TREASURY & RESOURCES DEPARTMENT

INCOME TAX: INVESTIGATION OF TAX RELIEF FOR INTEREST PAID

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

5th January 2016

Dear Sir

1. **Executive Summary**

1.1. At the meeting on 29th October, 2015 (Resolution 5A of Billet d'État XIX, 2015), the States resolved to direct the Treasury and Resources Department to investigate the removal of, or introduction of a cap on the amount of, tax relief on interest payments for let properties in section 2 of the Income Tax (Tax Relief on Interest Payments) (Guernsey) Ordinance, 2007 ("the 2007 Ordinance") and to report back to the States no later than the end of October 2016.

1.2. This would impose a cap on, or remove, the tax relief available on the amount of interest paid by a person in respect of let property, in Guernsey and elsewhere. At present, interest paid relating to a let property can be deducted from the rental income received in order to calculate the amount to be charged to tax (income from the rental of Guernsey property is taxable at 20%, irrespective of whether the person letting the property is resident or non-resident, or is an individual or a company). The introduction of a cap, or withdrawal of relief, would therefore impact an individual who lets just one property, individuals who own property portfolios and companies that invest in residential or commercial properties.

1.3. This is not the first time within this States' term that this issue has arisen and created uncertainty in the property sector, potentially damaging Guernsey's competitive position. A similar amendment (Resolution 13A of Billet d'État XXI, 2013) led to the Department receiving representations from various organisations. At that time, the Department reviewed the impact of resolution 13A and recommended that it was negated before it entered into effect, which the States resolved on 28th May 2014 (Billet d'État X, 2014).

1.4. **The Department has concluded that a cap or removal of relief could have the following consequences:**

- **Increased rents for private tenants;**

- **Further damage to confidence and transactions volumes in the property market, following a lengthy period of fragility, with the adverse knock-on impact to the construction and building trades and tradesmen;**
- **Reduced investment in the property sector, by reducing net returns, making Guernsey an uncompetitive and unattractive jurisdiction for future investment, particularly when compared to Jersey.**

1.5. The Department's position from 2014 therefore remains unchanged. The Department still believes that a cap or removal of relief would discourage investors from buying, developing and renting property in Guernsey, particularly for individuals and companies with a property portfolio where borrowing and income levels could be significant, therefore the Department is not recommending that they are introduced. It is anticipated that any such restriction would have a particularly adverse impact on the commercial property market, decreasing investment yields as a consequence of the additional tax that would be payable and making investment non-viable.

1.6. The Commerce and Employment Department, the Housing Department, the Guernsey Society of Chartered and Certified Accountants, the Guernsey International Business Association, the Guernsey Business Advisory Committee, the Guernsey Private Residential Landlords' Association, the Guernsey Property Forum, the Construction Industry Forum and the Chamber of Commerce were consulted during the Department's investigation of these proposals. Their responses, confirming full support of the recommendation, are appended to this report.

2. Investigation of a Cap or Removal of Interest Relief in respect of Let Property

2.1. At the meeting on 29th October 2015, the States resolved to direct the Treasury and Resources Department to investigate the removal of, or introduction of a cap on the amount of, tax relief on interest payments for let properties in section 2 of the 2007 Ordinance.

2.2. Income from the letting of Guernsey property is taxable at 20%, irrespective of whether the person letting the property is resident or non-resident, or is an individual or a company. Currently, interest paid relating to a let property can be deducted from rental income received in order to calculate the amount to be charged to tax (a similar concept to allowing a deduction for interest paid on capital borrowed for the purposes of a business, in order to calculate the taxable business profits). Following representations from various industry representative groups back in 2013, and again more recently in 2015, the Department is mindful of the potential adverse impact such a cap on, or even removal of, tax relief may have, if it is introduced to interest paid in respect of let property, on the property market, particularly as the changes would be introduced in respect of property held within Guernsey and elsewhere.

2.3. The Department has undertaken further consultation with the Guernsey Society of Chartered and Certified Accountants, Guernsey International Business Association, Chamber of Commerce, Guernsey Business Advisory Committee, Guernsey Private Residential Landlords' Association, Construction Industry Forum and Guernsey Property Forum to ensure the implications to the let property market were considered. This investigation included the impact on the local housing market, the local commercial property market and the attractiveness of Guernsey as a location for structuring the holding of property investments.

