

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

25th January 2023

MOTION UNDER ARTICLE 7(1) OF THE REFORM (GUERNSEY) LAW, 1948

Proposed by: Deputy HJR Soulsby MBE
Seconded by: Deputy GA St Pier

To suspend Rule 24(2) of the Rules of Procedure of the States of Deliberation and their Committees to the extent necessary to permit the amendment set out below to be debated.

Proposition No. 2022/112

Policy & Resources Committee

The Tax Review: Phase 2

AMENDMENT

Proposed by: Deputy HJR Soulsby MBE
Seconded by: Deputy GA St Pier

To delete all the propositions and substitute therefor:

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1) To agree that the longer-term financial position of the States of Guernsey is unsustainable and effective measures must be implemented in a staged approach to mitigate the challenges, particularly those arising from an aging demographic with increased health and care needs, requiring:

- delivery of expenditure restraint, savings and revenue raising;
- the identification of a longer-term vision for Guernsey and an accompanying economic, social and environmental model;
- the consideration of alternative funding models for capital projects;
- the development and delivery of revised health and care models;

and to agree that the work associated with this issue is a very high priority for government and resources need to be re-prioritised accordingly.

EITHER

2) POLICY & RESOURCES' OPTION A

To agree and approve the following package of revenue raising and cost reduction measures which comply with the objectives agreed for the Tax Review and which will close the deficit by £80-90million in total:

A) Development and implementation of a package of revenue raising measures designed to increase States' revenues by £50-60m by no later than the end of 2025 through:

- a. The introduction of a broad-based GST at a rate of 5%, as laid out in section 6, with minimal exemptions and zero rating, such rate not to be increased for at least 10 years from the date of implementation; and amendment of the General Sales Tax (Enabling Provisions) (Guernsey and Alderney) Law, 2009 to limit the maximum rate of GST that may be provided for by Ordinance of the States to 5%, and inclusion in the Law provision for the approval of any resolution directing the preparation of legislation and any Projet de Loi intended to repeal or vary the relevant provision of the Law specifying the maximum rate of 5%, similar to that set out in Articles 3(4) and (5) of the Reform (Guernsey) Law, 1948 in respect of repeals and variations to that Law;
- b. The introduction of a lower rate of income tax at 15% that applies to the difference between the first £30,000 of an individual's income, as calculated for the definition of "gross household income" under the Family Allowances (Guernsey) Law, 1950, and the personal and other tax allowances, mortgage interest relief and deductions for pension contributions they are entitled to;
- c. An increase in the Personal Income Tax Allowance of £600;
- d. A restructure of the Social Security Contributions system, as outlined in section 8, including that all contributors be entitled to an allowance set at the same level as the personal income tax allowance and be liable for contributions on all income regardless of source;
- e. To include, within the Budget Report for 2024, a proposed policy to underpin any future changes in: personal allowances; the threshold for the lower rate of income tax; and the threshold for the withdrawal of personal allowances;
- f. Prior to the implementation of a GST:
 - i. Increasing income support benefit rates by the percentage equal to the rate of GST applied to pre-empt the expected impact of the GST on low income households;
 - ii. Increasing the States Pension and other benefit rates by a rate equal to the forecast impact of GST on RPIX; and
 - iii. Making available a cost support scheme to households with a gross income of less than £33,000, who are not in receipt of income support, at

an initial rate of £450 a year for a single adult and £675 for a couple with a 30% supplement for households where all adults are above States' pension age;

and incorporating within the uprating of such benefits in the subsequent January, any adjustment necessary to align the change in benefits with the actual impact of GST on inflation should this prove greater or less than the forecast amount;

- g. Noting the intention of the Committee *for* Employment & Social Security to adjust the ten-year plan for increasing contributions each year, considering the resolutions following the debate on the Tax Review, in its annual Policy Letter on Contributory Benefits and Contribution Rates; and
- h. Directing the Policy & Resources Committee to include appropriate transitional proposals in future States of Guernsey Annual Budgets, if required, to implement the above package of measures.

