



Policy Letter on Tax Reform - GST

Analysis and Information from GPEG



✉ info@gpeg.org.gg
🌐 www.gpeg.org.gg

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Tax Reform – Workstream 1: GST



Robin Hood Comes to Guernsey

A rational approach to taxation generally starts with working out the cash needs (eg capital spends, pensions, benefits etc) and then attempts to set a tax system to match.

The Policy Letter intends to set the tax system first.....

The aims of the Tax Reform are in part to fill a deficit in the States' income to cover its spending but at the same time there is a substantial component of the proposed GST income which is being used to put more money into the less prosperous households on the island. So we are increasing the tax bills to an estimated top 30% of the households to fund a large transfer of wealth to the less prosperous islanders who will pay less or no tax and be better off despite the implementation of the 5% GST.

GST is a relatively easy tax to collect and changing its rate is easy too. Our politicians deny the existence of sensible cost saving measures, so it seems very likely that spending will continue to rise, driven by profligacy, ineptitude and demographics.

To alleviate the fear of the GST rate going up our politicians are proposing that any change in the rate must “include compensatory adjustments” – this would be statutory. (In the remote event of a GST rate reduction then presumably it would be the less well off households that bore the brunt). Further they propose that a two thirds majority (we think they mean the number of votes) would be needed for any rise. What happens if there is a bare majority is obviously a problem – can the current States bind a future States?



And King Canute

This seems to be a “con job” designed to induce the less GST committed deputies to vote for it. It certainly achieves nothing in the real world.

The economic effects of the GST package are wide-ranging. Businesses are going to have compliance costs that will be, in some cases, substantial. Large financial businesses are expected to pay £10-12m, in a new tax, to avoid paying (with great complexity) GST on their (and their clients) costs. A not much heralded new tax. This will inevitably reduce the attractiveness of Guernsey for financial services business with some level of loss of business.

Inflation will rise.

Notably the civil service pensioners will see their index-linked pensions rise to reflect the inflation generated but still get the benefit of the assorted “mitigations”. GPEG estimates that something like £2 million a year extra will go into civil service pensions as a result of the GST proposals. Has anyone given this much thought?

Another new benefit is proposed – the “Essential Cost Relief Payment Scheme.” This is £860 per couple payable to lower and middle earning households. This will inevitably add further work for the civil servants. Remarkably the assumption is “that those with low income but who own significant assets will not seek to claim” this new hand-out.

It is also proposed that Social Security Contributions are changed – again with a Robin Hood flavour. The proposed changes are not detailed in the Policy Letter but it is stated that changes will:

- Reduce the contributions for most middle and lower earners
- Increase contributions for higher earners
- Increase contributions for employers
- And slightly increase contributions for pensioners

There are no taxation simplifications in the package and a considerable number of anomalies generated by the proposals.

A previous States instituted a sensible Rule (4(1)(d) that requires Policy Letters to show the financial effects of proposals. The Letter rather snooks its nose to this rule by responding to the requirement as follows: “The Propositions have implications for the States revenues should the policy be supported as a way to address long-term financial stability.” That’s it. Straight out of a Yes Minister script. There is no easy financial summary in the Policy Letter.

Overall Conclusions

1. Time is a luxury this States does not have. GPEG fully agrees with this statement and that work on implementation of GST must be pursued now. Even doing so, it now appears implementation is not going to happen until the 2nd quarter of 2028. Given the recent outcomes of States’ IT projects and the very large overruns on IT projects together with the poor state of the States’ tax systems, missing even that 2028 target must be quite likely. The Policy Paper (civil service prepared) says the timetable is “ambitious” so meeting the timetable is not the base case! Delays in a decision on tax changes will already have cost around £100 million while the States fails to decide.
2. Despite our above comments, GPEG does support the introduction of GST as soon as possible. We also think it should be applied across the board – including to food. We agree that if the States were not to apply GST to food, this would add significant additional complexity and add

to the costs of administration. We note that the retail sector prefers GST to apply to food to avoid that complexity.

