P.2026/7

**THE STATES OF DELIBERATION**
**of the**
**ISLAND OF GUERNSEY**

**POLICY & RESOURCES COMMITTEE**

TAX REFORM: WORKSTREAM 1

The States are asked to decide:

Whether, after consideration of the Policy Letter "Tax Reform: Workstream 1" dated 12 January 2026, they are of the opinion:

1. To agree that, should the States decide in the second quarter of 2026 to adopt Workstream 1 of the Tax Reform proposals,

    a. the individual standard rate of income tax shall be reduced to 15%, with 20% becoming an individual higher rate of income tax; and the higher rate will apply at a defined threshold (£32,400) as agreed on 8 November 2024, with appropriate adjustments to reflect the impact of inflation between that date and the date of implementation;

AND EITHER

b. (i) the Goods & Services Tax should be applied at a standard rate of 5%, and that all foodstuffs should be subject to the tax at the standard rate; AND

(ii) an Essentials Cost Relief Payment scheme should be implemented as outlined in Section 4, with the fixed payment set provisionally (subject to review as set out below) at £520 a year for a single adult or £860 a year for a couple, reflecting the estimated annual GST incurred by a household on Income Support; and that the responsibility and administering of this payment should be added to the mandate of the Committee for Employment & Social Security; and that the payment should be increased each January in line with Income Support rates, the value of the payment being fully reviewed in line with the minimum income standard whenever that exercise is repeated;

OR, ONLY IF PROPOSITION 1b SHALL HAVE FALLEN,

c. (i) the Goods and Services Tax should be applied at a standard rate of 6%, and that food sold through outlets offering catering and hospitality services should be taxed at the standard rate, and that foodstuffs sold via retail outlets should be zero-rated; AND

(ii) an Essentials Cost Relief Payment scheme should be implemented as outlined in Section 4, with the fixed payment set provisionally (subject to review as set out below) at £400 a year for a single person or £670 a year for a couple, reflecting the estimated annual GST incurred by a household on Income Support; and that the responsibility and administering of this payment should be added to the mandate of the Committee for Employment & Social Security; and that the payment should be increased each January in line with Income Support rates, the value of the payment being fully reviewed in line with the minimum income standard whenever that exercise is repeated;

AND (IRRESPECTIVE OF THE STATES' DECISION ON PROPOSITIONS 1b OR 1c)

d. supplies sold by registered charities should be exempt from the Goods and Services Tax and that provision should be made to allow registered charities to reclaim the Goods and Services Tax incurred on supplies purchased as outlined in section 8; AND

e. the proposed International Services Entity scheme should incorporate international insurance services and e-gaming activities; AND

f. The application of all other exempt and zero-rated supplies should be as outlined in Section 8.

2. To agree that the GST legislation **must** provide that should the States at any time in the future wish to increase the standard rate of GST, proposals **must** include compensatory adjustments to:
   - the personal income tax allowance;
   - the threshold at which income tax at the higher rate of 20% is applied;
   - the level of the payment under the Essentials Cost Relief Payment; and
   - the rates of the States Pension, Income Support and any other impacted benefits

   in order to ensure that the protection incorporated in the package of reform is maintained.

3. To direct the Policy & Resources Committee to give detailed consideration to the requirement for a two-thirds parliamentary majority to approve any future increase in the rate of GST, and present this for consideration by the States in the second quarter of 2026.

4. To direct the preparation of such legislation as may be necessary to give effect to the above decisions.

The above Propositions have been submitted to His Majesty's Procureur for advice on any legal or constitutional implications in accordance with Rule 4(1)(c) of the Rules of Procedure of the States of Deliberation and their Committees.

**THE STATES OF DELIBERATION**
**of the**
**ISLAND OF GUERNSEY**

**POLICY & RESOURCES COMMITTEE**

TAX REFORM: WORKSTREAM 1

The Presiding Officer
States of Guernsey
Royal Court House
St Peter Port

12 January 2026

Dear Sir,

## 1. Executive Summary

1.1 A proposed 'super priority' in the States' 2026-2029 Government Work Plan – and arguably the most critical and urgent – is to 'decide and deliver tax reform', to improve our fiscal stability and end the uncertainty over the tax regime and long-term fiscal sustainability.

1.2 Guernsey – like many developed countries in the 21st century – faces a major challenge in that it has an ageing demographic, with more people living longer and a greater proportion of our population above retirement age, with fewer in work. In the case of Alderney, with whom Guernsey is in fiscal union, this is even more pronounced. Under our current tax system, it is working islanders who contribute the most revenues to fund public services, pensions, benefits and infrastructure. This is because we are over-dependent on revenue from personal income tax and social security contributions.