B) To direct the Policy & Resources Committee to:

- a. Prepare the States of Guernsey Annual Budget for 2024 to include no real-terms growth in revenue expenditure, excepting the budget of the Committee *for* Health & Social Care;
- b. Establish a Sub-Committee to identify and review essential community services and, working with Principal Committees and wider States Members, consider where efficiencies, structural change, cessation, outsourcing and/or commissioning of those services could deliver significant savings, and to incorporate these into a medium-term plan for delivering overall cost reductions of at least £10m over five years to be considered by the States no later than July 2024 for incorporation into the States of Guernsey Annual Budget for 2025;
- c. Review the Capital Portfolio and pipeline in light of the outcome of the debate and report back to the States by September 2023 with recommendations for (i) any changes to scope or funding of the existing portfolio; and (ii) (if in the view of the Policy & Resources Committee thought appropriate) amending the assumption for the level of capital expenditure contained within Principle 6 of the Fiscal Policy Framework; and
- d. Include proposals with the Government Work Plan 2023 to reprioritise initiatives for which funding has not yet been released to the extent necessary to limit the additional expenditure to deliver these initiatives over the remainder of this term to a maximum of £5.7m, being 1% of the 2023 General Revenue budget.

C) To direct the Policy & Resources Committee to develop proposals for raising up to £20m further revenues from the corporate sector without unduly negatively impacting Guernsey's competitive position or compliance with international standards, through engagement with industry and the other Crown Dependencies, which should be presented to the States for consideration no later than November 2023. This work to

include examination of all the options set out in Appendix 3 plus an alternative corporate vehicle or other appropriate form of entity or taxing structure which will be subject to income tax at 15% or such other rate or basis as the review may determine.

OR IF 2 IS NOT APPROVED

3) POLICY & RESOURCES' OPTION B

To agree a package of revenue raising and cost reduction measures which will close the deficit by £80-90million in total through:

- A) A series of measures to raise additional revenues through:
- a. A restructure of the Social Security Contributions system similar to that outlined in section 8, including that all contributors be entitled to an allowance and liable for contributions on all income regardless of source, save it should raise £34m in total through one of or a combination of (i) the application of higher contribution rates; (ii) by setting the allowance lower than the personal income tax allowance; (iii) reducing the range or restricting entitlement to contributory benefits, and directing the Committee *for* Employment & Social Security to report back with firm proposals in its Contributory Benefits and Contribution Rates for 2024 report in October 2023;
 - b. Directing the Policy & Resources Committee to develop proposals for raising up to £20m further revenues from the corporate sector without unduly negatively impacting Guernsey's competitive position or compliance with international standards, through engagement with industry and the other Crown Dependencies, which should be presented to the States for consideration no later than November 2023. This work to include examination of all the options set out in Appendix 3 plus an alternative corporate vehicle or other appropriate form of entity or taxing structure which will be subject to income tax at 15% or such other rate or basis as the review may determine;
 - c. Agreeing that all rates of domestic TRP should be increased by 50% in real terms over the five-year period 2024-2028 and directing the Policy & Resources Committee to include proposals in the States of Guernsey Annual Budgets for that period including examining the implementation of a deferral scheme for those on fixed incomes;
 - d. Directing the Policy & Resources Committee, working with the Committee *for* the Environment & Infrastructure, to develop proposals for increasing the revenues generated through transport by £10-15m above 2022 levels, such work to include consideration of distance charging, the application of an annual tax on the ownership of vehicles and paid public parking, and the bringing of proposals to the States by March 2024; and noting that the Policy & Resources Committee will bring proposals as part of the States of Guernsey

