies, as well as local residents, contribute through a GST.

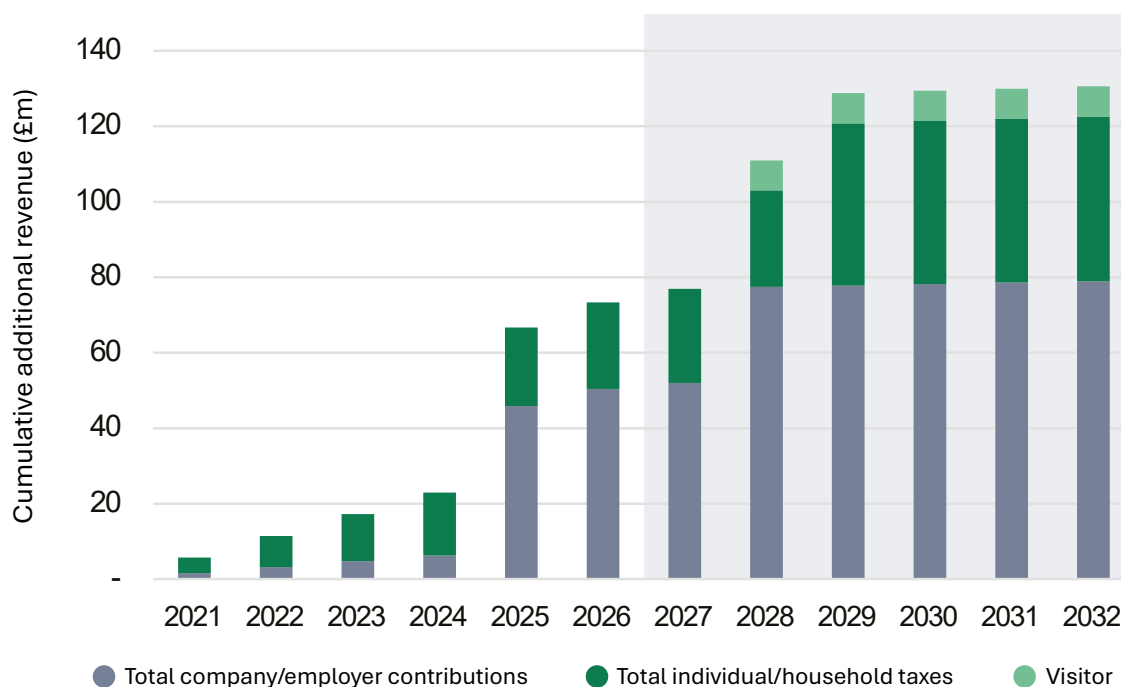
## Progressive

- 5.23 The package of measures included in Workstream 1 result in a progressive approach to taxation. While the GST in isolation would be regressive, combined with a lower rate of tax and the introduction of a personal allowance on social security contributions, as well as the pre-emptive increase in benefits and the Essential Cost Relief Payment, it means that many lower income households will be better off as a result of the package.
- 5.24 In isolation, most of the corporate tax options considered are also progressive. In the context of the overall tax regime where wealthy individuals can currently use corporate entities to limit their tax liability, they go some way to making it more progressive. Although not strictly a tax, the exception is Option 5, which as a flat rate fee per company, is more regressive as the fee does not relate to the size or profitability of the entity.

## Achieving tax equity

- 5.25 Figure 7 illustrates the cumulative increase in States' revenues since 2021 allowing for the expected impact of Pillar 2 from 2025 and Workstream 1 from 2028 (if it is progressed).

**Figure 7: Cumulative increase in revenues from 2021 (in 2026 prices)**



- 5.26 Figure 7 illustrates that from 2025 when Pillar 2 was implemented, payments from companies made up more than half of all additional revenues. This is a significant increase to previously when the bulk of the revenue came from individuals and households. The introduction of the Workstream 1 package is expected to see revenues increase broadly in proportion. Furthermore, some revenue would also be available from visitors, who make use of Guernsey's infrastructure when visiting.

- 5.27 Incorporating some of the corporate tax reform options recommended in this report would increase the proportion of revenues paid by companies and employers slightly, but if this is to be combined with the progression of Workstream 1 they will need to be carefully timed so as not to overburden business' compliance costs.

## Supporting environmental and social objectives

- 5.28 The Workstream 1 package includes a reduction in the direct tax liability for low-income households. This supports objectives in relation to in-work poverty.

## Conclusion

- 5.29 Overall, the Sub-Committee is of the view that most of the short-term objectives can be met by the Workstream 1 package in its existing form, and enhanced by the recommendations to implement some changes to the existing corporate tax regime. **As such, the Sub-Committee recommends that the Policy & Resources Committee seeks agreement from the Assembly to proceed with the Workstream 1 package.**

## 6. Consultation and engagement

- 6.1 The Sub-Committee has consulted, in accordance with its terms of reference, with potentially impacted States Committees, with the Fiscal Policy Panel and, in line with its stated approach, to obtain feedback from across the community.
- 6.2 The Committee for Economic Development met with the Sub-Committee on 16 March 2026 to discuss Options under consideration and other issues of relevance to the committee's economic strategy.
- 6.3 The Fiscal Policy Panel has considered the recommendations of the Sub-Committee and its Letter of Comment is reproduced in [Appendix 4](#).
- 6.4 The Sub-Committee has considered public feedback submitted in response to an article, by the Chair, about tax reform that was published in the Guernsey Press on 12 January 2026.
- 6.5 The Sub-Committee has also conducted Engagement Meetings with a range of stakeholders. These include meetings with the G8, Guernsey International Insurance Association, Guernsey Welfare Service, Guernsey Community Foundation and the Citizens Advice Bureau. In addition, the former Director of the OECD Centre for Tax Policy and professor at Lausanne University and HEC Paris business school, Pascal Saint-Amans attended the Sub-Committee meeting on 2 March 2026.
- 6.6 The Sub-Committee also sought structured feedback on corporate tax options through a formal consultation, the "Consultation on Options Under Consideration for the Taxation of Company Profits" (the "Consultation"), conducted between 23 January and 27 February 2026. A total of 85 responses were received and a complete analysis of these responses is set out in [Appendix 1](#).
- 6.7 Across all formats, the feedback has been extensive and has provided the Sub-Committee with further insight in relation to corporate tax, GST and some ideas for adaptations or alternatives to the options presented. The Sub-Committee wishes to record its appreciation to all people, businesses and organisations who took time to submit their views.

## 7. Implementation and future consideration

- 7.1 The Sub-Committee recommends progressing Workstream 1, which it is understood could be implemented by 2028 at the earliest. While the Sub-Committee has not examined every technical detail, it is well developed and has the potential to deliver around £50m in additional revenue. Although implementation would be complex for both government and business, the package offers a credible means of placing public finances on a more sustainable footing in the near term.
- 7.2 The Sub-Committee recommends that there is further engagement with sectors impacted by any of the short-term corporate tax recommendations, ahead of any formal proposals being lodged by the Policy & Resources Committee. This will ensure that any potential issues or administrative considerations can be addressed before legislation is developed. It is anticipated that the earliest Option 1 (full profits) and Option 2 (extend 10% rate to GFSC registered businesses) could be implemented is by 2027, albeit ensuring sufficient time for engagement, legislative drafting and any system development required means that 2028 is a more realistic timeframe.
- 7.3 The Sub-Committee recommends that Option 3 (move from 0/10 to 0/15) is only considered in full cooperation with the other Crown Dependencies. This would therefore only be progressed after their respective elections, which are due to take place in June 2026 in Jersey and September 2026 in the Isle of Man.
- 7.4 The Sub-Committee recognises that if Workstream 1 is progressed to address the immediate financial requirements, implementing Option 2 (extension of 10/20% rate to construction and retail) within the same time frame as introducing a GST risks overloading the business community with too many new administrative activities, and therefore it may be appropriate for these to be made at a later date.
- 7.5 The same risks apply with regard to implementing Option 5 (annual fixed levy) at the same time as Workstream 1, if progressed. It is anticipated that due to the system changes that would be required at Guernsey Registry, the earliest implementation date for a levy would be 2028. It is also recommended that there is further engagement with industry to discuss some of the alternatives or more targeted applications of Option 5, if the Policy & Resources Committee decide to progress it.
- 7.6 In line with its remit, the Sub-Committee proposes a scope for reflecting what the tax system might look like in the longer term, considering longer-term strategic issues in detail ([see Appendix 3](#)). This would take account of changing demographics and potential measures that could influence the relative size of the working age population, technological changes (such as Artificial Intelligence), new sectors (such as offshore wind) and international tax developments.

- 7.7 This would consider the longer-term future, i.e. a time-frame of 10 years and beyond. It is recommended that an interim update on the shape of the current tax system is prepared in 2028, once the first Global Minimum Tax returns have been filed in Guernsey (from mid-2027 to mid-2028) and the impacts of tax reform progressed as a result of the current work are known. Any workstreams which emerge from this would then be allocated priorities from which implementation timeframes will be developed according to the options identified.
- 7.8 Throughout the engagement, a number of alternative suggestions were made to the Sub-Committee ([see Appendix 1](#)), which have been collated and will be shared with the Policy & Resources Committee for consideration either as part of the wider policy letter on tax reform or as part of the annual Budget.
- 7.9 At the request of the Policy & Resources Committee, the Sub-Committee did consider the matter of introducing incentives to encourage the earlier distribution and taxation of historic undistributed profits from companies. The Sub-Committee concluded that no further work should be undertaken on investigating such measures, which are a consequence of the existing corporate tax regime. It was noted that aside from not raising significant revenues, together with introducing significant complexity, there would still remain a number of challenges to their effectiveness, through the absence of capital gains and exit taxes.

# Appendix 1

## Consultation document and feedback

### Consultation

Structured feedback was provided to the Sub-Committee through the “Consultation on Options Under Consideration for the Taxation of Company Profits”, conducted between 23 January and 27 February 2026. The following slides present the analysis on the responses received.

## Consultation on Corporate Tax

Analysis of consultation responses


As at 3 March 2026

### Executive Summary

On 23 January 2026, the Sub-Committee launched the “Consultation on Options Under Consideration for the Taxation of Company Profits” (the “Consultation”). Members of the public and businesses were invited to participate and the consultation paper was shared directly with industry associations represented by the G8<sup>1</sup>. Responses were primarily captured using the online survey tool on gov.gu, with an option to send responses via email or post. The Consultation closed on 27 February 2026.

**Profile of Responses**  
85 Responses were received. The majority were from Businesses with 58 responses compared with 23 from Individuals. Business responses were more concentrated in Finance and Professional services sectors but were well distributed by size of business (number of employees). The responses were reviewed by the Tax Review Sub Committee and the analysis is set out in the following slides.

**Summary of Responses**  
Responses demonstrate a consistent message: Guernsey’s corporate tax regime must remain stable, predictable, internationally credible and competitive. Respondents emphasise that certainty is essential. Stability is repeatedly described as a defining strength of Guernsey’s offering and a core part of its international reputation. Competitiveness is another dominant theme. Respondents favour alignment with other Crown Dependencies but also note that Guernsey must now compete globally and consider the comparative advantages of operating in Guernsey on a wider scale. Of note here is the relative emphasis of responses from businesses with international focus. In consideration of domestic businesses, there are several important considerations related to the Options such as the economic impact of corporate taxes in labour-intensive industries or those industries with strategic importance such as housing construction.

While the current Zero-10 tax system is broadly supported, Respondents identify fairness and internal equity concerns. These include differences in tax treatment between regulated and unregulated professional services, the ability for some companies to defer or avoid tax on profits, and the extraction of profits by non-resident shareholders without contributing to Guernsey’s revenues. Respondents favour targeted reform, with frequent reference to changes that are proportionate and do not undermine competitiveness.

The risk of triggering external scrutiny from the OECD or EU and therefore prolonging uncertainty and risking the Island’s reputation represents a further significant concern. Options that are more likely to trigger review are therefore less favoured.

Respondents generally recognise the need to address fiscal pressure. The need to broaden the tax base and consider wider fiscal measures are referenced to address this but comments also recognise the Options do not generate sufficient revenue alone. In this respect, the dichotomy between an “under-appreciated” contribution to States revenue from the corporate sector set against a perception of the tax burden falling on individuals points to the need for further public information to assist with presenting any recommendations. Respondents support addressing inequities within the current system, but only in ways that do not compromise the Island’s economic stability, its reputation, its competitive position.

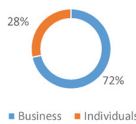
<sup>1</sup> G8 industry associations comprise: Chamber of Commerce, Guernsey International Business Association, Guernsey Hospitality Association, Construction Forum, Institute of Directors, Guernsey Retail Group, Confederation of Guernsey Industry, and the Association of Guernsey Charities.

### Response profile

85 responses were received. The Consultation was open from 23 January until 27 February 2026.

Profile of Responses

**Distribution of Responses**



28% Business | 72% Individuals

**Respondents**  
58 Business  
23 Individual

**Business profile:**

- Predominantly Finance and Professional Services
- Well distributed by size (number of employees)
- Includes 8 Associations and 13 Self Employed persons

Sector		Size (employees)	
E-commerce	2%	1-5	16%
Finance	52%	6-25	34%
Hostelry	2%	26-50	13%
Investment Holding Company	2%	50+	37%
Legal	2%		
Manufacturing	2%		
Other service activities	6%		
Professional, business, scientific and technical activities	22%		
Transport and storage	6%		
Public administration	2%		
Law firm and Corporate Service Provider	2%		

**Options analysis**

Questions related to Options sought to understand the level of **Confidence** in relation to business plans, the impact on **Growth and Competitiveness**. Comments were requested to obtain general views about the impact as well as the **opportunities/benefits** of each Option.

**Business behaviour** was measured per Option by reference to the likelihood of a decision to relocate or downsize operations. Comments were sought in relation to any mitigation.

Respondent’s **Comments** are included where they contribute to understanding, particularly understanding of any differences of opinion, whereas the strength of opinion can be interpreted from the quantitative data.

# Themes and analysis

## Key themes

### 1) Stability and certainty are paramount

The current Zero-10 tax system is well-understood and internationally accepted. Uncertainty is economically damaging and allows competitors to win business. The concern about uncertainty is repeated when the possibility of an external review may be triggered.

### 2) Competitiveness cannot be compromised

With a strong Finance Sector response rate, the possible impact on Guernsey's competitive position is a concern. Respondents emphasise Guernsey is competing globally and divergence from other Crown Dependencies would be harmful.

### 3) Concern about certain inequalities, but avoid tinkering

While Zero-10 is supported by a majority, targeted tax reform is identified in some areas provided that it is proportionate and does not undermine stability and competitiveness.

### 4) Consensus on the higher risk Options

Options 3a, 4a and 4b are consistently referenced as high risk and contrary to the favoured principles and the preference for targeted reform.

Taxation is all about maintaining a stable regime. Certainty is everything. There should be no tinkering whatsoever with the current regime  
Finance business

## Ranking of Options

The following ranking of Options is based on positive vs negative rating responses, and is used to assist analysis.

- Option 5 - Levy
- Option 1 - Full Profits
- Option 2 - Sector extension
- Option 3b - Zero15 aligned
- Option 3a - Zero15 unilateral
- Option 4a - Territorial at 10%
- Option 4b - Territorial at 15%

The Options therefore fall into two categories:

- Those regarded as too high a risk (with reference to a combination of the risk of business migration, risk to the island's competitive position and risk or external review): **Options 3a, 4a and 4b.**
- Those regarded as having less negative impact, although often with qualifications: **Options 1, 2, 3b and 5.**

As Options that are regarded as having less negative impact, this report focuses on understanding opinions about those in category (b).

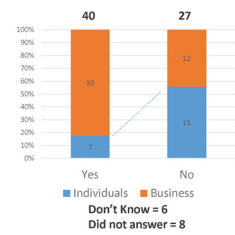
... our approach to changes to the corporate tax system needs primarily to be in terms of:

- Certainty of the receipts and timing of taxation that the change will bring in.
- Its impact on our international competitiveness.
- Its ease of implementation.
- Fairness

Individual

## Fairness

### In the light of the economic and fiscal situation in Guernsey, do you feel that the current system of taxing corporates, including Zero-10 and Pillar 2 implementation, represents a fair and proportionate contribution to revenue?



A greater proportion of individuals observe that the current system is not fair, but a proportion of businesses do as well. The inference is that fairness reflects both the balance of taxation and some areas of the current system that are perceived as benefitting only certain business types. Comments are almost directly at odds, with some individuals referring to "too much" of the tax burden while businesses refer to an "underappreciated" contribution. This points to a need for better public information.

#### Inequities identified

**Sector treatment:** Regulated fiduciary providers pay 10% while unregulated professional services performing similar functions and regulatory advisory companies that benefit from the finance sector pay 0%.

**Tax deferral:** Companies paying 0% can defer tax through retained profits. Profits can be generated in Guernsey and distributed to non resident shareholders.

**Ownership:** Overseas owned businesses can extract profits while also outsourcing much activity, thereby contributing less while benefitting from operating in Guernsey.

#### Selected verbatim comments

Guernsey businesses already make a substantial and often underappreciated contribution to public finances - not only through corporate income tax, but through employer social security contributions, TRP, regulatory fees and a wide range of other fixed charges. Association respondent

The transfer of all the burden onto individuals has caused significant hardship Individual

## Options view - Confidence

### How confident are you that the option would allow you to implement a business plan?

#### Ranking of Options (positive v negative)

Consistent with overall ranking for ALL and for BUSINESS only

- Option 5 - Levy
- Option 1 - Full Profits
- Option 2 - Sector extension
- Option 3b - Zero15 aligned
- Option 3a - Zero15 unilateral
- Option 4a - Territorial at 10%
- Option 4b - Territorial at 15%

Of note: Option 1 generates some low confidence. This is primarily due to the combination of an observed lack of revenue and the prospect of driving business restructuring.

- See Deep Dive



## Options view - Growth

### How much of an obstacle would the option be to the growth of a business?

#### Ranking of Options (positive v negative)

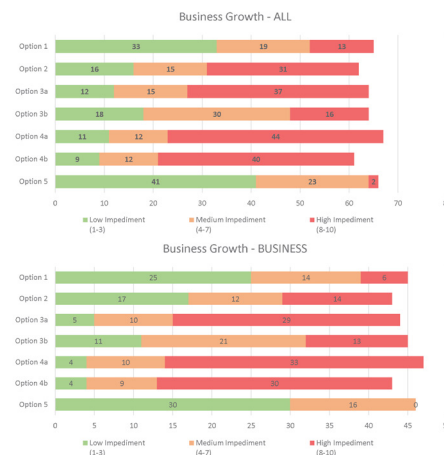
Deviation from overall ranking for ALL

- Option 5 - Levy
- Option 1 - Full Profits
- Option 3b - Zero15 aligned
- Option 2 - Sector extension
- Option 3a - Zero15 unilateral
- Option 4a - Territorial at 10%
- Option 4b - Territorial at 15%

But consistent with overall ranking for BUSINESS

Of note: Option 2 is considered a greater obstacle to growth than 3b by ALL and is perceived as a high impediment by almost the same number of BUSINESSES across both Options.

