

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

25th January 2023

Proposition No. P.2022/112

Policy & Resources Committee

The Tax Review: Phase 2

AMENDMENT

Proposed by: Deputy P T R Ferbrache

Seconded by: Deputy M A J Helyar

To delete all propositions and substitute therefor:

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1. To agree that the projected financial position of the States of Guernsey is unsustainable and that measures must be implemented as soon as possible to address this and to agree that the associated work is of the very highest priority for government.

EITHER:

2. OPTION A

To agree and approve the following package of revenue raising and cost reduction measures which comply with the objectives agreed for the Tax Review and which will close the deficit by £80-90million in total:

- A) Development and implementation of a package of revenue raising measures designed to increase States' revenues by £50-60m by no later than the end of 2025 through:
 - a. The introduction of a broad-based GST at a rate of 5%, as laid out in section 6, with minimal exemptions and zero rating, such rate not to be increased for at least 10 years from the date of implementation; and amendment of the General Sales Tax (Enabling Provisions) (Guernsey and

Alderney) Law, 2009 to limit the maximum rate of GST that may be provided for by Ordinance of the States to 5%, and inclusion in the Law provision for the approval of any resolution directing the preparation of legislation and any Projet de Loi intended to repeal or vary the relevant provision of the Law specifying the maximum rate of 5%, similar to that set out in Articles 3(4) and (5) of the Reform (Guernsey) Law, 1948 in respect of repeals and variations to that Law;

- b. The introduction of a lower rate of income tax at 15% that applies to the difference between the first £30,000 of an individual's income, as calculated for the definition of "gross household income" under the Family Allowances (Guernsey) Law, 1950, and the personal and other tax allowances, mortgage interest relief and deductions for pension contributions they are entitled to;
- c. An increase in the Personal Income Tax Allowance of £600;
- d. A restructure of the Social Security Contributions system, as outlined in section 8, including that all contributors be entitled to an allowance set at the same level as the personal income tax allowance and be liable for contributions on all income regardless of source;
- e. To include, within the Budget Report for 2024, a proposed policy to underpin any future changes in: personal allowances; the threshold for the lower rate of income tax; and the threshold for the withdrawal of personal allowances;
- f. Prior to the implementation of a GST:
 - i. Increasing income support benefit rates by the percentage equal to the rate of GST applied to pre-empt the expected impact of the GST on low income households;
 - ii. Increasing the States Pension and other benefit rates by a rate equal to the forecast impact of GST on RPIX; and
 - iii. Making available a cost support scheme to households with a gross income of less than £33,000, who are not in receipt of income support, at an initial rate of £450 a year for a single adult and £675 for a couple with a 30% supplement for households where all adults are above States' pension age;

and incorporating within the uprating of such benefits in the subsequent January, any adjustment necessary to align the change in benefits with the actual impact of GST on inflation should this prove greater or less than the forecast amount;

- g. Noting the intention of the Committee *for* Employment & Social Security to adjust the ten-year plan for increasing contributions each year, considering the resolutions following the debate on the Tax Review, in its annual Policy Letter on Contributory Benefits and Contribution Rates; and
 - h. Directing the Policy & Resources Committee to include appropriate transitional proposals in future States of Guernsey Annual Budgets, if required, to implement the above package of measures.
- B) To direct the Policy & Resources Committee to:
- a. Prepare the States of Guernsey Annual Budget for 2024 to include no real-terms growth in revenue expenditure, excepting the budget of the Committee *for* Health & Social Care;
 - b. Establish a Sub-Committee to identify and review essential community services and, working with Principal Committees and wider States Members, consider where efficiencies, structural change, cessation, outsourcing and/or commissioning of those services could deliver significant savings, and to incorporate these into a medium-term plan for delivering overall cost reductions of at least £10m over five years to be considered by the States no later than July 2024 for incorporation into the States of Guernsey Annual Budget for 2025;
 - c. Review the Capital Portfolio and pipeline in light of the outcome of the debate and report back to the States by September 2023 with recommendations for (i) any changes to scope or funding of the existing portfolio; and (ii) (if in the view of the Policy & Resources Committee thought appropriate) amending the assumption for the level of capital expenditure contained within Principle 6 of the Fiscal Policy Framework; and
 - d. Include proposals with the Government Work Plan 2023 to reprioritise initiatives for which funding has not yet been released to the extent necessary to limit the additional expenditure to deliver these initiatives over the remainder of this term to a maximum of £5.7m, being 1% of the 2023 General Revenue budget.
- C) To direct the Policy & Resources Committee to develop proposals for raising up to £20m further revenues from the corporate sector without unduly negatively impacting Guernsey's competitive position or compliance with international standards, through engagement with industry and the other Crown Dependencies, which should be presented to the States for consideration no later than November 2023. This work to include examination of all the options

