2024-49

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: The Revenue Service

States' Member: Deputy Mark Helyar

Date received: 12th November 2024

Date acknowledged: 12th November 2024

Date of reply: 27th November 2024

Question 1

Please provide details of the number and percentage (by tax year cohort) of tax returns between YOC and 2017 and present which currently remain unprocessed.

Response

Regular updates on the backlog of tax returns (including steps being taken to reduce the backlog) are published at Tax Return Backlog Statistics - States of Guernsey.

The following table provides details by number and percentage of tax returns received by Year of Charge that are either awaiting processing or have ongoing enquiries which mean a final assessment has not yet been issued (as at 17th November 2024):

Year of Charge	Personal #	Personal %	Company #	Company %
2017	0	0%	0	0%
2018	184	<1%	61	1%
2019	1,556	5%	754	5%
2020	3,713	11%	896	5%
2021	8,112	24%	1,827	10%
2022	15,477	47%	4,317	23%
2023[1]	7,228	57%	3,509	80%

The table below has been provided to enable a comparison to the position last year, it reflects the return status at 12th November 2023. Comparable 2017 and 2018 data is not readily available and no 2023 data is included in the table as that return was only made available in 2024. It should be noted that the 2022 data does not include all 2022 returns as the filing deadline for that year was not until the end of February 2024. Only 5,209 company

[1] The filing deadline for the 2023 returns is 31 January 2025.

returns had been received out of an expected 20,000 approximately and 11,497 personal returns out of an expected 35,000 approximately. Close to 19,000 (60%) of 2022 personal returns were received in Jan/Feb 23.

Year of Charge	Personal #	Personal %	Company #	Company %
2017	*Not available*	*Not available*	*Not available*	*Not available*
2018	*Not available*	*Not available*	*Not available*	*Not available*
2019	2,807	9%	953	6%
2020	8,673	26%	1,186	7%
2021	14,465	44%	2,888	16%
2022[2]	7,099	62%	3,428	66%
2023 - Return not yet issued	N/A	N/A	N/A	N/A

Revenue Service officers have been focussing on assessing earlier tax returns (and when doing so will also assess the later returns that have subsequently been submitted in order to bring the case up to date), whilst they have simultaneously been testing and familiarising themselves with new computer systems which are being introduced in a measured, reasonable manner to replace legacy systems that are over 30 years old.

This includes the risk and processing engine that enables Personal Tax Returns to be triaged and assessed automatically without the need of human intervention. This has significantly increased the speed at which customers who file online receive their final assessments and continues to be something the service seeks to improve and develop.

Recognising that not all customers will be able to file online, the paper Personal Tax Return has also now been designed to exactly mirror the order of questions in the online return. As the manual input of paper returns is a significant factor in the time taken to process paper returns, this change will enable 2023 paper returns to be scanned rather than keyed in by a member of staff.

Question 2

Please provide details of what number and proportion of taxpayers pay their income tax through the ETI scheme and what this number bears in proportion to the total number of tax payers on average over the past 10 years.

Response

These go to the heart of some of the common misconceptions regarding the existing and longstanding administration of the Guernsey Income Tax Law.

[2] Filing deadline for the 2022 returns was 29th February 2024

To put this into context it is necessary to explain that the majority of individuals in Guernsey pay income tax through deductions from their employment income, however, where the Revenue Service are of the belief that an individual has income from non-employment sources, that cannot be included in their coding notices (reducing their personal allowances, so that additional tax to cover this income is deducted from their employment income), then an interim (estimated) assessment is issued to the individual, therefore, ensuring tax is collected in a timely manner in respect of that source of income.

Such interim (estimated) assessments are routinely issued by the Revenue Service and, whilst the estimated income will be included on a justifiable, reasonable, basis, they are calculated to ensure the States revenues are protected. Therefore, owing to the legislative provisions, coupled with the administrative practice, the framework is designed to limit the circumstances where either a customer's failure to submit the relevant income tax return or a delay by the Revenue Service to issue a Final (actual) assessment will negatively impact the States revenues.

Turning to the specific questions raised, Income Tax is calculated (assessed) on a current year basis. This means that throughout the year, tax is paid on the income people earn and/or an estimate of their income from non-employment sources. When a final assessment is issued, then any under or overpayment is calculated and either payable or repaid. If an individual is:

- Employed – current year tax is collected by their employer through the ETI scheme each time they are paid, then remitted to the Revenue Service together with the employer returns on a monthly/quarterly basis depending on the size of the employer.
- Self- or Non-Employed – current year tax is collected through an interim assessment (payable in 4 equal instalments) which estimates that individual's income and allowances for the current year (and the individual has the ability to provide the Revenue Service with a more accurate estimate).
- A shareholder of a Guernsey company – any tax due on distributions is collected by the company from that dividend when it is paid, then remitted to the Revenue Service together with a distribution return on a quarterly basis.