2.4. The main concerns identified through the investigation are as follows:

- The investigation of the removal of, or introduction of a cap on, tax relief for interest payments sends out a negative message, wrongly indicating that Guernsey is not open for business, and would be detrimental to the initiatives being undertaken to encourage new business and opportunities to Guernsey.

- In order for Guernsey to remain in a healthy financial position, to the benefit of all islanders, it is imperative that the Department does all that it can to support initiatives, such as Locate Guernsey, to encourage continuing investment into the islands, recognising the ever increasing competitiveness of the global market.

- Any changes would apply to interest paid by individual investors and also companies, borrowing for either residential or commercial properties and therefore may discourage investors from buying, developing and renting property in Guernsey, as it would be considered as tax inefficient compared to investment opportunities available elsewhere.

- Such a change would also discourage property investors looking to relocate to Guernsey who already hold significant overseas rental property investments.

- This would affect those islanders, who are, for example, retired or saving for their retirement, buying a property to provide an income for their future, given saving rates are so low.

- A secondary impact from a reduction in properties changing hands, may see a reduction in trade for those in the building industry.

- Whilst a, say, £25,000 cap could be considered reasonable in the context of an individual borrowing in respect of a residential property, for individuals and companies with a property portfolio, where borrowing levels could be significant, a cap of £25,000, or even complete removal of relief, would affect investment yields, as a consequence of the additional tax that would be payable, and potentially could make commercial investments unviable. It is anticipated that this would have a particularly adverse impact on the commercial property market. This could in turn reduce income tax revenues (directly, from a reduction in the taxable income of persons deciding not to invest in, or not to remain in, rental property, and indirectly, from reduced profits in the supporting sectors, such as profits from property sales, conveyancing, management, maintenance, etc.) and also a reduction in document duty.

- Any change would also apply to overseas let property, and this could lead to adverse tax implications for Guernsey residents, who are either shareholders of companies owning overseas property or own overseas property themselves directly. For shareholders it could increase the undistributed income of the company by not allowing the interest as a deduction for Guernsey tax purposes.

- Both Jersey and the Isle of Man give tax relief for interest payments for let property to both individuals and companies. The proposals in Jersey's 2016 Budget to phase out mortgage interest tax relief, merely reflect the changes approved in Guernsey's recent 2016 Budget, namely to phase out mortgage interest relief in respect of a principal private residence, by reducing the interest cap over a ten year timeframe. Jersey continues to allow tax deductions for loan interest on let property. Whilst currently the UK gives tax relief for interest payments for let property, the UK Chancellor announced in the 2015 summer budget, proposals to restrict relief for finance costs on residential properties owned by individual landlords to the basic rate of income tax (20%). The proposal is intended to be gradually introduced from 6th April 2017 tapered over four years. Concerns have been raised by the property industry in the UK as to the impact this would have on the UK property market.

- This proposal could therefore lower future government revenues and result in a lower contribution to GDP from an already very weak property/construction sector.

2.5 The Department has therefore concluded that a cap or removal of relief could have the following consequences:

- Increased rents for private tenants, either through landlords seeking to maintain current investment yields or in reaction to any change leading people to withdraw properties from the private rental sector;
- Further damage to confidence and transactions volumes in the property market, following a lengthy period of fragility, with the adverse knock-on impact to the construction and building trades and tradesmen;
- Reduced investment in the property sector, by reducing net returns, making Guernsey an uncompetitive and unattractive jurisdiction for future investment, particularly when compared to Jersey.

The Department is therefore not recommending any change to tax relief on interest payments for let properties.

2.6. The Department consulted the Housing Department again, who continued to express support for the Department's recommendation, recognising the adverse consequences of imposing a cap or removing tax relief for interest paid in respect of commercial and overseas let properties. Whilst the Housing Department are of the view that the States should be encouraging, not discouraging, investment in the private rental sector, as a healthy private rented sector reduces the number of people who would otherwise be seeking social rental or partial ownership accommodation, they believe that the potential adverse effect on the first time buyer market of failing to cap or remove tax relief on interest paid for buy-to-let residential properties should be analysed. The Housing Department intends to examine this as part of the comprehensive third party analysis of the local housing market called for by Deputy Soulsby's successful amendment in October 2015. The Housing Department are concerned that buy-to-lets tend to be at the lower end of the property market and therefore reduce the number of properties available to first time buyers.

