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Comments on Consultation on Options for Taxing Company Profits

Analysis and Information from GPEG

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CONSULTATION ON OPTIONS FOR TAXING COMPANY PROFITS

GPEG COMMENTS AND RECOMMENDATIONS

Introduction

The Tax Review Sub-Committee (the Sub-Committee) has issued a consultation paper dated 23 January 2026 on behalf of the Policy & Resources Committee (P&R) and has asked for comments by way of a consultation survey.

In conjunction with the Sub-Committee's request, GPEG would like to make some overall comments and expand on some of the points raised by the consultation paper.

Summary

1. None of the Options considered in the consultation paper raise any large amounts of tax.

   This is inevitable because the introduction of Pillar 2 rules in Guernsey with effect from 1 January 2025 has already increased the company tax rate effectively to 15% for large companies (those with turnover of €750 million or more). Pillar 2 has pulled the rug from under the Sub-Committee's feet. It significantly limits the opportunity for raising large amounts of tax from any of the Options, simply because all the large companies have already had their tax increased.

   The Options, therefore, have to be aimed at those companies below the large company category, which unfortunately results in hitting Guernsey's non-financial sectors and middle range businesses and becomes counter-productive.

2. It is important to remember that £40 million of receipts from Pillar 2 taxes are ALREADY included in the 2026 Budget. The Structural Deficit for 2026 of £98 million is AFTER taking into account these receipts.

3. We are totally against Guernsey acting as 'first mover' and introducing taxes that are not in alignment with other Crown Dependencies. It would be fiscal suicide. We have to be aligned with Jersey and the Isle of Man on tax policy. Better, of course, would be to be more friendly than other jurisdictions!

   That immediately rules out Zero-15 and Territorial tax as Options.

4. One of the stated aims of the Sub-Committee is to support economic growth. This is interesting because taxation generally has a negative impact on investment and individuals' efforts to make money. Which harms economic growth. A consequence is that companies prefer to operate where corporate tax rates are lower, which has led to corporate tax rates falling across a wide range of countries over recent times. It's noteworthy that the average statutory corporate income tax in Europe is 21.3% as a result (according to the Tax Foundation 2024).

   GPEG concludes that the closer Guernsey's corporate tax rates move to 20%, the more it diminishes Guernsey's attractiveness as a place to do business and the more likely companies will be to move activity elsewhere. A number of the Options propose increasing the application of the 20% rate, which means a real risk of companies moving activity – what the Sub-Committee calls behavioural change.

5. Middle-range and small businesses are already struggling with cash-flow because of employment costs and inflation. Adding tax will restrict money available to invest in the business and risks them downsizing or reducing employment or even going out of business.

Option 1 – Full profits

Tax would be applied to the full profits of regulated businesses. At most this will raise about £0.5 million in tax.

However, it would align Guernsey with Jersey and is unlikely to have much impact.

It may result in business separation, with businesses splitting their regulated and non-regulated activities.

Overall, not much downside to implementing this option, but it has, as stated, little benefit.

Option 2 – Sector extension

Extend the range of companies to which the 10% and 20% tax rates apply, e.g. to construction, retail and professional services.

At present, retail businesses with a taxable profit of more than £500,000 already pay tax at 20%. It would be inappropriate and harsh to remove that level and tax small businesses.

Adding a tax burden to companies with less than £500,000 profits will restrict the money available to reinvest in the business and add to increasing demands when they are already struggling with profitability. All these businesses are high employers and downsizing or reducing employment would be a significant risk.

Jersey taxes large retail businesses with profits of more than £750,000 at 20%; those below £500,000 pay 0% and there is a sliding scale between £500,000 to £750,000.

However, Jersey is also currently considering whether to apply the 20% band to construction companies.

GPEG is of the opinion that Guernsey should basically stay aligned with Jersey and not charge companies with profits of less than £500,000.

Option 3 – Zero-15

Sectors currently in the 10% band move to 15%.

The major downside to this proposal is that the other Crown Dependencies are not doing this.

The other issue is that Pillar 2 tax already applies 15% to the large companies, meaning that there is little additional tax to collect. In fact, the risk of companies moving elsewhere, if it were to be introduced, means that the Sub-Committee has estimated a loss of tax revenue.

Therefore, GPEG is against this option.

Option 4 – Territorial

Such a tax would only tax profits derived from activity in Guernsey. It would involve bringing in complex rules to distinguish between domestic and foreign income, including transfer pricing. Businesses would incur higher costs of compliance, regulation and administration. The States would also need additional resources to monitor compliance.

The proposal is to remove the zero tax band, with a minimum rate of either 10% or 15%. Pillar 2 and the 20% rates would continue to apply.

There would be a strong incentive for companies to shift profits to a lower tax or no-tax jurisdiction and to reduce employment in domestic operations. The risk is highlighted in the tax revenue estimated by the Sub-Committee. Using a minimum tax rate of 10%, tax estimated by the Sub-Committee could be £14.8 million. However, when behavioural change is considered, estimated tax revenue drops to £3.3 million. With a minimum tax rate of 15% it becomes a loss of revenue of £5.1 million.

In addition, proposals to introduce such a tax would be highly likely to trigger a review by the EU Code of Conduct Group (see appendix for more information). Until cleared, it could not be introduced, meaning there would be a period of damaging uncertainty.

GPEG is of the view that it is not worth considering this option, because of the risks and the period of uncertainty, as well as the fact that there is only a revenue benefit to introducing the change if there is no or very little behavioural change.

Option 5 - Levy

A flat fee for local registered companies at £250 or £500, raising £5 million to £10 million.

It is simple to understand and administer.

GPEG is of the opinion that at £500 it would penalise smaller companies. However, we think a fee of £250 would not carry so much downside.

APPENDIX

1. References

Pillar 2 – see a separate paper by GPEG dated 30 October 2025:
https://www.gpeg.org.gg/_files/ugd/b1f5f7_f3ae5271800a419a899f704269616d6d.pdf

2. EU Code of Conduct Group (Business Taxation)

The Group was established in 1997 by the EU and ensures that only fair taxation is enacted, as part of its remit to tackle fraud, evasion and avoidance. The Group monitors compliance within the EU and influences other countries.

If a tax is changed substantially or a new tax is brought in, such a tax has to be cleared by the Group as not being harmful tax competition. The country concerned is listed as having a pending commitment and it will hold up its introduction until that tax is cleared.

Guernsey, Jersey and the Isle of Man are listed within a long list of many countries co-operating with the EU.

There is currently a list of 11 non-co-operative countries.