- See Deep Dive



What impact do you think the option will have on Guernsey's international competitive position?

**Ranking of Options (positive v negative)**  
Consistent with overall ranking for ALL and for BUSINESS only

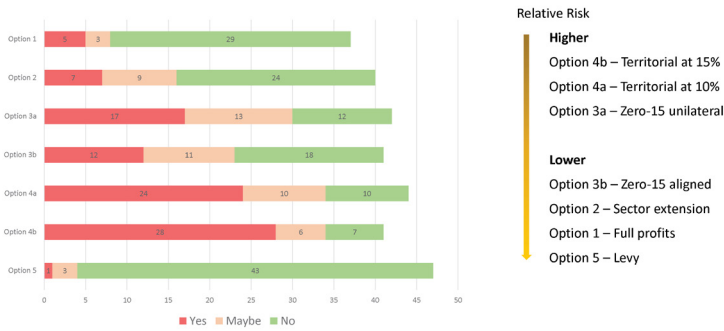
1. Option 5 - Levy
2. Option 1 - Full Profits
3. Option 2 - Sector extension
4. Option 3b - Zero15 aligned
5. Option 3a - Zero15 unilateral
6. Option 4a - Territorial at 10%
7. Option 4b - Territorial at 15%

Of note: First sign of negativity towards Option 5 as having high impact on Guernsey's competitive position.

- See Deep Dive



Would the option cause you to consider relocating or downsizing business operations in Guernsey? BUSINESS RESPONSES ONLY



## Options Deep Dive Ranked order

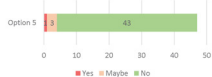
**Ratings**

- Confidence 1st
- Growth 1st
- Competitiveness 1st

Main negativity towards Option 5 is its impact on international competitive position and its regressive impact.

References are primarily to the comparative cost of operating in Guernsey, registry fees in general, the application to other types of structure that may be in scope and potential application alongside an ISE (Workstream 1).

**Relocation/Downsize risk**



**Comments on impact, opportunities and risks**

Option 5 is the most widely, but not universally, supported option. It is recognised as benefitting from administrative simplicity, preserves the Zero-10 tax system and is unlikely to result in an external review. It is also recognised for the potential to deliver predictable and stable revenue.

It does not address internal inequities observed on Zero-10. In one respect, it is regarded as potentially introducing a new concern: a flat fee that applies irrespective of business size, turnover or newly started. Its impact may therefore be disproportionate. A number of suggestions are proposed to mitigate this concern (see below and Alternative Ideas).

There are further considerations raised for the implementation of a Levy:

- Impact on competitiveness because of the comparative cost of operating in Guernsey
- Introduction alongside the ISE proposed under Workstream 1 may be perceived as duplication

**Selected verbatim comments**

*A flat annual levy disproportionately impacts smaller and lower-margin businesses. £250-£500 per company may appear modest in isolation, but layered on top of Registry fees, TRP, regulatory charges and rising employment costs, it becomes another cumulative fixed burden on SMEs. Association respondent.*

*We are fairly neutral but it would be an unhelpful move to increase costs within a jurisdiction that is already considered expensive. Finance business*

**Mitigations / Alternatives**

- Tiered or turnover linked levy
- Application of profit thresholds
- Targeted on those companies not captured in the current tax framework
- Exemption for local companies and start-ups
- Grandfathered application if introduced in advance of ISE
- Consider other fees: Trust licenses, Population management fees, Annual validation fees etc.

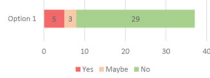
## Option 1 – Full Profits

### Ratings

Confidence	2nd
Growth	2nd
Competitiveness	2nd

This Option generates less confidence to implement business plan primarily due to the combination of an observed lack of revenue and the potential to be disruptive by resulting in business re-structuring.

### Relocation/Downsize risk



### Comments on impact, opportunities and risks

Responses on this Option focus on the limited revenue generated. While its simplicity and alignment with Jersey are recognised, some comments also reflect that it removes a current differentiation. The limited revenue is referenced by some as being mitigated if introduced along with a second Option. Most responses refer to the ease of avoidance, if this were introduced, through business restructuring by splitting regulated and non-regulated activities; which could reduce its effectiveness. Set against limited revenue, the justification is not obvious, outside of simplification for revenue services and tax administration.

Some areas for clarification are identified:

- A PCC (Protected Cell Company) is normally taxed as a single entity, so would activities carried out in one cell affect the tax rate of another?
- Consideration of brought-forward losses from 0% income streams;
- Clarity on application to companies subject to the 10% intermediate rate and the 20% higher rate.

### Selected verbatim comments

*We are broadly supportive of Option 1 as a measured reform. Although projected revenue is modest (approximately £3.5m), its principal strength lies in improved consistency and simplicity versus the current income streaming approach. Professional services business*

### Mitigations / Alternatives

Clarity will be needed on how "regulated company" status is defined and whether de minimis regulated activity should trigger full profits taxation.

Anti-avoidance provisions (e.g. related entity provisions) and clear definitions of sources of income

Rather than increasing tax to 10% on everything, doing on all profits may work better on a 7.5% or 8% to increase taxation but soften the overall hit and retain competitiveness

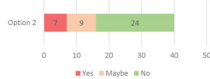
## Option 2 – Sector extension

### Ratings

Confidence	3rd
Growth	4th
Competitiveness	3rd

Option 2 is considered a greater obstacle to growth than 3b by ALL. It is perceived as a high impediment to Growth by almost the same number of BUSINESSES when comparing Options 2 and 3b.

### Relocation/Downsize risk



### Comments on impact, opportunities and risks

Option 2 receives some support, noting there is considerable comment about which sectors are in scope and the potential impact. Application to prescribed businesses receives more positive comment, set against how this impacts competitiveness and possible wider impact in the sector if costs are passed on to clients. A specific question is raised as to whether partnerships may be in scope which reflects a competitive concern. Some respondents also acknowledge how extension to additional sectors might trigger an external review.

Application to Retail and construction raises specific concerns related to the fragility of these sectors:

- Impact on cost of construction, already regarded as high, and prices in general
- Availability of profits for re-investment
- Impact on employment in sectors generally more labour-intensive
- Impact in the sector when combined with GST

*Concern that 0% is no longer seen as the standard rate by OECD. Pressure on construction when we have another competing objective to increase housing on the island, and much needed infrastructure. If this tax is alongside GST heavy impact on retail and construction alongside GST. Individual*

If GST is introduced alongside this option, this option is likely to amplify the burden of taxation on domestic consumers if the additional corporate tax is passed on through higher prices (in addition to GST). Professional Services business

### Mitigations / Alternatives

A threshold to enable growth. Leave profits up to £500k or even £200k taxed at zero, and over at 10 / 20%. Distributions would first come from untaxed reserves.

Profit thresholds to protect SMEs

Taxed profits should be allowed to be distributed before untaxed historical profits to avoid double taxation

Anti-avoidance measures

New taxation of compliance consultancy / regulatory advisory firms who are advising on compliance with Guernsey regulations

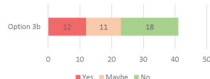
## Option 3b – Zero-15 aligned

### Ratings

Confidence	4th
Growth	3rd
Competitiveness	4th

Alignment is a key theme. However, Option 3b is viewed as impacting confidence and competitiveness in the main, because of international competition and potential impact on investment.

### Relocation/Downsize risk



### Comments on impact, opportunities and risks

Comments related to Option 3b (15% rate in alignment with Crown Dependencies) reflect comparison with 3a (15% rate - unilateral implementation). While there is recognition that some risk is removed by alignment, there are significant concerns raised about competitiveness compared with other international jurisdictions.

Some Respondents question whether there is any prospect of alignment with the other Crown Dependencies.

Some Respondents also refer to the investment impact of a 15% rate, which currently applies only to those organisations in scope of Pillar 2.

*Guernsey is not solely competing against the other Crown Dependencies. We need to consider our competitive position vs Dubai, Cayman etc. Hospitality business*

*This would still have an impact and lead to concentration risk in the finance sector as well as exposing us to reductions in tax take during periods of economic stress. Individual*

*Less impact if aligned with other Crown Dependencies. However, adding tax to businesses below the size of Pillar 2 will restrict money available to invest in the business. Association response*

*This option has a high level of uncertainty (both in term of execution and implementation dates) as it requires alignment with other Crown Dependencies, with the revenue generation being very small (estimated £2m to £2.8m). Finance business*

### Mitigations / Alternatives

Consider main competing jurisdictions (Luxembourg, etc) levy tax at rates higher than 15%

Regular assessment of incorporation trends, business migration patterns and revenue performance would allow timely policy refinement should unintended consequences emerge.

## Other Options

### Ratings

#### Option 3a – Zero-15 unilateral

Confidence	5th
Growth	5th
Competitiveness	6th

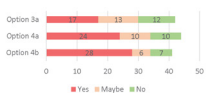
#### Option 4a – Territorial at 10%

Confidence	6th
Growth	7th
Competitiveness	5th

#### Option 4b – Territorial at 15%

Confidence	7th
Growth	6th
Competitiveness	7th

### Relocation/Downsize risk



### Comments on impact, opportunities and risks

These Options raised significant concerns in comments while the ratings indicated comparatively little benefit. The options carry higher negative impact to confidence, growth and competitiveness as well as high risk of migration, with scoping out more sectors and designing clear sourcing rules (in reference to Territorial) offered in mitigation.

*3a: Increasing the current rate of 10% to 15% on a unilateral basis would make Guernsey immediately less attractive than Jersey and Isle of Man and there is a high risk that businesses would relocate their operations. Many regulated financial services businesses already have significant operations in Jersey, often the headquarters, and with the increase in remote working and technology there could be migration away from Guernsey if there was a tax differential. Finance business*

*3a: Given a very large number of Guernsey fiduciary businesses are not locally owned and have presence in other crown dependencies we would expect these changes to lead to an increasing trend to 'push' new business into jurisdictions which, whilst equivalent to Guernsey in many ways, have a lower rate of tax. Association response*

*4a: From an e-commerce perspective, this would cause me to relocate my business as Guernsey is already full of nothing but hurdles and expense. It's already a bad place to do e-commerce from. E-commerce business*

*4a: In my view, the potential revenue benefit does not justify the competitive, behavioural and economic risks inherent in this proposal. Transport and Maritime business*

*4a: We consider this option the most harmful to Guernsey's international competitive position, and discussion of this option is already causing significant disquiet amongst our international clients. Professional services business*

*4a: We are concerned that a territorial regime would be highly likely to attract external scrutiny and review, particularly given the increased reliance on profit attribution, economic substance and anti-avoidance measures. This could create uncertainty for businesses and for the island more broadly. Finance business*

*Given the global mobility of international shipping and the competitive incentives offered by jurisdictions such as Singapore and Greece, I do not believe there are meaningful mitigations that would remove the relocation risk under Option 4a. Transport and storage business*

*Option 4 in both variants should not be explored further. It makes Guernsey uncompetitive, creates investor uncertainty, invites external scrutiny and delivers limited fiscal return. The risk-reward profile is unacceptable. Association response*

## Focus: Alternative ideas

### Comments (verbatim) related to new or adapted options (1)

#### Alternative re Option 2: Profit Threshold Approach

Rather than taxing by industry classification, a profit-based threshold model may offer a fairer and more neutral solution. For example, applying zero tax on the first £200,000–£500,000 of profits, with the 10% or 20% rate applying only above that level, would preserve headroom for growth and reinvestment, apply consistently across all sectors, align contribution with profitability rather than business type, and reduce the long-term deferral of tax under Zero-10 for consistently high-profit businesses. Tax should arise because of profitability, not because of how a business is classified.

Association Respondent

#### Targeted application of Option 5: A more proportionate approach

If a levy is introduced, it should not be applied universally to all registered businesses. Instead, it should be targeted at entities not already captured within the direct corporate tax framework - for example, partnerships, limited liability partnerships and other structures that currently fall outside the income tax net but benefit from the legal infrastructure Guernsey provides.

Local trading companies - particularly SMEs and start-ups - should be excluded. These businesses operate with thin margins, carry significant employment obligations and already contribute through a range of perimeter costs. There is no equivalent to Guernsey Finance or Jersey Business supporting non-finance sector businesses with dedicated promotional activity and resource. That asymmetry should be reflected in how costs are distributed.

Association Respondent

#### Alternative to Option 5:

An alternative would be to subject only those Guernsey companies with CSP's as Resident Agents to this levy. This would capture all of the international companies and very few locally owned companies other than those who can easily afford CSP fees and hence the new levy. This hopefully would fall outside of scope of external review.

Individual

#### Alternative to Option 5

Support this idea but would like some element of it to be packaged and ringfenced as a sustainability levy which could then be used to support climate, nature and social initiatives within Guernsey (some of which are being paid for by government currently or should be for the benefit of future generations).

Professional services business

### Comments (verbatim) related to new or adapted options (2)

#### Distributions (1 business and 2 individuals)

- This consultation has deliberately scoped out the consideration of withholding tax on distributions to non-resident shareholders. However, it is in this area that we observe what appears to be a disproportionate outcome for Guernsey. **Finance business**
- 3 Suggestions from **Individual**
  - An improvement in the system for distribution tax collection (including statements) is needed. This would accelerate collection of distributions.
  - Can we revisit deemed distributions of investment income or call it something different to be more palatable to external authorities?
  - Could we introduce a 'forced distribution regime' for Guernsey owned companies. This would also cover Guernsey resident owned investment companies. We could force these companies to distribute untaxed profits within, say, 5 years of the profits being earned. Again, this would apply only to Guernsey resident owned trading and investment companies, and consideration would need to be given whether such a restriction would be subject to critical external review.
- Why not consider some sort of withholding tax on dividends paid to non-residents, even if it were to be set at a very low level. We would need to ensure that it would be available as a tax credit to the recipient in its own jurisdiction. I do not know the impact that this may have on our valuable insurance and fund management sectors and consequent risks of behavioural impact. **Individual**

#### Other areas

- Guernsey's flat cap of £300,000 remains highly competitive compared to Jersey's graduated structure. Considered alongside GST and any corporate reform, a calibrated adjustment to the personal cap could demonstrate that contribution is being shared more broadly, strengthening both fiscal credibility and public confidence. **Professional services business**
- Gradually reduce the level of MNE Group turnover from EUR750m to say EUR100m, lower the Guernsey limits at the same time, and more MNE groups will get caught in the 15% tax bracket. **Individual**
- If Guernsey is going to introduce a sales tax (which I oppose), then I think that it should enter a VAT and Customs union with the UK, copying arrangements in the Isle of Man. This would be administratively far simpler for both businesses and for the government. It would also clearly raise far more revenue, truly stabilising Guernsey's finances and avoiding the need for any other tax rises. **Hostelry business**
- There could be options available to tax local residents and not non-residents on income arising in companies by adopting a type of Close Company Regime (which exists in the UK), or a Close Investment Holding company regime. This would not be easy and there would be some avoidance but it may be possible. **Self employed individual**
- Pillar 2 is a disaster, it is unbelievably complicated and has not been universally implemented and those that have, included carve outs to increase their global competitiveness. We should exclude companies where Guernsey is the sole international outpost, where the shareholder is a government or charity and is excluded in their home jurisdiction they should not be dragged into Pillar 2 via Guernsey. **Finance business**

## Industry Association Responses

Industry associations were invited to respond to the “Consultation on Options Under Consideration for the Taxation of Company Profits”, and responses were received from the following associations or their executive committees:

- The executive committee of the Guernsey Association of Trustees
- The collective response of the Guernsey Investment & Funds Association
- The Guernsey Society of Chartered and Certified Accountants
- The Guernsey Chamber of Commerce
- The Guernsey branch of the Institute of Directors
- The Association of Guernsey Banks
- The Guernsey Policy and Economics Group
- The Guernsey International Insurance Association

## Engagement Meetings

The Sub-Committee held engagement meetings with parties representing a wide range of opinions about tax reform. These meetings are summarised in brief below:

### Representatives of the G8 – November 2025, January 2026 and April 2026

Members of the G8, a representative body of Guernsey business groups, were invited to attend the November and January meetings of the Sub-Committee to discuss the views of Guernsey businesses across multiple sectors, in order to determine the impact of any proposed options on the local economy and the attractiveness of the island for investment. The G8 also supported the formal consultation process.

### Representatives of the Guernsey International Insurance Association – December 2025

Representatives of the insurance sector were invited to attend the December meeting of the Sub-Committee to discuss the views of the insurance industry to corporate taxation and the potential impact of any proposed options on this industry, and the wider local economy.

### Innovation Board – January 2026

A representative from the Innovation Board met with the Chair of the Tax Review Sub-Committee to discuss the views of the impact of Artificial Intelligence on the future of the island.

### Representatives of Third Sector Organisations – February 2026

Representatives of the Guernsey Welfare Service, the Association of Guernsey Charities, Les Bourgs Hospice, the Guernsey Community Foundation and the Citizens Advice Bureau met with the Sub-Committee in February to discuss the potential implications of GST on food, particularly for services such as food banks, and the consultation on company tax.

### Representatives engaged in the Finance Sector Strategy 2035: Driving Growth for Guernsey – February 2026

Representatives from the Project Board responsible for developing the Finance Sector Strategy 2035: Driving Growth for Guernsey, presented to the Sub-Committee in February 2026.

## Pascal Saint-Amans, former Director of the OECD Centre for Tax Policy and professor at Lausanne University and HEC Paris business school – March 2026

The Tax Review Sub-Committee met with Pascal Saint-Amans to discuss his opinion on the corporate tax consultation.

### **Public feedback**

Between 14 January and 16 March 2026, 15 emails were received from members of the public and were shared in anonymised summary form with the Sub-Committee, to convey relevant opinions and views on tax reform. A summary of the main themes arising is set out below:

- GST impact on retail business
- Concerns over GST on food and GST in general
- Tax burden on poor compared with high net worth individuals
- Alternative options to consider instead of or in addition to GST – including taxes on empty property, electric vehicles, a health stamp tax, increase TRP, increase tax rate on high earners
- Tax and other hurdles for eCommerce businesses
- Impact of GST Plus on pensioners and addressing overspends and losses
- Questioning the additional resources required to administer GST in the Revenue Service
- Taxation to support innovation

# Appendix 2

## Behavioural adjustments

Given the variability in the potential responses to tax reform, it is difficult to determine how individual companies will react to the options presented. To account for this, an assumption for how much profits could reduce by for a given change in the tax rate has been made for each sector, and finance sub-sector, as set out in the table below. For each sector, three scenarios have been considered to reflect the sensitivity of the potential additional revenue to the extent of behavioural change amongst companies:

- a minimum change scenario (which gives maximum additional revenue)
- a moderate change scenario
- a maximum change scenario (which gives minimum additional revenue).

