Guernsey taxes

Background to taxation
Guernsey funds most of the island's state expenditure through income tax. This is charged at the flat rate of 20% after allowances, but is subject to a tax cap, of which there are two different options available for taxpayers with a third, limited, offer for new residents. In addition, resident taxpayers who are not solely or principally resident can elect to limit taxation by means of the "Standard Charge".

The tax year is on a calendar year basis.

Married persons are seen as one taxpayer and taxed jointly, although this changed for couples married after 1 January 2016. There is a form of independent taxation that will gradually change over the next few years.

There are no taxes on capital gains and no gift or inheritance taxes. Indirect taxes are limited to alcohol, tobacco and fuel, with no VAT or equivalent imposed on general goods sold.

Limited rates on residential properties are imposed by parishes and the States of Guernsey.

Income tax

Who is liable

Residence
Liability to Guernsey income tax is based on residence, by way of a day count. A "day" is defined as being present in the Bailiwick at midnight.

Principally resident
An individual is "principally resident" in a calendar year if:

- He or she spends 182 days or more in Guernsey in the tax year, or
- spends 91 days or more in Guernsey in the tax year, and during the four preceding years spent 730 days or more in Guernsey, or
- takes up permanent residence in Guernsey, even if they do not spend the requisite days in the Bailiwick in the year.

These individuals are liable to Guernsey income tax on their worldwide income (after a personal allowance), and are subject to a tax cap (see below).

Solely resident
An individual is "solely resident" in a calendar year if:

- He or she spends 91 days or more in Guernsey during the year (or 35 days or more in the year but 365 days or more during the four preceding years).

- He or she spends less than 91 days in one other place during a calendar year. Therefore, if an individual cannot be treated as resident (under Guernsey tax rules) in one other country during a year, he will be treated as "solely resident" in Guernsey.

An individual who is "solely resident" in Guernsey will be liable to Guernsey income tax on their total worldwide income.

Resident only
An individual is "resident only" in a calendar year if:

- He or she spends 91 days or more in Guernsey in the tax year (or 35 days or more in the year and 365 days or more during the preceding four years), and less than 182 days in Guernsey in the tax year; and
- spends 91 or more days in another jurisdiction in the calendar year.

These individuals are taxed on their worldwide income but may elect to pay the "standard charge". This is currently £30,000 per annum.

This allows an individual to make tax-free remittances of foreign income to Guernsey and deems the liability on the first £150,000 of Guernsey-source income as being met by the standard charge payment. Guernsey-source bank interest is considered for this purpose to be a non-Guernsey source of income.

Individuals paying the standard charge are not entitled to claim any Guernsey personal allowances or reliefs. Only one charge is payable by a married couple.

Married couple
A married couple are seen as one taxpayer, in the name of the husband, although the single person's allowance is doubled. An election can be made to tax the couple separately. The married person's allowance is available only if both individuals are resident in Guernsey.

For those who married after 1 January 2016, they are considered to be one taxpayer, although there are various adjustments to allowances available after this date for spouses, same sex couples and parents. As mentioned above, independent taxation for married couples is gradually being introduced.

Reliefs and restrictions

Personal allowance
The main tax relief is the personal allowance, which is the following:

	2019 (£)	2020 (£)
Personal Allowance per individual of any age – can be transferred between married persons	11,000	11,575

When income exceeds £100,000 per individual the personal allowances will be withdrawn at a rate of £1 for every £5 above this limit. Our guide to the withdrawal of personal allowances goes into this in more detail.

Mortgage relief
Interest paid on a mortgage on a Guernsey principal residence is deductible against income in the calculation of the annual tax liability, limited to the interest charged on the first £400,000 of the mortgage. The maximum amount of deductible interest that can be claimed will be slowly reduced until the relief is removed altogether by 2025.