2.7. The Department also consulted the Commerce and Employment Department, in particular the Locate Guernsey team. The Commerce and Employment Department expressed the view that the introduction of a cap or removal of tax relief on interest payments for let property could send out unintended negative signals to high net worth individuals, and negatively impact businesses and individuals already investing in commercial property in Guernsey. Such a change could also negatively impact those in the building and construction industry who are expected to be beneficiaries of the Locate Guernsey initiative.

3. **Legislation**

3.1. This proposal will not require any legislative drafting, therefore the Law Officers have not been consulted about these proposals.

4. **Resource Implications**

4.1. This proposal has no resource implications.

5. **Recommendations**

5.1. The Department recommends the States to note the report and also to note the uncertainty such repeated investigations into interest relief for let property cause to the property market and the negative signals it sends out to businesses/individuals looking to invest in and/or locate to Guernsey.

Yours faithfully,

G A St Pier
Minister

J Kuttelwascher
Deputy Minister

A H Adam
A Spruce
R A Perrot
Mr. J C Hollis, Non-States Member

TREASURY AND RESOURCES CONSULTATION ON TAX RELIEF ON INTEREST PAID FOR LET PROPERTIES

COMMERCE AND EMPLOYMENT DEPARTMENT POSITION STATEMENT

The Treasury and Resources Department believe that the potential ramifications from the removal of, or introduction of a cap on, the amount of tax relief on interest payments for let property are the creation of uncertainty in the Guernsey property market (particularly with respect to investing in commercial properties) and the wider use of Guernsey as a location for holding property investments (as the proposal would also apply in respect of let property outside of Guernsey). The Commerce and Employment's political Board has provided the following commentary to the specific questions posed on this matter.

1. Whether the introduction of a cap/removal of relief would wrongly signal that Guernsey is not open to business and would deter HNWIs from considering Guernsey as a location either to live or invest?

   The Board's view is that the introduction of a cap or the removal of tax relief could indeed send out unintended negative signals to High Net Worth Individuals. At a time when the Locate Guernsey initiative is expected to increase its efforts to attract this very group, it is important that the investment opportunity for them remains attractive. Property investment is favoured by many High Net Worth Individuals so a tax cap or the removal of relief in this area could have a disproportionate effect on this particular target group.

2. More specifically, whether such a cap/removal of relief would discourage investors (for example property funds) from buying, developing and renting commercial property in Guernsey, due to the potential adverse impact on investment yields, given such relief is currently available in neighbouring jurisdictions such as Jersey.

   No modelling or analysis of the potential impact of such a possible move has been carried out, but it is reasonable to assume that returns on property investment is a very relevant factor that would be addressed by those considering the various merits of Guernsey versus other territories. The proposal would also have a negative impact on those businesses and individuals already in Guernsey who have been investing in this sector for many years.

3. The impact that a reduction in properties changing hands would have for those in the building industry, i.e. electricians, plumbers, decorators.

   These trades and many others in the Construction Industry are expected to be beneficiaries of the Locate Guernsey initiative. The possible changes to the tax relief regime on let property could have a negative impact on the property development sector, so, as above, the Board would not be supportive of the introduction of these changes.

30th November 2015

The Minister
Treasury and Resources Department
Sir Charles Frossard House
St Peter Port
Guernsey
GY1 1FH

9 December 2015

Dear Deputy St Pier

Income Tax: Investigation of tax relief for interest paid

Thank you for giving the **Housing Department** an opportunity to comment on the above Policy Letter.

As you know, when this matter was last debated in the States in 2014 the Department was unequivocal in its support of the retention of the existing tax relief arrangements, pointing to the fact that a healthy private rental sector reduced demand for social rented and partial ownership housing.

Since then, the Department has led an investigation into the first time buyers' market – an investigation that culminated in a Policy Letter, co-authored by the Treasury and Resources Department, which was considered by the States in October this year.

The Department is conscious that the problems faced by first time buyers might be compounded if would-be homeowners and landlords are competing for the cheapest properties on the market. If, in crude terms, the growth of the buy-to-let market comes at the expense of first time buyers, anything that fuels that growth – such as the retention of tax relief on interest paid on second properties – might, on balance, do more harm than good.

When the Policy Letter on first time buyers was considered by the States in October, Deputy Soulsby placed a successful amendment calling for a comprehensive third party analysis of the local housing market. The Housing Department intends as part of this analysis to examine in more detail the effect of the competing interests described above.

In the meantime, the Department supports the retention of existing tax relief arrangements.