Sector	% Reduction in Company Profits Due to Behavioural Change								
	Move from 0% to 10%			Move from 0% to 15%			Move from 10% to 15%		
	Min	Mod	Max	Min	Mod	Max	Min	Mod	Max
Agriculture	-	-	5	-	-	7.5	-	-	2.5
Manufacturing	-	5	10	-	7.5	15	-	2.5	5
Electricity & gas	-	-	-	-	-	-	-	-	-
Water & waste	-	-	-	-	-	-	-	-	-
Construction	-	5	10	-	7.5	15	-	2.5	5
Wholesale & retail	-	5	10	-	7.5	15	-	2.5	5
Hostelry	-	-	5	-	-	7.5	-	-	2.5
Transport & storage	-	5	10	-	7.5	15	-	2.5	5
Information & communication	-	5	10	-	7.5	15	-	2.5	5
Finance									
Banking	20	20	25	35	35	40	12	12	17.5
Fiduciary	20	20	25	35	35	40	12	12	17.5
Fund/investment	20	20	25	35	35	40	12	12	17.5
Insurance	20	20	25	35	35	40	12	12	17.5
Holding companies	20	20	25	35	35	40	12	12	17.5
Financial vehicles	20	20	25	35	35	40	12	12	17.5
Financing and leasing	20	20	25	35	35	40	12	12	17.5
Other	20	20	25	35	35	40	12	12	17.5
Real Estate	-	5	10	-	7.5	15	-	2.5	5
Professional – finance related	5	15	20	10	25	30	2.5	10	12.5
Professional – non-finance related	-	5	10	-	7.5	15	-	2.5	5
Administrative	-	5	10	-	7.5	15	-	2.5	5
Education	-	-	-	-	-	-	-	-	-
Human health	-	-	-	-	-	-	-	-	-
Entertainment – excl. e-gaming	-	-	-	-	-	-	-	-	-
Entertainment – e-gaming	20	20	25	35	35	40	12	12	17.5
Other	-	-	-	-	-	-	-	-	-

# Appendix 3

## Scope of longer-term work

This will consider and examine the longer-term tax structure for Guernsey's evolving economy including the current constituents of Guernsey's economy and will endeavour to preserve existing advantages. It will also take account of changing demographics and potential measures that could influence the relative size of the working age population, technological changes (such as Artificial Intelligence), new sectors (such as offshore wind) and international tax developments.

In scope:

- Examining Guernsey's tax base against developing international norms recognising the characteristics of Guernsey's economy, using OECD published data on tax revenue as % of GDP and sources of tax revenue split by tax type.
- Analysing and modelling the impact changing demographics, technological changes, new sectors and international tax developments (in particular those relating to the Global Minimum Tax or similar) may have on Guernsey's tax base in the long term.
- Examining the extant legislative framework to ensure it remains fit for purpose and determine if any aspects need updating in light of developments or to ensure they address issues of effectiveness (such as countering the conversion of income into capital).

### Timeframe

This is considering the longer-term future, i.e. a timeframe of 10 years and beyond. It will make recommendations on the future shape of the overall tax system and the principles it should meet, allocating priorities to any workstreams which emerge from this that will then consider options for change.

It is recognised that it will take approximately 3-5 years before the impact of the introduction of the Global Minimum Tax can be analysed meaningfully, particularly with the recent developments, including the Side-by-Side package<sup>1</sup> published in January 2026. Although initial analysis will be undertaken once the first returns have all been filed in Guernsey (from mid-2027 to mid-2028). The OECD Inclusive Framework has committed to undertake a stock take of the Global Minimum Tax following the introduction of the Side-by-Side package to ensure that any substantial risks that might be identified with respect to the level playing field or BEPS. This stock-take, that will be an evidence-based objective process, will be concluded by 2029.

<sup>1</sup> Side-by-side refers to the OECD's January 2026 package introducing simplified, parallel safe-harbour calculations for Pillar Two, allowing groups to demonstrate compliance without undertaking full GloBE computations in every jurisdiction, while preserving the primacy of any OECD-compliant domestic minimum top-up tax where implemented.

# Appendix 4

## Fiscal policy panel letter of comment

**Tuesday, April 7, 2026**

To whom it may concern:

We welcome the chance to comment on the Tax Review Sub-Committee Report reviewing potential reforms to Guernsey's corporate income tax system (henceforth, The Report).

The central constraint for the Tax Review Sub-Committee in reaching its conclusions lies at the intersection of Guernsey's international competitiveness, the need to raise revenue, uncertainty over the effects of individual reforms (including Pillar 2) on those revenues, and the scope and magnitude of behavioural responses to CIT reform, including potentially reducing net revenue.

The only medium-term solution to this issue is actions to diversify Guernsey's economy and tax base. The Workstream 1 package is one step in that direction. More action will be needed regardless of decisions about these immediate reform proposals.

The Report considers five options for reform, ranging from minor tweaks to the existing system to a wholesale reform and replacement of the current system with a territorial regime. Options included: expanding the coverage of existing corporate income taxes (CITs) to include a wider range of businesses and activities, harmonising CIT rates across industries, increasing CIT rates, a fundamental switch to a territorial regime, and increasing existing fixed levies.

The Sub-Committee's recommendations are largely consistent with international best practice in tax system design, including simplifying tax design where possible, treating similar activities similarly, being mindful of the administrative and compliance burdens on both business and the tax authorities, and carefully considering sequencing of tax reforms to allow businesses and the economy to adjust, and to continually review tax policy as new data (e.g. Pillar 2 revenues) becomes available and the economy evolves (e.g. demographic or technological change).

We agree with The Report's assessment that CIT reform is not a substitute for implementation of the Workstream 1 package of reforms described under Workstream 1 and evaluated in our previous Fiscal Policy Panel Reports. Whilst CIT reforms could generate additional revenue, it cannot displace Workstream 1 because of:

- **the limited potential revenue gains:** the Sub-Committee estimates these could range £10m - £15m if their recommendations are followed. This compares against a structural deficit of £77m reported in the 2026 Budget (which itself assumes an investment target of just 2% of GDP compared to the Panel's preferred target of 3%).
- **the high volatility of CIT revenues:** Whilst CIT reform could raise revenue, it would not significantly reduce this volatility. Unstable tax receipts complicate long-term fiscal planning and delivery of the capital programme as noted in our 2025 report.

- **Guernsey's narrow tax base:** In general, raising CIT in an economy so heavily dominated by personal income taxes could diversify the tax base. However, CIT has the potential to be a highly distortionary tax, as noted below, and so any change could have negative longer run consequences.
- **Potential behavioural responses:** most of Guernsey's significant tax-paying firms are financially sophisticated and internationally mobile giving them many potential options to offset any attempt to increase their tax liability. These range from changes in capital structure and internal pricing to full exit from Guernsey with the associated reduction in other tax revenues this would incur.

We further agree with The Report's recommendations to carefully sequence tax system reforms, managing the administrative burdens on firms and the tax authorities. Implementing Pillar 2 and Workstream 1 will introduce compliance and implementation processes and costs on both businesses and the States of Guernsey. Imposing additional layers of reform would risk too much change over a short period.

Additionally, at this stage, there is a chance that Pillar 2 plus the full implementation of GST will raise sufficient new revenue to put Guernsey's finances onto a more sustainable path - though this will depend crucially on Guernsey's ability to maintain a tight rein on government current spending. As The Report notes, it is too early to determine what the net revenue effects might be, and this topic should be reviewed following the first reporting of Pillar 2 in 2027.

Sincerely,

Prof. Matthew Agarwala

Mr. Matthew Bell

Prof. Francis Breedon

# Appendix 5

## Glossary

### Annual Validation - Guernsey Registry

All Guernsey companies must file an annual validation with the Guernsey Registry which contains the details of the company. The annual validation fee depends on the classification of the company.

### BEPS - Base erosion and profit shifting

Base erosion and profit shifting refers to multinational entities shifting their profits to low or no-tax jurisdictions where they have no economic activity, reducing the tax base of their resident jurisdictions. This offers multinational businesses a tax advantage over domestic competitors. Some BEPS schemes are illegal but many are not. These are discouraged by the OECD and EU CoCG. Guernsey complies with the four BEPS minimum standards mandated by the OECD Forum on Harmful Tax Practices, in order to prevent the facilitation of Base erosion and profit shifting.

### Behavioural Change / Behavioural Response

“Behavioural Change” or “Behavioural Response” describes the ways in which business behaviour may differ as a direct result of changes to the tax regime. This may vary between sectors and businesses depending on their global mobility. Possible behavioural responses to changes in the tax regime include:

- A reduction in new business opportunities for entities with an international client base
- Relocation of international service entities or their client base to another jurisdiction
- Restructure, cessation or outsourcing of certain areas of business
- Conversion of taxable income into capital gains (which is not subject to tax in Guernsey)
- Adjustment of decisions around employment, earnings, benefits, distributions and investment – lower earnings growth and investment typically result in lower personal income tax and social security receipts and fewer jobs
- Increase in fees and charges – higher costs typically have a negative effect on economic growth”

### Captive Insurance

An insurance entity wholly owned by the company it insures, allowing the owners to cover risk while retaining underwriting profits and sole control of risk management.

### Dividends

Dividends are distributions of a company's earnings paid to shareholders of the company.

### Fiscal Policy Framework

A set of principles and rules agreed by the States of Guernsey that guide decisions on taxation and public spending. It commits the States to the principle of permanent balance, meaning that over the long term, government expenditure should not exceed the revenue raised through taxes and other sources of income.

## Fiscal Reserves

Fiscal reserves are the funds accumulated by governments over multiple years to ensure financial stability and cover unforeseen expenses. Guernsey's Fiscal Policy Framework commits the States to a guiding principle of permanent balance: in the long-term, the States should not spend more money than it receives as income. If the reserves are used to support a temporary deficit, the reserves should be restored with a period of budget surplus.

## General Revenue

General Revenue describes government revenue through taxation as well as other streams of income such as fees and fines. General Revenue is not directed towards a particular area of expenditure.

## GVA - Gross Value Added

A measure of the value generated by producing goods and services, calculated by estimating the income of companies, individuals and organisations by examining the compensation of employees, gross operating surplus, mixed income, and the income of households.

## ISE - International Services Entity

A business resident in a jurisdiction that provides services mainly to non-residents, and can apply to be exempt from GST in that jurisdiction on payment of a fee.

## Mobility

Mobility describes how easily an entity may relocate its business activity to other jurisdictions. Some businesses, particularly those in international finance or those that operate digitally, are highly mobile and are able to quickly relocate their business to other jurisdictions, whereas some businesses, particularly in the hospitality and hotel sector, are less mobile as their business cannot easily be transferred elsewhere.

## Ring-fencing

One of the criteria for assessing preferential regimes under the EU CoCG Criteria asks whether advantages are “ring-fenced” from the domestic market. This concerns where advantages are granted only to non-residents or for transactions with non-residents, which may promote double non-taxation, or base erosion and profit shifting.

## Tax Base

The tax base represents everything that is subject to tax in a jurisdiction, including assets, income, activity and transactions.

## Tax Equity

Tax equity refers to the level of fairness in the distribution of the tax burden among individuals and businesses reflecting equal treatment for those in similar financial positions and higher taxes for those that are able to pay.

## Tax on Real Property (TRP)

Taxation on Real Property (TRP) is a tax paid each calendar year on real property in Guernsey, Alderney and Herm by the owner of the real property. Real property is interpreted in the Taxation of Real Property (Guernsey and Alderney) Ordinance, 2007 as any land, buildings and other property constituting immovable property under the law of Guernsey. The tax is calculated through assessable units: for buildings, each square metre of the plan area is one assessable unit; for real property other than buildings, for example land, each 50 square metres of the plan area is one assessable unit.

## Tax Neutrality

Tax neutrality in Guernsey is a tax position which supports investment flows through Guernsey by not imposing tax upon them, enabling Guernsey's position as a financial intermediary jurisdiction, and supporting business. Neutrality prevents an additional layer of taxation on foreign investors in Guernsey based funds, in the absence of a network of double taxation agreements.

## Appendix 4.

### Summary of considerations on incentivising distributions

- A4.1 The Policy & Resources Committee continues to consider ways, having regard to compliance with international standards, to incentivise earlier distribution of profits from Guernsey-resident companies to address issues of fairness and ensure the wealthiest in the community appropriately contribute to tax revenue collected.
- A4.2 This appendix provides a summary of the work undertaken to date and next steps planned.

### Background

- A4.3 Prior to the repeal of deemed distributions, where a company was subject to tax at the 0% company standard rate, a tax liability arose on Guernsey resident shareholders on the occurrence of specific trigger events being:
- Investment income arising within a company;
  - The disposal, repurchase and/or redemption of a beneficial member's shares in the company;
  - The death of a beneficial shareholder;
  - The beneficial shareholder ceasing to be resident in Guernsey;
  - The dissolution or migration of a tax resident company; and
  - Company amalgamations or re-organisations.
- A4.4 The European Union's Code of Conduct Group on Business Taxation determined in April 2012 that this aspect of Guernsey's corporate tax regime was non-compliant with the principles of the Code, as it effectively ring fenced the 0% company standard rate for foreign owned companies. Therefore, the States of Deliberation repealed the deemed distribution provisions with effect from 1 January 2013<sup>28</sup>.

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<sup>28</sup> Removal of Deemed Distribution Regime ([Billet d'État XVII of-2012](#))

A4.5 This means that currently, where a company is subject to tax at the 0% company standard rate, tax is only due on actual distributions of company profits. Anti-avoidance measures are in place to counteract loans from companies to shareholders (known as “loans to participators”) and also using loans from shareholders as a means to extract company profits by way of loan repayments.

### **Analysis**

A4.6 In order to consider how best to incentivise earlier distribution of profits from Guernsey-resident companies, analysis was undertaken on particular company types to ascertain the accumulated untaxed, undistributed profits.

A4.7 Analysis was undertaken on a sample (1/3, approx. 900) of investment companies with the outcomes summarised as follows:

- Over 60% of investment cases reviewed predominantly received property income, noting that Guernsey property income is already subject to tax at the company higher rate of 20%, so no further tax would be due when this income is distributed.
- A further 20% have minimal profits, so there is little to distribute.
- 5% were owned by non-residents, so no tax would be due on any distributions.

A4.8 Therefore, around 85% of the companies analysed would not be impacted by incentives to distribute those profits (or conversely anti-avoidance measures).

A4.9 The remaining 15% of the sample were then reviewed in more depth, looking at annual profits for the last three years, reviewing the distributable profits reserves and tracing through ownership to understand the extent of Guernsey ownership (which was 100% in all but four cases). This analysis suggested that ongoing revenue potential from taxing undistributed profits in such companies is limited (less than £1m per annum) due to the nature of assets held and the tax status of the shareholders.

A4.10 There was also analysis of a sample of holding companies of high-profile trading groups with local ownership. This did not identify any that had significant levels of rolled up profits that would be subject to tax on distribution, either due to the group being owned by tax capped individuals, the company profits already subject to tax at 10/20%, or as the undistributed income is predominantly from capital gains which are tax free.

A4.11 The Policy & Resources Committee has also engaged with the Guernsey Society of Chartered and Certified Accountants Tax Sub-Committee (GSCCATSC) on potential options to be investigated, seeking feedback on those options and any other suggestions. This engagement highlighted that any such measures would introduce significant complexity into the tax system, with an imperative for the corporate tax system to remain compliant with international standards. It was also confirmed that much of the “undistributed” profit shown for tax purposes was, in fact, reinvested into the business itself, and so would not actually be cash available to distribute.

#### **Next steps**

A4.12 The Policy & Resources Committee asked the Tax Review Sub-Committee to consider the matter of introducing incentives to encourage the earlier distribution and taxation of historic undistributed profits from companies. The Sub-Committee concluded that no further work should be undertaken on investigating such measures, which are a consequence of the existing corporate tax regime (see section 7 of the Tax Review Sub-Committee Report at Appendix 3). It was noted that aside from not raising significant revenue, together with introducing significant complexity, there would still remain a number of challenges to their effectiveness, through the absence of capital gains and exit taxes.

A4.13 The Policy & Resources Committee, however, remains committed to addressing issues of fairness and ensuring an appropriate balance between the taxation of individuals and corporate entities. The Committee continues to investigate ways to incentivise earlier distribution of profits from Guernsey-resident companies and will continue to engage with the GSCCATSC and other relevant stakeholders on this important work. Any feasible options identified that comply with international standards will be brought forward to the States of Deliberation as part of the annual States of Guernsey budgetary process.

## Appendix 5.

### Summary update from committees on the delivery of expenditure reductions

#### Introduction

- A5.1 If there is a desire for more substantial reductions in public sector spending to form part of the solution to the funding gap, these reductions need to be delivered in a comprehensive form which may include reducing service levels. Short-term measures and cutting corners are not sustainable in the long-term, and the objective of looking at expenditure reduction is to gain better visibility about where the scope or delivery of public services might be changed in the medium- to long-term to deliver meaningful reductions in public spending, and what the consequences of those changes might be.
- A5.2 The Committee notes that there are already savings initiatives in place with both a 1% saving each year from 2027 to 2029 targeting annual expenditure reductions of c£20m by 2029 along with the deeper review of priority-based budgeting. Success in these areas will help to slow the growth of public expenditure but will not reduce it.
- A5.3 To make a meaningful change in public expenditure the Committee is of the view that either reductions in service levels or changes in charging models, to generate income and change the level of consumption of public services, would be required.
- A5.4 It is these areas that the Committee has sought to look at. To enable this the Committee gathered together all significant outstanding opportunities from previous cost savings reviews, being Public Service Reform, Reducing the Cost of Public Services and The Tax Review: Phase 2.
- A5.5 The Committee notes that some items from these reviews have been implemented, notably centralisation of enabling services, delivering efficiencies and cost savings in government delivery.
- A5.6 Many of the items remaining have workstreams underway but are large scale changes that require service reviews, political direction and, by their nature, have wide ranging impacts on the direct public service but also impacts on related services. Sustainable Health & Care for example is a major review of the Health & Care Services which will reshape the direct services provided but also has significant impacts on the benefits provided by Employment & Social Security. Similarly, review of various benefits provided have interrelated impacts some of which may result in increases in costs elsewhere. Alongside these direct financial impacts significant changes to public services will also

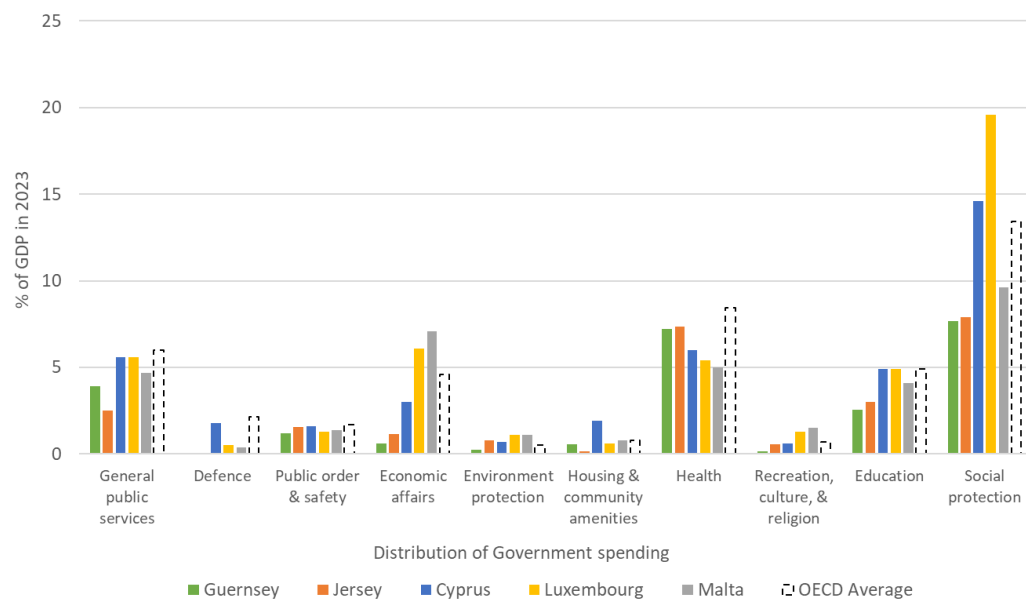
impact workforce participation, earnings potential and have longer term impacts on individual and family financial resilience.

