

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

**17<sup>th</sup> October, 2024**

**Proposition No. P.2024/91**

**Policy & Resources Committee**

**The States of Guernsey Annual Budget for 2025**

**AMENDMENT**

Proposed by: Deputy P Roffey

Seconded by: Deputy P Ferbrache

“After Proposition 1 to insert a new Proposition as follows:

- 1A. To direct the Policy & Resources Committee, working with the Committee for Employment & Social Security, to develop and submit to the States of Deliberation an integrated package of revenue raising legislative measures in time for that package to be operative from the start of 2027, which would include (without limitation) the introduction of an additional 15% lower tax rate band for individuals, a restructure of social security contributions; a broad based Goods and Services Tax of 5%; and other mitigating measures; as described in sections 6-10 of Article V of Billet d’État II, 2023 (Tax Review: Phase 2), with appropriate changes to the monetary thresholds included in that package to account for the effect of inflation in the intervening period. And, to direct the preparation of the necessary legislation.”

**Rule 4(1) Information**

- a) The proposition contributes to the States’ objectives and policy plans by seeking to agree a sustainable model for public finances.
- b) In preparing the proposition, advice from Treasury officials has been taken.
- c) The proposition(s) have been submitted to His Majesty’s Procureur for advice on any legal or constitutional implications.
- d) The financial implications are detailed in the explanatory note.

## **Explanatory note**

A separate report is attached to this amendment setting out the rationale for it and the benefits of voting for it.

The implications of voting for a combination of substantive Proposition 1 and this amended Proposition 1A are summarised below:

### **Approving 1 (and 2) and rejecting 1A**

- Results in a temporary increase in income tax rate by 2% in 2025 and 2026 with an increase in the personal income tax allowance to £15,000 followed by a Tax Review in 2026.
- This will not impact the 2025 Budget position, but will not secure a longer-term structural solution.

### **Approving both 1 (and 2) and 1A**

- Results in a interim 2% in income tax rate by 2% in 2025 and 2026 with an increase in the personal income tax allowance to £15,000 followed by the introduction of the package of income tax, social security contribution and GST measures in 2027 without a Tax Review in 2026
- This will not impact the 2025 Budget position and will secure a longer-term structural solution.

### **Rejecting 1 and approving 1A (and 2)**

- Results in no temporary revenue raising measures for 2025 and 2026 with the personal income tax allowance increasing to only £14,600 followed by the introduction of the package of income tax, social security contribution and GST measures in 2027 without a Tax Review in 2026.
- This will result in worsening of the 2025 Budget position by £27m but will secure a longer-term structural solution.

### **Rejecting 1 and 1A (and approving 2)**

- Results in no temporary revenue raising measures for 2025 and 2026 with the personal income tax allowance increasing to only £14,600, followed by a Tax Review in 2026.
- This will result in worsening of the 2025 Budget position by £27m and will not secure a longer-term structural solution.

## **Report appended to budget amendment from Deputies Peter Roffey and Peter Ferbrache**

### **Introduction**

During this term of office, the States' has repeatedly failed to agree any fiscal package which addresses the significant, well documented, challenges facing Guernsey's public finances, both now and over the years ahead. After the latest such failure many states members understood that the whole issue of fundamental reforms to taxation, and/or any other large revenue raising measures, were going to be parked until 2026.

In the event the new iteration of the Policy & Resources Committee has decided to propose a new, higher, rate of income tax from next year. This is a very significant change to the main plank of Guernsey's tax system, and one which has remained constant for very many years. Despite it being put forward as a temporary measure it is very hard to see exactly how the next Assembly will be able to put this "Income Tax Genii" back in its bottle.

This is such a seismic step that it's crucial the States should take a very hard look at whether or not these proposals represent the best way to raise additional public revenues. Revenues which Guernsey undoubtedly needs to fund key public services, such as Health and Social Care, in the face of additional demands, driven largely by demographic changes.

Of course it is appreciated that there will be some States Members who oppose any large revenue raising measures being approved during this political term. But even they should give careful consideration to the question "If a majority of colleagues do want to raise more revenue, what is the least bad way to do it"?