Over 43,700 individuals pay their income tax through the ETI scheme. This represents 79% of the total population (over the age of 15) on average over the last 10 years (the average population of over 15 years olds is 55,000).

A further 7,000 individuals pay their income tax through an interim assessment. This represents 13% of the total population (over the age of 15) on average over the last 10 years (the average population of over 15 years olds is 55,000).

Therefore, 92% of the population (over the age of 15) pay their current year tax on a quarterly basis. In addition, approximately 2,000 individuals, 4% of the population (over the age of 15) are not liable to tax as their income is below the personal allowance.

Approx £15m is collected each year by Guernsey companies from dividends paid to shareholders.

<u>Question 3</u>

Is there any way of estimating unpaid and outstanding tax on returns which have not yet been processed?

Response

It is not possible to estimate underpaid or overpaid tax on returns which have not yet been processed. Interim assessments are, however, revised if processing returns for earlier years identify that updates are required. The underlying principle being that the Interim assessments will protect the States revenues, whilst the customer continues to have the ability to provide the Revenue Service with a more accurate estimate of the relevant income, so that the tax to be collected in year will, likewise, be more reflective of the final position once the Final assessment is issued. While there will be some individuals who have underpaid for various reasons, there will be others who have overpaid.

<u>Question 4</u>

What is the current estimate of tax unpaid on returns which have not been processed?

Response

See answer above.

<u>Question 5</u>

How accurate are estimates of tax due (i.e. the differences between estimated codings and the tax which is subsequently assessed and paid). What is the historical difference in the estimated and real numbers over the past decade?

Response

A coding notice provides an employer or pension provider with that individual's tax-free allowance, shown as a weekly and monthly value that they are then required to deduct from their employee's/pensioner's gross pay, before then calculating tax on that net figure at 20%. Coding notices are not estimates of tax due.

Generally, around 95% of income tax collections are in respect of the current year, collected through ETI, interim assessments and tax on distributions.

The following table provides a breakdown of personal income tax collections in 2024 to date, split by the Year of Charge they relate to:

Year of Charge	2024 (so Current Year)	2023	2022	2021	2020	2019 and prior years
%	93	4	1.3	0.9	0.4	0.4

It is important to note that some of the debt relating to prior years will have been collected as a result of agreements entered into between the customer and the Revenue Service Debt Management Team, in cases where the customer has been unable to pay the full amount by the due date.

Furthermore, some of the tax collected for prior years will have been as a result of additional assessments issued by the Revenue Service following compliance activities where it has been discovered customers have sought to evade income tax.

Question 6

Do the States accounts include estimates of unprocessed returns and therefore unpaid tax amounts? If so what is this figure, on average, per year since 2017?

Response

As set out in the notes to the States accounts, income tax is normally treated as revenue income when a taxable event has occurred. However, some elements of that revenue income can only be confirmed in subsequent years and therefore consideration is given to future cash flows that may arise from assessments relating to the reporting period (and earlier), as well as levels of recoverability.

The total income tax reported in the Statement of Financial Performance is net of any repayment of tax receipts, reduction in tax assessments or balances written off for previous years. There are no estimates of underpaid or overpaid tax on returns which have not been processed (as per response to question 3). The accounting policies of the States are in accordance with the International Public Sector Accounting Standards (IPSAS).

Question 7

Is the revenue service catching up with unprocessed returns, and if so, please demonstrate how processed numbers are improving in each year (by numbers processed rather than relevant YOC) since 2020 to date.

Response

Yes, the Revenue Service is catching up with unprocessed returns.

The Revenue Service continues to focus efforts on processing the backlog of tax returns. This work is balanced against other key priorities such as the Moneyval and OECD evaluations, ensuring Guernsey continues to meet international standards on tax transparency (including the exchange of information for tax purposes), the evolving landscape in respect of the OECD Base Erosion and Profit Shifting initiative (which now includes Pillar 2) and the introduction of secondary pensions.

As detailed above, the Revenue Service has implemented a number of changes to help reduce the backlog, including encouraging more people to file online, holding drop-in sessions, and amending the paper tax form so that it can be processed more efficiently.

The following table provides details of numbers of final assessments issued in the calendar years 2020 to date:

Calendar Year	Personal	Company
2020	32,525	1,885
2021	26,226	5,518
2022	33,830	16,487
2023	41,644	9,463
2024 to date	43,259	6,431

The tables included in question 1 also illustrate how the number of past returns without final assessment issued has been reduced.

Question 8

Given the difficult cash position expressed by the Vice President during the budget debate (which appeared to confuse the difference between debtors and cashflow), will the Policy & Resources Committee (P&R) press for more challenging reporting deadlines for the revenue service in tax processing and collection, and a performance target that all returns should be processed within one year of the closure of the relevant tax year?

Response

The Vice President advised the States of the difference between revenue income and cash. She reminded the States that, whilst we may accrue for income such as Pillar 2, this would do nothing to replenish the reserves that would be reduced if the income tax proposition was not accepted.

