Guernsey tax: withdrawal of allowances for higher earners

As in the UK, legislation is in place in Guernsey to reduce tax allowances for higher earners.

This was introduced for Calendar Year 2017 onwards and has been extended in scope in the years that followed.

This note is designed to cover the basics of the measure. The difference elements and calculation involved could prove to be complex and we would be happy to discuss this further should you consider that you may be affected.

Who is a "higher earner"?

From Calendar Year 2023 onwards, a higher earner is considered someone whose income exceeds £90,000 per annum. This limit was previously £100,000 for 2019 to 2022.

What are the allowances withdrawn?

It is not just the basic personal allowance that is impacted. The allowances that may potentially be withdrawn include the following:

- Personal allowance
- Dependent Relative Allowance
- Infirm Person's Allowance
- Housekeeper Allowance
- Charge of Children Allowance
- Mortgage Interest Relief
- Pension Contributions over £1,000

All taxpayers, regardless of level of income, may contribute any amount into approved pension schemes. However, for those whose allowances are fully withdrawn, the tax relief is limited to the first £1,000 contributed per annum.

How does it work?

Where an individual's income exceeds £90,000, allowances are withdrawn at a rate of £1 for every £5 of income in excess of the £90,000 limit. There is a specific order of withdrawal, and this is explained below.

The limit applies per person where an individual is assessed jointly with their spouse or civil partner up to and including 2022 (see below). For 2023 independent taxation applies – see our note 'Guernsey Taxation – A Summary Guide' for more information on this.

This limit is pro-rated in the year of arrival or permanent departure.

The allowances and deductions are withdrawn in the following order:

- Personal allowance
- Dependant Relative
- Charge of Child
- Infirm Person
- Housekeeper
- Mortgage interest

Tax relief on pension contributions are the last allowance withdrawn under the calculation (subject to the minimum £1,000 contribution).

Couples who are married or in a civil partnership

As mentioned above, independent taxation applies for Calendar Year 2023 and onwards. And whilst it is possible to transfer unused personal allowances from one spouse to another, this is not the case for those who are within scope of this legislation.

Employer pension contributions for higher rate earners

For tax purposes, employer pension contributions are not taxable in the hands of the employee and are considered an exempt benefit in kind.

Although "salary sacrifice" anti-avoidance measures do not apply to pension contributions, the Income Tax Office are aware that some individuals may choose to divert salary or pay rises into additional pension contributions. In this case, they may review the employer contributions with a view to bringing some into tax charge.

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