Tax cap
All Guernsey-resident individuals are subject to an upper limit on their tax liability, the tax "cap". Individuals may elect for either of the following options:

- Tax on non-Guernsey-source income restricted to £130,000, plus tax on Guernsey-source income (excluding Guernsey bank interest).
- Tax on worldwide income restricted to £260,000, including Guernsey-source income.

Income derived from Guernsey land and property is excluded from the tax cap, and is subject to tax at the normal rate of 20%.

Only one cap applies per married couple.

'Open market' tax cap
A cap of £50,000 per year is applicable for new residents who meet certain conditions, set out below:

- The individual must have been non-Guernsey resident for the previous three tax years.
- They must purchase an open market property in the island, on which at least £50,000 of Document Duty must also have been paid, so the approximate minimum property price needs to be £1.5 million.
- The purchase must take place in the period twelve months prior to permanent arrival in Guernsey, to twelve months after.

The tax cap may apply in the year of the individual's permanent arrival in the island, and for three consecutive years subsequently.

As with the £260,000 tax cap, income arising or accruing from the ownership of land and buildings in Guernsey is excluded from the open market tax cap, and tax on this will be payable in addition at the normal rate of 20%.

Pensions
An individual can contribute tax-deductible amounts to a Guernsey registered pension scheme, to a maximum of 100% of gross earnings, or £35,000, whichever is the lower. This is subject to reduction where allowances are reduced, for those who earn above £100,000 a year.

Income subject to tax

Employment income

Taxable employment income includes salaries, wages, bonuses, gratuities, benefits in kind, directors' fees and pensions. Tax is paid at source on this income through payroll, which is known as the Employees Tax Instalment scheme ("ETI").

Benefits in kind

Benefits in kind paid to employees are assessed to income tax and social security, subject to a £450 annual exemption. The benefits given in relation to share options, accommodation or motor car benefits cannot be reduced by this exemption. They are taxed on the full amount of the benefit and guidance has been issued by the Income Tax Office to determine value. Salary sacrifice schemes are specifically chargeable to tax by Income Tax Office Statement of Practice.

Certain benefits are exempted from tax, such as medical insurance.

Share scheme taxation is different from many other jurisdictions. The taxable element is the discount to market value at the time of grant, regardless of whether the stock option is exercised. If it can subsequently be demonstrated that the option was never exercised the tax paid in the year of grant is refunded. No additional tax is charged on sale of the options or shares.

Self-employment and business income

All self-employed persons are subject to income tax on their taxable income derived in Guernsey. Taxable income consists of accounting profits, subject to adjustments.

Investment income

There is limited withholding tax in the island and as such, investment income is declared by means of the annual tax return. The first £50 of bank or savings interest for an individual is exempt from Guernsey income tax (doubled for married couples if each spouse receives interest).

Double tax

Subject to Double Tax Agreements or domestic law, a credit may be available to offset against tax paid in another jurisdiction. In most cases other than the UK, the relief is restricted to three quarters of the effective rate of tax suffered on that income in Guernsey.

Tax filing and payment procedures

Generally, all individuals must file an annual tax return and all income is assessed on a current-year basis. The final liability to income tax is charged by assessment, based on the taxpayer's tax return. Employed individuals make payments on account during the year through ETI, while those not in employment pay in instalments.

Tax treaties

Guernsey has entered into full or partial double tax treaties with a number of jurisdictions.

There are full double tax treaties with the following:

Cyprus, Hong Kong, Isle of Man, Jersey, Liechtenstein, Luxembourg, Malta, Mauritius, Monaco, Qatar, Seychelles, Singapore, United Kingdom.

The following jurisdictions have partial double tax treaties with Guernsey:

Australia, Denmark, Faroe Islands, Finland, Greenland, Iceland, Ireland, Japan, New Zealand, Norway, Poland and Sweden

Negotiations are in progress with a number of other jurisdictions.

International tax reporting

Tax Information Exchange Agreements ("TIEA")
Guernsey has 60 TIEAs, including ones with the United Kingdom and the United States. The TIEAs allow for the exchange of tax information by formal request.