It is important to note that the backlog has been around for many years and was exacerbated by the changes to normal working life caused by the COVID-19 pandemic. The Revenue Service continues to focus efforts on processing the backlog of tax returns (prioritising the oldest returns). Progress is monitored by senior officers and the Committee and statistics are published regularly at Tax Return Backlog Statistics - States of Guernsey.

Service improvements (including improvements to paper returns and the automatic assessment process), additional resources (such as those agreed in the 2025 Budget), and the shortening of the filing deadline to 30th November, will help the service to address the backlog more quickly. Once the Revenue Service's new IT systems are embedded, consideration will be given to revised assessment targets. As stated above, most tax collection takes place in the year of charge.

Even when the backlog has been much reduced, however, a performance target requiring 100% of financial assessments to be issued within a year of the closure of the relevant tax year is unlikely to be appropriate. The Revenue Service processes a number of different types of return which are processed at different rates, some returns are more complex and take longer than others and not all returns are submitted on time.

<u>**Question 9**</u>

Given the apparently chronic failure and inability to manage the tax system, is P&R willing to recommend changes in management and personnel and/or outsourcing options to the Head of the Public Service if the revenue service continues to underperform.

Response

The Policy & Resources Committee rejects the suggestion that there has been chronic failure.

The Revenue Service is staffed with dedicated and capable professionals committed to service improvement. Whilst Members acknowledge the justifiable frustration of customers affected by delays in their income tax assessments, the Committee believes that addressing the long-standing backlog requires the support and strengthening of service resources, not drastic and reactive changes in personnel.

The Committee does not consider that an accurate assessment of the Revenue Service's current position warrants a suggestion for management change or for outsourcing the service. Despite the ongoing resource pressures (having suffered vacancies for some time and facing recruitment difficulties – exacerbated by the criticism of the service), the requirement to run dual IT systems, and the need to support States' priorities this term (such as tax reform considerations and Moneyval), the service has increased the number of final assessments issued, enhanced its organisational structure to ensure focused support is available for operational and policy priorities, and continues to make improvements to its IT platform, digital offering, and customer engagement.

Whilst improvements in the service will not remove the backlog overnight, the service is now in a better position. The Committee expects to see the backlog reducing further over time.

<u>**Question 10**</u>

Members of P&R spoke extensively of the need for "consensus" during the budget debate, yet its president and vice-president, knowing its own recommendations had gained the support of only 5 other members, both failed to vote for the now settled position of the States. The vice-president has since been quoted in the media and social media questioning the existing proposals for GST plus in a manner which indicates a significant

and continuing lack of support for the only credible and sustainable tax solution presented to the States. Can the public have the confidence that the current P&R treasury team is fully and diligently committed to implementing GST plus?

Response

The long-term challenges facing Guernsey's public finances are well documented and have been recognised by all Committee members. Alongside the work to process tax returns management has also needed to undertake major and essential pieces of work such as for Moneyval, Pillar 2 and other international tax work. It has become obvious that resources have been thinly stretched and, as such the Committee proposed in the budget, and the States approved, additional resources for Revenue Services to enable a division of responsibilities between the international tax requirements and operational functions it provides.

The Committee fully respects the decisions of the States Assembly and work is already underway to finalise proposals and to allow for a package of revenue raising measures (in line with those described in sections 6-10 of Article V of Billet d'État II, 2023 (Tax Review: Phase 2)) to be operative from the start of 2027. In regard to the officer team in Treasury, it is the same team that put together the original proposals for GST plus.

It should be noted, however, that the work on the package of proposals including a GST was carried out in 2022 and was not fully refreshed ahead of the 2025 Budget debate (as it was not a Budget proposal). More detailed work needs to be undertaken to plan for the implementation, including refreshing all monetary thresholds.

Question 11

If the answer to (10) is yes, will the President and Vice-President now therefore publicly commit to fully supporting and implementing the will of the States?

Response

As stated, the President and Vice-President, along with the other Members of the Policy & Resources Committee, fully respect the democratic process and the decisions of the States Assembly and are committed to following the direction of the States in line with the Committee's mandate.

Question 12

There is media speculation that the "consensus" approach from P&R was contingent on P&R members agreeing to vote unanimously for 1B if 1A (which ultimately received fewer votes than territorial tax proposals). Deputy Roffey clearly asked for commitments from P&R members confirming this commitment during debate which were not forthcoming. Was the "consensus" amendment contingent on a commitment towards mutual support for 1A or 1B and if so why did the two senior members of P&R then vote against 1B when GST plus remains the only credible tax solution repeatedly presented to the States?

Response

No. The Committee does not comment on media speculation.

<u>Question 13</u>

Please indicate in responding whether the responses to these questions are unanimously and fully approved by P&R members.

Response

The Committee unanimously and fully approved the responses to questions 1-12.

Deputy Trott, in particular, would like to make the point that, as we currently get more tax from personal income than any other source, GST was clearly not the only credible tax solution.

Deputy Lyndon Trott
President