

Guernsey Budget Statement 2013

What to know, what to do

November 2012

The States of Guernsey Budget Report 2013 was presented by the Treasury and Resources Minister to the States on Friday 16 November 2012. This budget was prepared in the context of continued economic uncertainty.

Expenditure restraint remains a theme of the budget. Additional taxes have been raised by extending the scope of the 10% rate band. 2013 will see a review undertaken of taxes, duties and contributions with a view to introducing greater degree of equity within the taxation system. Significant challenges remain in terms of raising tax revenue and containing expenditure in difficult economic times.

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Review of Taxes, Duties and Contributions

Treasury and Resources is proposing to review all taxes, duties and contributions imposed on Islanders with a view to ensuring a greater degree of equality in the taxation system. It is proposed as part of this review to consider in conjunction with the Social Security department the current system whereby income tax allowances and social security benefits are not linked.

The review will include a review of personal income tax allowances and supplementary allowances including options around claw back of allowances for higher earners. Tax on real property and document duty will also be considered as part of the review.

Treasury and Resources will undertake a consultation process and the findings of this review will be included in the 2014 Budget Report

Corporate Income Tax

As widely trailed, the Treasury Minister has proposed to extend the 10% rate of income tax to licensed fiduciaries in respect of their regulated activities. Similarly it is proposed to extend the 10% rate to licensed insurers, in relation to domestic business, and licensed insurance intermediaries and managers. These changes are proposed to apply from 1 January 2013. This extension is expected to raise additional revenues of approximately £12 million.

Mortgage Interest relief

The proposal is to reduce Mortgage Interest relief from the current cap of £400,000 to £350,000 from 1 January 2014. Ultimately it is the intention of the Minister to phase out Mortgage Interest relief on property ownership.

Personal Income Tax Allowances

Personal Income Tax Allowances are to increase by 3%.

Duties

Duties on tobacco are to increase by 6% and by 3% on alcohol and an increase of 1.5p per litre of the price of fuel. Tax on real property is also increased by 3%.

Capital Reserve

Treasury & Resources is recommending that £24.55m is transferred to the Capital Reserve on 1 January 2013. In order to remain within the “norm” for capital expenditure as determined by the States Fiscal Framework, additional transfers to the Capital Reserve of £20m will be required from 2015 onwards.

An Island Infrastructure Plan (IIP) is being developed and this plan together with the Strategic Asset Management (SAM), will form the basis for long term strategic planning. The capital programme is to be considered by the States in 2014, following the completion of the IIP and SAM reviews.

Contingency Reserve

A transfer of £17m is to be made from the Contingency Reserve to fund the budget deficit and transfer to Capital Reserve in 2013. The transfer from the contingency reserve for 2012 is expected to be £31m, £4m more than budgeted.

Financial Transformation Programme (“FTP”)

Successful implementation of the FTP, remains the road map to dealing with the structured deficit.

Departments have been allotted additional FTP savings of £9.2m. Progress has been made to date on the prior year targets, however Health and Social Services and Education departments are expected to have significant challenges in meeting their targets. The aim is that the FTP saving targets, should not impact frontline services in these departments.

Whilst progress has been made by FTP targets, there is still significant work to be done in a challenging environment.

If you would like to discuss any aspect of these proposals, please do not hesitate to contact a member of the Guernsey Budget Statement 2013 team below or your usual PwC contact:

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