



The Tax Review will help us invest in what matters to you, for generations to come.

*Our Island*  
OUR FUTURE



States of  
Guernsey

## How do we continue to support islanders?

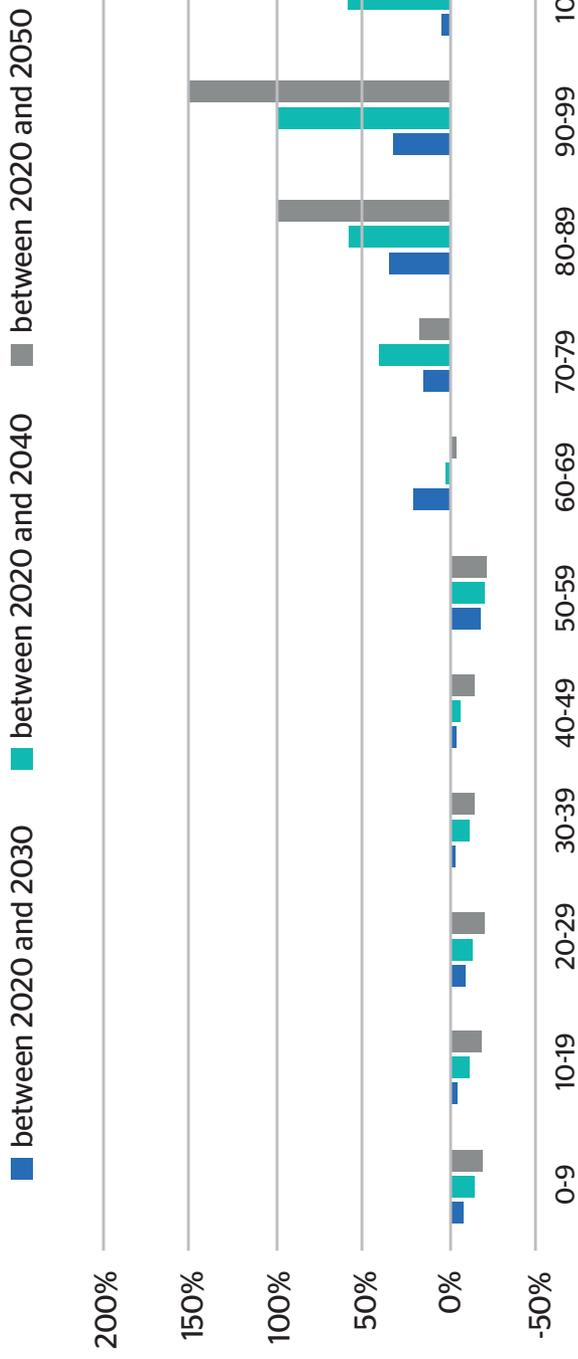
The shape and make-up of our population is changing. We're living longer and having fewer children.

Together, these two facts mean we're seeing fewer people working and paying taxes which fund our public services, and more people using public services, especially pensions, health and care services in our later years. That pushes the cost of our public services up significantly. We must address this problem **now**.

The number of people aged over-65 has increased by 2,500 in the last 10 years. It is forecast to rise by a further 5,500 by 2040. Meanwhile, people aged between 16 and 65 are set to fall.

No generation is to blame for these changes, but we all have a duty to acknowledge and address them otherwise future generations will struggle to afford the most important services which we all rely on.

## Changes in population age group



## What do our public services really cost?

To understand how costs will rise with our changing population, it's important to understand how taxes fund public services now. Did you know the cost of running all of our public services now averages about £11,000 per Islander per year? But most Islanders don't pay that much in taxes and contributions each year. A taxpayer on median earnings, which is about £35,000 per year, pays around £7,000 in all their taxes and social security contributions combined.

## £7,000...

...is about enough to keep a baby in a neo-natal intensive care bed for just two days.

...would pay a grant to support one person in a nursing home for about 7.5 weeks.

...covers the average cost of educating one secondary school student for about two terms.

...covers the cost of one person's pension for around 7 months.