1.3 The previous States debated tax reform several times, and on the most recent occasion, during the 2025 Budget debate, they agreed to implement a package which included a Goods & Services Tax along with several personal income protection measures. The development of this now forms Workstream 1 of the Tax Reform Programme.

1.4 At the beginning of this political term the Policy & Resources Committee recognised that many islanders remained unconvinced that enough had been done to consider alternatives to that package and undertook to carry out a further review of tax reform options. **That review will form Workstream 2 of the Tax Reform Programme and the Committee will bring proposals to the States by the end of Q2 2026. At that point the States will have an opportunity to decide whether this tax package, or an alternative package is progressed.**

1.5 However, the implementation of the previously agreed package (Workstream 1) remains an option. It would have a number of advantages:

- it would reduce the overall tax burden on households with lower incomes (see figure 1);

- it would diversify the tax base, thereby reducing the burden on working islanders to fund public services by better spreading the burden across businesses, wealthier people living off their capital and using it to support their consumption, and visitors to the island. Of the total £50m net revenue raised, 48% would come from the business community (particularly the financial services sector), 12% from visitors to the island and 40% from local households; and

- it would be competitive with other jurisdictions.

1.6 The Committee recognises that, in an ideal world, it would have been preferable to delay making any decision on the details of Workstream 1 until after the work on alternatives has been completed. However, the Policy & Resources Committee believes it is the States' responsibility, whilst also looking at alternatives, to ensure the necessary preparatory work has been completed ready for its introduction, if that is the States' decision later in the year.

1.7 If the previously agreed package does form part of the long-term solution presented and agreed in Q2 2026, it requires a long lead time to prepare and implement, for both the States and the business community. Because of the delay in the last States agreeing any tax package, time is a luxury this States does not have. If Workstream 1 does, as a result of a States decision later this year, continue to full implementation without further delay to the anticipated timeline, income tax and social security measures will come into effect on 1st January 2028, with GST implemented in the first or second quarter of 2028. This timeline is ambitious, and the logistics of the tax system mean that any lengthening of the timeline may delay the implementation by a full year, resulting in a loss of up to £50m of projected revenues as well as incurring additional cost.

1.8 Understanding the way the package as a whole **reduces** the average tax burden on lower income households is key to some of the recommendations addressed in this Policy Letter, because it is the combination of measures that make for a more progressive tax system. While the 'GST' element of the package is often the focus of debate, both in the States of Deliberation and in the community, it is just one of a number of measures that must be considered together, because the combined effect is very different to introducing a standalone GST. These measures are:

- a reduction in the standard rate of personal income tax to 15%, with 20% becoming the higher rate applied to income above £32,400[1], which also reduces the personal income tax liability for most taxpayers;

- a £600 increase in the personal income tax allowance, which reduces the personal income tax liability for all taxpayers except for those with the highest income;

- a progressive restructure of the Social Security Contributions systems, including introducing an allowance (matched to the personal income tax allowance) for all contributors, which reduces contributions for lower and middle income employed and self-employed people;

- a GST charged at 5% which applies to a broad base of goods and services with minimal exemptions or zero rating (or 6% dependent on the treatment of food and other exemptions and zero-rating), which is intended to keep the administration simple and the rate low;

- a pre-emptive increase in the rates of the States Pension, Income Support and other benefits payable to reflect the impact of GST on inflation; and

- the introduction of an Essentials Cost Relief Payment scheme for low-income households not in receipt of Income Support, to compensate them for the impact of GST on the price of a basket of essential goods and services.

1.9 The full details of the original proposals can be found here: The Tax Review: Phase 2 2022/112 (Billet d'État II, 2023) [the Phase 2 Policy Letter] and are summarised in more detail in Section 3.

1.10 **This Policy Letter makes no attempt to materially alter that package, except in that it makes a clear link between any future changes to the rate of GST and the provisions made to improve the position for low-income households. It also directs the Committee to consider the requirement for a two-thirds parliamentary majority to increase the rate of GST in the future and to include any recommendations in the policy letter to be debated in Q2 2026. Finally, it clarifies the application of GST in specific circumstances and provides additional detail where needed.**

1.11 As demonstrated in figure 1 below, the package of reform would result in a general improvement in the financial position for lower income households (**after** accounting for the increase in prices), while higher income households would generally pay more tax.