A5.7 As the Committee has detailed in the Policy Letter the States of Guernsey need to deliver cost reductions alongside income generation to bring the fiscal position to a balance. Therefore, the Committee has sought updates from all committees with these opportunities to confirm the ongoing work of each committee to develop and implement changes alongside any significant updates on progress, savings potential and requirements for support.

**Context:**

A5.8 When comparing to similar jurisdictions the size of Guernsey’s public sector is relatively small. Per capita, Guernsey spends approximately £12,900 a year on public services compared to £14,700 in Jersey and £15,000 in the UK (excluding defence spend) in 2023 terms. As a percentage of GDP, Guernsey spends less than the OECD average in almost every category (see Figure A5.1) and generally less than other micro jurisdictions in all areas other than health.

Figure A5.1: Government spending by category as a % of GDP in 2023



A5.9 When reviewing these comparisons it is important to note that many of the jurisdictions are materially larger than Guernsey so will have inherent economies of scale within their ratios that we do not have to the same extent.

A5.10 Previous Policy & Resources Committees have restrained budgets requested by committees prior to making a recommendation to the States Assembly.

- A5.11 For the 2026 budget increased costs (above inflation) of £24.9m were requested. The Committee recommended increases of only £12.7m.
- A5.12 For the 2025 budget increased costs (above inflation) of £35.7m were requested. The Committee recommended increases of only £19.7m.
- A5.13 Across these two years the Committee has restrained requests that have been made through officer and committee review by a total of £28.2m or 47% of the requests.
- A5.14 While this reduces unchecked increases in public expenditure, an increase of more than £16m each year demonstrates the increasing cost of service delivery which is linked to costs increasing in excess of inflation but also the cost of servicing a changing demographic. This demographic change will increase the pressure on budgets which is driving both the tax review and this review of potential expenditure reduction measures.

**The Committee has taken reviews on:**

**Reduction in grants & subsidies:**

- A5.15 All material grants and subsidies have been discussed and challenged. These range from support for the financial sector to libraries and funding for prescriptions to international relations. Across these areas, with a budget allocation of c£30m in 2026 committees have identified little scope for savings. These represent services delivered by third parties that are either being delivered more efficiently than government can, or are services that provide additional value to the community. Across these areas committees note that the pressure is generally for additional spend requirements to sustain the existing levels of service.

**Review of benefit levels and uprating:**

- A5.16 The Committee *for* Employment & Social Security has established a Savings Working Party to examine its budgets with a view to identifying sustainable and evidence-based savings opportunities. This Working Party is recently established and has not reported back to the Committee at this time.

**Reduction in Public services:**

- A5.17 The Committee has heard from committee members in respect of reduction in services lines that have been explored in previous cost reduction initiatives. These included areas of healthcare provision, maintenance levels in public spaces and bus services.

- A5.18 The sustainable health and care workstream within the Committee *for* Health & Social Care is ongoing and reviewing the healthcare provision that best meets the needs of the community and is aligned with affordability.
- A5.19 Maintenance levels of public spaces have seen modest cost reductions in recent years. If further cost reductions were implemented this could result in higher costs in future years as a result of any short term cost savings. Many of these areas provide local residents with an improved quality of life and support tourism.
- A5.20 Bus services have recently been recontracted. There was strong public concern regarding loss of provision following a public consultation on this service.

**Rebalancing of the level of subsidies in healthcare provision:**

- A5.21 A number of options have been highlighted by the Committee *for* Health & Social Care in relation to reducing levels of support or increasing access fees for various areas of the healthcare offering.
- A5.22 The largest impacting areas are recommended by the Committee *for* Health & Social Care to be managed via the sustainable health and care workstream. Through the committee this would bring recommendations to the States Assembly for approval.

**Overview of Responses:**

- A5.23 Committees have not had long in this political term to provide meaningful feedback on these items.
- A5.24 The Committee noted that there are material savings opportunities within some of these areas, primarily linked to the sustainable health and care workstream and the Savings Working Party within the Committee *for* Employment & Social Security.
- A5.25 The Committee also heard from many Members not only of the struggle to achieve savings but also the likely need for increased funding, simply to provide a continuation of current services.

- A5.26 As acknowledged in the Reducing The Cost of Public Services analysis many of the simplest levers to pull in overall net cost reduction is to increase or start charging for services. This holds a similar outcome to reducing grants in many areas, namely that the service users pay. Often this results in specific cohorts within the community paying for access to a service that they cannot avoid or depend on to be economically active or to minimize their usage of higher cost public services. As a result, this acts as a highly targeted tax that does not have the same control or equity as wider taxes, such as income tax or a goods and services tax.
- A5.27 The Committee will continue to seek progress reports on these items to support the cost control need which has been laid out in the Policy Letter.

## Appendix 6.

### Summary of ongoing exploration of Offshore Wind

- A6.1 The Committee is continuing to assess the long-term opportunities and viability of offshore wind as a potential source of revenue through the work of a sub-committee, known as the Offshore Wind Delivery Board (OWDB). The OWDB is chaired by Deputy Blin working with the Presidents of the Policy & Resources Committee and the Committee *for the Environment & Infrastructure*.
- A6.2 The States of Guernsey has identified, as set out through the policy letter entitled “Offshore Wind Opportunities for Guernsey – Opportunities and Next Steps<sup>29</sup>”, that there is an opportunity to realise significant economic and financial benefits associated with development of this kind. Principally this is through the value of the seabed for a development, of in excess of 1GW installed capacity, that can sell the electricity into a market of suitable size, principally the UK and/or France.
- A6.3 While there may be an opportunity to realise value from the seabed in this way, the programme remains in development. Progression is dependent on a number of key pieces of work, many of which are within the Island’s control. These key pieces of work include:
- Route to market and access to market mechanisms (securing value for the energy).
  - Marine Spatial Planning – which will inform location and overall area available.
  - Lease design.
  - Licensing.
  - Seabed Ownership.
- A6.4 As such, there is still work to be done to enable offshore wind to deliver material economic or financial returns.

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<sup>29</sup> <https://parliament.gg/parliamentary-business/propositions/p2025-40>

### *Ongoing Work*

- A6.5 Part of the lease design work is understanding various approaches that will offer different value benefits to the States of Guernsey. The key elements under consideration are immediate benefit and long-term return to the States of Guernsey.
- A6.6 The route to market is recognised as a critical element by the OWDB and work is actively underway to overcome this barrier. There is a reasonable degree of optimism that a solution into the UK Grid can be found; however, the most likely pathway is through legislative and regulatory changes in the UK. Such changes are inherently uncertain and will take time to ensure legislative changes are appropriate and robust. While an alternative route to market via the France exists, this would likely be more complex, and therefore have a longer timeline to deliver, and potentially deliver lower overall economic value.
- A6.7 Access to market mechanism, such as the Contracts for Difference (CfD) mechanism, is required to providing the necessary revenue certainty for developers. Gaining access to an appropriate CfD round may only be achieved once the process of accessing the market is confirmed. Indications are positive that there will be access to the market mechanisms for projects delivered after 2030 once the route to market is resolved. Leasing of seabed areas would not be expected to occur in advance of securing access to such mechanisms, however leasing could occur once access is secure and would not need to await specific leasing rounds so long as it is known Guernsey waters would qualify.
- A6.8 In addition to the route to market, there are a number of further important steps that must be completed either before revenue can be realised. These include the development of a Marine Spatial Plan (MSP), which is currently at an early evidence-gathering stage. A first draft of this is expected at the end of 2026 and will then go out for a formal public consultation before the finalisation of its recommendations. The MSP is essential in identifying potentially suitable locations for marine renewables, such as offshore wind development and, consequently, to identify which areas of seabed could be leased. The OWDB agreed that finalisation of the MSP was necessary to be able to proceed to designing an auction for offshore wind, so that there was greater certainty around the availability of suitable sites, environmental constraints and potential consenting requirements.

- A6.9 The States of Guernsey has agreed that the consenting (licensing) approach can be delivered by the Renewable Energy Commission as set out in the policy letter entitled “Establishing Guernsey’s Offshore Renewable Energy Commission”<sup>30</sup>. It is important to note that the establishment of a suitable regulatory body is required prior to auction so as there is a clear process for developers.
- A6.10 The OWDB are undertaking a detailed review of the implications of various ownership models on the attractiveness of development in Island waters. Understanding this and then confirming both the approach and procedures required to underpin either approach to enable the development of offshore wind remains a priority of the OWDB.

*Potential Timeline*

- A6.11 Following these key pieces of work set out above, there would remain the development (including permitting) and construction phase of any wind farm development. Even allowing for streamlined processes, this would take a number of years to complete. The consultants engaged in the programme to explore an opportunity for offshore wind in Guernsey provided an indicative timeframe:

Year	Potential development timeline
2027	<ul style="list-style-type: none"> <li>• MSP publication</li> <li>• Auction design and consultation</li> <li>• Auction Launch</li> <li>• Selection assessment and approval</li> </ul>
2028	
2029	
2030	Permits and approvals (~2/3 years)
2031	
2032	Final investment decision
2033	Construction begins (~3 years)
2034	
2035	
2036	Commissioning date

- A6.12 Taken together, and assuming successful progression through each stage, it is reasonable to anticipate that any meaningful revenue generation, from the operation of a windfarm, remains at least a decade away on an optimistic assessment.

<sup>30</sup> <https://parliament.gg/parliamentary-business/propositions/P2025-48>

### *Key Risk Factors*

A6.13 Key risks to the development of offshore wind that remain in the process outlined above are as follows:

- Access to market – whilst ongoing discussions are positive around market access, this aspect remains a key risk until access is formally confirmed.
- Sufficient area identified through the MSP – the MSP is still in development, and so the area allocated for offshore wind will not be confirmed until that process is complete.
- Developer interest – the OWDB is seeking to ensure that the proposition is attractive to developers, but there is a risk that an auction of the seabed could be unsuccessful.

### *Potential Revenue*

A6.14 The work undertaken in developing the policy letter entitled “Offshore Wind Opportunities for Guernsey - Opportunities and Next Steps”<sup>31</sup> included a value assessment as a way to gauge the potential returns to the States of Guernsey. The work the OWDB is currently undertaking, including through working to support the MSP, will provide a refinement on these figures which do carry a significant range of uncertainty. However, as this remains under review, the previous figures are presented here for indicative purposes, not to be taken as guaranteed values.

A6.15 The value assessment suggested that a wind farm of 1.272GW situated in a “representative site”<sup>32</sup> within Guernsey’s waters could return a net present value (NPV) in the region of £300m. This in turn could, if spread over the 35 years of the operation of the wind farm, return £1,300m to the States of Guernsey, or in the region of £37m/y.

A6.16 However, there are a number of caveats to this figure.

- The £300m NPV is seen as a “more likely” outcome, however with existing uncertainties the variation around the NPV is such that a negative NVP (and therefore a project that is not viable) is within the value range, although this is considered unlikely.

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<sup>31</sup> [Offshore Wind Opportunity for Guernsey - Update and Next Steps | Guernsey Parliament](#)

<sup>32</sup> A site that covered a variety of water depths

- The value is based on varying water depths, whereas any site(s) identified through the MSP may be in more predominantly deeper water, given the relatively short distance between the island's coastline and 30m water depth. This would effectively reduce the NPV of the site as the development costs would increase against the "representative site".
- The power output is dependent upon the area of water available, with the 1.272GW requiring 157km<sup>2</sup> of sea area. Therefore, the area(s) identified through the MSP will have a significant impact upon potential returns.
- There are technical assumptions that will need to be verified through further work, including based on site selection, principally site density (assumed to be 8.1MW/km<sup>2</sup>) and turbine capacity (assumed to be 24MW).
- The value of the electricity to the market. This is based upon the CfD price in the UK, which is subject to change.

A6.17 The site selection and the variables listed above will have a bearing on the potential revenue available to the States of Guernsey, along with the current market conditions and technological advancement. Accordingly, while offshore wind represents a promising opportunity for the medium to long term and could play an important role in the island's future economy, it is unlikely to provide a solution of sufficient scale or immediacy to address current fiscal challenges on its own.

## **Appendix 7.**

### **Detailed rates and thresholds for proposed 2026 Tax Reform Package**

- A7.1 Table A7.1 presented overleaf provides detailed rates and allowances for the proposed 2026 Tax Reform Package, compared to the package agreed by the previous States in November 2024 (with the addition of corporate and transport taxes).
- A7.2 All monetary values are presented at 2026 prices and inflation adjustments to these should be applied to reflect the change in RPIX between 2026 and their implementation to prevent the erosion of their value.
- A7.3 Most revenue raising estimates are calculated using detailed household income data using the most up to date information, and baseline revenue forecasts for 2026 available at the time of publication. These values will change over time, reflecting changes in the economy.

Figure A7.1: Detailed rates and thresholds

		Rates and thresholds 2026	Revenue estimate 2026	November 2024 agreed package + corporate tax measures and transport taxes		2026 Tax Reform Package with review in 2030	
Social Security Contributions: Employers	Rate (up to UEL)	7.1%	£126m	8.0%	£141m (+£15m)	7.6%	£136m (+£10m)
	Rate (UEL to additional limit)	-		2.5%		2.5%	
	Lower earnings limit	£9,984		£0		£0	
	Upper earnings limit	£196,560		£196,560		£196,560	
	Additional limit	-		£250,000		£300,000	
Social Security Contributions: Employees	Rate - Earned income to UEL	7.5%	£133m	8.5%	£119m (-£14m)	8.5%	£125m (-£8m)
	Rate - Unearned income to UEL	0%		8.5%		0%	
	Lower earnings limit	£9,984		-		-	
	Upper earnings/income limit	£196,560		£196,560		£196,560	
	Allowance	-		£15,800		£11,122	
	Withdrawal of allowance	-		£85,000 (£1 in £5)		£85,000 (£1 in £5)	
Social Security Contributions: Self-Employed	Rate - Earned income to UEL	12.4%	£11m	14.5%	£11m (£1m)	14.5%	£11m (£0m)
	Rate - Earned income UEL to additional limit	-		2.5%		2.5%	
	Rate - Unearned income to UEL	-		8.5%		0%	
	Lower earnings limit	£9,984		-		-	
	Upper earnings/income limit	£196,560		£196,560		£196,560	
	Additional limit	-		£250,000		£300,000	
	Allowance	-		£15,800		£11,122	
Withdrawal of allowance	-	£85,000 (£1 in £5)	£85,000 (£1 in £5)				
Social Security Contributions: Non-Employed	Rate - Earned income to UEL	NA	£3m	NA	£2m (-£1m)	NA	£2m (-£1m)
	Rate -Unearned income to UEL	11.8%		8.5%		8.5%	
	Lower income limit	£24,960		£24,960		£24,960	
	Upper income limit	£196,560		£196,560		£196,560	
	Allowance	£11,122		£15,800		£11,122	

		Rates and thresholds 2026	Revenue estimate 2026	November 2024 agreed package + corporate tax measures and transport taxes		2026 Tax Reform Package with review in 2030	
	Withdrawal of allowance	-		£85,000 (£1 in £5)		£85,000 (£1 in £5)	
Social Security Contributions: Pensioners	Rate (Earned income to UEL)	3.8%	£7m	4.0%	£7m (+£0m)	4.0%	£8m (+£1m)
	Rate (Unearned income to UEL)	3.8%		4.0%			
	Lower income limit	£24,960		£24,960			
	Upper income limit	£196,560		£196,560			
	Allowance	£11,122		£15,800			
	Withdrawal of allowance	-		£85,000 (£1 in £5)		£85,000 (£1 in £5)	
Income tax	Standard Rate	20%	£374m	15%	£338m (-£36m)	15%	£346m (-£28m)
	Higher Rate	-		20%			
	Personal Tax Allowance	£15,200		£15,800			
	Higher rate threshold	-		£33,550			
	Withdrawal of allowances	£85,000 (£1 in £5)		£85,000 (£1 in £5)			
GST	Local Households	-	-	5%	+£68m	3%	+£41m
GST	Visitors	-	-	5%	+£8m	3%	+£5m
GST	ISE Scheme	-	-	Fixed fee	+£11m	Fixed Fee	+£11m
Income support	Changes in net income	-	-	Reduction in IS	+£2m	Reduction in IS	+£1m
Income Support	Real increase in rates	-	-	Increase in IS	-£1m	Increase in IS	-£1m
	Essential Cost Relief Scheme	-	-	Increase cost	-£2m	Increase cost	-£1m
Net change from PIT, SSC and GST				<b>+£51m</b>		<b>+£30m</b>	
Corporate taxes	Various measures	-	£132m	Various	£137.5m (+£5.5m)	Various	£137.5m (+£5.5m)

		Rates and thresholds 2026	Revenue estimate 2026	November 2024 agreed package + corporate tax measures and transport taxes		2026 Tax Reform Package with review in 2030	
Property Taxes	TRP			Hold TRP for retail and hostelry for 2 years	(£-1m)	Hold TRP for retail and hostelry for 2 years	(£-1m)
Transport tax	Motor Fuels	100%	£22m	75%	£16m (-£6m)	75%	£16m (-£6m)
Transport tax	Annual vehicle tax	-	-	Average £132	£10m (+£10m)	Average £132	£10m (+£10m)
Transport tax	Luxury vehicle surcharge	-	-	From £50,000, minimum payment £2,500	£0.4m	From £50,000, minimum payment £2,500	£0.4m
Transport Tax	Further increases in annual vehicle tax	-	-		£3m		£3m
Administration					-£2.5m		-£2.5m
Net change from all measures				<b>+£60m</b>		<b>£39m</b>	
Breakdown of revenue	Households			+£33m		+£8m	
	Visitors' consumption			+£8m		+£5m	
	Business taxes			+£21m		+£28m	
	Administration costs			-£2.5m		-£2.5m	

## Indicative rates for the application of transport taxes

A7.4 The tables below present indicative rates for the luxury vehicle surcharge and the annual vehicle tax to be applied under the 2026 proposals. Final rates will be confirmed at the budget immediately prior to implementation.

