

Tax Capping: is it good for Guernsey?

Simon Graham looks at the Government consultation document entitled Guernsey's "Future Taxation Strategy"

"If tax capping is adopted as a policy then the crucial decision will be at what level to set the ceiling."

In the last issue of this magazine I looked at the forthcoming clarification of Guernsey's residence legislation and discussed how the new rules might assist some individuals to restrict their liability to Guernsey tax. In this issue I want to take this theme one step further and look at tax capping, which has recently been thrust into the limelight following the publication of a Government consultation document entitled Guernsey's "Future Taxation Strategy".

This paper has been published 'to assist the States of Guernsey to establish a strategy to safeguard the future economic wellbeing of the Island'. Whilst most of the paper relates to corporate tax matters I will concentrate on the issues surrounding tax capping. As a policy, tax capping is an emotive subject and it is difficult to separate the fiscal considerations from the political implications. The paper suggests that very high taxpayers should be encouraged to live in Guernsey due to the significant contributions that they make to the Island's economic and social well being. The paper also alludes to the fact that there are already several other 'competitor' jurisdictions that operate tax capping provisions.

Whilst different factors may apply in different jurisdictions, I would take this opportunity to focus on some of the reasons why tax capping would benefit Guernsey:-

- (i) A substantial fixed sum of tax would be payable;
- (ii) Additional wealth and tax revenue would flow through the economy through service industries and consumer spending;
- (iii) High net worth individuals tend to be entrepreneurial in nature and are likely to set up new businesses on the Island;
- (iv) Following the introduction of zero corporate tax in 2008, a cap on personal liabilities would encourage further business investment in the local economy and would significantly benefit local business owners in comparison to their non-locally owned competitors;
- (v) Additional high net worth individuals moving to the Island would provide a real stimulus for the open market housing register.

In order to attract the very wealthy individuals to the Island who will add significantly to the economy, not just



in terms of their personal tax contribution, but also as a result of how their wealth permeates through the general economy, Guernsey must adopt a regime that encourages these individuals to come here and not go elsewhere. As mentioned before, there are plenty of other jurisdictions offering tax capping and the current consultation process offers the Island a good opportunity to make itself competitive.

The consultation paper suggests that there could be an income ceiling with a much reduced rate above that ceiling. I do not believe that this method of capping will necessarily appeal to the very wealthy who have highly complex financial structures spanning various jurisdictions, as they will inevitably prefer to pay an agreed amount on an annual basis, without having to prepare detailed tax returns covering their worldwide income. Administratively it would also make sense to simply agree a set amount and avoid the dangers of long running disputes with the taxman.

If tax capping is adopted as a policy then the crucial decision will be at what level to set the ceiling. I believe the policy will have to apply to all residents and should not be ring-fenced for certain categories of licence holders, which means that the cap has to be set at a high enough level not to significantly erode current tax revenues, whilst also being attractive enough to encourage more high net worth individuals to move to the Island.

A fiscal balancing act and a political hot potato, but something which could be of great benefit to Guernsey's economy and to all those people already living here.

Anyone seeking further information should contact Simon Graham in the first instance, or the MeesPierson Reads Director or Manager with whom they normally deal.