It is telling that two iterations of the Policy & Resources Committee have now urged the Assembly to act speedily to address the large revenue shortfalls that Guernsey's government faces under the "status quo option". Even more so because neither committee took up office with such a revenue raising zeal being obviously apparent, but then became fully converted once familiar with the relevant data.

The two approaches, from the two iterations of the Policy & Resources Committee, are very different, but they have the common feature of saying clearly, "something significant must be done, and must be done in a timely manner". That the eight deputies trusted by the Assembly to populate our senior committee during this term have all come to this same conclusion ought to prompt deep thought amongst members over whether it is wise to continue procrastinating over such an unavoidable step.

For those who now accept that decisions over raising significant extra revenues should not be deferred any longer the fundamental question has to be whether the proposals in the budget report are the best way to achieve this? The proposer and seconder of this amendment profoundly believe that they are not, for a range of reasons set out below.

We are convinced that the carefully thought through fiscal package, worked up painstakingly during the first two years of the political term, is greatly superior to the apparently knee-jerk proposals in the budget. In short, we regard it to be not only a much "Fairer Alternative" but a far more effective and less damaging alternative.

We accept that it is a package which has been rejected on multiple occasions, but now that it is being offered up as a straight alternative to budget proposals which would hit ordinary Guernsey families hard, and risk significant damage to our economy, we hope it may be viewed in a more favourable light. No measures to raise more money from our community will be welcomed, but some are less bad than others.

By inserting the previous tax package as proposition 1A this amendment will allow 4 options for States Members.

1. Agree a 2% increase in Income Tax.
2. Agree to the previous tax package presented in the Tax Review.
3. Agree to both - one as an interim measure and one as the medium-term solution.
4. Agree to neither.

To help with that decision let us compare the two tax packages against different yardsticks.

### **The impact on islanders on modest incomes**

The mitigation offered in respect of increasing Guernsey's rate of Income Tax is simply an additional £400 in personal allowances (beyond the level suggested in the absence of the increase in the tax rate). This reduces the impact of the tax hike by £80 per taxpayer, or £160 for a two-earner family.

The net impact is to leave typical Guernsey families on moderate incomes more than a £670 worse off each year. Even within the lowest income quartile we are told that fully 20% of islanders will find themselves worse off.

By contrast the previous package contained far more significant mitigations, including a 15% tax band, reforms to Guernsey's social security contribution system, and enhanced States Pensions, amongst several other measures.

While this report is the work of the proposer and seconder of the amendment, attached as an appendix is a document containing objective and independent analysis of the impact of the two approaches on household finances compiled by the States Treasury. This includes a bar chart showing the respective impacts on households at different income points. It is very clear that the previous package was hugely preferable in respect to shielding those on modest incomes. The difference is so striking that it is hard to conceive how anybody could prefer the pure Income Tax route for raising additional revenues given its significant impact on low to middle income households.

## **The amount of additional revenues to be raised**

Guernsey's public finances face a very large shortfall, mainly driven by changing demographics, which in turn drive the costs of services and pensions. What is needed is a significant step towards fixing that problem, at least in the medium term, and not a sticking plaster.

The budget proposals, despite hitting middle Guernsey hard, and threatening our competitiveness, would raise just £28 million a year in additional revenues (£27m after factoring in the impact on income support). This is far short of what is required. Indeed, it would still leave a predicted structural deficit of some £38 million in 2025. It also does not incorporate the revenue to be raised by the agreed phased increase in social security contributions over a ten-year period which is expected to raise a further £27m at today's prices, but this will not be completed until 2031.

So, in 2026 the States would need to continue with the elevated rate of income tax and very likely hike it even further. Even if they decided at that point that they would move instead to a broader based tax system, perhaps involving a consumption tax, that would likely take a minimum of 2 years to introduce.

So, in reality the budget proposals would lead to at least 4 years of higher Income Tax rates. During this period Guernsey would be rendered "optically uncompetitive" against its main competitor of Jersey. This could lead to significant damage to our economy.