### ***Surcharge added to vehicle first registration duty on High Value Vehicles***

A7.5 The proposal presented is for a one-off surcharge at the point of first registration with a banded structure applying to vehicles with a value of at least £50,000. Proposals include a reducing surcharge for used vehicles with no surcharge applied to vehicles more than 5 years old. If the surcharge is set at 5% for the base value in each band (see below) it is estimated that this might generate £400k.

*Figure A7.2: Surcharge on High Value Vehicles*

Vehicle Value	Surcharge at Registration	Vehicle Value	Surcharge at Registration
£50,000-£59,999	£2,500	£130,000-£139,999	£6,500
£60,000-£69,999	£3,000	£140,000-£149,999	£7,000
£70,000-£79,999	£3,500	£150,000-£159,999	£7,500
£80,000-£89,999	£4,000	£160,000-£169,999	£8,000
£90,000-£99,999	£4,500	£170,000-£179,999	£8,500
£100,000-£109,999	£5,000	£180,000-£189,999	£9,000
£110,000-£119,999	£5,500	£190,000-£199,999	£9,500
£120,000-£129,999	£6,000	£200,000 or more	£10,000

A7.6 The surcharge would apply for private cars and motorhomes/motorcaravans. Commercial and specialist vehicles are proposed to be excluded, reflecting that choice is more limited and that costs are driven by business and operational need. Exemptions would also apply to the following:

- Emergency response vehicles used by the police, fire and rescue and ambulance services;
- Motor vehicles driven by or used for the carriage of a person with a disability subject to specific requirements; and
- Motor vehicles that are operating under a public service vehicle licence.

## **Annual Vehicle Ownership Charge/Tax and excise duties**

A7.7 The total annual motor tax liability for private vehicles would be calculated as the sum of a vehicle emissions charge<sup>33</sup> and a vehicle weight charge<sup>34</sup>. For commercial vehicles, the charge would be based on weight<sup>35</sup>, with an emissions multiplier<sup>36</sup>. The baseline rates outlined in Figures A7.3 to A7.5 would raise an estimated £10m in annual vehicle charges<sup>37</sup>. The average annual tax payable on a private vehicle under these assumptions would be approximately £132 a year. The maximum payable for a private vehicle would be £280 a year.

*Figure A7.3: Annual vehicle tax bandings - emissions*

<b>Proposed emissions banding (kg/KM)</b>	<b>Annual charge</b>
<b>Zero</b>	£5
<b>1-50</b>	£10
<b>51-75</b>	£20
<b>76-100</b>	£24
<b>101-110</b>	£32
<b>111-120</b>	£35
<b>121-130</b>	£38
<b>131-140</b>	£43
<b>141-150</b>	£48
<b>151-165</b>	£56
<b>166-175</b>	£64
<b>176-185</b>	£73
<b>186-200</b>	£83
<b>201-225</b>	£101
<b>226-255</b>	£104
<b>Over 255</b>	£140

<sup>33</sup> Electric vehicles to be placed in a zero-emissions tariff band

<sup>34</sup> For electric vehicles, a battery weight allowance of 400kg is proposed to reflect the additional structural weight associated with battery technology

<sup>35</sup> For electric commercial vehicles, a battery weight allowance is proposed to be deducted when determining the applicable weight band

<sup>36</sup> An emissions multiplier is proposed to be applied to the weight-based charge, to recognise differences in environmental performance across commercial vehicles. The emissions multiplier would operate as follows:

- A zero-emissions vehicle would benefit from a reduced multiplier.
- Low and cleaner-emissions vehicles would attract a reduced multiplier.
- High-emissions vehicles would attract a 15% surcharge.

<sup>37</sup> Note that there is significant uncertainty around this number because there are significantly more vehicles currently registered than are currently in use

Figure A7.4: Example annual vehicle tax bandings – mass in kgs

Mass in Service (kgs)	Example vehicles	Annual charge
0-950	Renault Twizy; Fiat 500; Fiat Panda; Smart Coupe	£20
951-1100	Toyota Aygo; Hyundai i10 SE; Fiat 500 Top; Suzuki Jimni	£24
1101-1300	Audi A1; Kia Stonic; Mini Cooper; Hyundai i20; Honda Jazz	£32
1301-1600	Kia Venga; Ford Puma; Peugeot 208; Renault Clio; MG ZS;	£40
1601-2000	Skoda Prius; MG ZS (EV); Honda CR-V; Citroen Berlingo;	£60
2001-2400	Porsche Macan; Toyota Rav 4; Hyundai Ioniq 5;	£100
2401 and over	VW California; Land Rover Defender; Land Rover Discovery;	£140

Figure A7.5: Tariff banding for commercial vehicles

Vehicle Mass in Service in kgs	Annual charge
Up to 500	£110.00
501-900	£242.00
901-1300	£286.00
1301-1700	£308.00
1701-2100	£352.00
2101-2500	£396.00
2501-3000	£451.00
3001-3500	£517.00
3501-4500	£605.00
4501-5500	£726.00
5501-6500	£858.00
6501-7500	£990.00
7501-9500	£1,133.00
9501-11500	£1,320.00
11501-13500	£1,540.00
13501 +	£1,815.00

- A7.8 In the proposals the surcharge on high value vehicles and the annual charge on vehicle ownership are combined with a reduction in fuel duty of up to 25%<sup>38</sup> reducing the tax on petrol from 90.5ppl to 67.9ppl this would raise a net £3-4m.

Figure A7.6: Excise duty on motor fuels

	2026 Rate (p per litre)	Revised rate (p per litre)
Petrol	90.5	67.9
Diesel	90.5	67.9
Marine Petrol	61.4	46.1

<sup>38</sup> Based on net revenue of £22.6m, including an adjustment for reduced GST revenue.

## Appendix 8.

### Further impact analysis

#### *Household impact*

A8.1 This section includes further analysis of the 2026 Tax Reform Package and its impact on different types of households. Note that the personal circumstances of the households will always have an impact on the outcome, and the impact for any individual's household will not necessarily align with the average.

A8.2 Figures A8.1 to A8.3 below provide an indication of the level of gross income associated with the equivalised income percentiles used in the analysis presented throughout this document.

*Figure A8.1: Indicative gross income of households within percentile groupings- Single adult households*

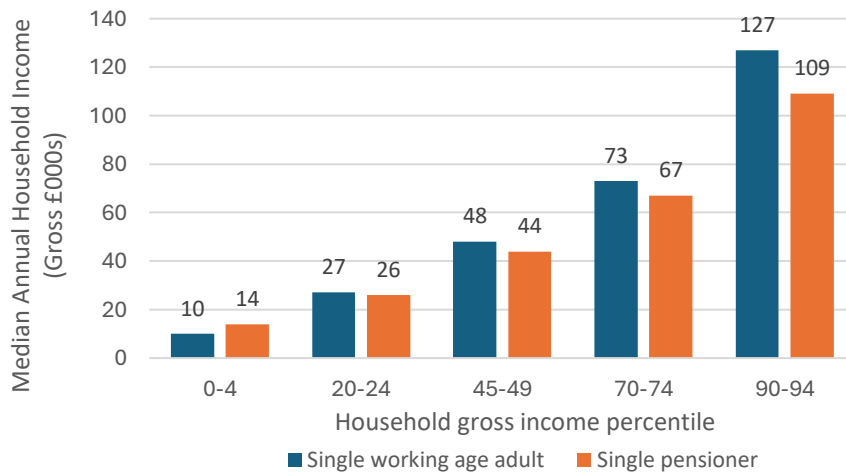


Figure A8.2: Indicative gross income of households within percentile groupings- Two adult households

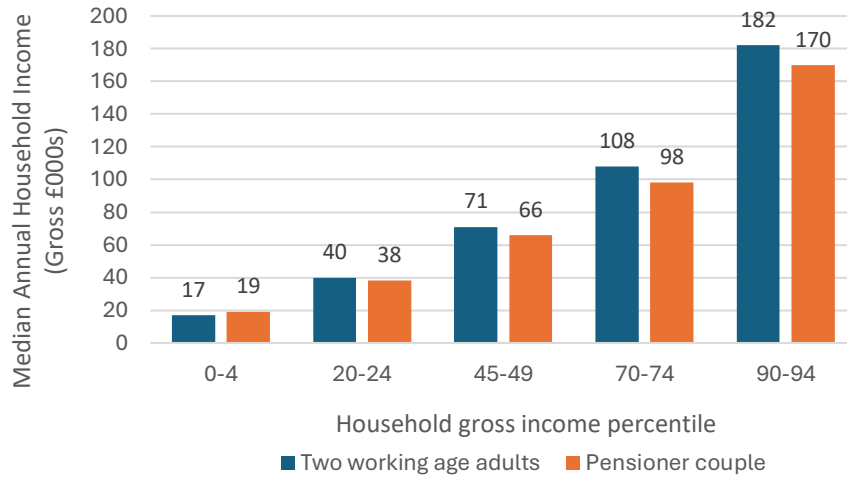
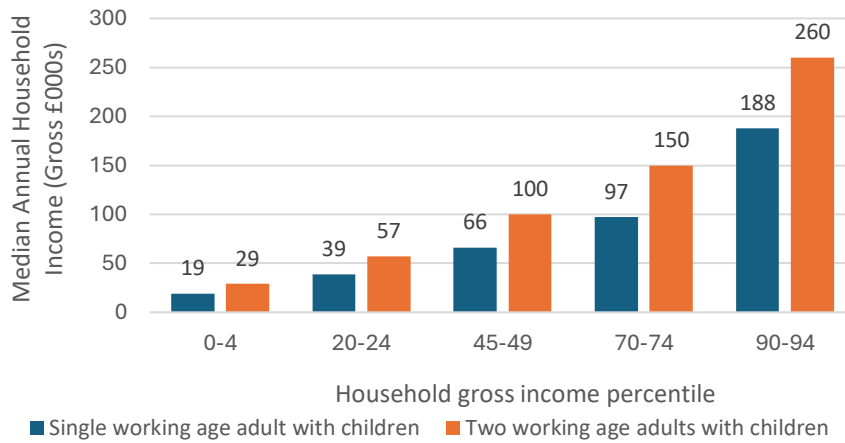


Figure A8.3: Indicative gross income of households within percentile groupings- Households with children

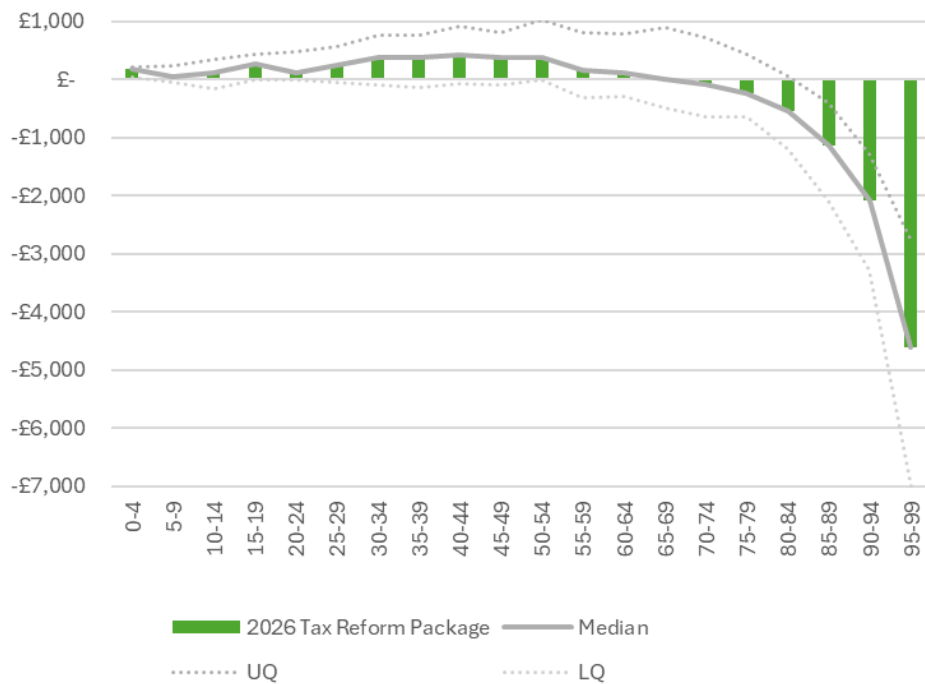


A8.3 Figure A8.4 and A8.5 below provide household impact analysis by household income percentile with median upper and lower quartiles to provide an indication of the range of outcomes.

Figure 8.4: Household impact analysis by gross household income percentile (as a % of gross household income)



Figure A8.5: Household impact analysis by gross household income percentile (£ per year)



A8.4 Figure A8.6 and A8.7 overleaf provide a more detailed breakdown of the impact on households of different compositions in both percentage and monetary terms.

Figure A8.6: Impact of package on households by income and household type as a percentage of gross household income

Household gross income percentile	One adult (16-64)	One adult (16-64) with child(ren)	One adult (65 and over)	Two adults (16-64 with child(ren))	Two adults (16-64)	Two adults (65 and over)
0-4	4.6%	1.8%	1.8%	1.1%	2.4%	0.3%
5-9	1.3%	0.5%	0.9%	0.6%	-0.1%	-0.4%
10-14	1.8%	1.1%	1.3%	0.7%	0.7%	-0.8%
15-19	1.9%	1.4%	1.3%	1.0%	1.3%	0.0%
20-24	1.0%	1.1%	1.3%	1.0%	0.6%	-0.3%
25-29	1.9%	0.9%	1.2%	0.5%	0.7%	-0.3%
30-34	2.1%	0.5%	1.4%	0.7%	0.7%	-0.4%
35-39	1.7%	0.1%	1.0%	0.7%	0.9%	-0.5%
40-44	1.5%	-0.1%	0.6%	0.5%	1.0%	-0.6%
45-49	1.0%	-0.3%	0.3%	0.3%	1.0%	-0.6%
50-54	0.6%	-0.3%	0.1%	0.2%	1.1%	-0.6%
55-59	0.4%	-0.5%	0.0%	-0.1%	0.7%	-0.8%
60-64	0.1%	-0.5%	-0.1%	-0.3%	0.6%	-1.0%
65-69	0.0%	-1.0%	-0.2%	-0.5%	0.6%	-1.0%
70-74	-0.3%	-0.9%	-0.4%	-0.6%	0.5%	-0.7%
75-79	-0.5%	-1.2%	-0.5%	-0.8%	0.2%	-0.5%
80-84	-0.7%	-1.4%	-0.7%	-1.0%	-0.1%	-0.5%
85-89	-0.5%	-1.6%	-0.8%	-1.3%	-0.8%	-0.7%
90-94	-0.8%	-1.6%	-1.2%	-1.4%	-1.3%	-0.8%
95-99	-1.2%	-1.6%	-1.1%	-1.6%	-1.8%	-1.0%

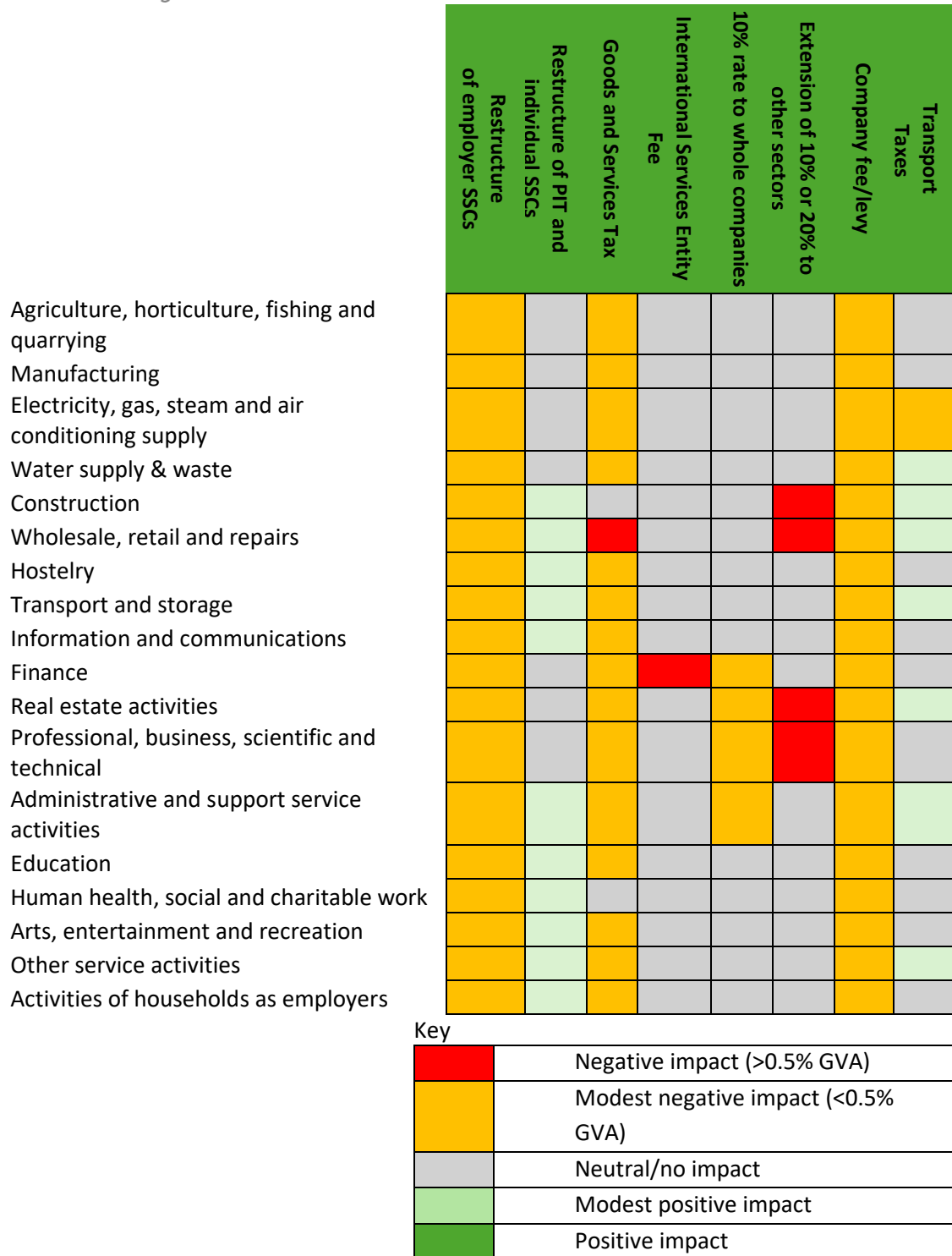
Figure A8.7: Impact of package on households by income and household type £ per year

Household gross income percentile	One adult (16-64)	One adult (16-64) with child(ren))	One adult (65 and over)	Two adults (16-64 with child(ren))	Two adults (16-64)	Two adults (65 and over)
0-4	£197	£131	£168	£273	£146	£39
5-9	£211	£139	£149	£220	-£22	-£91
10-14	£355	£354	£250	£321	£190	-£241
15-19	£426	£492	£298	£544	£398	-£3
20-24	£268	£416	£328	£603	£227	-£114
25-29	£588	£380	£354	£327	£326	-£120
30-34	£709	£228	£437	£453	£344	-£203
35-39	£653	-£35	£345	£565	£495	-£289
40-44	£604	-£100	£238	£410	£654	-£384
45-49	£450	-£232	£137	£260	£703	-£396
50-54	£306	-£255	£65	£204	£836	-£464
55-59	£219	-£434	-£14	-£137	£563	-£625
60-64	£56	-£414	-£83	-£357	£519	-£852
65-69	-£12	-£1,000	-£144	-£792	£625	-£857
70-74	-£249	-£875	-£248	-£994	£509	-£620
75-79	-£398	-£1,444	-£365	-£1,377	£204	-£569
80-84	-£588	-£1,632	-£563	-£1,888	-£121	-£577
85-89	-£522	-£2,422	-£737	-£2,832	-£1,176	-£991
90-94	-£1,050	-£2,813	-£1,337	-£3,679	-£2,445	-£1,343
95-99	-£3,192	-£4,085	-£3,601	-£7,309	-£6,471	-£3,695

**Economic impact**

A8.5 The analysis in Figure A8.8 presents an indication of how different elements of the package are expected to impact different sectors of the economy.