[1] The Resolutions from the November 2024 Budget debate require that this threshold is adjusted for inflation before implementation.

*Figure 1: Estimated impact on households (**as a percentage of gross household income and in £ per year**)*


1.12 One of the key objectives of this Policy Letter is to more clearly define the Essential Cost Relief Payment scheme – a measure outlined in the original proposals to help mitigate the impact of the introduction of a Goods & Services Tax on certain low-income households. This is a light touch, fixed payment scheme which is designed to make sure that those low-income households who do not claim Income Support but who might not gain the maximum benefit from the changes to income tax and social security contributions are adequately compensated for the potential impact GST may have on their costs. One of the key recommendations of this Policy Letter is to tie the value of this payment to the estimated amount of GST incurred on the basket of essential goods and services established using the Minimum Income Standards survey[2]. The advantage of this approach is that it recognises that households require a range of goods and services to maintain a basic lifestyle.

1.13 This means that low-income households will be compensated for the impact of GST by:

- increasing income support and other benefits (including pensions) to reflect the likely increase in prices;
- the reduction in their income tax and social security liability;
- the Essential Cost Relief Payment scheme;
- or a combination of the measures above.

1.14 The other key purpose of this Policy Letter is to enable the States to determine whether GST should be applied to food, if it is later decided that this package of tax reform should be introduced. When the previous States agreed to implement the package, it came with a caveat that there must be a further debate on whether food is included. 'Food' in this context is taken to mean food bought from shops and supermarkets, which makes up a large part of households' essential costs, as opposed to restaurants and other hospitality settings which can be considered more discretionary expenditure than essential expenditure.

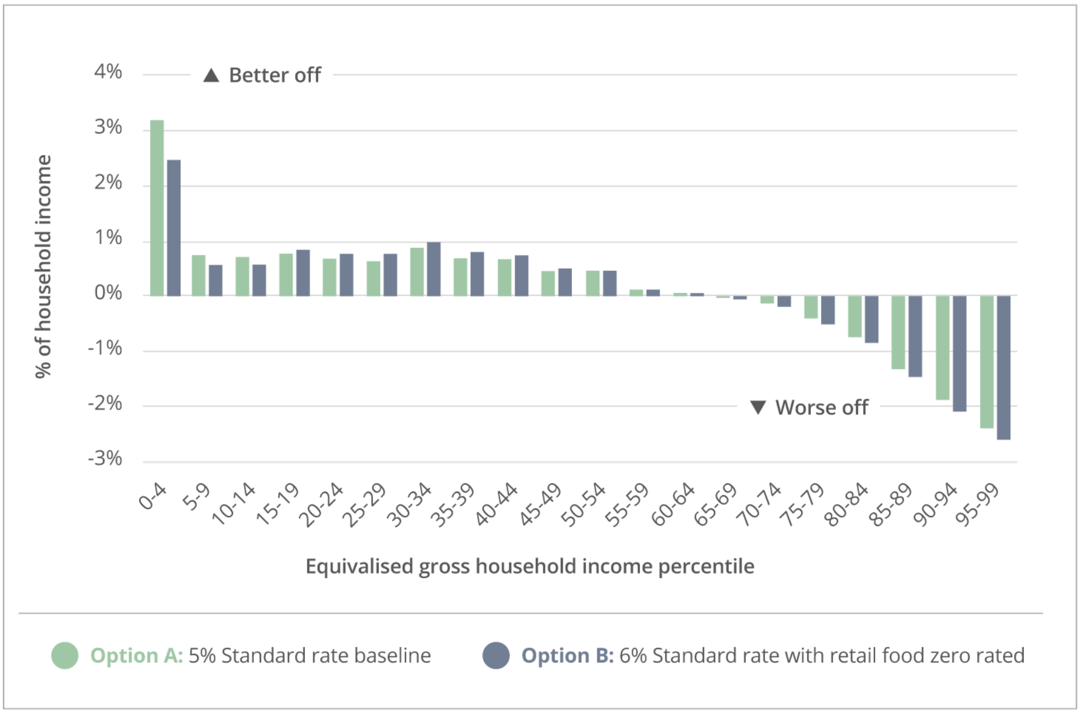
1.15 This Policy Letter recommends applying the standard rate of GST to food rather than zero-rating it for several reasons including:

- the rate would need to increase to 6% on other goods and services to make up the shortfall in revenues should GST on food be zero-rated;
- the benefit of zero-rating food would be enjoyed primarily by wealthy people, while the benefit on the overall tax burden for low- and middle-income households would be very small; and
- for many of the very lowest income households, zero-rating food could result in them gaining less benefit from the changes once the Essential Cost Relief Payment is taken into account.

