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. 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 has changed for couples married after 1 January 2016.

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.

1. A "solely resident or principally resident individual" is someone for whom any one of the following applies:

- 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 taxed on their worldwide income after a personal allowance, and are subject to a tax cap (see below).

2. A resident who is not "solely or principally resident" is someone who meets all of the following tests:

- He or she spends 91 days or more in Guernsey in the tax year, having spent less than 730 days in the Bailiwick in the preceding four years, and
- spends less than 182 days or more in Guernsey in the tax year, and
- spends 91 or more days in another jurisdiction.

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 not seen as one taxpayer, although there are various adjustments to allowances available after this date for spouses, same sex couples and parents.

Reliefs and restrictions

Personal allowance
The main tax relief is the personal allowance, which is the following for 2016:

	Single (£)	Married (£)
Under 64 years of age	9,675	19,350
One spouse aged 64 years or over at beginning of tax year	-	21,125
Aged 64 years or over at beginning of tax year	11,450	22,900

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 an upper limit on their tax liability, which is known as the "tax cap". Individuals may elect either of the following options:

- Tax on non-Guernsey-source income restricted to £110,000, plus tax on Guernsey-source income (excluding Guernsey bank interest).
- Taxed on worldwide income restricted to £220,000, including Guernsey-source income.

Income derived from Guernsey land and property is excluded from the tax cap, effective from 1 January 2015, and is subject to tax at the normal rate of 20%.

Only one cap applies per married couple.

Pensions

An individual can contribute tax-deductible amounts to a Guernsey registered pension scheme, to a maximum of 100% of gross earnings, or £50,000, whichever is the lower.

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. From 2015, 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, SAR, 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 first reporting taking place in 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 from 1 January 2016, reporting by Guernsey Financial Institutions of 2016 data for all relevant UK financial accounts will be required in 2017 including for UK non-domiciled account holders.

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, and
- the provision of custody services to unconnected third parties.

Other particular sources of income are taxable at 20%:

- Income derived from Guernsey property, 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 record 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 for those over school-leaving age subject to agreement. 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 of £135,252.

- Employed- Employers and employees make contributions based on taxable earnings at a rate of 6.5% and 6% respectively, up to the upper earnings limit.
- Self-employed- Self-employed individuals pay contributions based on their self-employment income level, at the rate of 10.5%.
- Non-employed- This is all other insured persons, at the rate of 9.9% of all income declared on the tax return, subject to a non-employed allowance of £7,223.

Non-employed individuals must be resident for a period of 26 weeks before becoming resident for social security purposes. This can be waived by registering before this date.

Individuals over age 65 pay a health insurance contribution rate of 2.9% based on their taxable income, less the non-employed allowance (see above), regardless of whether they are still employed.

These social security contribution rates will increase from 1 January 2017.

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.