Figure A8.8: Sector level analysis of the impact of the proposed 2026 Tax Reform Package



- A8.6 The restructure of social security contributions (which goes beyond the phased increase agreed in 2021) is expected to exert pressure in two directions. The increase in employer contributions will place slightly more pressure on employers, noting that this also comes after the roll out of secondary pensions and significant increases in minimum wage which will have increased staff costs.
- A8.7 This is offset to some extent by the positive impact the package of measures may have on consumption. The reform of social security contributions and the reduction in the headline rate of income tax will increase the net income (after tax) of lower- and middle-income households by more than the amount of GST they might be expected to incur. Because this group has a greater propensity to consume goods and services on island than higher income households, this should have a positive impact on consumption for retail and hospitality sectors in particular.
- A8.8 Businesses will incur additional costs of administering a GST but where companies manage their finances efficiently on a quarterly basis the cost of administration should be limited, given the simple, broad based proposal and online submission. To the extent that the application of a revenue raising package facilitates greater investment in infrastructure, it may be more positive for the construction sector.
- A8.9 The GST may also reduce the marginal propensity to consume, particularly on high value, non-essential goods and services, which is likely to have a greater impact on retail than other sectors.
- A8.10 The application of the ISE scheme within the GST will create fixed costs for the finance sector, particularly for those firms with a significant number of managed entities, but this is offset against the reduction in administration that will be required for a GST within the finance sector.
- A8.11 The elements applied from the proposed corporate tax reform have impacts in relatively discrete areas. For those companies with locally resident shareholders the extension of 10% or 20% rates will change the timing of their tax liability but may make limited change to their overall liability, particularly if they distribute profits regularly. This will represent an increase in tax liability locally for those companies with non-resident shareholders. Some behavioural change is likely around the change in the application to the 10% rate so that it is applied to entire entities which may limit its impact (for example if companies split their activity currently taxable at 0% into a separate entity) as well as limiting its revenue potential.

A8.12 The change in transport taxes will impact commercial entities as well as households. The reduction in fuel duty will be beneficial for those running petrol or diesel fleets, particularly where they operate at high mileage. The application of an annual vehicle charge will increase costs. It is assumed that combined the change may have a marginal benefit for those sectors with a significant number of vehicle miles, particularly where those vehicles are lightweight in nature. Those with fleets of electric or hybrid vehicles will see a net increase in costs.

***Impact on Public Sector Pay and Pensions and the States Pension***

A8.13 At various times during this process questions have been raised around the impact the introduction of a GST and its immediate inflationary impact will have on costs to the States of Guernsey in relation to the States' pension (paid to members of the public and also known as the old age pension), the Public Sector Pension Scheme (available to States of Guernsey employees) and the public sector payroll. In each case the impact is less than has been stated by commentators.

A8.14 While negotiations with unions around pay typically use RPIX as a benchmark for pay negotiations, the employer is not obliged to offer pay increases matched in full to inflation. The employer can and has deviated from this to suit the economic and financial considerations at the time.

A8.15 In the case of a negotiation following the implementation of the preferred package, there would be an argument for deviating from it not only because the intent of the measure is to improve the overall financial position of the States, but also because for the majority of Public Sector staff, they will have been compensated for the impact a GST may have on prices by the income tax and social security contributions changes included within the package itself.

A8.16 The publication of inflation statistics includes measures which exclude tax changes (RPI CT and RPI Y) either of which might be utilised to support negotiation with the unions over pay following the implementation. This negotiation process is also likely to be simpler with an initial GST rate set at 3% rather than 5%.

A8.17 The contributions paid to both the States' pension and the Public Sector Pension Scheme are modelled over a very long-time horizon (a minimum of fifty years) using a range of long-term assumptions on things like earnings, investment return and inflation. While the funds that provide these pensions may be sensitive to the long-term assumptions around these factors, in year variation is far less significant.

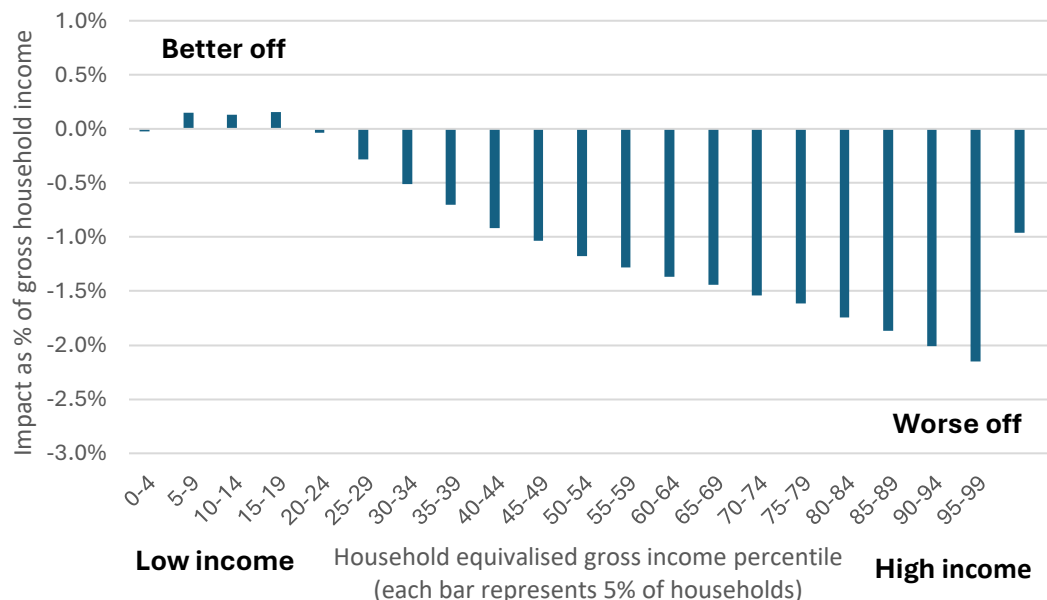
- A8.18 In the context of the proposed package a 3% GST is expected to increase RPIX by around 1.9 percentage points for twelve months. The upward pressure this would have on the level of RPIX over fifty years would be around 0.04 percentage points – well within the margin of error on assessments. It is therefore unlikely that a 3% GST would impact the level of contributions needed to sustain either the Guernsey Insurance Fund or the Public Sector Pension Scheme.
- A8.19 The Public Sector Pension Scheme also includes a “cap” which limits the inflation linked increase applied to pensions in payment (to 6% for CARE scheme members joining after May 2015), but it is unlikely that this will be triggered with the GST level set at 3% unless there are also other significant inflation pressures occurring at the time the GST is introduced in 2028.

## Appendix 9.

### Analysis of raising revenue using income tax and social security contributions

- A9.1 Using income tax and social security contributions to raise revenue is included to show the impact of seeking an equivalent level of revenue raising predominantly from direct taxes, in the form of a continuation of the phased increase in social security contributions and a 2% increase in the personal income tax rate. To provide some mitigation on the impact this would have on lower income households this could include an increase in the personal tax allowance to £16,000.
- A9.2 The Committee does not support this approach given that it places too much of the burden on households and only intensifies the already significant over reliance on direct taxes. It could deliver additional revenue very rapidly – but in a way that is likely to prove unsustainable in the long term.
- A9.3 Accompanying this could be series of extensions to the 10% rate of corporate tax and the implementation of an annual tax on vehicle ownership.
- A9.4 Overall, this would raise far more revenue from households than the 2026 Tax Reform Package presented, with 73% of the net revenue gain derived from households and 27% from corporate taxes.

Figure A9.1: Impact analysis of raising revenue using income tax and social security contributions



<b>Target date</b>	<b>Description</b>	<b>Estimated Value</b>
2027	Increase headline tax rate to 22% and increase personal tax allowance to £16,000	£30m
2027-2031	Continue the phased increase in social security contributions	£19m
2027-31	Adjustment of Income support to lower net income of claimants	-£1m
2027-30	A limited increase in company fees	£0.5m
2027	Extension of the 10% rate to prescribed business	£2m
2027	Extension of the 10% rate to cover entire entities	£0.5m
2027/8	An annual vehicle charge averaging £132 for a private vehicle plus reduction in fuel duty of 25 % (see Appendix 7 for details).	£4m
2027/8	A surcharge on high value vehicles	£0.4m
2030-2	Target further net revenue raising from transport taxes	£3m
2031/2	Signal an intent to bring retail and construction business into scope of 10% corporate income tax	£2.5m
<b>Estimated total revenue raising measures (after administration costs)</b>		<b>£60m</b>
<b>Breakdown of revenue</b>		
	<i>Household taxes &amp; consumption</i>	<i>£44m<sup>39</sup></i>
	<i>Visitors' consumption</i>	<i>-</i>
	<i>Business taxes</i>	<i>£17m<sup>40</sup></i>
	<i>Net real benefit cost</i>	<i>-£1m</i>
	<i>Administration cost</i>	<i>-£0.4m</i>

<sup>39</sup> Includes 60% of transport tax revenue

<sup>40</sup> Includes 40% of transport tax revenue

	2027	2028	2029	2030	2031	2032	Net revenue raising per item £m
Corporate taxes and fees	Limited increase in company fees						0.5
	Extend 10% to prescribed business						2.0
	Extend 10% to cover full businesses						0.5
					Extend 10% to retail/construction		2.5
SSC	Continue phased increases						19
Personal income tax	2% increase in PIT rate/increase in PITA to £16,000						30
GST							-
							-
							-
Other Taxes	Annual motor tax/ high value vehicle charge		Further revenue raising from transport taxes				7.0
Benefit costs	Income support cost from increased SSC						-0.9
Administration	Transport tax and corporate tax admin						-0.4
<b>Cumulative net change in revenue (after costs)</b>	<b>40</b>	<b>44</b>	<b>48</b>	<b>52</b>	<b>58</b>	<b>60</b>	<b>60</b>

Further analysis of the economic and relative economic and household impact of income based tax packages and GST based packages is included in the appendices to the Tax Review: Phase 2 ([Billet d'État II of 2023, Article 5](#)).

This includes the economic analysis conducted by Deloitte (Appendix 2) during phase 1 of the tax review and a comparison of various GST based and income-based packages considered (Appendix 6).

## Appendix 10.

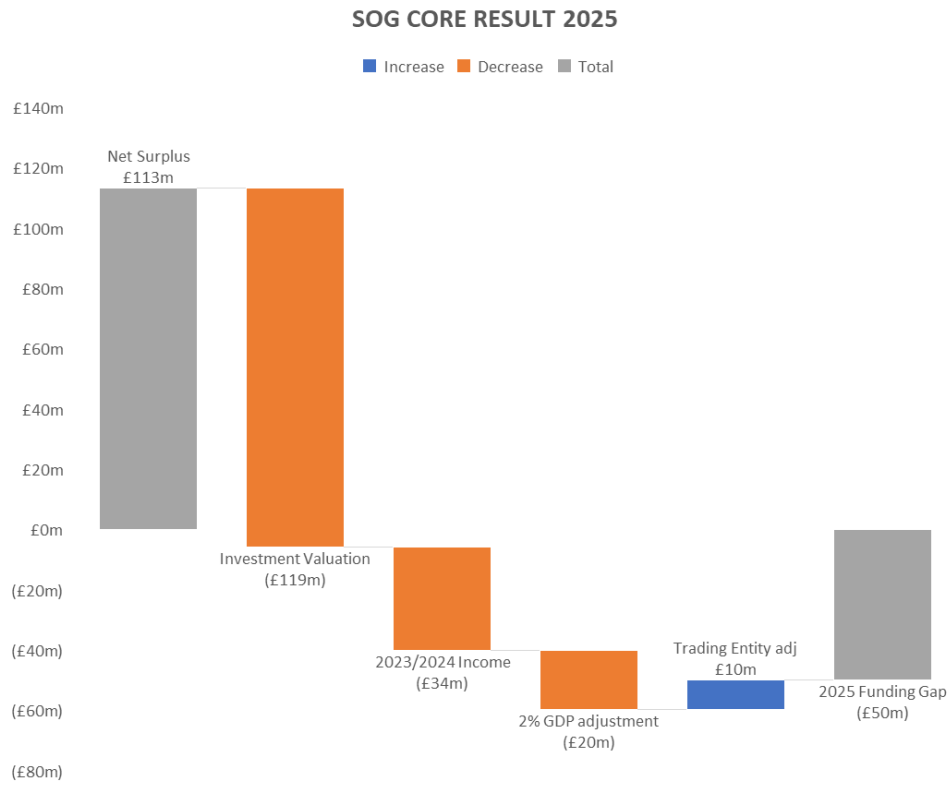
### The Financial Position and the Funding Gap

- A10.1 Given that the 2025 accounts show a surplus, deputies and members of the public may wonder whether there is a genuine problem that needs urgent attention.
- A10.2 However, it is important to recognise that the accounts do not tell the whole story. Investment appreciation, which is included as income in the annual accounts, cannot be relied on for ongoing funding of day-to-day government expenditure. Neither can one-off income (in other words, windfalls), nor an historic underinvestment in capital and infrastructure assets, which also shapes the annual accounts.
- A10.3 When these factors are taken into consideration, despite the surplus recorded in the accounts, there is still a significant underlying funding gap that must be addressed.
- A10.4 Figure A10.1 shows the net surplus of £113m for Core Government<sup>41</sup> in 2025. However, after making adjustments for the factors that are unlikely to be (or, in the case of underinvestment, should not be) repeated, the funding gap in 2025 stood at £50m – noting that this already includes £39m of income from Pillar 2.
- A10.5 Note that this is a snapshot only and does not take into account any worsening over time (for example the Long-term Care Insurance Fund is running a surplus today but is still projected to decline over time due to demographic changes, and the rising demand for healthcare leading to ongoing real terms increases in expenditure).

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<sup>41</sup> With the implementation of International Public Sector Accounting Standards, the States Accounts have been expanded to cover a wider group of associated entities (including for example the Guernsey Housing Association). The Core Government covers only those elements of the group providing public services and are principally funded directly by taxes. This includes the Senior, Principal and Other Committees of the States of Guernsey, Social Security Fund and Specific Funds, which are responsible for policymaking, regulatory and public service functions and are accountable to the States of Deliberation.

Figure A10.1: Difference between the accounting surplus and the funding gap



A10.6 Figure A10.2 shows the same information in a tabular format. The left-hand column (blue shading) is in line with the 2025 Financial Statements for the Core Government segment (as per the table on pages 162-163 of the 2025 Financial Statements).

A10.7 After the adjustments, this represents a funding gap of £50m.

Figure A10.2: Difference between the accounting surplus and the funding gap: tabular version.

SOG Core Segment	Year End Accounts as per the 2025 Financial Statements	Adjustments		2025 Funding Gap as per the 2025 Financial Statements plus adjustments
		£m	Comment	
Income	£1,010m	(£39m)	One off income -primarily improved banking sector performance from 2023 and 2024 not being reported until 2025. Tobacco duties and document duty were also higher than expected in 2025	£971m
Pay Expenditure	(£334m)	£0m		(£334m)
Non-Pay Expenditure	(£631m)	£3m	One off costs in 2025	(£628m)
Project Expenditure	(£26m)	£0m		(£26m)
Other Non Pay Costs	(£605m)	£3m	One off costs in 2025	(£602m)
Operating Surplus/(Deficit)	£45m	(£36m)		£9m
Depreciation and Finance	(£51m)	(£8m)	Adjustment includes an adjustment for project expenditure to 2% of GDP and trading entities funding	(£59m)
Depreciation	(£31m)	(£20m)	In the accounts the non capitalised project costs and depreciation total £56m. 2% of GDP is estimated as £76m	(£51m)
Trading Entity Impairment	(£12m)	£10m	The impairment in the accounts was £11.5m, but the net funding transferred was £1.6m.	(£2m)
Other	(£8m)	£2m	Loss on Disposal of fixed Assets	(£6m)
Investment Valuation	£119m	(£119m)	The investment valuation either cannot or should not be used for funding government spending	£0m
Net Surplus/(Deficit)	£113m	(£163m)		(£50m)

### Why make these adjustments?

A10.8 The accounting surplus is genuine, in line with IPSAS and has been fully audited, but the Statement of Financial Performance in isolation is not the best source of information to assess funding requirements. That is because a surplus in the accounts does not necessarily equate to having sufficient funds to meet current and future commitments. In other words, the accounts do not reflect the fact that the States are currently underinvesting in infrastructure, and nor do they reflect the fact that some of the revenue might be non-recurring in nature. The accounts also cannot account for known and likely future changes such as the increase in demand for services as a result of demographic changes.

A10.9 Adjustments are therefore made to show how the accounting surplus relates to the underlying funding gap to present a clearer picture.

