

## The opportunity of change

### Simon Graham takes a look at the second Government consultation document on Guernsey's "Future Taxation Strategy"

"An inevitable broadening of the tax base... can only serve to reduce the Island's overdependence upon a single income stream."

Following on from my article in the Summer 2005 issue of this magazine, where I looked at proposals for capping the personal tax liabilities of high net worth individuals, the second Government consultation document on Guernsey's "Future Taxation Strategy" has now been issued.

This round of consultation has importantly provoked a far wider response than the first and much has been written in the media in recent weeks concerning Guernsey's corporate tax strategy. Perhaps unsurprisingly a large proportion of the commentary has focussed in a rather negative fashion on the Island's plans to fill the 'black hole' that will arise from a zero corporate tax regime. But is it all bad news?

#### Catalyst for growth?

The starting point has to be a strategy that helps to maintain the Island's competitive standing within the international finance industry. To this end, it is generally accepted that the zero – 10 proposals being advocated by The Fiscal & Economic Policy Steering Group will, broadly, serve to maintain the Island's position in relation to its key competitors, many of whom are already moving in a similar direction as regards their own corporate tax regimes.

The consultation papers to date make little attempt to predict future corporate behaviour or changes in economic activity/growth. Historically however, Guernsey has (with some exceptions existent in the finance sector) had a flat rate of tax of 20% applied to the profits of financial service providers operating in the Island.

Since many of these entities are part of larger international financial organisations, one could reasonably expect that a reduction in the domestic tax cost to either 10% or zero would stimulate and encourage increased economic activity. It is also reasonable to assume that increased corporate economic activity will raise additional revenues from associated personal taxation and indirect taxes.

#### If the cap fits...

Another important element of the Steering Group's strategy is the proposal to cap the income tax liabilities of wealthy residents. It is essential that Guernsey is able to attract wealthy and entrepreneurial individuals to the Island and a tax-capping measure will go some way towards facilitating this. Although, in our view, the current proposal (which considers capping the liability on overseas source income only) must be extended to encompass Guernsey source income, we are wholly supportive of the principle, tax-capping being a policy that we have historically advocated.



#### Cautious optimism?

No one should doubt the enormity of the task faced by the Island in fundamentally altering its tax regime and fiscal profile - these issues present our Government with, arguably, some of the most important decisions it will have been asked to make in the last fifty years. However, in focussing unprecedented attention upon the tax system and engaging the whole community in its strategy, the States of Guernsey has the opportunity to effect wide reaching changes that go beyond simply altering the headline corporate tax rate. An inevitable broadening of the tax base that will result from increasing other taxes and/or introducing new taxes can only serve to reduce the Island's overdependence upon a single income stream.

#### Value of consultation

Consultation provides a forum for alternative and radical ideas and a stimulus for creative thinking and innovation. Like many others, MeesPierson Reads has taken an active involvement in the debate and we have submitted a detailed response to the consultation document. Of course there are elements of the current proposals with which we agree, others with which we disagree and some which we believe require far closer consideration. In our submission, we are also urging The Fiscal & Economic Policy Steering Group to look at various fiscal issues that do not feature at all in the consultation, but which we believe should be addressed now as part of an even wider consideration of Guernsey's tax regime. We believe that it is vital for the future prosperity and competitiveness of Guernsey that the Island not only endeavours to maintain its current double tax arrangement with the UK, but that it also seeks to actively expand upon its network of double taxation agreements.

The nature of consultation on issues of fundamental importance is such that a consensus view will be difficult to achieve. Nevertheless, the current process is one that will shape Guernsey's economy for many years to come and we believe that it is important that as many people as possible contribute to it.