3. It is important to remember that the States cannot rely on only the introduction of GST. The structural deficit for 2026 is forecast (optimistically) to be £98 million and rising. It is stated that GST will raise a net £50 million, which leaves a significant gap.
4. The proposed package compensates those with lower incomes very generously, such that they will be better off under GST. Only an estimated top 30% (based on gross household income) will be worse off, with an estimated top 5% bearing the bulk of it.
5. The proposed Essential Cost Relief Payment (ECRP) scheme is aimed at households rather than individuals. It creates another layer of complexity – the tax system is based on individuals, rather than households, so the ECRP should be as well.
6. The ECRP isn't tapered, meaning those with a gross income of less than £32,400 receive an annual payment of £860 per couple or £520 for a single person household, but above that income point there is nothing. We think there is scope to have a sliding scale and to reduce the ECRP as incomes increase so those earning a little above £32,400 are not disincentivised. But it really would be more sensible to scrap this new handout.
7. We recommend that P&R provides a number of worked examples of the effect of the packages proposed to compensate for the introduction of GST, at different levels of income and at different levels of GST. Only a single example has been added to the Tax Reform website. It is not easy to understand the quite complex structure being created.
8. We note the States is to consider whether or not to exempt education from GST. GPEG supports an exemption for education to children under 19 years and to nurses and carers. We do not think the rate of GST should be increased by 0.1% to compensate for this – an odd decimal rate will introduce inaccuracies and needless complexity.
9. The proposed registration threshold for businesses is a sales turnover of £300,000 meaning smaller businesses will not need to charge GST.
10. The Island has two critical sources of income – the high net worths who live here and the financial services industry. Both will suffer significantly from the GST and social security tax increases and the redistributed tax burden. The States should be very mindful of the risks of overpricing Guernsey as a place to live and work in.

Although still at an early stage, there is parallel States activity ongoing to increase corporate taxes. This carries further risk of killing the golden goose that lays the golden eggs. GPEG urges considerable caution in further taxing businesses.

The Policy Letter

Policy & Resources (P&R) quite rightly recognises that the introduction of GST, as debated and agreed by the previous States, must be worked on now, without delay. To do so, key decisions are needed from the States on whether to apply GST to everything, including food and education, and on the details of the tax reform package, including a GST plus personal protection measure, to compensate households for paying GST.

GST on food

GPEG agrees that 5% GST should apply to all food, mainly because this avoids significant complexity in the administration of GST.

The Policy Paper proposes an alternative option for the States to consider that food could be zero rated, but that the rate of GST would have to rise to 6% to compensate for this. Within the detail, all alcoholic drinks would be subject to GST, as would food provided on site by caterers and the hospitality sector.

GST on schools

The States is to consider whether GST should apply to education. The first option is that all fee-based education services are subject to GST. However, pre-school education will be exempt from GST. For the Guernsey Institute, this means that fee bearing services will have GST added.

A second option is proposed whereby all education services provided to children under 19 are exempt. Consideration is to be given to also exempting training for nurses and carers. Evening classes and other adult education courses would charge GST. Colleges would be unable to reclaim GST on purchases, so would see some increase in costs. It is proposed that the rate of GST should increase if this second option is applied. The amount of the increase is proposed to be 0.1% to compensate for lost revenue – which is totally impractical. No-one wants to be charging a rate of 5.1%!

GST on internet purchases

If Amazon purchases continue to be made without VAT or GST, there will be a price inequality. It is not clear how this will be dealt with. There is a statement in the Policy Letter that import and excise duties are payable on the import of goods into the Island and that these are effectively incorporated into the final price set by retailers which is subject to GST. Does this mean that all internet sellers will be asked to account for GST? What about services, such as Sky television? If this is to be policed by Customs at the time goods are received, it will likely be messy in practice and cause delays in deliveries.

We note that Jersey applies GST on most online purchases, charged at checkout by registered sellers. There is a £60 de minimis threshold for unregistered sellers, so that imports under £60 are free from GST.

We recommend that Guernsey follows Jersey and adopts a £60 threshold.

