THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

25 January, 2023

Proposition No. P.2022/112

POLICY & RESOURCES COMMITTEE

THE TAX REVIEW: PHASE 2

AMENDMENT

Proposed by: Deputy A D S Matthews
Seconded by: Deputy J B Gollop

1. To add an additional proposition as follows:

"7. To agree that the amount of revenue generated from annual taxes on domestic residential property should be increased and to agree in principle that a new Proportional Property Tax (PPT), based on property value, should be investigated and to direct the Policy & Resources Committee to return to the States no later than June 2024 with proposals which should include consideration of:

a) How the tax should be calculated and applied and whether there should be any exemptions;

b) Whether the new tax should be applied in addition to or instead of Domestic Tax on Real Property;

c) A mechanism to allow pensioners and low-income households to defer the payment of property taxes until the sale or the transfer of the property to a new owner;

d) The potential to partly or fully replace Document Duty or for specified categories of property purchase, including:

   i) first-time buyers only, or
   ii) purchases of principal private residences only, or
   iii) for all residential purchases.

e) The potential to partly fund an increase to the scale of the amount of interest paid that is allowable for Mortgage Income Tax Relief for Income Tax;

f) A premium rate of Proportional Property Tax for second homes, unoccupied homes, and properties in foreign ownership;

g) The potential to allocate or describe the quantum of Proportional Property Tax against specific services or budget items."

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 proposition, the Policy & Resources Committee has been consulted.

c) The proposition has been submitted to His Majesty's Procureur for advice on any legal or constitutional implications.

d) It has been estimated that the cost of undertaking should be contained within existing resources

Explanatory Note

1. International Context

Property tax is a mainstay of taxation systems around the world. Generally, property taxes provide a reliable and consistent revenue stream when compared to other forms of taxation as the amount collected is less affected by changes in economic activity. With revenue tied to location of property, it typically funds services delivered at a local level, such as education, healthcare and social care services. Since property taxes are levied against real property, they are difficult to evade and have very high rates of collection. Finally, property tax is an open and transparent form of taxation, as the amount collected is highly visible to taxpayers.

> The property tax is a unique mechanism for local revenue generation. The primary store of accumulated wealth in both developed and developing countries is in real estate. Such property is visible, immobile and a clear indication of one form of wealth. The property tax is thus difficult to avoid and if well administered can represent a non-distortionary and highly efficient fiscal tool.
>
> William McCluskey (Routledge, 1999) "Property Tax: An International Comparative Review"

However, the highly visible nature of property tax leads to a perceived unpopularity and often limits its potential for revenue collection.

> The tax on immovable property has been characterized as probably the most unpopular among tax instruments, in part because it is salient and hard to avoid. But economists continue to emphasize the virtues of the property tax owing to its relatively low efficiency costs, benign impact on growth, and high score on fairness. It is, therefore, generally considered to be underutilized in most countries.
>
> John Norregaard (International Monetary Fund, 2013) "Taxing Immovable Property: Revenue Potential and Implementation Challenges"

2. Guernsey's Place in the World

Property tax in Guernsey consists largely of three elements: Document Duty, and Tax on Real Property (TRP) which is divided into Residential TRP, applied to private houses, and Commercial TRP, applied to businesses.

Commercial TRP is not altered by this Amendment, as components of business taxation and Corporate taxation are more appropriately considered in conjunction with each other.

This Amendment seeks to introduce a new Proportional Property Tax (PPT) as an ad-valorem charge against market value of property, with a view to partly or fully replacing Residential TRP and Document Duty with a tax that more fairly taxes property assets held by individuals and introduces greater potential for revenue collection.

Current revenue collection for Document Duty in Guernsey is relatively high, with graduated rates that range from 2.25% to 5.5% and high property prices in comparison with other jurisdictions. The revenue stream is volatile and influenced by changes in economic activity that affect the volume of transactions in the housing market. The tax collected £32m in 2021 though this is likely to have been an exceptional peak, with totals dipping as low as £12m in trough years 2013 to 2016 when the property market experienced lower sales volumes.

Revenue collection for TRP is very low in comparison to other jurisdictions. Most countries apply property taxes to a greater extent than Guernsey. Historically TRP rates have been very low, when introduced in 2008 the average annual TRP bill was £96 a year. Increased basic rates and tiered rates for larger properties have increased this to an expected £291 for an average sized property (TRP of 150) for 2023.

Guernsey's TRP charges are significantly lower than many international comparators, such as the United States where property taxes vary significantly by state, with an average home in a mid-table state (Florida) would expect to pay USD $1,773 (approx. £1,450) annually, and the UK where Council Tax for a band D property for a property in England would attract £1,966 for 2022/3.