### Investment Valuation

- A10.10 The surplus of £113m for SOG Core was entirely generated by the appreciation in the investment valuation. If the appreciation on investments of £119m is taken off the surplus, the SOG Core performance was a deficit of £6m.
- A10.11 It is important to stress that the investment valuation shown in the accounts does not represent actual money received by the States, and is very different to banking interest received. It reflects a change in the estimated market value of financial investments – essentially a paper gain – which may never materialise as cash if market conditions change (which they can do very quickly). Until such time as the underlying investments are sold no additional cash is available for spending on day-to-day services or infrastructure investment. Some of the assets in the portfolio are extremely easy to sell and others would take years to mature and sell. For those marketable investments, as the markets fluctuate from day to day, the States might not receive the year end valuation amount if a decision to liquidate were taken.
- A10.12 Investment returns are inherently unpredictable, as they are subject to market fluctuations and cannot be guaranteed year-on-year. While in most years the returns are positive, in 2022 there was an investment loss of 11.6% resulting in a recorded c£90m investment loss in the accounts. Over-reliance on uncertain investment return to fund essential public services or government spending would be a risky approach and could place services at risk if markets turn downwards.
- A10.13 To put this in everyday terms, when an asset such as a house increases in value, although paper wealth may increase, it does not result in any additional income being available to spend. The only way to convert the paper valuation into income would be to sell the house or take out a loan against it, if the interest and repayments are affordable. When the house is ultimately sold, the receipts may be more or less than the valuation (depending on movements in the property market).
- A10.14 The same goes for investments. Even though they are easier to turn into cash than property, the idea is similar: the States only have real money to spend when investments are sold, and the actual income depends on the prevailing market conditions.
- A10.15 Furthermore, if any profits from selling a house or investments are used to fund everyday expenses, there will be a lower level of assets left to invest in the future, thereby limiting future gains.

A10.16 However, it has been questioned whether we should use at least some of our investment return to help fund everyday government spending, given that the International Monetary Fund (IMF) definition of structural deficit allows for a portion of long-term, expected returns to be considered. It should be noted that the IMF definition would allow actual investment income (such as dividends and interest) to be used but would treat unrealised capital gains with caution. It is for this reason that the return is excluded from the 2025 calculation (being largely unrealised capital appreciation) but in the medium-term modelling set out in this appendix, a structural return assumption is used.

A10.17 The SOG Core investment returns for 2026 of £119.1m were generated from three main sources:

- Core Investment Reserve (2025 investment return £14.4m):
  - (1) This is our “rainy day” fund, which can only be used in the exceptional and specific circumstances of severe structural decline in public sector finances or emergencies, not routine spending. For example, during the COVID-19 crisis in 2020, £50m was withdrawn to help manage the impact.
  - (2) It is government policy that this reserve should be equal to the total annual General Revenue Income, offering a strong financial safety net. However, at the end of 2025, the reserve stood at just £196m, a mere 25% of the target. Some £598m would need to be added to this reserve to reach the level set out in policy as adequate.
  - (3) While the Policy & Resources Committee has the delegated authority<sup>42</sup> to transfer excess returns from this reserve, it would be unwise to do so regularly, especially when the Core Investment Reserve is so underfunded against policy.
  - (4) Therefore, investment return from the Core Investment Reserve should not be counted when calculating the funding gap.
- Social Security Funds (2025 investment return £69.1m):
  - (1) These include the Long-term Care Insurance Fund and the Guernsey Insurance Fund, which provide pensions, work replacement benefits, and long-term care benefits.

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<sup>42</sup> Policy & Resources has delegated authority to: Decide whether to transfer the real-terms investment returns from the Core Investment Reserve to the General Revenue Reserve [was Capital Reserve] (Billet d’État XX, 2017)

- (2) Managed with a long-term view to support generations, these funds are regularly reviewed by actuaries and expected investment returns are already taken into account in assessing their future sustainability, especially as Guernsey's population ages, and in determining the level of social security contributions required.
  - (3) Legislation ringfences these funds, meaning they cannot be used to pay for general government priorities.
  - (4) As such, investment returns from these funds must be excluded from the funding gap calculation.
- General Revenue Reserve (2025 investment return £33.9m<sup>43</sup>):
    - (1) This is the government's "current account" for day-to-day spending.
    - (2) Investment returns have helped top up the balance, but unless reforms are implemented, this reserve will be depleted within five years due to the underlying funding gap and the funding of the agreed capital portfolio. As reserves decline, less return will be generated.
    - (3) IMF guidelines do permit the use of sustainable, recurring investment returns for funding, if for example, returns are sufficient to grow the value of reserves relative to GDP over time. But with reserves set to decline, relying on them is not sustainable for Guernsey at present.

A10.18 In summary, although the levels of investment return in the accounts appear to offer a solution for funding government spending, they are either unavailable due to policy or legislation, their use would be considered unsustainable, and in any event they can only be realised if and when the underlying investments are sold.

A10.19 Excluding these investment returns therefore gives a clearer picture of the true funding gap based on actual income and expenditure – and what is required to ensure Guernsey's financial sustainability for the future.

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<sup>43</sup> Excludes investment returns on the Seized Asset Fund

A10.20 Similar to the way an individual might manage their own finances, the reserves can be thought of as three pots: pension (locked for the future), long-term savings (for emergencies, not daily spending); and a current account (used for everyday bills but running low without changes). The prudent approach for personal finances is the same as for Government spending - to base spending decisions on reliable and sustainable sources of income and not use savings or pensions for day-to-day spending.

#### 2023/2024 income

A10.21 In 2025, the States received an extra £34m in revenue partly because banks performed better in 2023 and 2024 than had previously been notified and accounted for and a substantial payment (including a late payment surcharge) was made from one bank to correct for profits that had not been reported in previous years. This means that 2025 income was boosted by revenue belonging to earlier years, over a period where there was a substantial amount of change in banking activity accompanying quite rapid increases in interest rates. While there are often corrections to a company's tax liability for previous years, the positive correction in 2025 (and the negative correction in 2024) was exceptional. This is not a sustained and recurring source of revenue, so this additional revenue has been removed when working out the true underlying funding gap.

A10.22 However, the funding gap calculation does include the element of the improved banking performance which relates to 2025, and this is forecast forward in the calculations in this policy letter.

#### Adjustment for infrastructure spend at 2% GDP

A10.23 In the 2025 accounts, £56m was recorded on project costs that are not included as capital investments and depreciation. The long-term policy assumption in the current agreed Fiscal Policy Framework for capital and infrastructure spending is 2% of GDP, which would be around £76m. This target is designed to support both our large-scale and routine capital projects. The reason that the current expenditure in the accounts is lower is due to many years of investing too little.

A10.24 In March 2025, the Fiscal Policy Panel (FPP) advised that Guernsey needs to invest more, specifically, 3% of GDP, on infrastructure. This target includes trading entities but excludes housing (which, in line with other jurisdictions, should be funded in addition). If trading entity projects can be funded without using taxpayer money, the amount required from taxpayers for other projects would rise to roughly 2.4% of GDP.

- A10.25 The FPP highlighted that Guernsey has not met these targets and from 2016 to 2023, capital investment has averaged just 1.2% of GDP, significantly less than the OECD average and that of similar economies. This low level of spending has not been enough to maintain the Island's infrastructure, leading to a backlog of important projects built up over at least 15 years of underinvestment. The FPP also highlighted that infrastructure investment has the potential to support and stimulate economic growth.
- A10.26 If the States completes the current agreed Major Projects Portfolio as planned, capital investment would exceed 3% of GDP in both 2026 and 2027.
- A10.27 When calculating the funding gap, an allowance of 2% of GDP has been used to reflect the requirement to increase investment in infrastructure and assets.

#### Trading Entity adjustment

- A10.28 In the accounts, there was an impairment due to the net losses reported from trading businesses of £11.5m, driven in large part by the increase in the provision in the Ports accounts in respect of the remediation of PFAS contamination. However, only £1.6m of cash funding from General Revenue was actually required by the trading entities. This means £10m can be added back to the revenue requirement.

#### Pillar 2

- A10.29 Pillar 2 (the Global Minimum Tax) is expected to generate net revenue of £40m in 2026. £39m is already built into Guernsey's 2025 accounts and therefore the funding gap calculation.
- A10.30 There are both risks and opportunities in relation to Pillar 2 income. While the amount accounted for in the 2025 accounts and estimated in the 2026 Budget is the best estimate of the revenue that will accrue, it has not actually been received to date because the first returns will not be submitted until the middle of 2027. Therefore, it will not be possible to verify or otherwise this estimate until late 2027/early 2028.
- A10.31 The estimate for Pillar 2 receipts included in the audited 2025 accounts makes an allowance for behaviour change which reduces the estimate of revenue. It is possible that as returns and revenue are submitted in 2027, more may be collected if not as many businesses consolidate or shift activity. However, there is also a downside risk that not as much tax will be collected as estimated and this is especially true over time – the maximum receipts from this new tax stream are expected to be in the early years before business responds to the new tax.

A10.32 Guernsey's estimates are in line with Jersey and the Isle of Man.

### **2025 Reserves**

A10.33 Although the 2025 Financial Statements show Guernsey's Net Asset position as just over £4 billion, most of that is not accessible for spending.

A10.34 To clarify, the States Treasurer's report (page 27 of the 2025 Financial Statements) explains that more than half (£2.3 billion) of this total relates to the value of fixed assets, pensions and trading entities, which cannot be used for general expenditure – for example, you cannot sell assets like the hospital which are needed to deliver core services. Additionally, £1 billion is specifically set aside for the Social Security Funds, which are legally protected for the payment of things like the States' Pension and long-term care benefit.

A10.35 £196m is the Core Investment Reserve or "rainy day fund" described above and there are also smaller ringfenced funds amounting to c£100m.

A10.36 After adjusting for these items, only £407m remains unallocated and therefore potentially available for spending<sup>44</sup>. However, the current list of approved major projects is estimated to cost over £320m to complete, and routine capital allocations of around £22 million per year have already been agreed until end 2028. This means the majority of the remaining funds are already committed<sup>45</sup>.

A10.37 In summary, while Guernsey's overall Net Asset position looks strong on paper, the amount available for new spending is much smaller once existing commitments and ringfenced funds are taken into account.

A10.38 As a small island jurisdiction without a central bank, Guernsey needs to keep a base level of reserves to safeguard its credit rating, ensure sustainability, continued investor confidence and respond to economic shocks or unforeseen expenditure. Many countries are able to issue debt or amend monetary policy when they face cash shortfalls. However, unlike larger jurisdictions, Guernsey cannot influence monetary policy and cannot rely on borrowing unless there is a clear and sustainable means to repay it.

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<sup>44</sup> It is worth noting also that this is based on accounting assets less liabilities, and so will differ from the available funds. For example, the £407m includes the Pillar 2 revenue of £39m that have not yet been received, but the available funds also include the £160m loan from the States of Guernsey Bond which was agreed by the previous States, of which c£70m remains available for major project expenditure as at the end of 2025

<sup>45</sup> The previous Assembly had agreed that £160m of the States of Guernsey Bond proceeds could be used to part fund the Major Projects Portfolio, and as at the end of 2025 approximately £70m is remaining from that allocation

A10.39 This underscores the risk of running low on cash and the importance of generating a sufficient surplus to both fund vital infrastructure and replenish reserves wherever possible, to ensure long-term fiscal sustainability and resilience.

A10.40 **In summary the 2025 financial position shows both an underlying deficit, and low levels of unallocated reserves.**

#### **Medium Term Forecasts**

A10.41 The Policy & Resources Committee acknowledges that there is significant uncertainty in forecasting, but has agreed what it believes to be reasonable base assumptions. These assumptions are detailed at the end of this appendix, but in summary include:

- £40m per annum additional revenue from Pillar 2 at 2026 prices.
- £20m per annum reduction in baseline spending by 2029 through delivery of 1% efficiency savings agreed by the States.
- Estimated nominal annual return on investments of 5.5%.
- Baseline health expenditure to increase by c£5m a year due to demand pressures arising from the ageing community.

A10.42 A further key assumption is that these projections are based on existing policies, meaning they do not factor in any changes that could result from ongoing reviews or super priority workstreams (or any of the proposals in this policy letter). Although these pieces of work may lead to policy changes in the future which might impact the cost base, no assumptions can be made on their impact at this stage. As a result, these projections reflect what might happen if we continue as we are now.

A10.43 The baseline case is show in Figure A10.3 below:

Figure A10.3: Projected balance of General Revenue Reserve



A10.44 The chart above shows that the projected annual operational surplus before any spending on major or routine projects or depreciation (represented by the black line) is projected to reduce from £30m to £10m over the next decade. If the States were in a financially sustainable position, the black line in the chart above would be level with or above the red dotted line which shows the amount required annually to invest in capital and infrastructure assets. Since the States' finances are not in balance, reserves (which are shown as the grey bars) have to be used to balance the books.

A10.45 This means that Guernsey is expected to continue to use its reserves to support the routine and Major Projects Portfolio. As a result, the medium-term forecasts show the General Revenue Reserve (the money available to support short term deficit positions and capital investment) being exhausted by 2031 (see Figure A10.3).

A10.46 It is clearly impossible to predict the future with any certainty, therefore the Committee has also looked at what might happen if things are better or worse than the central assumptions used. By considering a range of scenarios for key assumptions, it is possible to project a range of possible outcomes for Guernsey's finances.

A10.47 An adverse scenario and favourable scenario using the following assumptions have been modelled.

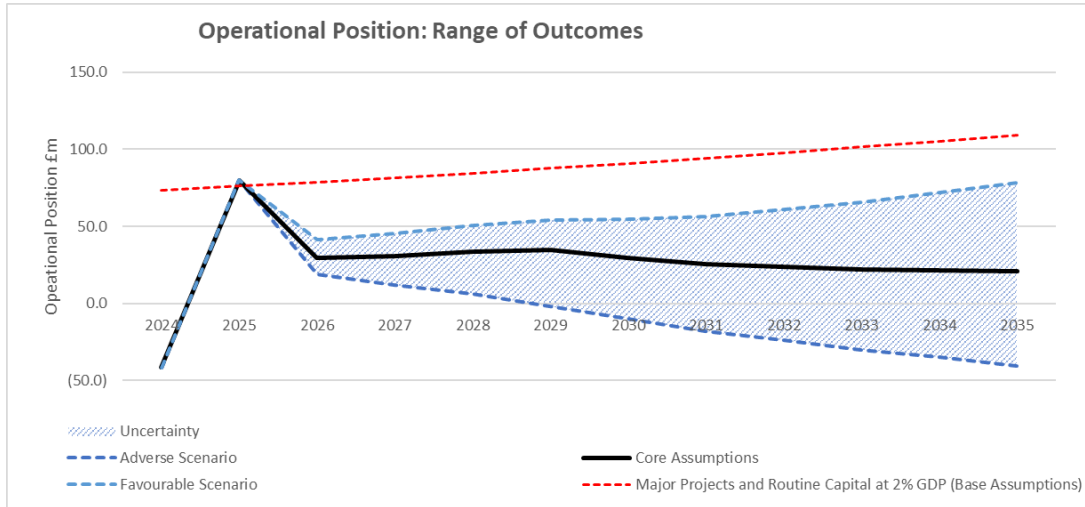
Figure A10.4: Range of key assumptions

Assumption	Base Projection	Adverse Scenario	Favourable Scenario
Real GDP Growth	+0.5% p.a.	+0.25% p.a.	+0.75% p.a.
Pillar 2	£40m in 2026, growing in line with GDP thereafter	£30m in 2026, growing in line with GDP thereafter	£50m in 2026, growing in line with GDP thereafter
Document Duty	Forecasts assumes £2m increase due to 2026 Budget being cyclically low, and then an assumption of 1% real growth in prices beyond 2027	10% lower than base projection	10% higher than base projection
Customs Duties	Fuel duty reduction of 2% per year in real terms in line with experience. (Fuel duties are c47% of total estimated duties)	Excise Duties 2.5% lower than base projection	Excise Duties 2.5% higher than base projection
Savings	1% per annum up to 2029 (£20m)	No 1% savings delivered	In line with base projection
Expenditure	Health demand as forecast (c£5m p.a.) Projections include £0.5m p.a. additional cost resulting from service development or digitalisation.	Health demand increase p.a. £1m higher than projected Projections include £0.5m p.a. additional cost resulting from service development or digitalisation.	Health demand increase p.a. £1m lower than projected Excluding assumption of additional £0.5m p.a. assuming this can be prioritised within existing funding
Inflation	3.2% per annum	3.7% per annum	2.7% per annum
Investment Return	Real 3.5% with reference to UK CPI (UK CPI has a long term 2% target so this is a nominal investment return of 5.5%)	Real 2.5% with reference to UK CPI	Real 5.0% with reference to UK CPI (this is the long-term investment target)
Company fees	£12.8m in 2026	In line with base projection	10% higher than base projection

A10.48 It is highly unlikely that all of the favourable or adverse scenarios above would occur simultaneously, and continue every single year. To give a fairer and more balanced picture of what might happen the projections that follow include a 20% “realism” adjustment. This reduces the estimated differences from the base projection that result from applying favourable or adverse assumptions above. This helps provide a more realistic and balanced range of forecasts.

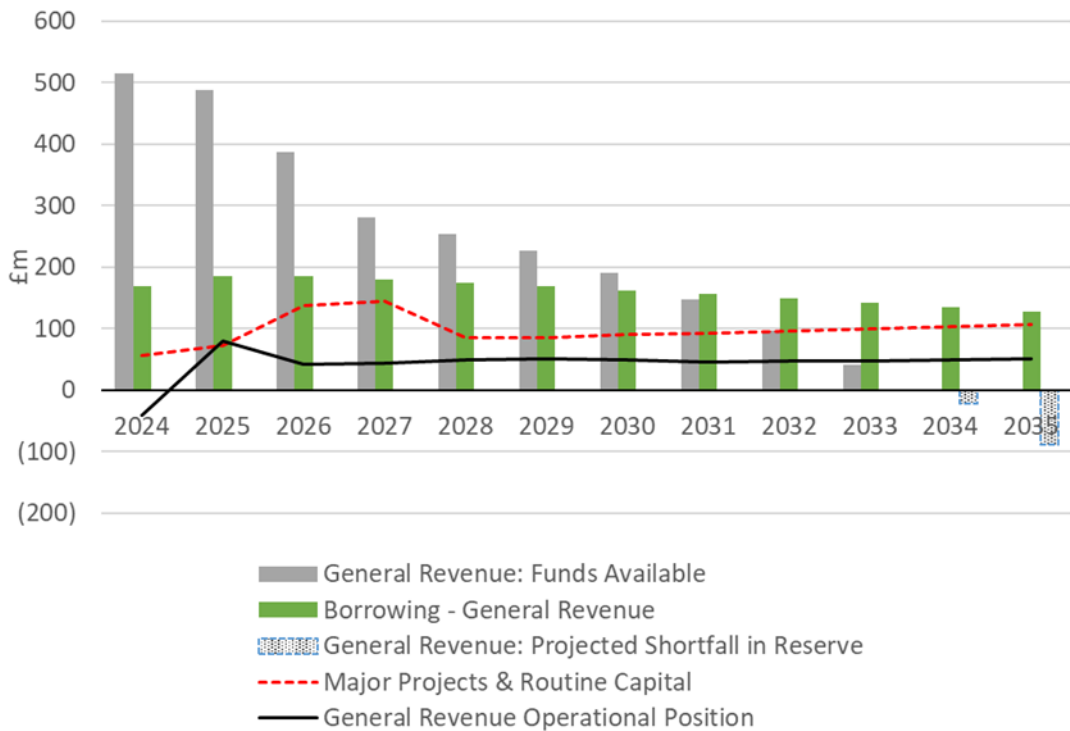
A10.49 Applying these assumptions results in a wide range of outcomes for the projected operational surplus, as shown in Figure A10.5. The chart also shows the target infrastructure spend at 2% GDP (for simplicity only the base assumption is shown; however, this will vary depending on the GDP growth and inflation assumptions).

