

Guernsey Budget Statement 2012

What to know, what to do

November 2011

The States of Guernsey Budget Report 2012 was presented by the Treasury and Resources Minister to the States on Friday 18 November 2011. This budget was prepared in the context of continued economic uncertainty, and uncertainty around the tax regime.

As with the prior year budget, expenditure restraint and targeted indirect taxes increases are the theme of this budget. The structural deficit is intended to be addressed in 2012, when considering the tax regime. There remain significant challenges such as replenishing the capital reserve, as a result of major infrastructure projects being undertaken, and expenditure as a result of the Islands changing demographics, have not been addressed and will need to be, in the next few years.

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Tax reform

Guernsey's tax regime is being reviewed by the EU Code Group on Business Taxation. In a recent announcement the Treasury Minister indicated that any announcement on the tax regime would need to take into account the outcome of the Code Group review of the Gibraltar tax regime. As a result no announcement on changes or a replacement of the tax regime was expected in this budget.

Personal allowances

Personal allowance for 2012 has been increased by 1.7%, at a cost to the States of £1.3m.

Income tax cap

The income tax cap of £100,000 on non-Guernsey source income, or £200,000 on all income will be increased by 10%. The standard charge of £25,000 per annum, for resident only individuals will also be increased by 10%. This increase maintains the real value of the cap and standard charge.

Married personal allowance

Changes are being made to the married persons allowance to remove anomalies whereby spouses could enhance their personal allowances in the year of marriage and the year of separation.

Tax on Real Property

TRP is set to increase by a substantial 20% for domestic tariffs and by 3% for commercial and land tariffs. The increase to domestic tariffs has been expected.

New categories of tariff have been introduced for car parking and approved development buildings.

Duties

Duty is to increase by 6.5% on tobacco and by 3% on alcohol. Duty on motor spirit is increased by 9.8%.

Capital Reserve

Treasury & Resources is recommending that £23.85m is transferred to the Capital Reserve on 1 January 2012. In order to remain within the "norm" for capital expenditure as determined by the States Fiscal Framework, additional transfers to the Capital Reserve of £15m will be required from 2015 onwards.

Contingency Reserve

A transfer of £27m is to be made from the Contingency Reserve to fund the budget deficit. This transfer is £1m less than budgeted in the Strategic Plan.

The structural deficit is expected to be addressed when a decision has been made regarding the corporate tax regime. The Financial Transformation Programme is designed to make inroads in to the structural deficit.

Financial Transformation Programme ("FTP")

Expenditure restraint is rightly a key theme of this budget. Good progress has been made so far, although savings have financed expenditure on new services. The primary objective of the FTP is to achieve a £31m reduction in the States revenue budget by 2015. £5m of these savings have been made so far, leaving £26m to be achieved by 2015.

The Treasury and Resources department has agreed that in addition to the FTP driven adjustments in 2012 a further General Efficiency Target will be allocated to departments to result in a further £6.5m saving. The intention is that further efficiency targets are introduced in 2013 and 2014.

If you would like to discuss any aspect of these proposals, please do not hesitate to contact a member of the Guernsey Budget Statement 2012 team below or your usual PwC contact:

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