Yours sincerely

M Hadley
Deputy Minister

GSCCA

The Guernsey Society of Chartered and Certified Accountants

Deputy Gavin St Pier, Minister for Treasury & Resources
State of Guernsey Government Department
Sir Charles Frossard House
La Charroterie
St Peter Port, Guernsey
GY11FH

1 December 2015

Dear Gavin

Investigation of Reducing Tax Relief on Interest Paid on Let Property

I am writing in my capacity as chair of the GSCCA tax sub-committee.

During the recent Budget debate on 29 October 2015, the States resolved (Resolution SA of Billet XIX of 2015) that the Treasury and Resources Department should investigate the removal of, or introduce a cap on, tax relief for interest paid on let property (per section 2 of the Income Tax (Tax relief on Interest Payments) (Guernsey) Ordinance, 2007).

I refer to my email to Nicky Forshaw on 31 October 2013 when this possible change was being discussed previously. At that time, the amendment introduced a cap of £25,000 per person on the amount of interest paid on money borrowed in connection with land or a building within section 1 and 2 of the Ordinance.

I have discussed with the GSCCA tax sub-committee and we would like to reconfirm our view which is that we strongly advise the States to reconsider the extension of this to section 2, which covers interest paid to fund let property in Guernsey and elsewhere. In our view, this could adversely impact the property investment market and we assume that this was not intended.

If you wish to discuss please do not hesitate to contact me.

Yours sincerely

Jo Huxtable
Chair, GSCCA Tax Sub Committee

The Guernsey International Business Association has confirmed that the views of the GSCCA are deemed to represent those of GIBA.

GBAC

Guernsey Business Advisory Committee

Date: 22.11.15

Dear Deputy St Pier,

I write on behalf of the members of GBAC, with regards to the following amendment by Bebbs and Brehaut that was passed at the previous States meeting.

"To direct the Treasury and Resources Department to investigate the removal of, or introduction of a cap on the amount of, tax relief on interest payments for let properties in section 2 of the Income Tax (Tax Relief on Interest Payments) (Guernsey) Ordinance, 2007 and to report back to the States no later than the end of October 2016."

GBAC is a group comprised of; successful entrepreneurs, local lawyers, property experts, developers and leaders within the care home and hospitality industry. GBAC members and the committee are very concerned with the implications of the amendment. We were shocked that 33 deputies voted for this review, without it seems any consideration of the serious and negative impact it would have, if it made it into the Guernsey or national press.

GBAC provides a summary of the implications:

The amendment required feedback by Oct 2016. What this really means is another years uncertainty in a fragile slow market. Are those deputies who voted for this amendment aware that estate agents and lawyers are by their code of conduct required to explain the threats and issues their clients may face, upon purchasing property? In just the short time since this amendment was passed, I am already aware of four buy to let (BTL) properties and two commercial property deals that have fallen through or been delayed until the outcome of this review. More delays in document duty, which is less tax for the States is that what the Deputies wanted?

Do not be surprised if far less commercial property sales or BTL investments fail to complete until the review is finalised and the contents of the amendment rejected. The result being yet a further reduction in document duty. This should not be hard to understand, why should anyone invest further (or at all) in Guernsey, when such a risk does not exist in Jersey, IOM, Gibraltar or even the UK. My own local investments have been halted with immediate effect – why take the risk, when I can just purchase commercial property in the UK or Jersey without the hassle or risk of loan interest relief restrictions?
Why would any investor consider putting their hard earned capital into Guernsey or set up a local property fund or special purpose vehicle (SPV), with so much uncertainty, caused by the threat the scrapping or capping of bank interest relief?

It is very common that those investing in a BTL or commercial property take a loan equal to 50-70% of the value of the property. That means that an investor can effectively get double the property for a given sum. This actually results in more tax to the States in the form of far higher Document duty receipts. It's not hard to understand, that without the benefit of debt, the same investor would only be able to buy a property of half the value (if even that), which equals half the taxable rental income or even less. This is how virtually the entire property industry works, in all key successful investment jurisdictions.

Local housing developers and those employed within the industry will take a further hit, as BTL investors, will possibly pull back and/or reduce investment into Guernsey, whilst this review is being debated. All the investors I have spoken to, have all said, they will pause further investments, until they are aware of the outcome.

BTL investors are an important sector of the property market in helping remove unsold or excess properties from the market, whilst also providing much needed housing for those that cannot afford to purchase their own house in this climate of increasing strict bank funding criteria.