Annual Budget for 2024 in relation to TRP on corporate parking; and

- e. Including, within the States of Guernsey Annual Budget for 2024, a proposed policy to underpin any future changes in the threshold for the withdrawal of personal allowances.
- B) To agree that, while increasing revenues, it is essential to control expenditure and deliver savings; and accordingly direct the Policy & Resources Committee to:
- a. Prepare the States of Guernsey Annual Budget for 2024 to include no real-terms growth in revenue expenditure, excepting the budget of the Committee *for* Health & Social Care;
 - b. Establish a Sub-Committee to identify and review essential community services and, working with all Principal Committees and wider States Members, consider where efficiencies, structural change, cessation, outsourcing, restricting access to and/or commissioning of those services could deliver significant savings, and to incorporate these into a medium-term plan for delivering overall cost reductions of at least £10-16m over five years to be considered by the States no later than July 2024 for incorporation into the States of Guernsey Annual Budget for 2025;
 - c. Review the Capital Portfolio and pipeline in light of the outcome of the debate and report back to the States by September 2023 with recommendations for (i) any changes to scope or funding of the existing portfolio; and (ii) whether the assumption for the level of capital expenditure contained within Principle 6 of the Fiscal Policy Framework should be amended; and
 - d. Include proposals with the Government Work Plan 2023 to reprioritise initiatives for which funding has not yet been released to the extent necessary to limit the additional expenditure to deliver these initiatives over the remainder of this term to a maximum of £5.7m, being 1% of the 2023 General Revenue budget.
- C) To note the lack of certainty regarding the deliverability of these proposals and therefore to direct the Policy & Resources Committee to monitor progress and impact on the deficit and report back, if required, by December 2024 to set out any further measures necessary to address the sustainability of the financial position.

OR IF 3 IS NOT APPROVED

4) POLICY & RESOURCES' OPTION C

To:

- a. Confirm that the Committee *for* Employment & Social Security should continue with its agreed plan to increase contribution rates each year for a period of ten-years from 2022 in order to make the social security schemes sustainable through raising an additional £34m; and

Direct the Policy & Resources Committee to:

- b. Develop proposals for raising up to £20m further revenues from the corporate sector without unduly negatively impacting Guernsey's competitive position or compliance with international standards, through engagement with industry and the other Crown Dependencies, which should be presented to the States for consideration no later than November 2023. This work to include examination of all the options set out in Appendix 3 plus an alternative corporate vehicle or other appropriate form of entity or taxing structure which will be subject to income tax at 15% or such other rate or basis as the review may determine;
- c. Establish a Sub-Committee to identify and review essential community services and, working with Principal Committees and wider States Members, consider where efficiencies, structural change, cessation, outsourcing, restricting access to and/or commissioning of those services could deliver significant reductions in the cost of public services, and to incorporate these into a medium-term plan for delivering overall cost reductions of between £30-35m to be considered by the States no later than July 2024, to include an implementation plan and timeline;
- d. Review the Capital Portfolio and pipeline in light of the outcome of the debate and report back to the States by September 2023 with recommendations for (i) any changes to scope or funding of the existing portfolio; and (ii) whether the assumption for the level of capital expenditure contained within Principle 6 of the Fiscal Policy Framework should be amended;
- e. Include proposals with the Government Work Plan 2023 to reprioritise initiatives for which funding has not yet been released to the extent necessary to limit the additional expenditure to deliver these initiatives over the remainder of this term to a maximum of £5.7m, being 1% of the 2023 General Revenue budget; and

- f. To note the lack of certainty regarding the deliverability of these proposals and therefore to direct the Policy & Resources Committee to monitor progress and impact on the deficit and report back, if required, by December 2024 to set out any further measures necessary to address the sustainability of the financial position.

OR, IF 4 IS NOT APPROVED

FAIRER ALTERNATIVE 2 – OPTION D

5)

Stage 1

A) To agree not to introduce a broad-based GST.

B) To direct the Policy & Resources Committee to implement a package of expenditure reduction and progressive revenue raising measures by:

- a. preparing the States of Guernsey Annual Budget for 2024 and 2025 to include for each year a £4m real-terms reduction in revenue expenditure;
- b. including in the States of Guernsey Annual Budget for 2024 proposals for a new 'Community & Infrastructure Contribution' from corporate entities to raise up to £20m;
- c. increasing the Personal Income Tax Allowance by £400 no later than the end of 2025;
- d. increasing the current personal tax caps of £150,000 and £300,000 to amounts that the Committee believes are appropriate, taking into account the need to generate additional revenue and to ensure that any increased caps do not unduly negatively impact Guernsey's competitive position particularly, with regard to Jersey;
- e. including in the Budget Report 2024 proposals, in line with the existing States' direction to raise revenues from those most able to bear the burden, to raise up to £2m in real terms annually from domestic properties with a TRP of 300 and above and examining the implementation of a deferral scheme for those on fixed incomes;
- f. bringing proposals as part of the States of Guernsey Annual Budget for 2024 in relation to TRP on corporate parking; and

- g. working with the Committee *for the* Environment & Infrastructure to consider the opportunities to raise a minimum of £5m annually in developing proposals for an Open Market inscriptions policy and the Open Market Transfer Register (as set out in the Population and Immigration Policy Review Policy Letter dated 5th September 2022) and to make any necessary recommendations to the States before the end of 2023.

