



Personal Tax, Pensions and Benefits Review

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Thinking about our future

The way in which Guernsey and Alderney raise taxes to fund public services, social benefits and pensions is well established. The majority of our public money is raised through people paying income tax and social insurance on the money they earn.

However, our community is changing. The balance between the number of people who are of working age and the number of people who are not is shifting. The way that we fund and deliver public services needs to adapt if it is to be sustainable in the long-term. If it doesn't, the time is fast approaching when the States will struggle to provide essential public services and support those in greatest need.

The Personal Tax, Pensions and Benefits Review was set up in 2013, and consultation has taken place with the public, local charities and community groups and business. This leaflet briefly outlines the issues and how they might be tackled. No recommendations are being presented at this stage and none of the options have been ruled out.

The objectives of the review

This review has not been focusing on how to raise more money. It has been looking at how to ensure that both the way that money is raised by the States and the way that it is spent is done so in a way that is:

Sustainable – it is resilient to population or economic changes; and is flexible enough to cope with other changing circumstances.

Efficient – it minimises the impact on the economy, for example by not discouraging work.

Fair – it does not, as far as possible, offer unfair advantages to some people over others; and where it might, there are measures that can be taken to mitigate aspects that might be considered unfair.

There is an inevitable conflict between these objectives in some areas. This is why it is important that the proposals are looked at as an overall package. During the public phase of the consultation, five recurring themes emerged which are now at the centre of the work that is being done. These are:

1 The tax and benefits system should incentivise people to work and support themselves

2 People should be encouraged to take responsibility for their financial well-being in later life

3 The tax and benefits system should be, as far as possible, simple and easy to understand

4 The personal tax system needs to be competitive in comparison with other jurisdictions

5 The States has a duty to ensure that expenditure is controlled and public money is used efficiently

The challenges

The overall challenge is for the States to maintain public services whilst balancing the upward pressure on public spending with a decrease in public revenue.

Tax and the economy

Adopting the zero/10 tax system in 2008 secured Guernsey's future as a competitive international finance centre, but it also reduced the States' income and narrowed the tax base. It has made planning how best to raise the money needed to maintain and develop public services for the future more difficult.

Population changes

This is made more challenging because the proportion of our population who are over 65 is increasing and will continue to grow for the next 50 years. Spending on old-age pensions, health and social care will need to be increased to provide care and support to an increasing number of older people. At the same time, States' income will be adversely affected as smaller proportion of the population will be of working age.

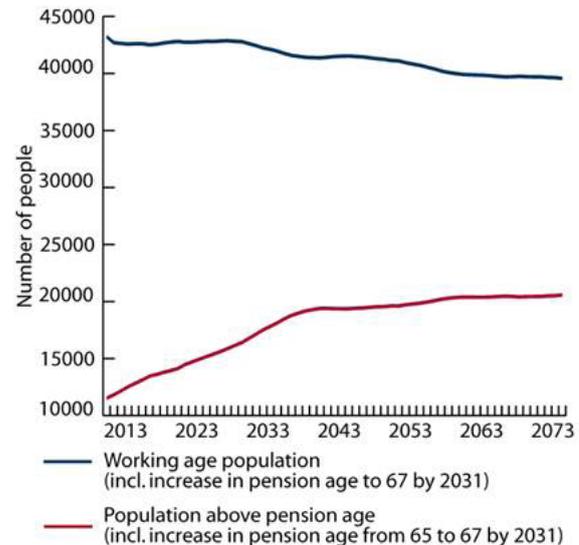
Overdependence on personal taxation

Almost three-quarters (73%) of Guernsey's taxes come from direct personal taxation (i.e. personal income tax and social insurance contributions). This figure is at least 10% higher than most other jurisdictions. This makes the States' income particularly vulnerable to changes in the amount people earn, either because there are less people in work (i.e. because there are fewer people of working age or more people unemployed) or because people are earning less. This makes predicting States' income less certain, which in turn makes it difficult to make the long-term investment in public services that Guernsey's community needs and expects.

Establishing the size of government

The upward pressure on old-age pensions, health and social care means that, unless changes are made, the States will need to spend more money to maintain the current level of services. In addition, many in the community would like to develop new public services such as maternity benefits.

We also need to invest in maintaining our infrastructure, such as housing, schools, hospitals and coastal defences, and to develop new infrastructure which will help our Islands develop both economically and socially e.g. the purchase of new equipment for the hospital. To be sustainable in the long term, the States needs to decide how much money it will take out of the economy as taxes to provide these public services and capital investment.



Potential options for change

This review has been exploring a number of options relating to pensions, benefits and taxation in order to help meet these challenges. It is now attempting to assess the impact of each option before finalising any recommendations.

There is no single solution and so part of this review involves assessing how the different options would work together, as it is clear that a package of changes will be needed in order to ensure a balance between sustainability, efficiency and fairness.

What happens next?

There are a number of ways you can find out more:

- During the summer there will be an online question and answer session with politicians so you can ask any questions you might have.
- A more detailed summary will be available to collect at public locations including Sir Charles Frossard House; The Guille Alles Library; the Income Tax and Social Security offices; and the parish douzaine rooms.
- Further information, including a short film and more detailed documents, will be available online at www.gov.gg/ptr.

Detailed recommendations arising from the Review will be published and presented to the States for debate in late 2014.

Where does your money go?

Presented to scale

