



Policy & Resources Committee

Response to a Question Pursuant to Rule 14 of the Rules of Procedure of the States of Deliberation and their Committees

Subject: Pillar Two

States' Member: Deputy Rob Curgenven

Date received 8th October 2026

Date of reply: 21st October 2026

1. Basis of the revised forecast

What specific new evidence has led the Policy & Resources Committee to increase its estimate of Pillar Two revenues from previous projections to approximately £250 million over the tax years 2025-2027? In particular, does the estimate use the registrations for Pillar 2 that companies were required to make by 28 February 2026?

Answer:

This question has largely been answered by the Statement given by Deputy Parkinson on 30th September 2026, available [10\(3\) Statement - Pillar Two | Guernsey Parliament](#).

As part of the normal annual budget work, there has been a review of the revenue forecasts. This led to revisiting the assumption on Pillar 2 revenues, which were, until now, prepared on a deliberately cautious basis, given the absence of any real-world evidence as to how this new tax arrangement would behave in practice. Estimates to date have also focused on potential long-term revenues (once companies have adjusted to the new tax landscape), rather than short term, in-year receipts, noting that the speed at which entities might change their international business models is also a key source of uncertainty.

This review considered data such as the level of Pillar 2 registrations, noting that companies are generally required to register in respect of Pillar 2 within 12 months from the start of the first fiscal year commencing on or after 1 January 2025 of the multinational group of which the company is a member, or within 6 months of becoming in scope. Therefore, it is a rolling deadline rather than a fixed date. It also considered the level of cessation forms that had been received, together with any specific information received in conversations with groups in scope. Note that companies may also choose to reallocate activity within their global network, and this may not be reflected in the number of registrations or cessations submitted.

Information about Jersey's experience, given their receipt of first payments on account in respect of 2025, gave us, for the first time, real-world evidence of the short-term implications of

Pillar 2. It shows that the business behavioural change anticipated, as businesses adapt their international structures in response to Pillar 2, had not materialised to the extent Treasury assumed, at least in this first year of its application in Jersey.

2. Reliability of the estimate

Given that the first Guernsey Pillar Two returns relating to 2025 are not expected to be filed until 2027, and that the Committee has stated the revised figures remain indicative and require further validation, what level of confidence does the Committee place on the revised forecast, and what sensitivity analysis has been undertaken around the headline estimate?

Answer:

These remain high-level, indicative figures. They are built on a range of assumptions about business behaviour, about the pace of adaptation to this new framework and about how long elevated receipts will persist.

As explained in the 2027 Budget report, the revised estimate for 2027 Pillar 2 Revenues is £79m, which incorporates a smaller 15% reduction for behavioural change, to reflect the continuing uncertainty surrounding receipts. The additional Pillar 2 receipts are expected to decline over time as business models adapt to the new framework.

3. Behavioural and relocation risks

The expectation is that receipts from Pillar 2 will reduce as companies restructure or relocate (noting that the US has gained an exemption from Pillar 2 from 2026 under the Side-by-Side Safe Harbour exemption). What allowance will be made for this; what assumptions have been made regarding restructuring, relocation, or other behavioural responses by affected businesses; and what impact would different levels of business migration have on projected revenues?

Answer:

As set out in the statement given by Deputy Parkinson on 30th September, the revised baseline estimate for Pillar 2 receipts is £93m; however, we have applied a discount rate of 5% for 2025, 10% for 2026 and 15% for 2027 to account for uncertainty. As with any forecast, that uncertainty increases the further out that the forecast goes. Beyond 2027, the risk of businesses adapting their models to mitigate Pillar 2 increases, and our assumptions for ongoing receipts reflect that increased uncertainty.

4. Jersey comparison

To what extent does the revised Guernsey forecast rely on Pillar Two receipts reported in Jersey, and what adjustments have been made to reflect the significant differences between the composition of Jersey's and Guernsey's economies and tax bases?

Answer:

The Guernsey forecast does not rely on Pillar 2 receipts reported in Jersey: all data included in the forecasting is drawn directly from Guernsey sources.

Information about Jersey's experience, given their receipt of first payments on account in respect of 2025, did provide, for the first time, real-world evidence of the short-term implications of Pillar 2, prompting a review of the short-term assumptions of behavioural change. It shows that the business behavioural change anticipated, as businesses adapt their international structures in response to Pillar 2, had not materialised to the extent Treasury assumed, at least in this first year of its application in Jersey.

Both jurisdictions anticipate that the impact of behavioural change will increase over time, but the risk is focussed in different areas of the financial services sector in the two islands. For example, the exposure of the two jurisdictions to the US Side-by-Side Safe Harbour and the incorporation of international insurance within the Pillar 2 rules is substantially different.

5. Assumptions

Does the Committee intend to publish the underlying assumptions, methodology and sensitivity ranges used to derive the revised Pillar Two forecast so that States Members can properly assess the risks associated with relying upon these revenues when considering long-term tax reform?

Answer:

A presentation to States Members which outlined the methodology was given on 31 October 2025 ahead of the 2026 Budget debate. This explained:

- That the population of in-scope entities are identified from Country-by-Country Reports (CBCR) submitted by the Ultimate Parent Entity (UPE) jurisdiction of the Multinational Enterprises (MNEs), which are then cross checked to CBCR notifications by Constituent Entities (CEs) in their company tax return.
- Data was then extracted directly from each CE's submitted company tax returns (including the financial statements) for a range of years to ascertain their revenue, income, tax liability, sector, number of employees, parent entity/UPE jurisdiction, etc.
- Assumptions were then made about key adjustments that would be made in the relevant Pillar 2 calculations, such as stripping out intercompany dividends that needed to be adjusted for, adjusting for exceptional/uncertain/one off items of income. If discussions with MNEs had indicated expected Pillar 2 revenues, then these income estimates were used instead.
- Within the Pillar 2 rules, it is possible for MNEs to claim a Substance Based Income Exclusion, which allows a further deduction from income for a proportion of payroll costs and tangible assets. An estimate of what may be claimed has been adjusted for based on payroll costs reported via CBCR.

- Within the Pillar 2 rules, there is also a de-minimis exclusion where the average revenue of an MNE in a jurisdiction is less than Euro 10m and the average income is less than Euro 1m (as calculated in accordance with the model rules). An adjustment was made for cases where an MNE group would consistently fall below the de-minimis.
- The jurisdictional top-up-tax was then calculated and adjusted for behavioural change, on a conservative basis aligned with the elasticities adopted by EY in their 2022 report considering the impact of different corporate tax change (see Appendix 3 of the 2022 Tax Review Phase 2 policy letter - [The Tax Review: Phase 2 | Guernsey Parliament](#)). The reduction was determined by considering the percentage change in pre-tax profits (-2.339) in response to one percentage point change in the effective tax rate in respect of the finance sector. This would suggest a range of -11.695 to -35.085% change from a 5-15% increase in the tax rate. As set out in the statement given by Deputy Parkinson on 30th September, a less conservative discount rate has been applied for 2025 (5%), 2026 (10%) and 2027 (15%).

The auditors (Grant Thornton) reviewed the calculation methodology for Pillar 2 income as part of the audit of the 2025 accounts. The outcome of this review being that Grant Thornton agree that the methodology is reasonable. Any changes to assumptions will be reviewed as part of the audit of the 2026 accounts.