1.16 The additional complexity added into the system by zero-rating food is significant and a major concern for the retail sector. The retail sector argues strongly in favour of simplicity, and of aligning with Jersey where GST on food is 5%, the same as other goods and services.

[2] The Minimum Income Standards Survey is a regular survey conducted in order to support the setting of Income Support requirement rates. Minimum Income Standards (MIS) are based on detailed, public consultations about the goods and services required for a socially acceptable standard of living

*Figure 2: Comparing the estimated impact on households of 'zero-rating' food vs including food in the standard rate (**as % of household income)***



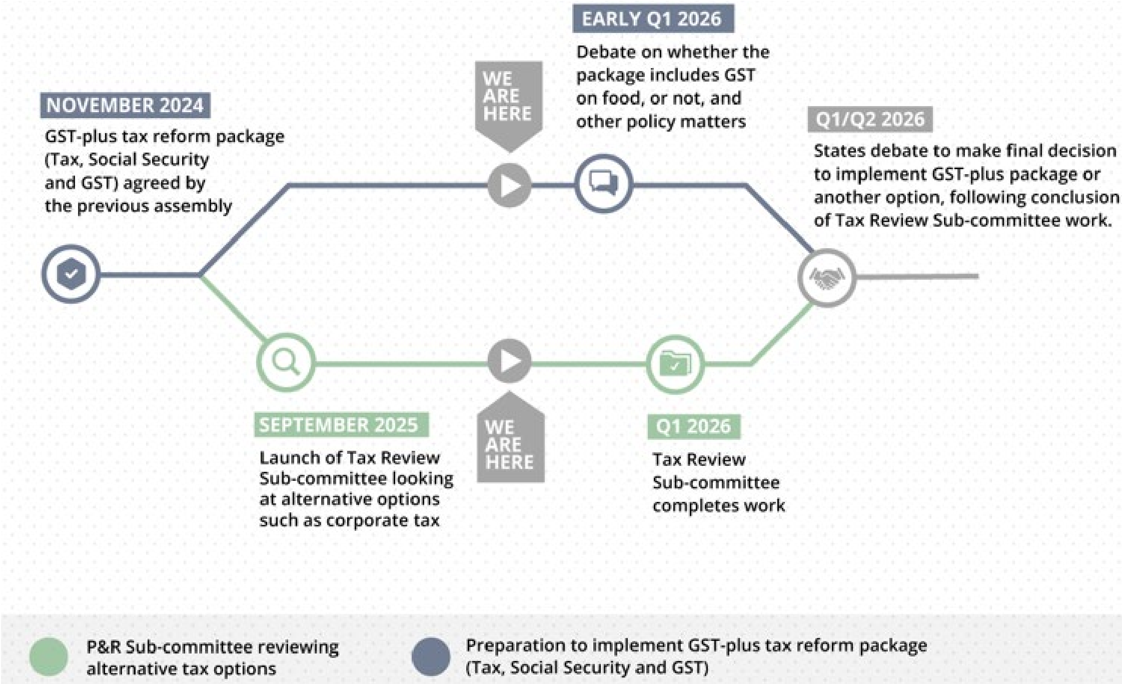

1.17 However, an option for zero-rating food is included in this Policy Letter, with a view to presenting as simple an alternative system as possible - albeit recognising that **this would result in a significant degree of additional cost, complexity and ambiguity, which could result in a significant number of low income households being worse off overall than if the standard rate were applied to all food**.

1.18 There are several other specific considerations on the application of the agreed package of tax reform included in this Policy Letter, including the treatment of charities. It is proposed that in most cases they should be exempt, with a dedicated avenue for reclaiming any GST costs they incur (with exceptions where charities compete directly and to a significant degree with private businesses such as in the care sector). The treatment of e-gaming and international insurance is also addressed in this Policy Letter. It is recommended those sectors contribute by way of a fee through the same scheme as proposed for international financial services businesses who export those services. The Policy Letter also comments on the treatment of private education but makes no recommendations, as the intention is not to deviate from the previously agreed policy position.

