

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

5th November, 2024

Proposition No. P.2024/91

Policy & Resources Committee

2025 Budget Report

AMENDMENT

Proposed by: Deputy Aidan Matthews

Seconded by: Deputy Andrew Taylor

To insert a new proposition as follows:

“To extend the period for the withdrawal of mortgage interest relief on a Principal Private Residence so that relief will be available for an individual on interest not exceeding the following amounts:

2025	£3,500
2026	£3,500
2027	£2,000
2028	£1,000
2029 and subsequent years of charge	£nil”

Rule 4(1) Information

- a) This proposition contributes to the States objectives and policy plans and are in line with the Government Work Plan priorities.
- b) In preparing this proposition the Policy & Resources Committee were consulted.
- c) The proposition has been submitted to His Majesty’s Procurer for advice on any legal or constitutional implications.
- d) This proposition would reduce the budgeted revenues for 2025 by £1m.

Explanatory note

This amendment proposes pausing the withdrawal of mortgage interest relief on a principal private residence for the two-year period when it is recommended that the individual standard rate of income tax is increased from 20% to 22%.

The withdrawal was paused in 2023 and 2024 to provide support to islanders during a period of high inflation and rising interest rates. It is proposed that the withdrawal is further paused, to provide support to islanders during a period when they will be subject to an additional 2% income tax.

This is expected to impact around 6,000 individuals, reducing revenues by £1m.

The withdrawal of mortgage interest relief as recommended in the budget would come at a time when mortgage interest rates remain comparatively high in relation to lower rates that had been available in recent years. As such, it would be possible to greatly impact negatively households paying a mortgage against their home, including both variable-rate mortgages, and those where a fixed-rate mortgage, who may experience a jump in their monthly payment amounts if their renewal falls within the two-year period. The impact would be proportionately more for new householders who had recently purchased a home, where both the purchase price and proportion of interest paid would usually be higher.

Withdrawal of the relief would also negatively affect affordability for prospective homebuyers, especially first-time buyers looking to make their first purchase.

This amendment proposes a pause in the withdrawal of the support which will allow a further period for the States to consider the impact of the withdrawal of the relief, alongside expected reductions in interest rates, further clarity over the States revenue collection requirements, and other measures to improve housing affordability.

Mortgage interest relief – example

Mortgage interest relief – example Year	Budget 2025 Proposal	Potential Amendment
2025	2,000	3,500
2026	1,000	3,500
2027	Nil	2,000
2028	Nil	1,000

Scenario

A couple with a newly purchased home with a mortgage loan, e.g.

House price: £600,000 (approx.. average purchase price)

Loan value: £540,000 (assuming 90% LTV)

Interest rate: 5.59% (taken from current Skipton advertised pay rate, 5yr fixed)

Household income: 2x £49,000 giving £98,000 household income (slightly above median, for loan income multiple at 5.5)

Total annual interest paid by the two taxpayers in this example would be £30,186.

Budget 2025 Proposal

Two individuals, each earning £49,000, assuming only relief is personal allowance and mortgage interest:

Tax liability for 2025 = $2 \times (49,000 - 15,000 - 2,000) \times 22\%$ = 14,080

Tax liability for 2026 = $2 \times (49,000 - 15,000 - 1,000) \times 22\%$ = 14,520

Potential Amendment

Tax liability for 2025 = $2 \times (49,000 - 15,000 - 3,500) \times 22\%$ = 13,420

Tax liability for 2026 = $2 \times (49,000 - 15,000 - 3,500) \times 22\%$ = 13,420

Impact

Therefore, a £660 saving for the household in 2025 and a £1,100 saving in 2026, if mortgage relief is paused (in current terms).