The house building industry and all the people it employs is already having to fight off the threat of an inflexible affordable housing quota, strange maximum car parking rule, several years of Open market uncertainty and greater complexity of who can live in Part A and D and for how long.

The proposals of this amendment if accepted, would be the nail in the coffin for Guernsey. The health of the Guernsey construction industry would suffer, with not just developers having to scale back, but those hard working people on the ground, that rely on a thriving construction industry to put food on the table. Please be aware, that very few developers only use cash to develop property, nearly all are geared and receive development funding. If the States vote to scrap or restrict the ability to offset loan interest, property development would become considerably harder in Guernsey. I personal have spoken to one of the largest developers in Guernsey, who has stated they will just focus on Jersey, if this threat was to happen.

Accepting the proposals in the amendment would be a direct attack on those who are retired, savers and the responsible sector of society who are doing their very best to provide a responsible income in the future, especially now that Banks do not provide any meaningful savings interest rates. Responsible investment and saving for ones future is exactly what the States should be encouraging. Why put yet more obstacles in the way of those trying to be responsible and provide a future income for themselves and their family.

Every successful jurisdiction which taxes property income allows some form of relief from loan interest. Why would any well-intentioned Deputy wish to make Guernsey the anomaly and be uncompetitive?

What very few people realise is that already in Guernsey, there is a restriction on loan interest relief, in that any interest in excess of the property income is not available to carry forward as a loss for offset against future property income, as it is in the UK. This already limits some property structures from operating in Guernsey.

The most damaging and dangerous aspect of this review is that such a tax proposal would also apply to all those Guernsey residents that hold property (via property funds, in their own name or SPV's) in other jurisdictions, such as Jersey and the UK. In the event that the proposals in this amendment became law, it would be catastrophic for Guernsey and decimate an entire sector, and result in many resident property investors having to relocate to Jersey, IOM, etc. This would truly make a mockery of the goals and aspirations of Locate Guernsey.

This is not a threat, but reality. Put yourself in the shoes of a new potential HNW resident for a second… Locate Guernsey is mandated to go out and attract these people. The first thing a potential resident will do is ask their accountant/lawyer to explain the implications or benefits or relocating to Guernsey. What do you think will happen when he is made aware of this strange and quirky interest loan restriction, yet at the same time, he is also made aware that Jersey or the IOM are fine and operate as per the UK – where would you reside – Guernsey still? -– I think not!

If the proposals were voted through, it would send out the worst possible message to investors and give Jersey an even bigger boost, even greater than what they are currently experiencing over Guernsey.

My biggest fear for Guernsey, is that if the implications are not fully understood and the proposals of this amendment were not rejected, it would send a very clear signal, that over half the deputies in the States were anti-business and those seeking to provide for themselves in the future, ie: personal pensions.

Regards

Zef Eisenberg
Chairman - GBAC
Office: +44(0)1481 521950

Guernsey Private Residential Landlords Association

Jeff Guilbert
Les Bouleaux
GY6 8YZ

The Minister
Treasury and Resource Department
Sir Charles Frossard House
St Peter Port
Guernsey
GY1 1FH

26 November 2015

Dear Deputy St Pier

Re. Income Tax: Restriction on Tax Relief for Interest Paid

We write in connection with the current Treasury and Resources investigation (as resolved 29th October 2015) into the abolition or capping of tax relief on interest payments for let properties. The GPRLA represents over £500M worth of residential, let property in the island. We wish to strongly voice our concern re any such move. We do so on the basis that

- Rental returns are at an all-time low – especially in the Open Market (OM). Capping/removing interest relief will only make the sector even less attractive and *further* dampen sales, capital values and therefore Stamp Duty revenues
- Local Market (LM) values have already dropped about 15% and continue to fall (Martel Maides Nov. 2016). Decreasing values deter investors and will push prices down even more at all levels, not just at the lower end. Home owners will therefore feel poorer and spend and move house less - and Stamp Duty and all the associated States' revenue will fall.
- The Housing Department have repeatedly stated that the island should be encouraging, not discouraging, the private rental sector to reduce the need for States funded housing. This is a patent discouragement.
- Such a move would make investment in all Guernsey property less attractive than competing jurisdictions – including Jersey. Anything that reduces demand reduces Stamp Duty revenue as well as employment in and taxation income from all associated industries such as construction, estate agencies and the legal profession.
- There is danger in even *discussing* the above possibility again as it creates uncertainty and risks repeating the errors made in statements about possible OM review and the resultant, well documented, negative effect on OM sales and capital values therefore Stamp Duty revenue from that sector
- Our current taxation regime already does little to encourage property upgrading and improvements. Tax relief for any upgrading deemed a capital development is not allowed, and relief for significant repairs is spread over five years via the ERA as opposed to being allowable in the year the expense is incurred. If there is also an abolition or capping of tax relief on any funds borrowed for the purpose it may further

discourage owners from repairing and upgrading in a timely manner – not good for tenants or the construction industry

