



Tax Simplifier

Analysis and Information from GPEG



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Guernsey Tax – Somehow!

Ahead of the publication of the Tax Package proposals by the Policy and Resources Committee (P&R) on 8 June 2026, thought should be given to doing things more simply and logically. There is an opportunity!

P&R's latest communication is that a moderate package of measures will blend GST (possibly at a rate lower than 5%) with mitigations to protect lower-income households, reforms to social security, transport tax reforms and changes to company tax.

In order to reduce or eliminate the tax burden for the less well off, the tax burden on the better off will be increased. This is an arbitrary political decision with obvious arguments, for and against, about fairness.

Having decided this redistribution, the rest of our tax cost is to cover all other forms of expenditure. Some of this is essential (roads, education, health and the like) and some more discretionary (use of consultancy, elements of the benefits system, some regulation, most of the capital expenditure the States approve and so on). Funding for this comes from taxes, borrowings and returns from investments.

Borrowings and investment returns can and are used by the States to enable States' expenditure to exceed its income.

Annual income twenty pounds, annual expenditure nineteen and six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery," Charles Dickens, David Copperfield

A significant component of P&R's intended package is to try to reduce spending and P&R has committed to being open about its work to examine efficiencies and service reduction options. Recent disclosures about the massive overruns on IT and hospital projects make it very clear that doing things better and cheaper is there to be done. After years of firm denial by the States committees of the existence of savings, we wish this process every success.

Conceptually, P&R's approach is mixed up.

Taxation has over recent years been significantly below States' expenditure.

There is a good article by Richard Digard in the Guernsey Press on 29 May 2026. Summarising (severely!) his argument is that we are too small a jurisdiction to handle the complexities of a larger jurisdiction. He is right – many deputies are asked to handle issues beyond their reasonably achievable capacity, and the cost and scale of our public services reflect the diseconomies of scale that a small island has.

The Deputies have served up for years a muddled and complex brew of accounting and "fiscal targets". Objectives have been befuddled and inconsistent year on year. We have a chance to simplify matters now.

We have the opportunity to set simple cash targets for the Bailiwick. A very basic objective might be to collect taxes equal to the States expenditure (including capital expenditure) each year. Many people would be attracted to this and its simplicity appeals for our small economy.

Years back that is how the tax system worked.

There are sadly complications to this.

The States need to decide, and communicate, what their objective is. Is it for income (i.e. taxes) to cover costs? Is it to borrow to cover major project expenditure? Or is it to sell all the States' investments to fund current expenditure?

We know that the States are committed to borrow money to fund expenditure on major projects which again "kicks" expenditure into the future. Only if the money is a capital spend on something which generates economic good that covers the cash flows of borrowing should we be doing this. Is this a "policy decision", with the consequences laid out, or is it because the States have fallen into doing it?

Then there are the States' social security and employee pension funds. These fund liabilities that arise now from current activity but are payable years later. These liabilities are huge – the employees' total accumulated pension liability is around £1.5bn – with partially offsetting investments. One of the most significant costs is the pension provisions for the States' employees. A review of options to reduce costs and simplify our states accounts would be incomplete without examining a move to replace defined benefit pensions with defined contribution pensions. A potential solution to switch to a defined contribution scheme is appended.

But all told this would provide a much simpler and stable base for the States to set taxes and decide on expenditure. Then we can think about policy issues more clearly. Complicated things like the silly distinction between Social Security and income taxes would simply vanish.

Politicians could not use borrowings to keep taxes low in the current term with the bill being paid into the future.

The choice of taxes, whether GST, company tax or income tax, is a set of discussions that need to add to the right number. But whatever increases in tax are decided, there is inevitably a risk that people are driven away from the Island (see Appendix 2). It is important to rank tax increases according to risk – and to recognise that any increase in taxes carries risk.

We need clarity – not a hasty, cobbled together political package.

APPENDIX 1 – SWITCHING THE STATES PENSION FUNDS FROM DEFINED BENEFIT TO DEFINED CONTRIBUTION SCHEMES

A defined benefit pension scheme, as is currently provided to States' employees, is an open ended commitment by the States to fund guaranteed future pensions, which are inflation proofed.

These schemes are largely closed due to their large costs and unpredictability. Only 4% of UK employers offer a defined benefit plan. In Guernsey they are virtually unknown outside the public sector.

A defined contribution pension scheme, on the other hand, provides pensions based only on the contributions that are made in respect of an individual. There is therefore no burdensome future commitment.

The States' pension scheme was transitioned to be based on a career-average salary instead of a final salary in 2015. But this is still a defined benefit scheme with all the attendant liabilities.

Moving from a defined benefit pension scheme to a defined contribution scheme needs to be looked at seriously. It is important to engage a pensions consultancy which has experience of such a move, in order to plan how such a move can be effected.

It can be done by freezing the defined benefit scheme so that employee entitlements are legally preserved at the transfer date. Employees are moved to a defined contribution scheme for future contributions.

Typically, the steps to transition are:

1. Formal consultation with States employees.
2. Scheme amendment.
3. Member notification in advance of changes to their benefits.

To provide scheme members with more flexibility to provide for their own retirement, an employer may decide to offer an enhanced lump sum for a member to move out of the scheme. This is called an Enhanced Transfer Value (ETV) and can assist in de-risking the scheme and reduce pension liabilities. The employee is giving up a guaranteed lifetime income in exchange for a larger, cash-equivalent transfer value (CETV).

The States can get an insurance company to take on all the liabilities of the defined benefit scheme – often available at attractive cost

It is recognised that pension entitlements for teachers and nurses, for example, may need to continue to mirror those offered in the UK in order to remain attractive for recruiting these professions. But this should not be a deterrent from moving other staff and civil servants away from a defined benefit pension.

Planning for the move needs to be done!

APPENDIX 2 – RISKS IN INCREASING TAXES

The effects of tax rises will inevitably result in some reduction in organisations doing business in Guernsey.

It will obviously be less attractive to better off people (High Net Worths (HNWs)) to live here.

No-one seems to have thought much of the magnitude of any impact. It may be very dangerous, and departures could even mean a reduction in the total tax take.

On the corporate side, our economy is very dependent on the financial services industry - jobs are already likely to be lost as AI moves in. The loss of even a few larger financial businesses to less taxing places could mean we lose critical mass in business areas, with severe consequences for tax income.

The OECD states “Corporate taxes are found to be most harmful for growth.” They seem unlikely to be changed as we have recently rediscovered this generally accepted fact.

Introducing capital gains or inheritance taxes in Guernsey would doubtless result in a wholesale movement of High Net Worths (HNWs) to friendlier places. Many financial services businesses would be badly affected.

A lot of why Guernsey has prospered has been its offering of low and stable taxation. Any substantial tax increases will be badly received as confidence diminishes.