C) To approve the development and implementation of the following changes no later than the end of the current States' term:

- a. A restructure of the Social Security Contributions system, as outlined in section 8 of the policy letter, save for a reduction in the employer contribution rate to 7% in respect of any employee over the retirement age for States Pension purposes; and
- b. That for Income Tax and Social Security Contribution purposes, the totality of each individual's allowances and withdrawable deductions are reduced at a ratio of £1 of allowances and withdrawable deductions for every £5 that that individual's calculated income is above £80,000 (such limit being pro-rated in the year of arrival or departure, based on the proportion of time spent in Guernsey in the relevant year).

Stage 2

6) To direct the Policy & Resources Committee through engagement with Principal Committees and wider States' Members to review the Capital Portfolio and pipeline in light of the outcome of the debate and report back to the States by March 2024 with recommendations for:

- i. any changes to the scope or funding of the existing portfolio;
- ii. alternative funding mechanisms including borrowing; and
- iii. (if in the view of the Policy & Resources Committee thought appropriate) amending the assumption for the level of capital expenditure contained within Principle 6 of the Fiscal Policy Framework.

7) To direct the Policy & Resources Committee to establish a Sub-Committee working with Principal Committees, the States' Trading Supervisory Board and wider States Members, and after effective engagement with the community, to identify and review essential community services and to consider whether structural change, cessation, outsourcing and/or commissioning of those services could deliver significant savings having regard to:

- the relevance of universal offers in the provision of services;
- value for money and the opportunities for potential efficiencies in service delivery;
- the operating models for the States' trading assets;

and to incorporate these into a medium-term plan for delivering overall cost reductions of at least £10m-£16m over five years to be considered by the States by the end of 2024.

- 8) To direct the Policy & Resources Committee, working with Principal Committees and wider States Members, and after effective engagement with the community, to identify a longer-term vision for the island and an accompanying economic, social and environmental model and report back by the end of 2024.
- 9) To direct the Policy & Resources Committee to establish a sub-group to take forward the work on the investigation of changes to the tax system, with terms of reference as set out in the attached schedule and to report back with proposals and recommendations as work progresses.
- 10) To direct the Policy & Resources Committee, working with the Committee *for the Environment & Infrastructure*, to investigate annual revenues generated through transport, such work to include consideration of fuel duty, distance charging, the application of an annual tax on the ownership of vehicles and paid public parking and to report back to the States by the end of March 2024.
- 11) To direct the Policy & Resources Committee, working with the Committee *for Economic Development* and in consultation with industry to consider, in lieu of GST, the opportunities to raise up to £2m annually from the visitor economy including consideration of the use of a visitors' levy by the end of March 2024.
- 12) To direct the Policy & Resources Committee to provide an estimate of the structural deficit, if any, in future annual budget reports.
- 13) To note that the Policy & Resources Committee has commenced a project to review the package of terms & conditions for new public servants and redundancy policies, and to direct: that this include consideration of the closure of the public servants' pension scheme to new entrants and offering a defined contribution pension scheme; and to report back by the end of September 2024.
- 14) To agree, that to better enable commissioning of services, the Transfer of States Undertakings (Protection of Employment) (Guernsey) Law, 2001 shall be reviewed jointly by the Policy & Resources Committee and the Committee *for Employment & Social Security* and to direct the Committees to bring to the States proposals for updating and improving the effectiveness of such legislation by the end of 2023.
- 15) To endorse the intention of the Policy & Resources Committee to approve funding from the Budget Reserve to implement the proposals and direct the Policy & Resources Committee to prioritise the actions arising from the above propositions in the Government Work Plan.
- 16) To direct the Policy & Resources Committee to report back on the impact of the measures arising from the above propositions by June 2026 and, if required, set out any measures necessary to address the sustainability of the financial position.
- 17) To direct the preparation of such legislation as may be necessary to give effect to the above decisions."