- Additionally it does not seem to dovetail at all with the Commerce and Employment "Open for Business" message, or the investment of £1.2M in Locate Guernsey
- It would adversely affect our members who are saving for retirement by buying one or more investment properties – surely something that works against solving the "age-related time bomb" issues that are much publicised at the moment?
- Whilst we are a private, residential, landlords' association we understand that the move would also affect institutional investors such as funds and make it less attractive for them to be based or have holdings on the island. Any exodus to competing jurisdictions such as Jersey will only be negative for tax revenues and the island. The move would also apply to commercial property development and make it less attractive than elsewhere – negative for the construction as well as the property sector.

In short this is a move that may on the surface appear to offer increased tax revenues. However there are also areas (Stamp Duty, construction industry profits, estate agent profits, ETI take on people employed in these and other related industries) where tax take risks being reduced. Additionally there is a possibility that the quality and possibly quantity of let property offered by private landlords will reduce – thereby increasing the cost of States housing provision.

We hope the States of Deliberation will firmly vote against any such move and remove the item from the agenda for the foreseeable future as repeated tabling of the issue (again now - on top of 2013) creates uncertainty and does no good to the island, its inhabitants or States' income.

Yours Sincerely

J Guilbert
Chair GPRLA

THE GUERNSEY PROPERTY FORUM

26 November 2015

The Minister
Treasury and Resources
Sir Charles Frossard House
St Peter Port
Guernsey GY1 1FH

Dear Sir,

Investigation into Interest Relief on Let Property

We write in respect of the current investigation being carried out by Treasury and Resources, following a direction from the States of Guernsey, concerning the removal or capping of tax relief on interest payments for loans against let property.

The Guernsey Property Forum ("GPF") is a body constituted to represent, for the most part, members of the estate and relocation agency, legal and financial professions with an interest in the well-being and development of the Island's residential and commercial property sectors. As part of its brief the GPF also liaises, and shares members, with other groups and organisations - such as the Construction Industry Forum

Originally founded to provide support to and consult with Government as a result of the dire consequences suffered by the Open Market during the consultation process surrounding the new Population Management proposals, the GPF has extended its brief to involve itself in any matters that are felt to affect and influence Guernsey's property market.

I have been asked to express our members' acute concern that these new investigations could further destabilise the island's property market at a time when it can least afford further uncertainty. With transaction levels at an historic low, falling prices and decreasing rents, the very last thing to add to the mix is a fiscal intervention upsetting the existing financial balances within the investment and rental sectors.

We are sure that you will have received a more than sufficient number of representations expressing concern regarding this investigation, however, and without going into detail at length, we are anxious to know that that the Treasury & Resources Department are aware of our absolute opposition to these proposals.

It should be recognised that any market is finely balanced and what might be regarded as an accurate tax harvesting strike at a particular sector is likely to have far reaching and unexpected consequences in a market that is already destabilised.

The immediate consequence of any reduction in the return from a leased property will be a corresponding fall in that property's actual value. This will clearly affect not just the investment market but, indirectly, owner occupied property as well. It will not prove to be a carefully targeted strike at institutional investors and seemingly wealthy landlords, the effects will be widespread throughout the entire market.

This, then, leads to much greater considerations about the wider implications and messages being sent out to the wider world about whether the island welcomes investment and if it really is 'open to business'.

While it can be argued that some limited cooling of the housing market was perhaps overdue, it would be clearly less than prudent to risk any further deterioration of the status quo.