set out in Appendix 3 plus an alternative corporate vehicle or other appropriate form of entity or taxing structure which will be subject to income tax at 15% or such other rate or basis as the review may determine.

OR

3. OPTION B

To agree a package of revenue raising and cost reduction measures which will close the deficit by £80-90million in total through:

- A) A series of measures to raise additional revenues through:
- a. A restructure of the Social Security Contributions system similar to that outlined in section 8, including that all contributors be entitled to an allowance and liable for contributions on all income regardless of source, save it should raise £34m in total through one of or a combination of (i) the application of higher contribution rates; (ii) by setting the allowance lower than the personal income tax allowance; (iii) reducing the range or restricting entitlement to contributory benefits, and directing the Committee *for* Employment & Social Security to report back with firm proposals in its Contributory Benefits and Contribution Rates for 2024 report in October 2023;
 - b. Directing the Policy & Resources Committee to develop proposals for raising up to £20m further revenues from the corporate sector without unduly negatively impacting Guernsey's competitive position or compliance with international standards, through engagement with industry and the other Crown Dependencies, which should be presented to the States for consideration no later than November 2023. This work to include examination of all the options set out in Appendix 3 plus an alternative corporate vehicle or other appropriate form of entity or taxing structure which will be subject to income tax at 15% or such other rate or basis as the review may determine;
 - c. Agreeing that all rates of domestic TRP should be increased by 50% in real terms over the five-year period 2024-2028 and directing the Policy & Resources Committee to include proposals in the States of Guernsey Annual Budgets for that period including examining the implementation of a deferral scheme for those on fixed incomes;
 - d. Directing the Policy & Resources Committee, working with the Committee *for the* Environment & Infrastructure, to develop proposals for increasing the revenues generated through transport by £10-15m above 2022 levels, such work to include consideration of distance

charging, the application of an annual tax on the ownership of vehicles and paid public parking, and the bringing of proposals to the States by March 2024; and noting that the Policy & Resources Committee will bring proposals as part of the States of Guernsey Annual Budget for 2024 in relation to TRP on corporate parking; and

- e. Including, within the States of Guernsey Annual Budget for 2024, a proposed policy to underpin any future changes in the threshold for the withdrawal of personal allowances.
- B) To agree that, while increasing revenues, it is essential to control expenditure and deliver savings; and accordingly direct the Policy & Resources Committee to:
- a. Prepare the States of Guernsey Annual Budget for 2024 to include no real-terms growth in revenue expenditure, excepting the budget of the Committee *for* Health & Social Care;
 - b. Establish a Sub-Committee to identify and review essential community services and, working with all Principal Committees and wider States Members, consider where efficiencies, structural change, cessation, outsourcing, restricting access to and/or commissioning of those services could deliver significant savings, and to incorporate these into a medium-term plan for delivering overall cost reductions of at least £10-16m over five years to be considered by the States no later than July 2024 for incorporation into the States of Guernsey Annual Budget for 2025;
 - c. Review the Capital Portfolio and pipeline in light of the outcome of the debate and report back to the States by September 2023 with recommendations for (i) any changes to scope or funding of the existing portfolio; and (ii) whether the assumption for the level of capital expenditure contained within Principle 6 of the Fiscal Policy Framework should be amended; and
 - d. Include proposals with the Government Work Plan 2023 to reprioritise initiatives for which funding has not yet been released to the extent necessary to limit the additional expenditure to deliver these initiatives over the remainder of this term to a maximum of £5.7m, being 1% of the 2023 General Revenue budget.
- C) To note the lack of certainty regarding the deliverability of these proposals and therefore to direct the Policy & Resources Committee to monitor progress and impact on the deficit and report back, if required, by December 2024 to set out