The previously rejected tax package was predicted to raise similar amount of revenue as the combined increases in income tax and social security contributions, after accounting for the respective administration and benefit costs, by 2027, but in a more sustainable and more progressive way. This may not prove to be enough in the long-term but it would stabilise Guernsey's public finances in the medium term, allow urgent public services to be maintained, and crucially fund critical capital investment. The latter not just in respect of the island's social infrastructure such as schools and hospitals but also in respect of capital investments designed to promote growth. Not least proper investment, alongside the private sector, in residential development.

While it is true that the extra revenues from a GST would take slightly longer to come through it would be a proper solution, and the sooner it is approved the sooner those revenues could be realised. Voting now for Option 1A should allow it to be implemented at the start of 2027, while waiting until the planned review in September 2026 would put back this date until 2029. Surely meaning that it would be impossible to reduce Income Tax again after two years as rather fancifully suggested.

## **The split between the extra revenue raised from individual islanders and the corporate sector.**

Ever since the zero-ten tax regime was introduced Guernsey has been unusual in the high percentage of its tax yield which comes from individuals as opposed to the corporate sector. This remains the case today despite some adjustments in the following years, such as higher GST on commercial buildings, and broadening the 10% element of zero-ten.

The proposed increase in the rate of personal income tax to 22% will simply exaggerate this skewed position with an even higher proportion of government revenues being raised from individuals. Effectively it heaps nearly all of the burden of meeting rising costs on individual islanders. The sole exception being the relentlessly increasing employers' contributions to social security under the previously approved 10-year plan, which would be retained.

By contrast one of the misunderstood elements of the tax package promoted by the previous P+R committee is that it would have raised a great deal of revenues from the corporate sector, thus allowing the load to be very considerably lessened on individual islanders. The estimated additional revenue to be raised from the corporate sector would be £23m against the 2024 position (£53m if pillar 2 revenues are included), compared to just £11m (£41 with pillar 2) if the position of relying on income tax and the phased increases in social security contributions is continued.

Of course, the previously proposed tax package would also have raised revenues from visitors, and those resident in the island for short periods but without becoming liable to local income taxation. The budget proposals do neither.

### **Breadth of the tax system and the impact on the “wealthy with low incomes”.**

Guernsey has a very narrow tax based with roughly two thirds of government revenues coming from taxes and charges on individual incomes. The budget proposal only seeks to exacerbate this situation. This will make our revenue base even more fragile.

By contrast the previous package, including a general consumption tax, would have significantly broadened our tax base. Some people opined that “the same people would be paying but just in a different way”. In reality that is not so.

Not only would a lot of the extra revenue have been drawn from the corporate sector but the “wealthy with low incomes” would also have been paying their fair share.

One drawback of a tax system based purely on taxing income is that it allows wealthy people to arrange their affairs in such a way that their declarable income is quite low and instead they live by simply drawing down on savings and other assets.

There is no criticism intended on anybody for legally arranging their tax affairs in this way, but the fact remains that they enjoy what our community has to offer while paying relatively little towards those costs.

A consumption tax cannot be avoided in this way and therefore would ensure that this cohort made a more significant contribution.

### **Competitiveness**

It may well be said that, even after a 2% increase in our rate of Income Tax, Guernsey will still, taken in the round, tax its population less heavily than Jersey does. That may be true. But to the outside world the headline is that Income Tax is 20% in Jersey and 22% in Guernsey. [Indeed, even in the UK basic rate taxpayers will be paying at a lower rate than in

Guernsey]. They will not get past that point to examine the fine detail of our respective indirect taxes.

Guernsey will appear uncompetitive and “perception will be reality”. Therefore, the proposals in the budget are recklessly dangerous to our economy.

By contrast the main revenue raising measure in the previous tax package was a consumption tax set as low or lower than all of our main competitors. Therefore, the issue of competitiveness did not arise.

### **Unforeseen consequences**

The previous tax package was presented at length to our community and therefore all of its worse aspects were well known – and often exaggerated. By contrast these, equally radical, budget proposals have been drawn out of a fiscal hat with just weeks to be considered before being voted on.

