



Social security contributions under GST plus

Analysis and Information from GPEG

SOCIAL SECURITY PROPOSALS FOR GST PLUS
PROPOSITION AMENDMENT DATED 17 OCTOBER 2024 (P2024/91)
GPEG COMMENTS AND RECOMMENDATIONS

CHANGES TO SOCIAL SECURITY CONTRIBUTIONS UNDER GST PLUS WILL RESULT IN A HEADLINE TAX RATE OF 28.5%

The proposals set out by the previous States, if adopted for GST Plus, mean that social security contributions will be charged on ALL your worldwide income, whether or not earned and whether or not you are an employee, making it just like income tax. It means that the rate of tax on all income will comprise 20% for income tax plus 8.5% for social security contributions – a total real tax rate of 28.5%.

The proposals need to be properly understood and debated by the States. They can be found at:

<https://parliament.gg/parliamentary-business/assets/propositions/p2024-91%20Amdt%202>

(Note that the proposals in the link are compared with the 2024 proposal to increase income tax to 22%)

Not only do the GST Plus proposals increase the basis to include all income, they also increase the rate to 8.5%, from the current employee contribution rate of 7.5%.

Ignore the effect of the proposals to change social security contributions at your peril!

The proposals mean you will be paying social security contributions on bank interest, investment income and rental income. Currently anyone who is employed only pays social security contributions on their earned income.

Moreover, those with total income above £85,000 can expect to experience a marginal tax rate of 33.2%, as the personal allowance is withdrawn.

For a pensioner, the headline rate will be 24% (income tax at 20% and social security contributions at 4%). It should be noted that there is no change for pensioners, because they currently pay social security contributions on all their total income.

It is accepted that people who are not employed and rely on income outside traditional employment, such as rental income, should contribute. However, charging social security contributions on all income would give rise to quite a number of issues and even disincentives to be in Guernsey.

The proposal means that Guernsey would be joining France, Sweden and the Netherlands in charging social security contributions on total income – all countries known for having high social charges. The UK and Jersey do not charge social security contributions on total income – people pay contributions only on their earned income.

As at present, there is an upper income limit for total income of £196,560 (2026 level) above which no social security contributions are paid.

GPEG believes that social security contributions should be charged only on earned income. We do not believe that charging social security contributions on total income is the right thing to do for the following reasons:

1. Less incentive to save

Charging social security on all bank interest and dividends will produce increased disincentives to save. It is likely to impact people's ability to save for a house deposit, for example. There are no tax shelters for savings, whilst the UK has ISAs. Will Guernsey have to introduce ISAs in order to encourage people to save?

2. Problems with double tax

Those employed in Guernsey and also with earnings overseas will find themselves paying social security contributions on those earnings, whether or not they have already paid overseas tax. Will there be changes in order to give FULL relief from overseas tax on social security contributions, rather than only on income tax?

3. Less incentive to be employed

Under the present basis, where employees are paying social security only on their earnings, there is an incentive to hold a part time job. The proposals take away some of the incentive to be employed.

4. Impact of loss of personal allowance

Charging social security on all income will exacerbate the effect of the loss of personal allowances, giving people a disincentive to have total income over £85,000. Will Guernsey experience the same effect as the UK, where people don't want to see their earnings increase because of the higher marginal rate of tax?

5. Higher tax than Jersey

Jersey charges social security at 6% on earnings in Jersey only. Under the GST Plus proposals, Guernsey's comparison with Jersey as a place to work becomes more unfavourable. There is a real likelihood that jobs and talent will be lost to Jersey and to other more favourable jurisdictions. This will be an issue for the finance sector, in particular.

6. Increased bureaucracy and complexity

The proposed changes to social security will complicate this as a tax and will have consequences for income assessment systems for income tax and social security. Will they use the same reporting and assessment systems? Questions such as whether interest is only taxed on receipt or is taxed as it accrues will need addressing. The taxation of dividends paid in shares would give rise to complex issues – and lots more.

The present system is administered by employers using the PAYE system. This will not be possible if ALL income of employees is to be assessed. So taxpayers will have further paperwork to complete. Our struggling tax office will get another opportunity to fail

There is little evidence that the States have considered the economic effect of these quietly introduced impositions. The loss of finance sector jobs (already likely as AI reduces jobs) would definitely have the potential to mean that these changes could result in less tax revenue – not more. High net worths will be less likely to come to, or stay, in Guernsey. These various impacts mean that the amount raised will be uncertain and, at worst, the changes could be entirely self-defeating.

(Note for readers – the Guernsey social security system is quite complicated. Governments mostly pay the social security bills out of their annual income and a few jurisdictions put the funds needed to pay social security into a fund to cover future payments as the liabilities stack up. Guernsey has a hybrid structure unique to the Bailiwick which generates lots of complexity! Simplification is well worth looking at.)