



POLICY COUNCIL

THE STATES OF GUERNSEY

CHIEF MINISTER STATEMENT – STATES OF DELIBERATION JUNE 2011 MEETING

RE: CORPORATE TAX REVIEW.

Objectives and current status

The five key objectives of Guernsey's corporate tax review have remained unchanged since it was initiated 18 months ago: that is any regime for Guernsey must be competitive; internationally acceptable; sustain the economy; be simple and straightforward; and give rise to reciprocal benefits. These have remained constant despite the continuing uncertainty surrounding the EU Code of Conduct Group on Business Taxation ('Code Group') review process of the last 18 months.

Guernsey has always maintained that it will not undermine its economy, through either the timing or outcome of the review process, and thus cannot and will not determine its preferred direction of travel until the final outcome of the Code Group review is known. Formal and informal consultation, and technical and economic assessment, has been ongoing since October 2009. That there has been no definitive conclusion of our review process to date is as a result of the protracted nature of the Code Group review of the Jersey and the Isle of Man zero/10 regimes. Until proposed 'rollback' provisions of Jersey and the Isle of Man have been formally assessed by the Code Group, the final judgement on zero/10 remains an unknown.

Guernsey and the Code Group

In October 2009 it was communicated that several European Union Members States had issues with the zero/10 regimes as they stood. Guernsey's response was pragmatic, constructive and clear: namely to conduct our own review allowing all options to be considered. As a result Guernsey has been able to maintain a close dialogue with the Code Group: in June 2010 Guernsey politicians and officials were able to meet with the Chair of the Code Group and secure an early appreciation and understanding of the issues with the zero/10 regimes. An appreciation relayed to the other Crown Dependencies.

Feedback from Guernsey's consultation process

The feedback from our consultation process, undertaken during the summer of 2010, was clear: that a territorial regime could form the basis of a competitive alternative to a zero/10 regime, but that consideration should also be given to modifying the current regime to conform to the EU Code of Conduct on Business Taxation ('Code').

Importantly, that feedback also stated that it was paramount to ensure any revised corporate tax regime was internationally acceptable and sustainable economically and fiscally in the long run and to ensure that any changes made to the regime would 'future-proof' Guernsey against further pressure and subsequent rounds of changes. This would provide clarity and stability going forward and prevent any undermining in the confidence of business and investors in Guernsey long-term.

The Code Group's current position

It is now known that the zero/10 regimes in Jersey and the Isle of Man have been judged harmful by the Code Group. The February 2011 judgement of the Code Group was endorsed by Ecofin in June 2011. What is also well known is that, in its assessment, the Code Group focussed on the discriminatory aspects of the treatment of shareholders of the regimes, but that does not preclude further issues. Both islands have proposed 'rollback' provisions, the Code Group actively deferring any assessment of those until Ecofin was given the opportunity to formally welcome the harmful judgement of the Code Group, as it has now done (June 20th, 2011).

The UK position

The UK has provided an opinion that, in *principle* and without the use of any other anti-avoidance measures that replicate the harmful effects, a zero/10 regime on its own could well be Code compliant. But this comes with the caveat that it is the view of other key Member States that will be key in the formal assessment of 'rollback'.

The UK has also separately stated that it would support the introduction of a territorial regime in the Crown Dependencies, as it has for Gibraltar: whose new territorial regime will be informally assessed by the Code Group in September.

Guernsey's next steps

Clearly the first three of the objectives of our review (competitive, internationally acceptable and sustain our economy) are key and are to a certain extent symbiotic. A competitive regime sustains the economy; an internationally acceptable regime sustains the economy. Sustaining our economy means ensuring that a regime provides a competitive platform for business but also generates sufficient taxation revenues for government. These are the factors to be taken into consideration when evaluating the best course of action for Guernsey. What also needs to be taken into consideration is the preference of industry for the regimes of the Channel Islands to be operated on the same basis, be it zero/10 or territorial.

Events over the course of the next few months will provide a greater degree of clarity of the views of the Code Group on both the zero/10 and the Gibraltar territorial regime for that evaluation to be properly undertaken. Until that clarity is obtained, any decision and accompanying publication of any Green Paper would be premature.

LS Trott
Chief Minister, States of Guernsey
29th June, 2011