Indeed, it is ironic that the current president of the Policy & Resources Committee criticised the way the previously proposals had been sold insisting that there should have been far more public presentations “just as happened over zero-ten” only to now offer such truncated consideration of his own committee’s radical tax reforms.

Obviously the shorter the period of consideration the more likely that unforeseen consequences will arise. For instance, it has been pointed out that by selling the tax increase as a temporary measure the States will perversely incentivise the owners of companies to defer taking profits out of those companies, and therefore paying Income Tax on those dividends. That is just one example. There are likely to be many more.

### **Conclusion**

For all of the reasons given above we suggest that if the States is now mindful to take a big step to address Guernsey’s structural deficit that the previous “GST package” is clearly preferable to increasing Income Tax as set out in the budget proposals.

It is fairer, is more competitive, raises more money, sustains over a longer term, is better thought through, and it broadens our tax base away from simply taking incomes alone.

The budget report states “For too long the States have scraped by on short term solutions ..... but at some point, decisive steps are needed to secure our public finances”.

This statement hits to nail on the head. So, it is hard to fathom why the Policy & Resources Committee is putting forward yet another “short term solution”, which they fully admit is not the “decisive step needed to secure our public finances”. This amendment simply allows member the opportunity to choose to show the vision and resolution to do just that.

## **Appendix 1 - Treasury Supporting Analysis**

The analysis included in this short report is intended to compare the household impact of the measures presented in the 2025 Budget with an alternative model drawn from the proposals incorporated within the Tax Review.

This alternative model is the same in structure as that presented in 2023, but the details have been adapted to:

- Accommodate the impact of inflation on various thresholds in the intervening period;
- Accommodate changes in the personal income tax system, such as the changes to the proposed threshold for the withdrawal of the personal income tax allowance (which will be set to £82,500 in the 2025 Budget).

For comparison, the 2025 Budget proposals are also presented including the assumption that:

- The increase in the income tax rate is retained on a permanent basis;
- the ongoing steps to increase the social security contribution rates between 2022 and 2031 are continued as agreed by the States in 2021.

Scenarios are compared on the basis of their estimated eventual revenue output verses the 2024 position. The analysis presents the average impact of proposals relative to what households would be expected to pay in taxes (or receive in benefits) in 2024, and what they might pay once the application of these measures are complete assuming their income and circumstances remained the same. It does not factor in any real change in household income which may arise during the implementation period. It should also be noted that the individual circumstances of any given household can have a significant impact on how changes in the tax based will affect that household. As a result, there will be a range of outcomes captured within the averages presented.

It is not possible to implement a GST or a restructure of contributions with an introduction date of Jan 1, 2025, so the practical timing of measure being implemented in the scenarios compared would be substantially different. For the Tax Review model, it is estimated that implementation could be completed in 2027. For the income tax-based scenario as presented, the income tax proposals could be applied in 2025, but full implementation may not be completed until the end of the phased increase in contributions in 2031.



The two scenarios are compared below:

	Budget 2025 + increase SSC	Adapted Tax Review Proposals
<b>Income taxes</b>		
Personal income tax allowance	£15,000	£15,200 <sup>1</sup>
PITA withdrawal threshold	£82,500	£82,500 <sup>2</sup>
Tax rate 1	22%	15%
Tax rate 2 threshold	N/A	£32,400 <sup>3</sup>
Tax rate 2	N/A	20%
<b>Social Security</b>		
Headline rates	8.0% employee 7.5% employer	8.5% employee 8.0% employer +2.5% above UEL for employers <sup>4</sup>
Basis of assessment	Earned income only for employees and self-employed, all income for non-employed and pensioners	All income for all contributions
SSC allowances and thresholds	£10,674 <sup>5</sup> allowance for non-employed & pensioners only Lower earnings limit: £9,568 Upper earnings limit: £188,640 Lower income limit (non-employed & pensioners only): £23,920	£15,200 available to all individuals <sup>6</sup> Lower earnings limit: N/A Upper earnings limit: £188,640 Lower income limit (non-employed & pensioners only): £23,920
<b>GST</b>		
Headline rate	N/A	5%
Basis of charge	N/A	Broad base, minimal exemptions and zero rating
<b>Other taxes</b>		
	As 2025 budget; incl of Pillar 2 implementation on CIT	As 2025 budget; incl of Pillar 2 implementation on CIT
<b>Revenues raised</b>		
	Income tax = +£24.6 <sup>7</sup> m Social Security = +£26.8m Corporate tax = +£30m  Net benefit cost = -£1.0m <sup>8</sup> Ongoing admin cost = Minimal <b>Net revenue = £80.5m</b>	Income tax = -£35.8m <sup>9</sup> Social Security = +£4.5m GST (household) = +£63.5m GST (business & visitors) = +£18.9m Corporate tax = +£30m  Net benefit cost = -£0.5m Ongoing admin cost = -£1.5m <b>Net revenue = £79.0m</b>
	Households- £40m Businesses- £41m Other- £ -	Households- £ 20m Businesses- £ 53m Other- £ 6m