We each use a range of services and some cost far more than most of us pay in. If we need to use more of those services, particularly as people get older and need more health and care services, it pushes the overall cost up significantly.

For example, the cost of providing pensions in 2020 was £134m. The cost in 2040, less than 20 years from now, is expected to be £184m, that's £50m more each year.

## How do we raise £85m per year for public services?

The overall gap that we face is forecast to be around £85m per year. That covers what we need to support public services like the hospital and schools, the long-term cost of social security benefits like pensions and long-term care as well as what we need to support investment in our island infrastructure.

We are reforming public services to deliver significant annual savings, which is important to prevent the forecast gap getting bigger. We are supporting our economy in a number of ways, through improving skills, better digital connectivity and promotion of local industries. We are carrying out a population review to maximise the number of people economically active in our workforce.

Those are all part of the solution and our forecasts takes these into account, meaning if we don't do them our forecast shortfall will be even worse, but on their own these crucial actions do not have the ability to generate the huge sums needed.

For example, as we look for efficiencies in the public sector we find that most of the additional jobs and pay increases in recent years have been for nursing, medical and care staff. We have seen an increase of 350 roles in this area since 2010 and these roles are very much needed precisely because we have more elderly people needing more health and care services. In comparison traditional 'civil service' roles have barely changed in number over that time.

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**We have one of the smallest public sectors,** just 22% of GDP, less than the UK or Jersey, so there's not that much fat to cut.

Realistically we will need to raise more revenue through taxes.

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## What kind of taxes?

We're looking at a range of options. Some could deliver smaller amounts, like changes in taxes on motoring or property, and changes to corporate tax where new international rules are being developed. But the two main options for raising significant amounts are through taxing our income more than we currently do, or through introducing a Goods and Services Tax.

The Policy & Resources Committee and the Tax Review Steering Group think a Goods and Services Tax is the best solution and puts less of the additional burden on working Islanders if it is part of a package to protect those less well off.

While on its own a Goods and Services Tax would be regressive, impacting those on lower incomes harder, we would offset this with other measures creating an overall tax and social security system that includes a Goods and Services Tax but is more progressive and takes less tax from those on lower incomes compared to now.

Nearly all our tax right now comes from income tax and contributions. If we increase income tax instead of introducing a Goods and Services Tax, more of the extra revenue comes from the salaries of that same, shrinking group of working age Islanders.

A Goods and Services Tax covers a broader cross section of people than taxes on income. If someone is living off the proceeds of a big property sale for example, they'll pay no income tax, but they will pay a Goods and Services Tax because they will still buy things. A Goods and Services Tax also spreads the burden across other groups like businesses, those who are enjoying their retirement, or visitors to the Bailiwick so they make more of a contribution. A Goods and Services Tax at 5% could raise £6m from visitors alone. That's £6m that would otherwise need to come from local working Islanders.

A package of reforms including a Goods and Services Tax is the best way to safeguard public services now and for generations to come.

## How do we avoid hitting those on the lowest incomes hardest?

On its own a Goods and Services Tax would be regressive, hitting those on the lowest incomes hardest. But as part of a package, a Goods and Services Tax can be included within a **progressive tax system**.

As part of this package, we would:

- improve tax allowances
- introduce allowances for social security contributions
- Increase pensions and benefits to offset inflation.

We've worked up models which would mean many of those on the lowest incomes would be better off compared to now, even after the introduction of a Goods and Services Tax. We have published some real examples of our different options and how they affect different households and income levels at **[ourfuture.gg](http://ourfuture.gg)**.

A Goods and Services Tax does not need to be a big administrative job for businesses either. Virtually every country in the world has some form of tax on goods, and the systems used by most businesses are built to accommodate this which means the additional administration is very manageable. We would also look at how we set things like registration thresholds which can protect small businesses. Imported goods would be subject to a Goods and Services Tax too if they are above a certain threshold. This would ensure that, for many goods, local businesses would not be put at a greater competitive disadvantage.

## Where can I find out more?

There is more information, Frequently Asked Questions, case studies, videos and plenty more online.

**ourfuture.gg**

Thank you for taking the time to visit us today and explore this incredibly important issue.

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