Summary of Guernsey taxation

Service area / Corporate, Trusts and Private Wealth

Location / Guernsey

Date / July 2017

This document summarises certain key aspects of Guernsey taxation law for the calendar year 2017.

Corporate income tax

General

A company incorporated in Guernsey is treated as tax resident in Guernsey in any year of charge. Companies resident in Guernsey are subject to income tax on their worldwide income (foreign tax relief is available).

A standard rate of 0% applies to most companies that are tax resident in Guernsey. However, income arising from certain activities is taxed at 10% or 20%.

The 10% rate applies to income arising from:

- certain types of banking business;
- custody business;
- fund administration (in relation to unconnected third parties);
- fiduciary business;
- domestic insurance business; and
- insurance management and insurance intermediary business.

The 20% rate applies to income arising from:

- trading activities regulated by the Guernsey Competition and Regulatory Authority, such as telecommunications;
- the importation and/or supply of gas or hydrocarbon oil in Guernsey;
- large retail business carried on in Guernsey where the company has taxable profits arising or accruing from which in any year of charge exceed £500,000; and
- the ownership of land and buildings situate in Guernsey;

Unit trusts are treated as companies for Guernsey income tax purposes.

Limited partnerships and limited liability partnerships are transparent for Guernsey income tax purposes and so are not taxable entities in Guernsey.

Income tax returns must be filed by 30 November following the end of the relevant tax year (a tax year is a calendar year for an investment company and an accounting year for trading companies). Electronic filing of returns is mandatory. Tax is due in two instalments, by 30 June and 31 December, in relation to a tax year, with a final balancing payment due once the final assessment has been made. Penalties and surcharges can apply to late filing and/or payments.

Collective Investment Schemes

There is an exemption regime available for collective investment schemes, entities beneficially owned by collective investment schemes, and entities established for the purpose of certain specified activities relating to a specific collective investment scheme.

Exemption has to be applied for annually and is subject to payment of an annual fee currently fixed at £1,200. Where exemption is granted the entity is treated as not being resident in Guernsey for tax purposes and is not liable to Guernsey tax on non-Guernsey source income (which includes for these purposes Guernsey bank deposit interest).

Personal income tax

General

Guernsey resident individuals pay income tax at a flat rate of 20%. The personal income tax year is the calendar year and tax returns must be filed (either electronically or on paper) by 30 November of the year following the relevant tax year. Tax is due in two instalments, by 30 June and 31 December, in relation to a tax year, with a final balancing payment due once the final assessment has been made. Penalties and surcharges can apply to late filing and/or payments. Taxes on employment income are deducted from salary payments.

There are different classes of residence which affect an individual's tax treatment. Individuals can be:

- "principally resident" - they are in Guernsey for 182 days or more in a tax year, or are in Guernsey for 91 days or more in a tax year and have spent 730 days or more in Guernsey over the four prior tax years;
- "solely resident" - they are in Guernsey for 91 days or more in a tax year, or are in Guernsey for 35 days or more in a tax year and have spent 365 days or more in Guernsey over the four prior tax years, and in either case have not spent 91 days or more in any other jurisdiction in the tax year; or
- "resident only" – they would be treated as solely resident in a tax year, but they have spent 91 days or more in another jurisdiction for that tax year.

Individuals that are within any of the above will pay Guernsey tax on their worldwide income, although foreign tax relief is available.

However, individuals that are "resident only" can elect to pay a standard charge of £30,000. Where an individual elects for the standard charge, that individual is exempt from Guernsey income tax on their worldwide income, but would still have to pay tax on any Guernsey-source income.

Allowances and deductions

Each individual taxpayer has a personal allowance of £10,000, although earners of more than £138,684 have their allowance reduced by £1 for every £3 exceeding this limit. Married couples or civil partners have a joint personal allowance of £20,000.

Pension contributions of up to £50,000 per person are deductible. Interest paid on a mortgage on a person's main residence is also deductible, but restrictions do apply – the maximum yearly amount of interest that is deductible is £11,000 (£22,000 for a married couple) and interest attributable to a portion of a mortgage over £400,000 is not deductible. It is expected that deductions for mortgage interest will be phased out by 2025.