<sup>1</sup> Represents £600 increases above the level of personal allowance propose if the 2% increase in income tax is not approved.

<sup>2</sup> Aligned with 2025 budget proposals.

<sup>3</sup> Increased in line with inflation between 2022 and 2025.

<sup>4</sup> This was 2% in the original Tax Review presentation but has been aligned with the 2.5% to align with the application in Jersey.

<sup>5</sup> As recommended in the 2025 contributory benefits uprating report

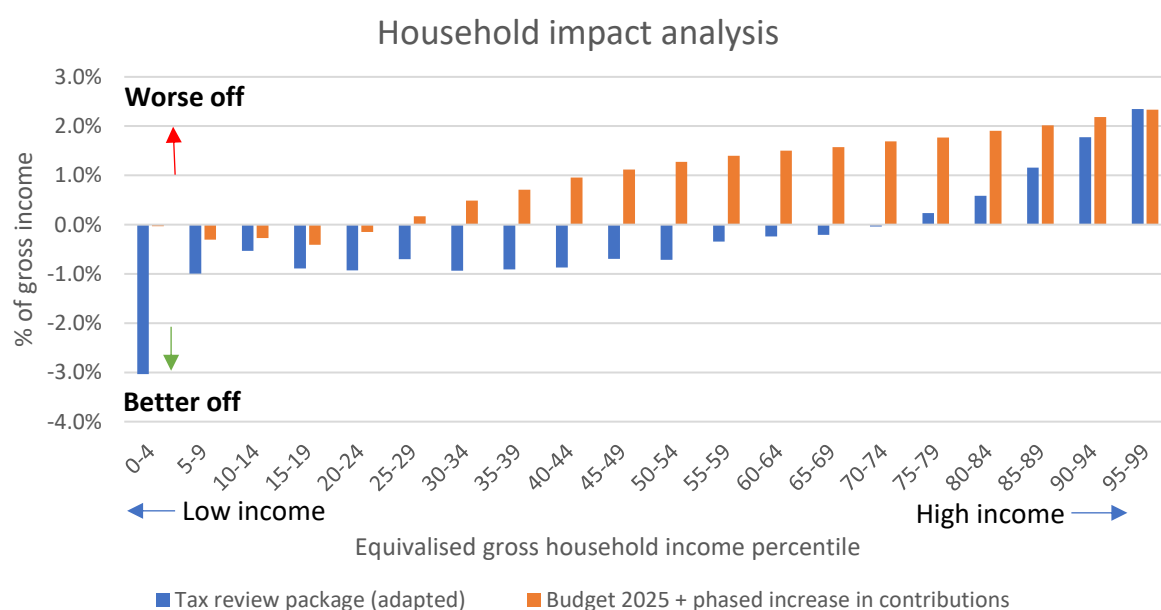
<sup>6</sup> Matched to the tax allowance.

<sup>7</sup> Both packages incorporate £4.3m cost of maintaining the real value of the tax allowance and increasing the tax allowance to £14,600 to match the States' Pension. The net gain from the 2pp increase in the personal income tax rate and the further increase in the tax allowance to £15,000 is approximately £28m.

<sup>8</sup> Incorporates the net cost to income support of compensating reduced net incomes for claimants.