FATCA and "UK FATCA"
Guernsey enacted regulations in 2013 to bring FATCA reporting into law. This was following the signing of the UK FATCA agreement in October 2013 and the US FATCA agreement in December of the same year. Guidance notes have also been agreed, subject to negotiation, (with the latest draft version being approved in April 2015).

Common Reporting Standard ("CRS")
UK FATCA is to be superseded by a global CRS committing subscribers to Automatic Exchange of Information with each other. Guernsey has committed to the adoption of CRS from 1 January 2016, with reporting from 2017. CRS does not provide for any special arrangements, such as the Alternative Reporting Regime for "Non-Doms" which exists under the current FATCA regime. As a result of the adoption of CRS, reporting by Guernsey Financial Institutions of data for all relevant UK financial accounts will be required.

Company tax issues

The standard rate of income tax for Guernsey companies is 0%.

Profits from certain types of business are subject to tax at 10%, these are:

- A limited amount of specified banking activities,
- licensed domestic insurance business,
- licensed fiduciary business,
- licensed insurance intermediary business,
- licensed insurance manager business,
- licensed fund administration business,
- investment management companies, where the services are provided to individual clients,
- the provision of custody services to unconnected third parties,

- operating an investment exchange, and
- for businesses providing compliance services.

The following sources of income are taxable at 20%:

- Income derived from Guernsey property,
- Profits arising or accruing to “large” retailers, which generally means in excess of £500,000, and
- trading activities regulated by the Office of Utility Regulation.

Companies incorporated outside Guernsey are treated as Guernsey-resident if they are controlled in Guernsey, which is when the beneficial ownership of the majority of a company’s shares is in the hands of Guernsey resident individuals.

Interaction of Guernsey corporate and personal tax

Individuals are taxed at 20% on distributions received from Guernsey companies. Where the distribution comprises income which has not previously been taxed at this rate in the company, additional tax will be payable by the individual.

As a result of the different rates of tax applying to corporate profits, there is an ordering of distributions made to Guernsey-resident individuals. Untaxed income is distributed first and suffers Guernsey tax in the hands of the individual shareholder.

Companies must therefore keep records of their different sources of income in order to determine the level of tax, if any, paid on each, and the income distributed from each source.

Loans made by Guernsey companies to Guernsey-resident shareholders are deemed to be taxable distributions, where the loan is made from profits that have suffered tax at a rate of less than 20%.

Social security

Contributions
Guernsey has a social security scheme which is mandatory for Guernsey residents over school-leaving age, subject to agreement in certain circumstances. Contributions do not stop at retirement age.

An individual will fall within one of three classes of social security. All three classes of contribution are subject to an upper earnings limit for 2020 of £149,760.

- Employed- Employers and employees make contributions based on taxable earnings at a rate of 6.6% up to the upper earnings limit.
- Self-employed- Self-employed individuals pay contributions based on their self-employment income level, at the rate of 11%.
- Non-employed- This is all other insured persons, at the rate of 10.4% of all income declared on the tax return, subject to a non-employed allowance of £8,460.

Non-employed or self-employed individuals are only chargeable to contributions where they are resident in the Bailiwick for a period of continuous 26 weeks (or part-weeks). A waiver can be made, in order to commence making contributions, by notifying the department of this intention, voluntarily. It is not possible to withdraw this voluntary notification.

Individuals over age 65 pay a health insurance contribution rate of 3.4% based on their taxable income, less the non-employed allowance (see above), regardless of whether they are still employed.

Totalisation agreements
To ensure that social security benefits are maintained without a double charge, Guernsey has a number of totalisation agreements with the following:

Austria, Barbados, Bermuda, Canada, Cyprus, France, Ireland, Isle of Man, Italy, Jamaica, Japan, Jersey, Korea (South), Malta, Netherlands, New Zealand Portugal Spain, Sweden, Switzerland, United Kingdom, United States

The agreements vary by territory, but generally allow for a period of continued coverage in the home jurisdiction, while temporarily in another.