P.2024/91 Amdt 22

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 L S Trott
Seconded by: Deputy H J R Soulsby

To delete Proposition 1 and replace with the following Propositions:

"1A. To agree that the finances of the States are in a precarious position requiring immediate action and therefore:-

a) To set the individual standard rate in the Fifth Schedule to the Income Tax (Guernsey) Law, 1975 at 22% for Years of Charge 2025 and 2026, then at 20% for Years of Charge 2027 and onwards, making consequential amendments to other areas of the Law as set out in section 5.30-5.32;

and;

b) To endorse that the Policy & Resources Committee should use its delegated authority over the Budget Reserve to authorise expenditure of up to £1.1m during 2025 and 2026 and to prioritise expenditure of up to £1.7m from Routine Capital allocations to develop systems, processes and legislation for the introduction of a Goods and Services Tax, reform of the social security contributions system, and differential rates of income tax in time for the introduction of such a package in 2027;

and;

c) To direct the Policy & Resources Committee, as part of the work to prepare for the introduction of a Goods and Services Tax, to thoroughly explore the advantages, disadvantages and impact of applying the tax to or zero-rating food;

and;

d) To direct the Policy & Resources Committee to report back to the States with firm proposals for addressing the structural deficit by April 2026, in sufficient time for implementation of a revised structure in January 2027 and rescind Resolution 3 of Billet d'Etat No XVII dated 2nd October 2023.

AND ONLY IF PROPOSITION 1A HAS NOT BEEN APPROVED:-

1B. To direct the Policy & Resources Committee, working with the Committee *for* Employment & Social Security, to finalise proposals and submit legislation to the States of Deliberation to implement an integrated package of revenue raising 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."

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, consultation has been undertaken with Members of the States

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

d) The financial implications of this amendment would be that up to £2.8m is utilised from the Budget Reserve and Routine Capital allocations during 2025 and 2026 to prepare for the changes to the tax system to be agreed in April 2026.

Explanatory note

The Policy & Resources Committee recognises that there is a serious shortfall in public finances that requires urgent rectification and is proposing that there is a 2% increase in income tax for the period 1 January 2025 – 31 December 2026.

The Committee has spent considerable time engaging with Members of the States, including those who have placed amendments to the 2025 Budget, and understands the concern that this higher rate of income tax may need to persist beyond 2026, should a long term solution not be found which can be implemented in 2027. Therefore, this amendment seeks to combine the short term requirement to address the immediate financial position of the States with an agreement to plan for a long term solution for implementation in January 2027.

This amendment offers two options to the States – 1A is a package which secures a temporary increase in the personal rate of income tax for the next two years, while work is carried out to enable wider tax reforms to be introduced in 2027 – should the next States agree. 1B can only be considered if 1A is rejected and plans for a long term solution only.