<sup>9</sup> See note 7. Net cost of additional income tax allowances and the 15% rate total an estimated £31.5m

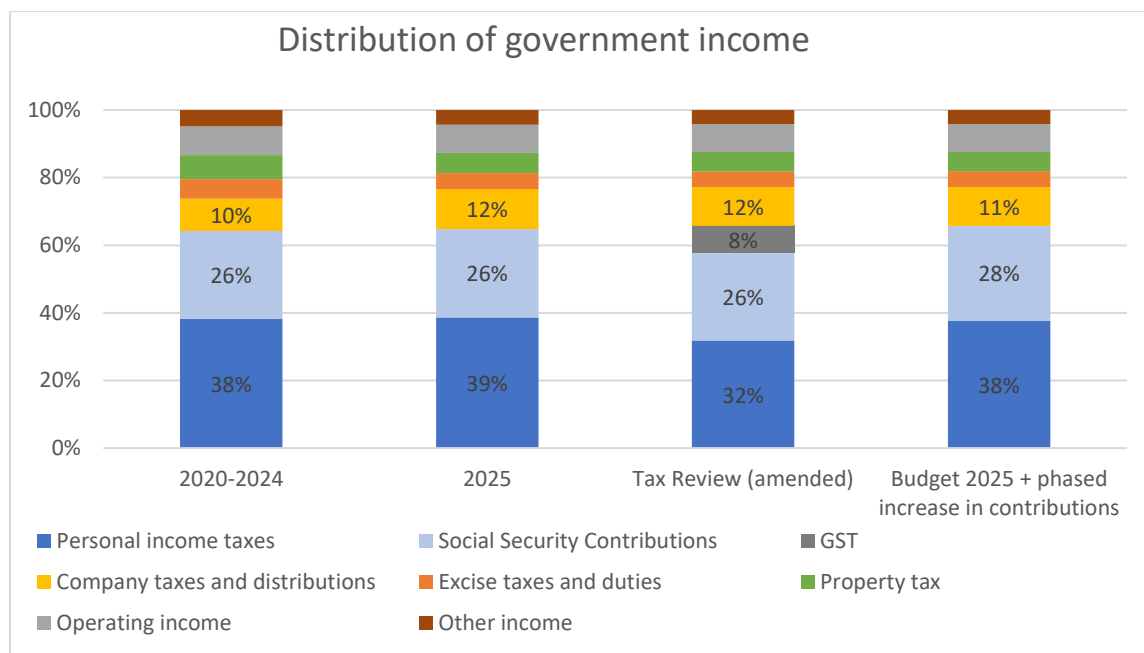
The household impact analysis suggests that the Tax Review package will have less impact on the majority of households than continuing an increase in the primary income tax rate, combined with an increase in social security contributions. This is because, while the two packages collect similar amounts of revenue the Tax Review package collects a greater share (around 75%) of revenues from companies and non-residents. This allows a net improvement in the financial position for the majority of lower- and middle-income households.



By contrast the budget proposals (combined with an increase in social security rates) would collect around half of the additional revenues from households. While the increase in the tax allowance allows for (on average) an improvement in the overall financial position of the majority of households in the lowest income quartile, middle income households would pay more if the proposals presented in the 2025 Budget are sustained indefinitely.

The Tax Review proposals also provide the benefit of diversifying the tax base away from taxes charged on personal income. Between 2020 and 2024, an average of 64% of all States' income was generated from taxes on personal income.

If the core budget proposals are successful, the increase in the primary income tax rates and the increase in the social security rate, will increase this but that will be offset by the increase in corporate tax revenues from the application of Pillar 2. For 2025 this means the percentage of revenues from taxes on income is estimated at 65%. If the interim proposal presented in the budget were to become permanent and the increase in social security contributions were to continue this would increase to 66%. By contrast the application of the Tax Review package would diversify the tax base, reducing the reliance on direct taxes on income to 58%.



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 Billet d'État II, 2023 (Tax Review: Phase 2), available here: [The Tax Review: Phase 2 - States of Guernsey \(gov.gg\)](https://gov.gg/The-Tax-Review-Phase-2).

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).