

Our Island **OUR FUTURE**

— #OurIslandOurFuture —



States of
Guernsey

What's happening?

The States of Guernsey will debate the Tax Review in January 2023. This will consider how the States raises some of the money it needs to fund our essential public services.

Why is this being discussed?

The cost of providing services essential for the community is greater than the total taxes raised currently. The average taxpayer pays £7,000 each year in tax. Examples of the cost of just some essential services include:



Complex knee or hip operation
About £20,000



Average cost of day patient case
£1,000



One year of secondary education per student
About £9,000



One year's States Pension at full rate
£12,160



Average cost of income support claim for a working family
£12,000 - £13,000



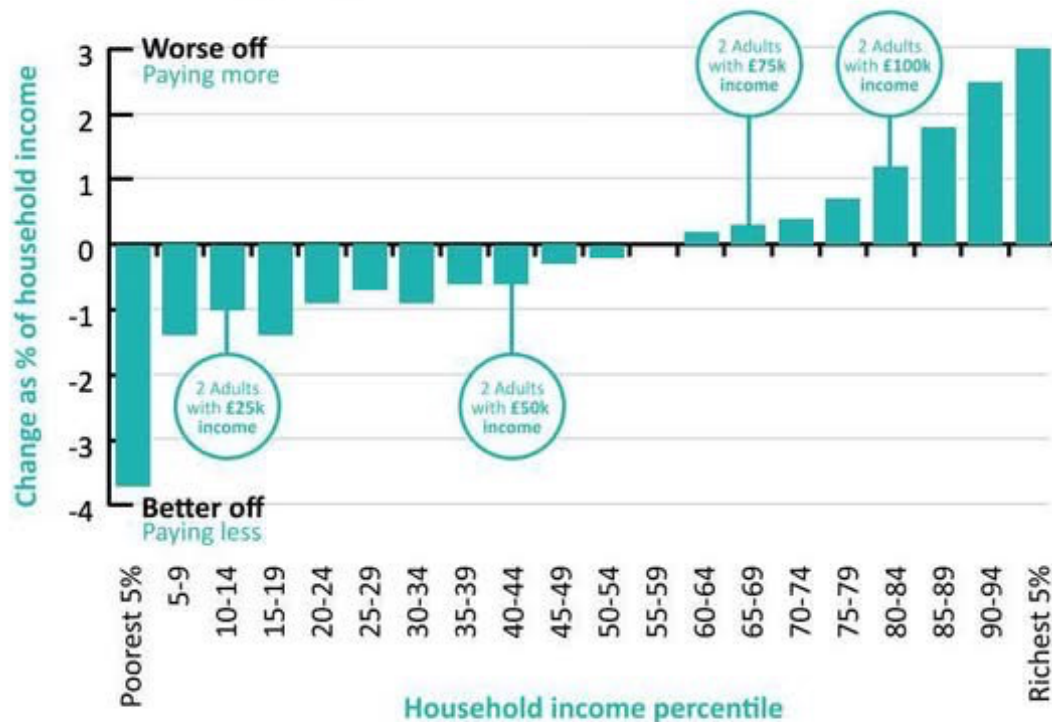
Cost of prison service per prisoner
About £45,000 a year

These are just a very small selection of all the essential services the States must provide for our community, but highlight the challenges in balancing the amount of tax raised with the cost of services.

The cost of delivering essential services like healthcare has been rising year-on-year and this trend is going to continue as we all live longer. Taking into account the day-to-day costs of delivering essential services and benefits, and the need to spend money on replacing and developing infrastructure that our communities rely on, the structural deficit – the gap between how much we raise in taxes and the cost of public services - is already £58m. We forecast by 2025 the gap will be £70m and it could reach more than £100m by 2040.

In the short term we are using savings to cover the gap and support projects like modernising the hospital and developing the education estate. However, those savings will be largely used up by 2025 and if we don't take action there will not be enough money to support essential services or continue to maintain infrastructure.

What is being proposed?



Our proposals mean that most people will take home more money than they do under the current tax system, so while GST will result in the cost of goods and services increasing most lower- and middle-income households will be better off overall.

We continue to look at the options around corporate tax and believe there is scope for more revenues to be generated from companies. Our proposals also include restricting expenditure on public services. These two elements are key parts of the overall package of measures.

All together it is possible that limiting spending, reviewing corporate tax and a range of other measures could close the gap by up to £40m over time, but that still leaves a deficit of £50m-£60m a year needed to deliver the essential services the community needs.

To address this gap, the current proposal is to raise around £52m in total from a combination of households (£19m), businesses (£27m) and visitors (business and leisure) (£6m). We believe our tax system should be fair, which means wherever possible the greatest burden should be met by those who can afford to pay the most.

The package being proposed contains these key elements:

- A new 15% Income Tax band on everyone's income up to £30,000. For someone on median earnings (about £37,000 a year) this will reduce their tax bill by about £900 a year.
- An increase in the personal income tax allowance of £600 which will reduce people's bill by £120 a year.
- A broad-based GST at 5% with relief for a limited number of things like rents and mortgages. This is expected to increase household costs by about 3.4%, which would be about £1,100 for someone on median earnings.

- A restructure of Social Security contributions to give everyone an allowance. This makes the system more progressive and would mean an employed individual on median earnings gaining about £600 a year.
- Pre-emptive increases to pensions and benefits to anticipate the impact of inflation.
- A scheme to provide financial support to certain low-income households outside of the benefits system.

What else has been considered?

We have looked at other options to try and avoid the need to raise taxes. We examined whether the States could spend less or raise more within the existing system. We cannot sustainably raise the amount needed within the existing tax system and it is not possible to generate £70m-£100m in savings without drastically cutting the services that islanders rely on.

Please be informed

If you want to understand more about how these proposals work, or the expected impact they may have on you and how this might be managed please visit ourfuture.gg/tax-review