Guernsey tax: withdrawal of allowances for higher earners

In line with political pressure and the experience of a similar measure in the UK, legislation is in place in Guernsey to lessen the availability of allowances for higher earners.

The phasing out of income tax allowances for higher earners commenced in Calendar Year 2017 and was extended in scope in the following years.

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"?
A higher earner is someone whose income exceeds the £100,000 limit.

What are the allowances withdrawn?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 The allowances that may potentially be withdrawn include the following: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, will be allowed to contribute a minimum of £1,000 per annum into their Guernsey approved pension scheme.

How does it work?
Where an individual's income exceeds £100,000, allowances are withdrawn at a rate of £1 for every £5 of income in excess of the £100,000 limit. There is a specific order of withdrawal, and this is explained below.

Even where an individual is assessed jointly with their spouse or civil partner, the limit applies per person (see below).

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The allowances and deductions are withdrawn in the following order: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Tax relief on pension contributions are the last allowance withdrawn under the calculation (subject to the minimum £1,000 contribution).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

Where a couple is assessed jointly, where one spouse earns more than £100,000, it will not mean a loss of allowances for both spouses. For these purposes, they will be considered to have their equal share of the personal allowance.

It is possible for each spouse to transfer unused allowances to the other, for example where one spouse has retired, and their only income is £5,000 of State Pension. Ordinarily, the unused element of their personal allowance would be transferred to the other spouse.

However, where an individual has their allowances fully withdrawn, they are not able to utilise unused personal allowances of their spouse or civil partner.

The situation is similar for couples who are assessed separately, as the Income Tax Office consider a couple jointly for allowance purposes.

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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