The analysis from Deloitte in Appendix 2 of the Policy Letter does not consider property taxes in depth, having been designated out of scope. It does note that Guernsey raises only 4% of its revenue from property taxes, higher than Jersey's 1% but considerably less than Luxembourg at 9.7% (p115). Other countries may be even higher: the UK equivalent figure is 12.88% of total revenues (according to a report by the United Nations Human Settlements Programme in 2013)

There is potentially some scope to increase the revenue raised by property tax in Guernsey whilst remaining within international norms.

3. Deferred Payment

A barrier identified to raising TRP by significant amounts is the concern for "asset rich but cash poor" and the ability to collect tax from households where there is a low income. Property tax deferrals are used in some countries to help relieve the tax burden, such as for low-income households and pensioners. Typically deferral schemes delay, rather than exempt taxes. Deferred tax will accrue, such as an increasing lien until the property is sold or the estate settled.

Often deferred taxes are subject to interest charges but not penalties, and the properties are usually not subject to foreclosure. Deferrals directly address the liquidity problem faced by some households, by allowing homeowners to use an otherwise illiquid asset to pay property taxes. Since the tax is repaid when the property is transferred, deferrals have no long-term cost to other taxpayers.

Providing a deferral option to taxpayers is important because it prevents long-time homeowners being forced out of their home due to rising taxes.

4. Document Duty

Document Duty can raise significant revenue during years when property sales volumes are high, but at a significant cost to the economy. The transaction tax distorts property values and places a great burden on purchasers, who usually will add to their mortgage borrowing requirement and repay the tax over the course of their term. For first time buyers it represents a significant barrier to getting on the housing ladder. It equally deters those looking to downsize from an over-occupied property. The amendment calls for consideration to be given to what extent Document Duty can be removed or repealed entirely, using revenue from PPT instead. This could increase liquidity and assist young people making their first purchase, since the up-front payment of Document Duty would be replaced by annual charge spread more evenly amongst all homeowners.

5. Mortgage Income Tax Relief

Guernsey's tax system historically featured relief for interest on mortgage payments, which when applied to principal private residences only, assists and encouraged owner occupiers buying their home using mortgage finance. With greater property taxes, homeowners with significant interest payments could have their property tax liability offset by partly funding a reversal of the policy to phase out mortgage income tax relief.

6. Premium Rates

Higher property tax rates for homes that are unoccupied or used as second homes can increase the available supply of housing units to the market for primary residences, which in turn increases the number of residents and taxpayers on the island.

The Amendment would include consideration for what premium rates could be applied to these categories of home ownership. With larger property tax values in general, premium rates can be far more effective at discouraging owners from leaving homes empty or derelict.

Premium rates for non-resident or foreign owned properties can provide a lever to maximise the properties available to purchase for residents. Properties with foreign ownership can drain housing equity from the local economy by exporting gains and rental yield to other locations.

7. Efficiency of Housing Allocation

Increased efficiency of allocation of existing housing stock can be achieved with higher rates of property tax, where homeowners in over-occupied housing are incentivised to downsize and release housing units that would otherwise be inefficiently occupied. This does not have to be achieved by a property sale, for those who have a sentimental attachment to a long term family home, other options such as letting all or part of the property on the rental market can achieve the same effect.

8. Potential Revenue

Approximate tax amounts and potential revenue based on 2022 Q3 property values, for illustrative purposes only.

		Indicative Annual Tax Amounts					
Pence per £1000 value	Percentage of property value	Avg. LM 1-bed flat 330,000	Avg. LM 2-bed house 525,000	Average Local Market 630,000	Avg. LM 4-bed house/ bungalow 930,000	Average Open Market 1,500,000	**Gross revenue £million**
45 *	0.045%	149	236	284	419	675	**10.0**
90	0.090%	297	473	567	837	1,350	**20.0**
135	0.135%	446	709	851	1,256	2,025	**30.0**
180	0.180%	594	945	1,134	1,674	2,700	**40.0**
225	0.225%	743	1,181	1,418	2,093	3,375	**50.0**
270	0.270%	891	1,418	1,701	2,511	4,050	**60.0**
315	0.315%	1,040	1,654	1,985	2,930	4,725	**70.0**
360	0.360%	1,188	1,890	2,268	3,348	5,400	**80.0**
405	0.405%	1,337	2,126	2,552	3,767	6,075	**90.0**
450	0.450%	1,485	2,363	2,835	4,185	6,750	**100.0**
480 **	0.480%	1,584	2,520	3,024	4,464	7,200	**106.7**
970 ***	0.970%	3,201	5,093	6,111	9,021	14,550	**215.6**

*	45p per £1000 house price value is an indicative amount calculated by Treasury to replace TRP, but generate no net revenue
**	0.48% is a value quoted by the Fairer Share campaign to replace UK Council Tax and Stamp Duty for the UK. Source: WPI Economics (2021) “Taxing Times: A Fairer Deal for Future Generations” UK Average house price is £294,559 at Aug 2022.
***	0.97% is the average State property tax rate for Florida, United States. The median value of home worth is $182,400 Source: tax-rates.org/florida/property-tax