Rule 4(1) Information

- a. The proposition contributes to the States' objectives and policy plans by delivering on the action in the Government Work Plan to agree a sustainable taxation policy.
- b. In preparing the propositions, there has been consultation with numerous States Members including the Policy & Resources Committee.
- c. The proposition has been submitted to His Majesty's Procureur for advice on any legal or constitutional implications.
- d. The Policy & Resources Committee would need to fund the amount necessary to bring these proposals to the States from the Budget Reserve for 2023 and ask the States to prioritise funding for any work required in 2024 through the Government Work Plan.

SCHEDULE

Terms of Reference

- 1) To engage with industry, Jersey and the Isle of Man to develop proposals for raising further revenues from the corporate sector without negatively impacting Guernsey's competitive position or compliance with international standards; this work to include consideration of the following:
 - a. The viability of amending the Zero-10 corporate tax regime by extending its scope or raising the general rate of tax from 10% to 12.5% or 15%;
 - b. An alternative corporate tax regime using a territorial basis with a general rate of 15% to include consideration of:
 - i. The source rules for particular categories of income, including but not limited to:
 1. Banking income;
 2. Insurance income;
 3. Franchise income; and
 4. Income from intellectual property.
 - ii. The desirability of a new 'Participation Exemption' in the Guernsey tax system;
 - iii. Any necessary amendments to Guernsey's Unilateral Double Tax Relief provisions;
 - iv. Any Economic Substance Test which may be necessary or desirable;
 - v. The rates of Guernsey withholding tax on dividends, interest and royalties paid by Guernsey residents to non-Guernsey residents; and
 - c. An alternative corporate vehicle or other appropriate form of entity or taxing structure which will be subject to income tax at 15% or such other rate or basis as the review may determine.
- 2) To engage with the fund sector to explore the viability of the adoption of a system of taxation similar to Luxembourg's 'taxe d'abonnement.'
- 3) To consider, if appropriate, other ideas and opportunities as they arise in relation to tax that would improve the net financial position or sustainability of the States of Guernsey in the longer term.

- 4) To better understand the scale of accumulated untaxed, undistributed profits in Guernsey-resident companies since the introduction of Zero-10 in 2008 and the abolition of the deemed distribution regime in 2012, and if appropriate, having regard to compliance with international standards, to include consideration of:
 - a. The viability of extending section 67 of the Income Tax Law to provide appropriate anti-avoidance legislation, particularly in respect of closely held investment holding companies;
 - b. Incentivising earlier taxable distributions; and
 - c. Any other mechanisms to increase revenues from this source of profits.
- 5) To consider, if appropriate, other ideas and opportunities as they arise in relation to tax that would improve the net financial position or sustainability of the States of Guernsey in the longer term.
- 6) To consider the role of property taxation in the overall tax system, including:
 - a) whether TRP remains fit for purpose;
 - b) the merits of any other form of taxation of property;
 - c) the merits of a contribution as a result of planning gains;
 - d) the role, size, timing and impact of document duty.
- 7) To investigate the options in relation to the concept of a minimum tax contribution.

Explanatory note

The amendment:

- expands P&R's proposition 1;
- includes P&R's Options A, B and C;
- adds an additional Fairer Alternative as Option D.

Option D follows the staged approach of the Fairer Alternative, having taken into account public discourse and political debate.

The following explains the origin and rationale of each proposition in this composite amendment:

- 1) This sets the scene, acknowledges the need for action and a staged response
- 2) This is P&R's Option A (unamended.)
- 3) This is P&R's Option B (unamended.)
- 4) This is P&R's Option C (unamended.)
- 5) This sets out the package of measures in Stage 1 of Option D, including:
 - No GST;
 - £4m real terms' spending restraint in 2024 and 2025;
 - A minimum of £10m from a Community & Infrastructure Charge levied on the corporate sector, as set out in the EY report which indicated it could raise up to £20m.
 - An increase in the Personal Income Tax allowance of £400;
 - An increase in the tax caps having regard to Jersey's decision to do the same;
 - An increase in TRP for those properties with a TRP >£300, which will impact 1,850 local market and 900 open market properties;
 - Resolving the existing TRP anomalies in relation to corporate parking;
 - Generating a new revenue stream from new Open Market inscriptions;
 - Reform of social security contributions as envisaged by P&R, subject to a withdrawal of social security and income tax allowances for those with incomes above £80,000 and a reduction in employer social security contributions for employees over the States' Pension age.
- 6) This provides for a review of the Capital Portfolio by March 2024. The wording is largely that in P&R's amendment, with a requirement to consider alternative funding mechanisms.
- 7) This provides for the review of expenditure and efficiency as originally envisaged in the Fairer Alternative amendment. It is a direction to P&R, rather than creating a