Yours faithfully

Richard Fox
For and on behalf of The Guernsey Property Forum

Please respond to richard.fox@martelmaides.co.uk or by post to R.J.W. Fox, c/o Martel Maides Ltd, 29 High Street, St Peter Port , Guernsey GY1 2JX

CONSTRUCTION INDUSTRY FORUM

Primrose Cottage, Ruette Rabey, St Martins, Guernsey, GY4 6DU
Tel: 237396

Deputy St.Pier (T&R Minister)
Treasury & Resources
Sir Charles Frossard House,
Charroterie
St Peter Port,
Guernsey

25 November 2015

Dear Deputy St. Pier

Re: REMOVAL OR CAPPING OF INTEREST RELIEF AMENDMENT

Whilst I was not in attendance personally, Jason Powers, representing the Construction Industry Forum, did attend a meeting recently when this subject was discussed.

We fear that leaving the above matter in abeyance for a year will lead to even further problems for the Construction Industry.

I am aware that GBAC and GPRLA are writing letters to you and I strongly support everything they say. I would highlight some additional major problems the construction industry has, which we see as:-

- The Construction Industry is short of work at the moment and doesn't see any light at the end of the tunnel for at least another year, maybe two years.
- There is huge uncertainty with regard to La Mare de Carteret School providing work.
- Whilst the GHA has work at an early stage, all the present work will come to an end this year and we doubt that permissions will be in place quickly enough to see that work provide sufficient on its own to stimulate any real growth
- The draft IDP is very damaging to the Construction Industry and it will probably be a year before we see what is really happening.
- Conjecture on the Open Market a few years ago in the Press basically killed that market, scrapping or capping interest relief will do the same for the wider property market.
- A recent survey by an Architect saw 20 developers not proceeding with projects until confidence returns to the States and the economy.

We think that Deputies who voted for this amendment had no idea of the impact on the Industry for the next year so they haven't learnt from the problems of the Open Market and the media speculation.

One last thing to say is to remember that Developers and Entrepreneurs don't have to come to Guernsey or invest in Guernsey. They go where they feel welcomed and believe they will be supported. If the proposals of this amendment aren't thrown out it will only further dampen economic activity at a time when the States are trying to promote it.

Yours sincerely

Eric Legg
Chairman

From: Martyn Dorey
Sent: 07 December 2015 13:47

Subject: **Chamber response to the removal of tax relief on interest payments for let properties**

Thank you for the invitation to comment on the proposal to investigate the removal or a cap on tax relief on interest payments for let properties.

We have carefully considered this proposal from an economic perspective and also what the likely impact on business and tax revenues is likely to be.

The finance tax and legal subcommittee viewed this proposal in the context of prevailing economic conditions, market practice and spoken to members of the construction, property investment and fund industries. We are confident that this proposal is probably going to have three effects:

- A lower contribution to GDP from an already very weak property/construction sector
- Lower future government revenues
- It may direct property funds towards other jurisdictions

An overriding factor at the moment is our position in the economic cycle, and in the current low inflation, low growth environment, property and construction is suffering from a lack of stimulus.

From a business perspective commercial property acquisition, property investment and property development is typically funded through borrowing. The borrowing should be viewed as an investment, collecting together the monies necessary to reinvigorate property stock, grow rental income and deliver capital growth. Many governments are happy to encourage borrowing on property and development activity because companies take the risk to develop infrastructure and housing, and then the government benefits from higher tax revenues from rental income received, and depending on which jurisdiction, capital growth.

Other jurisdictions do have interest relief, so removing incentives for property investment both directly in Guernsey and indirectly via managed funds may result in property funds and property investors moving elsewhere, along with the employment they create in the fund management sectors. In this scenario the contribution from property towards GDP may decrease.

Whilst we believe that an investigation would likely reach the same conclusion that we have outlined above, a concern is that this investigation will set expectations that a removal of interest rate relief is on the cards. That in itself will be sufficient to impact on economic growth in what is already a very fragile sector of the economy. There is also a significant risk that other jurisdictions will use this uncertainty to encourage companies and investment away from Guernsey.

Kind regards
Martyn Dorey
Chair of the Finance Tax & Legal Subcommittee, Chamber of Commerce

(N.B. The Policy Council notes that a cap or removal of relief is likely to have adverse consequences for private sector tenants, for the residential and commercial property markets, and for Guernsey's economy and competitive position. It therefore supports the proposal to retain the status quo.)

The States are asked to decide:-

XV.- Whether, after consideration of the Policy Letter dated 5th January, 2016, of the Treasury and Resources Department, they are of the opinion to note the report and also to note the uncertainty such repeated investigations into interest relief for let property cause to the property market and the negative signals it sends out to businesses/individuals looking to invest in and/or locate to Guernsey.