any further measures necessary to address the sustainability of the financial position.

OR

4. OPTION C

To:

- a. Confirm that the Committee *for* Employment & Social Security should continue with its agreed plan to increase contribution rates each year for a period of ten-years from 2022 in order to make the social security schemes sustainable through raising an additional £34m; and

Direct the Policy & Resources Committee to:

- b. Develop proposals for raising up to £20m further revenues from the corporate sector without unduly negatively impacting Guernsey's competitive position or compliance with international standards, through engagement with industry and the other Crown Dependencies, which should be presented to the States for consideration no later than November 2023. This work to include examination of all the options set out in Appendix 3 plus an alternative corporate vehicle or other appropriate form of entity or taxing structure which will be subject to income tax at 15% or such other rate or basis as the review may determine;
- c. Establish a Sub-Committee to identify and review essential community services and, working with Principal Committees and wider States Members, consider where efficiencies, structural change, cessation, outsourcing, restricting access to and/or commissioning of those services could deliver significant reductions in the cost of public services, and to incorporate these into a medium-term plan for delivering overall cost reductions of between £30-35m to be considered by the States no later than July 2024, to include an implementation plan and timeline;
- d. Review the Capital Portfolio and pipeline in light of the outcome of the debate and report back to the States by September 2023 with recommendations for (i) any changes to scope or funding of the existing portfolio; and (ii) whether the assumption for the level of capital expenditure contained within Principle 6 of the Fiscal Policy Framework should be amended;

- e. Include proposals with the Government Work Plan 2023 to reprioritise initiatives for which funding has not yet been released to the extent necessary to limit the additional expenditure to deliver these initiatives over the remainder of this term to a maximum of £5.7m, being 1% of the 2023 General Revenue budget; and
 - f. To note the lack of certainty regarding the deliverability of these proposals and therefore to direct the Policy & Resources Committee to monitor progress and impact on the deficit and report back, if required, by December 2024 to set out any further measures necessary to address the sustainability of the financial position.
5. To note that the Policy & Resources Committee has commenced a project to review the package of Terms & Conditions for new States employees, including examining offering a Defined Contribution pension scheme.
 6. To direct the Policy & Resources Committee to provide an estimate of the underlying structural deficit in future Budget Reports.
 7. To endorse the intention of the Policy & Resources Committee to approve funding from the Budget Reserve to implement the proposals in 2023 and direct the Policy & Resources Committee to prioritise the actions arising from the above propositions in the Government Work Plan.
 8. To direct the preparation of such legislation as may be necessary to give effect to the above decisions.”

Rule 4(1) Information

- a. The proposition contributes to the States’ objectives and policy plans by delivering on the action in the Government Work Plan to agree a sustainable taxation policy.
- b. In preparing the propositions, the Committee has consulted with numerous States Members
- c. The proposition has been submitted to His Majesty’s Procureur for advice on any legal or constitutional implications.
- d. The Policy & Resources Committee would intend to fund the amount necessary to bring these proposals to the States from the Budget Reserve for 2023 and ask the States to prioritise funding for any work required in 2024 through the Government Work Plan.

Explanatory Note

This amendment sets out three distinct options for the States to choose between, each of which is capable of closing the deficit over time by some £85m.

A separate short report analysing and comparing the three options has been prepared to accompany this amendment.