Figure A10.5: Projected range of outcomes using alternative assumptions



A10.50 The favourable scenario shows a significantly improved operational position by 2035. However, when the infrastructure spend is offset against this, it still shows the General Revenue Reserve being exhausted by 2034 as shown in Figure A10.6.

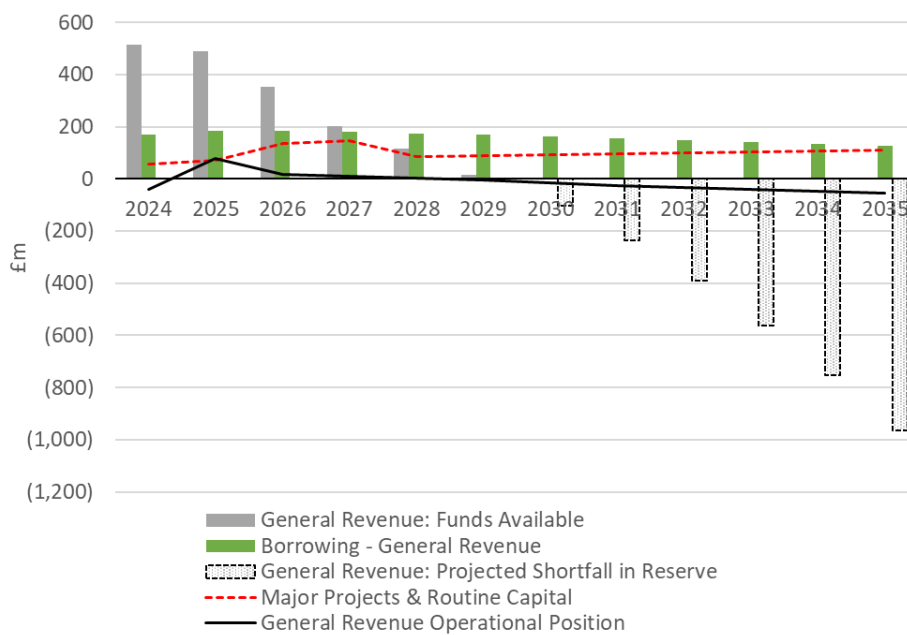
Figure A10.6: General Revenue forecast using Favourable Assumptions



A10.51 Turning to the more adverse assumptions, Figure A10.5 shows a projected deficit before spend on major and routine projects from 2029. This means that insufficient revenue would be generated to cover the day-to-day expenditure of the States.

A10.52 The adverse scenario shows the very concerning position of the General Revenue Reserve being entirely used up during 2030, as shown in Figure A10.7.

Figure A10.7: General Revenue forecast using adverse assumptions



A10.53 In summary, the 2025 position and the medium-term forecasts clearly show that Guernsey’s current funding model is unsustainable. **Guernsey needs to be able to support both its day-to-day expenses and support investment in its infrastructure and assets.**

A10.54 The growing demand for day-to-day public services is consuming almost all of the available revenue placing increasing strain on the reserves available to invest in necessary major projects and infrastructure, like developing the schools’ estate and modernising the hospital, which are themselves necessary for sustainable provision of public services.

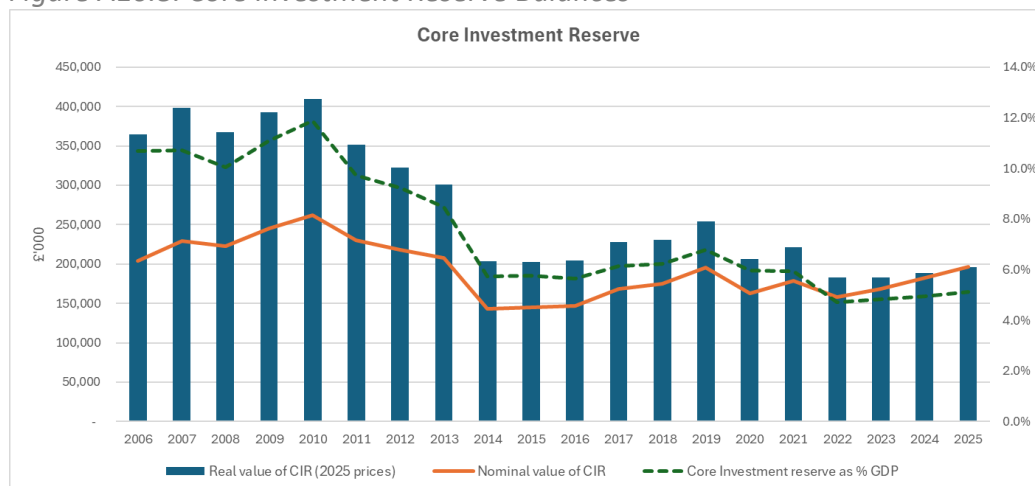
A10.55 Some of the money needed for projects that have already been agreed will come from £160m that the States have borrowed through the bond. Although this loan comes with very good interest rates and is managed internally, it is still borrowed money that must be repaid. This means the States will need to repay the full amount when the bond is due in 2046. The financial modelling assumes that repayments on this loan will start in 2026 and take into account the interest that will need to be paid. The repayment of £11m per annum is therefore a cost that needs to be covered.

A10.56 The States also need to deliver a further £19m of revenue (compared to the 2026 rates charged) to the Social Security Funds to bring these to a sustainable position (as per the last actuarial review).

A10.57 In addition to generating enough revenue to pay for essential services and infrastructure spend, the States should be aiming to maintain reserves at a healthy level. The Core Investment Reserve is currently significantly below the agreed target.

A10.58 Figure A10.8 shows the balances of the Core Investment Reserve over the last 20 years. This shows that the real value at 2025 prices (adjusted for inflation) has significantly reduced, with the value as a percentage of GDP having reduced in that time from 10.7% (2006) to 5.1% (2025).

Figure A10.8: Core Investment Reserve Balances



A10.59 For the General Revenue Reserve, the States do not currently have an agreed reserves policy; however, in the 2023 update of the Funding & Investment Plan<sup>46</sup> a minimum reserves level of £315m was agreed. If this were maintained as a proportion of GDP, it would equate to approximately £492m by 2035. Ideally any package should generate sufficient surplus to be able to build reserves to that level.

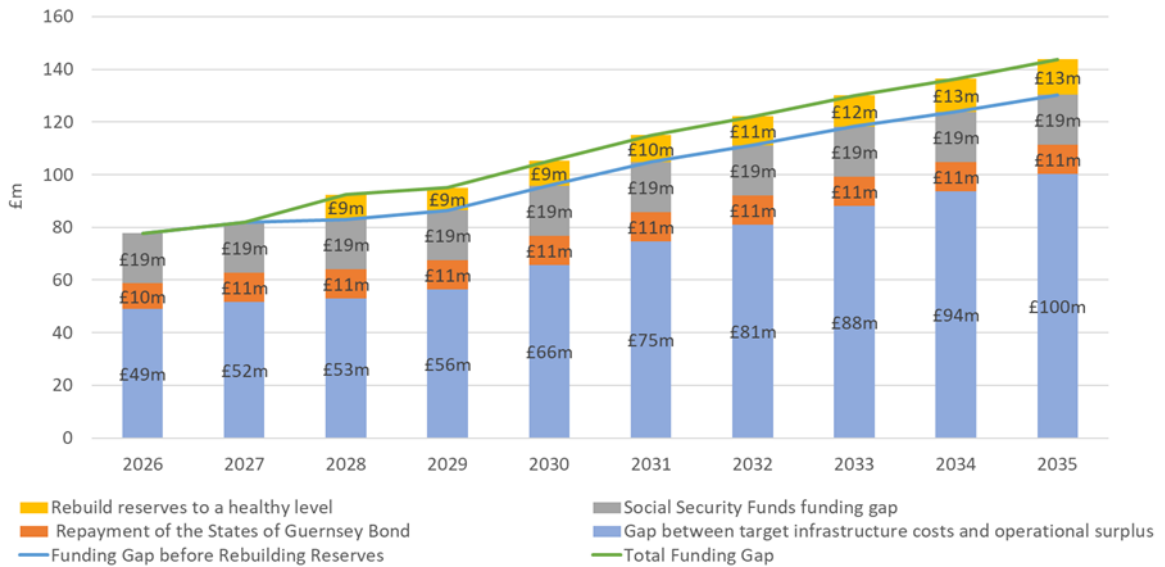
<sup>46</sup> Funding & Investment Plan ([Billet d'État XVII of 2023, Article 5](#))

A10.60 So in summary the funding gap is made up of:

- The gap between planned infrastructure costs and operational surplus.
- Repayment of the element of the States of Guernsey Bond that has been lent to General Revenue.
- The need to rebuild reserves to a healthy level.
- The revenue required to support the Guernsey Insurance Fund over the long term.

A10.61 Figure A10.9 shows that the funding gap, including the requirement for the Guernsey Insurance Fund (compared to the revenue generated in 2026), will be approximately £80m by 2027, increasing to £130m by 2035, noting this excludes rebuilding reserves.

Figure A10.9: the Funding Gap



A10.62 The States therefore have a challenge:

- On the current trajectory set out in Figure A10.3, reserves will be exhausted by 2031, with no way to replenish them.
- The States cannot borrow their way out of financial difficulty without the surplus required to repay the debt.

- The States can reduce expenditure, but achieving meaningful reductions in public spending against growing demand will mean reducing or removing public services.
- The scale of the issue means that additional revenue raising must form part of the solution.

A10.63 To bring the States' finances to a position where reserves are being maintained relative to GDP, should there be a future States decision to do so, either baseline expenditure would need to be reduced or revenue increased (or a combination of both) by a minimum of £90m rising to £143m in 2035, assuming the currently projected levels of demand for and provision of public services remain unchanged.

#### **Modelling Assumptions For Funding Gap**

A10.64 Making projections over the medium term presents inherent challenges, as there will inevitably be unforeseen developments and uncertainties that arise during this period. Furthermore, assumptions made for long-term planning can be subject to significant variation, with certain key factors exhibiting a range of possible outcomes. To address this, the modelling considers not only the central, or 'core', assumptions, but also explores both favourable and adverse scenarios for these variables. This approach helps to illustrate the potential risks and opportunities that may emerge.

A10.65 The projections do not attempt to predict or incorporate future policy decisions, nor does it speculate about changes to existing policies. Instead, it is constructed using the current situation and policies that are in place at present. The intention is to provide a clear, evidence-based assessment of the financial outlook based on what is known today, so that informed decisions can be made.

#### **Key Assumptions – General**

1. RPIX is 3.2% per annum excluding GST. This rate may be impacted by fluctuations in oil prices. This assumption is in line with historic averages.
2. GDP growth of 0.5% per annum. This is based on actual medium- to long-term average growth. The Committee *for* Economic Development has recently published the Finance Sector Strategy 2035, a report which sets out a strategy to boost economic growth in the finance sector. The favourable scenario projection in this policy letter contains an assumption of higher economic growth (0.75% per annum).
3. GDP projections are based on the last published data, which is for 2023.

4. Near term borrowing via an RCF priced with reference to SONIA (Sonia + 60bps (0.60%)).
5. The current States of Guernsey Bond interest rate is 3.625%.
6. Repayments are made from the General Revenue Reserve to the Bond Reserve for the £160m of bond proceeds allocated to General Revenue, starting in 2026.
7. Investment Return is challenging to predict owing to known volatility. The model includes as a base case a real return of 3.5% (with reference to UK CPI of 2%).

#### **Key Assumptions – Baseline Expenditure**

8. The baseline expenditure projections take account of projected demographics and population growth, although the data is few years old.
9. Additional health demand has been calculated based on a detailed review of historic trends and demand pressures. This varies by year but after some mitigation from assumed efficiency/technology impacts is c£5m per annum.
10. In the last OBC OHM, Phases 2A and 2B (then referred to as single Phase 2) were not expected to deliver overall financial efficiencies, but a short-term increase in costs when scaling up local capacity (to be reviewed as project progresses).
11. Possible financial benefits from the Sustainable Health & Care workstream are not known and therefore not included.
12. The Committee *for* Education, Sport & Culture forecast includes the impact of a declining secondary school age population.
13. Contributory Funds expenditure is modelled in line with States' Resolutions from 2025.
14. The Committee *for* Employment & Social Security forecast includes the impact of a phased increase in the long-term care co-payment, as agreed by the States in 2025.
15. The agreed 1% savings target is reflected (£6.8m in 2027, increasing to £13.5m in 2028 and £20.1m from 2029).

16. An ongoing £3m p.a. for one-off spend relating to the GWP is assumed, in line with the 2026 Budget.
17. £0.5m incremental non-pay cost is assumed each year for additional cost pressures following capital expenditure (for example costs associated with digitisation) or for service developments with ongoing costs.
18. A real increase in pay costs of 0.5% is included. This is the assumption used by the actuaries in the 2024 valuation of the superannuation fund so is felt to be a reasonable assumption. However this assumption is not applied to the forecast for Health & Social Care, as the review of historical trends and projections will already take this into account.

#### **Key Assumptions – Baseline Income**

19. For 2026, a £11 million improvement in banking income tax has been reflected compared to the 2026 Budget, alongside a £3 million enhancement in Personal Income Tax.
20. The projected underlying growth in income tax has been aligned with GDP growth, consistent with the established long-term trend.
21. The estimated impact of secondary pensions has been factored in. This is expected to reduce tax revenue in the medium-term as take up increases and tax relief on pension contributions increases. Longer term there is expected to be a benefit to the States due to reduced income support for pensioners.
22. Real-terms budget measures are assumed each year, generating a net £0.5m additional income per annum across 2027-2035.
23. 2% real reduction in fuel duty per annum, with the key driver being the reduction in volumes.
24. 0.1% increase per annum in chargeable TRP units.
25. 1% real growth in document duty. This is 0.5% higher than assumed real earnings growth and therefore assumes that price to earnings ratio will worsen. This could change if policies to improve the housing supply are effective. If this real growth were consistent with earnings growth this would result in an annual reduction of £130k, accumulating to £1.27m by 2035.

### **Key Assumptions – States Entities**

26. The Unincorporated Trading Entities estimated funding requirement is included rather than the impairment as per the IPSAS accounts.
27. Ongoing General Revenue support for Ports is assumed at c£2.2m p.a. The impact of new air routes is assumed to be neutral; this is under review currently. However, it should be noted that the economic growth as a result of the new air routes is also not explicitly factored into revenue forecasts.
28. Funding for the Guernsey Dairy is assumed to reduce to zero after completion of the Future Dairy project (assumed mid 2032), owing to estimated efficiencies.

### **Key Assumptions – Project Expenditure**

29. Project expenditure targeted at 2% of GDP in line with the current Fiscal Policy Framework, however forecasts for 2026 and 2027 are higher than this target based on the forecasts of the current agreed delivery projects. It is also noted that the Fiscal Policy Panel has recommended that Guernsey should be spending 3% of GDP on infrastructure spend, which can include infrastructure spend by the trading entities, but with any spend on housing additional to this target.
30. Funding for the current agreed Major Projects Portfolio includes:
  - Existing delivery portfolio plus QE2 £5.3m & Dairy essential works £6m.
  - £6m for new Pipeline and £2.5m for transitional schemes.
  - £10m for strategic property purchases.
31. No additional funding for OHM Phase 1 or 2A has been assumed at this point.
32. Routine Capital expenditure is assumed to be in line with current agreed allocations with inflation linked increases beyond 2028.

## Appendix 11.

### The Revenue Service: current issues and capacity to manage additional taxes

- A11.1 The programme plan, as currently outlined, is that the existing Revenue Service systems will be extended with a module to collect GST. There is some inevitable concern about the Revenue Service's capacity to manage an additional tax, and the use of the existing systems given its current issues. However, it would also be extremely challenging to try and implement and integrate a new system alongside completing functionality of the existing systems.
- A11.2 This element of the programme design has been robustly challenged, both by the officer led programme board, and by the political steering group. These discussions have considered the resource requirements for implementing the proposed 2026 Tax Reform Package alongside business as usual and recovery of the service. For members to understand why the decision has been made to collect GST using the existing systems it is necessary to outline in more detail the current difficulties being experienced by the Revenue Service.
- A11.3 A decision was made in 2018 to replace the two legacy IT systems with Dynamics (a customer relationship management/enterprise resource planning system) and a single rules engine. The legacy systems are ITAX, which managed income tax administration; and SIR, which managed social security contributions. Both systems were a minimum of 30 years old, running on out-of-date operating systems with minimal technical support available at very high cost. Both systems were fragile, vulnerable to external penetration and at high risk of collapse. Replacement of both systems was an operational necessity to address the risk of a critical failure.
- A11.4 The Dynamics system works and can fulfil its basic functionality. However, there have been delays to delivering the full functionality required because of issues with the transition from the legacy systems. Part of the challenge has been the scale of legacy data to be migrated, which was underestimated during the planning stages of the programme, particularly given the complexity, volume and age of the data. A detailed recovery plan for the service has been developed, focusing on key activities required to move to business as usual, to stabilise the platforms and core operations.
- A11.5 The GST module which will be bolted on to the system is relatively simple - from the Revenue Service perspective GST is much less complex than either income tax or social security contributions. There are significantly fewer data fields to hold, the calculation is simpler and there will be fewer GST registered entities. It will be operated by a small team of 6 people within the Revenue Service (noting that the staff resource requirement at the border is larger).
- A11.6 Serious consideration was given to the purchase of a separate off-the-shelf system specifically for the collection of GST. There are a number of challenges with either approach:

- Available standalone options were substantially more expensive (more than twice the price of expanding the existing systems).
- Utilising the Jersey system (or outsourcing collection to Jersey) would require very tight alignment on policy and the sharing of a significant amount of commercially sensitive data.
- Compliance activity and border enforcement which are the most labour-intensive elements of the collection, would both need to be physically located in Guernsey.
- Either option would require two way-integration with existing systems to access business data and for debt management activities

A11.7 A temporary support centre is included within the implementation plans for the 2026 Tax Reform Package, to ensure appropriate support for both the Revenue Service and GCIS during the initial rollout of these changes, as it is recognised that implementing a restructure of social security systems and changes to income tax will also impact existing teams and this impact needs to be managed.