separate Special Investigation & Advisory Committee, reflecting concerns in this regard during the debate. It also includes provision to deliver £10-16m of cost reductions over 5 years.

- 8) This provides for a direction to P&R to prepare an economic, social and environmental model for the island that will help develop an understanding of our future tax base and needs.
- 9) This provides for P&R to complete the corporate tax work envisaged in the terms of reference set out in the Fairer Alternative. It dispenses with the need for a Special Investigation & Advisory Committee reflecting concerns in this regard during the debate. It includes consideration of the future role of property taxes.
- 10) This picks up the proposal in P&R's Option B in relation to transport taxes but is an investigation by March 2024 rather than a direction to implement.
- 11) This replaces the Fairer Alternative amendment's original proposal to implement a visitors' levy with a direction to investigate the contribution from visitors in the absence of GST.
- 12) This is unamended from the Fairer Alternative and provides an annual check point for the state of the structural deficit, if any.
- 13) This notes the review of terms and conditions, including redundancy policies and includes a direction that it include consideration of the closure of public servants' pension defined benefit scheme to new entrants and report back by September 2024.
- 14) This provides for new legislation that will better enable any future transfer, if required, of employees from the public sector.
- 15) This provides for re-prioritisation in light of any tax review resolutions.
- 16) This is unamended from the Fairer Alternative and provides for P&R to report back within 12 months of the next general election with any further recommendations having assessed the impact of those introduced following this tax review.

Impact of Stage 1 measures

STAGE 1 - 2023-2025		Fairer Alternative 2
Short-term deficit		-58
Capital	Assumed capital investment	76
	Capital investment @2% of GDP (2021)	69
	Short-term deficit adjustment	7
Adjusted short-term deficit position		-51
Expenditure	Expenditure restraint 2024	4
	Expenditure restraint 2025	4
Revenue Raising	Tapering of Income Tax allowances from £80k, allowances up by £400	-2.1
	Corporate levy (up to)	20
	OM Inscriptions	5
	Corporate Parking TRP	0.5
	TRP	2
	Tax caps increases	2
SS Reform	Employee	-3.1
	Tapering of allowances from £80k	0.4
	Employer	18.9
	1% reduction for those over 65	-0.1
	Self-employed	3
	Total package	54.5
	Net against short-term deficit	3.5

Comparison between Options

	Option A	Option B	Option C	Option D
	A presented in the policy letter	The PRC alternative revenue raising	The cost cutting model	Fairer Alternative 2: A balanced and staged approach
Revenue raising	Corporate tax measures £20m A package with GST raising £55m	Corporate tax measures £20m A series of measures raising £49-54m	Corporate tax measures £20m SS reform as agreed in 2021 raising £34m	Corporate levy £20m A package without GST raising £26.5
Expenditure	Savings/cost reductions of £10m Review of GWP and capital portfolio	Savings/cost reductions of £10-16m Review of GWP and capital portfolio	Cost and service reductions £31m Review of GWP and capital portfolio	Budget restraint £8m Review of GWP and capital portfolio
Total package	£85m	£79-90m	£85m	£54.5
				Stage 2 - 2025-2040
Revenue raising				Corporate Tax £10-20m Revenue generating sources: Net Migration, Productivity, Participation, Transport, Tourist Tax, TRP/Land, Economic growth led tax take increases £46 - £65m
Expenditure				Efficiencies, commissioning, health model review, long term care review, trading losses reduction £20-30m
Long-term measures				£76 - £115
Combined scope of deficit control levers				£131 - £170m
Capital adjustment to 1.5% of GDP				£19m
Combined scope of deficit control levers with capital adjustment				£150-189m