Tax cap

A Guernsey resident individual can elect for a cap on their income tax liability. Elections can be made for a liability cap of £110,000 to apply for an individual or couple on non-Guernsey-source income, and the cap can be increased to £220,000 if an election is made for the cap to apply to an individual or couples' worldwide income. However, income arising on Guernsey real property is not subject to the cap.

Withholding Tax

Guernsey does not levy any withholding tax on interest, royalties or service fees.

Dividends paid by Guernsey companies to non-residents are also free of withholding tax.

Guernsey companies paying dividends to Guernsey resident individuals must deduct withholding tax of 20%, unless the company has exempt status (see above regarding the exemption).

Anti-avoidance

Guernsey does not have specific anti-avoidance rules such as transfer pricing, thin capitalisation or controlled foreign company rules.

However, Guernsey does have a broad general anti-avoidance provision which targets transactions where the effect of the transaction or series of transactions is the avoidance, reduction or deferral of a tax liability. At his discretion, the Director of Income Tax in Guernsey can make such adjustments to the tax liability to counteract the effects of any perceived avoidance, reduction or deferral of the tax liability.

Foreign Account Tax Compliance

FATCA

Guernsey is party to an intergovernmental agreement with the US regarding FATCA and implemented FATCA due diligence and reporting obligations in June 2014. Under FATCA legislation in Guernsey, Guernsey "financial institutions" are obliged to carry out due diligence on account holders and report on accounts held by persons who are, or are entities that are controlled by one or more natural persons who are, residents or citizens of the United States, unless a relevant exemption applies.

Guernsey is also a party to an intergovernmental agreement with the United Kingdom in relation the United Kingdom's own version of FATCA, which it also implemented in June 2014. However, the United Kingdom's version of FATCA has now been superseded by the adoption by Guernsey (alongside numerous jurisdictions) of the much broader global Common Reporting Standard ("CRS").

Continued

CRS

Guernsey is a party to the OECD's Multilateral Competent Authority Agreement regarding the CRS and implemented the CRS into its domestic legislation with effect from 1 January 2016. Under CRS legislation in Guernsey, Guernsey "financial institutions" are obliged to carry out due diligence on account holders and report on accounts held by persons who are, or are entities that are controlled by one or more natural persons who are, residents of jurisdictions that have adopted the CRS, unless a relevant exemption applies.

EU Savings Directive ("EUSD")

Guernsey has implemented measures equivalent to the EUSD, although these are in the process of being phased out following the repeal of the EUSD in order to make way for the CRS.

Double Tax Treaties and Tax Information Exchange Agreements

Guernsey has signed 13 full double taxation agreements and over 60 tax information exchange agreements. Guernsey is also a party to the OECD's Multilateral Convention on Mutual Administrative Assistance in Tax Matters.

Base Erosion and Profit Shifting

Guernsey is committed to adopting the BEPS minimum standards. Guernsey has implemented country-by-country reporting in respect of accounting periods commencing on or after 1 January 2016 and has also adopted the spontaneous exchange of tax rulings with other jurisdictions. On 7 June 2017, Guernsey along with over 60 other jurisdictions, signed the OECD's Multilateral Instrument to implement tax treaty-related measures to combat BEPS and treaty abuse.

Other Taxes

Stamp duty/transfer taxes

Transfers of Guernsey real property attract a document duty. It is expected that in October or November 2017 the document duty will be extended to transfers of interests in certain unlisted entities (other than collective investment schemes) that have a direct/indirect interest in Guernsey real property.

Apart from the above document duty, there are no other stamp or transfer taxes in Guernsey.

Social security

Guernsey does levy a social security on employers (6.6%), employees (6.6%), the self-employed (11%) and the unemployed (10.4%, reduced to 3.4% for over 65s). The upper earnings limit is £138,684.

Consumption tax

Guernsey does not levy any value added, goods and services or consumption taxes.

Capital gains tax

Guernsey does not levy a tax on capital gains.

Net wealth/net worth taxes

Guernsey does not levy a net wealth/net worth tax.

Inheritance Tax

Guernsey does not levy an inheritance tax. There are registration fees and ad valorem duty for a Guernsey Grant of Representation where the deceased dies leaving assets in Guernsey which require presentation of such a Grant.

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