E-gaming and international insurance

It is proposed that these service industries will contribute to GST by way of a set fee, to get an Exemption Certificate and not bear GST on inputs. This will be a similar scheme to international financial services businesses who export their services. An 'International Services Entities' (ISE) scheme is proposed. This mirrors arrangements in Jersey to ensure Guernsey's competitiveness is not negatively impacted.

Compensating households for the introduction of GST

Significant and generous benefits to all households are being brought in, to compensate for GST and, in the case of more than 50% of households, actually meaning they will be better off under GST. We don't think the level of improvement to less well-off household finances is sufficiently well recognised or understood across the Island.

Why are the benefits proposed to be introduced as much as a year in advance of GST? When people receive them they will get used to the extra income and then GST will cause them to feel less well-off later. Surely benefits should be introduced at the same time as GST, so the extra income is matched with the extra costs.

GPEG recommends that P&R should provide some worked examples to demonstrate the benefits at different income levels.

These generous benefits comprise:

- Increases to income support and other benefits, including increasing pensions
- Reducing income tax: a new 15% income tax band and an increase in the personal allowance by £600
- Reducing social security payments: introducing a personal allowance matched to the income tax allowance and increasing contributions from higher earners
- A new Essential Cost Relief Payment (ECRP) scheme is proposed: to mitigate the impact of GST on low income households not receiving income support. Households with a gross income of less than £32,400 are proposed to receive a fixed payment once of year of £520 for a single person and £860 for a couple. The new scheme is described as a "non-statutory benefit". What does this mean?

There is no sliding scale or tapering of the fixed payment under the proposed ECRP scheme. We recommend this is looked at. Even better, we think, is to avoid the fresh complexity altogether and not to introduce ECRP at all. Our tax office has serious operating issues already.

We have looked at two worked examples of some of the complexity that the States is generating, set out in the attached appendix. For example, based on GST at 5%, a couple with one person earning £32,000 will pay tax and social security of £3,807 under GST, instead of £5,760. In addition, they will receive an Essential Cost Relief Payment of £860 per year. If they spend half their income on rent and half their income on goods and services, they are better off by £2,087 per year under GST.

However, a couple with one person earning £40,000, won't receive the Essential Cost Relief Payment. They will pay tax and social security of £6,067 under GST, instead of £7,960. So they will be £1,045 better off per year on the same basis, which is quite a difference.

Looking at these examples shows there is plenty of scope to taper the fixed payment to avoid disincentivising those earning above £32,400 from earning more.

APPENDIX – EXAMPLES (warning – a difficult read!)

Case Study Current tax system (2026) GST and tax package agreed by last States

1. A couple with one person earning £32,000

Allowances:
£15,200
personal tax allowance

Tax rates:
20% tax on income over allowances
7.5% social security on all income

Example of Income:
£32,000 income
£3,360 Tax at 20%
£2,400 Social Security at 7.5%

£26,240 available to spend after tax

Allowances:
£15,800 + £15,800
personal tax allowance + social security allowance

Tax rates:
15% tax on income between allowances and £32,400
20% tax on income over £32,400

8.5% social security on income over allowance
5% GST on goods and services

Example of Income:
£32,000 income
£2,430 Tax at 15%
£1,377 Social Security at 8.5%
+ £860 Essential Cost Relief Payment
£29,053 available to spend after tax

£2,813 more money available to spend than current system
£726 estimated GST on spending, if half income spent on rent
£2,087 better off after GST

2. A couple with one person earning £40,000

Allowances:
£15,200
personal tax allowance

Tax rates:
20% tax on income over allowances
7.5% social security on all income

Example of Income:
£40,000 income
£4,960 Tax at 20%
£3,000 Social Security at 7.5%
£32,040 available to spend after tax

Allowances:
£15,800 + £15,800
personal tax allowance + social security allowance

Tax rates:
15% tax on income between allowances and £32,400
20% tax on income over £32,400

8.5% social security on income over allowance
5% GST on goods and services

Example of Income:
£40,000 income
£4,010 Tax at 15%
£2,057 Social Security at 8.5%
£33,933 available to spend after tax

£1,893 more money available to spend than current system
£848 estimated GST on spending, if half income spent on rent
£1,045 better off after GST