## 2. Approach to Tax Reform

2.1 Following the 2025 General Election, the Policy & Resources Committee committed to a dual approach to tax reform. This includes both launching a Tax Review Sub-Committee to review alternatives (particularly around corporate tax) (Workstream 2), and to continue the preparation for implementing the package agreed in November 2024 (Workstream 1). This approach was intended to minimise any potential delays to the previously agreed package of measures should the States wish to progress it to completion, while allowing for the States to debate a final decision for how best to proceed on tax reform in mid-2026.

*Figure 3: Timeline for Tax Reform*




2.2 This Policy Letter fulfils the Resolutions made in November 2024 directing the Policy & Resources Committee *"to thoroughly explore the advantages, disadvantages and impact of applying the tax to or zero-rating food".* It also addresses several other key policy details which need to be incorporated into the system's design and planning at this stage, if delay to its potential implementation is to be avoided.

2.3 The practical logistics of the programme mean that, in order to meet a potential 2028 implementation deadline, it is necessary to make these decisions ahead of the Q2 2026 debate which will provide confirmation on whether or not the previously agreed package of measures, now known as Workstream 1, will form part of the final solution.

2.4 **Members are asked to consider this Policy Letter on this basis and decide, *if* this package including a GST plus personal income protection measures is part of the final tax reform package, what the details should look like. Proposals on whether this should form a part of the agreed way forward will be presented in Q2 2026.**

## 3. A recap of the Tax Reform: Workstream 1 Package

3.1 As presented in the 2022 Policy Letter entitled "The Tax Review: Phase 2", the package of measures that has been agreed has a number of constituent parts. Each element is integral to the success of the changes, balancing the need to raise additional revenues with the direction to protect and, where possible, benefit lower income households.

3.2 The package can be considered as consisting of four broad elements:

- a progressive reform of the Social Security Contributions system;
- a £600 increase in the personal income tax allowance and the implementation of a new 15% income tax band, which the Policy & Resources Committee is proposing becomes Guernsey's standard rate, for income up to £32,400[3];
- implementation of a broad-based GST at 5% with a minimal number of exemptions and zero rating; and
- the application of a fixed payment scheme targeted at low-income households who may not benefit in full from either the tax and social security changes or the intended increase in pensions and benefits to accommodate the impact of tax changes on consumer prices.

3.3 In addition, it is proposed that, as a one-off measure, the normal inflation linked uprating of the States Pension, Income Support and other benefits is brought forward so that these are increased at the same time as, or slightly ahead of, the implementation of the GST, in the event that Workstream 1 is agreed in Q2 2026. This will mean that recipients will have benefited from an increase in income *prior to* any impact which GST may have on prices.

*Social Security Contribution Reforms*

3.4 The Social Security Contribution reforms apply a series of changes to the contributions system which will make it more progressive and redistribute how revenue is raised within the system.

3.5 These changes include:

- the application of an allowance matched to the personal income tax allowance for employed and self-employed contributors, which could significantly reduce the amount of social security paid by those with lower earnings;

[3] This has been adjusted for inflation since the publication of the initial Policy letter and will need to be adjusted further before implementation

- an increase in the allowance already applied to non-employed contributions (including that applied to all pensioners) to match the personal income tax allowance;

- changing the basis of assessment so that all contributors are charged on all their income (rather than just employed or self-employed income) so that everyone is assessed on the same basis;

- setting the contribution rate for employed and non-employed people below pension age at 8.5%;

- setting the contribution rate for self-employed at 13.5%;

- setting the contribution rate for pensioners at 4.4%; and

- setting the contribution rate for employers to 8.5% and adding a requirement for employers to pay 2.5% on income between the Upper Earnings Limit and a second limit of £250,000.

3.6 Broadly, these changes will:

- **reduce** the contributions liability for most middle- and lower-income employed and self-employed people;

- **increase** contributions for higher earners, noting the personal allowance will be withdrawn for high earners in the same manner that it is for income tax (i.e. at a ratio of £1 for every £5 above the threshold, which for 2026 is £85,000);

- **increase** contributions from employers; and

- slightly **increase** contributions for pensioners.

3.7 **This is particularly beneficial for those with earned income between £9,500 and £30,000.**

3.8 The changes to the Social Security Contributions system are expected to result in a similar amount of revenue to that forecast for 2025.

3.9 In 2021, a Resolution was made by the States to apply a phased increase to contributions between 2022 and 2031 with the objective of stabilising the financial position of the Guernsey Insurance and Long-Term Care Funds. Each stage in this process is formally agreed in the Contributory Uprating Report presented by the Committee *for* Employment & Social Security in October each year. The combined employer/employee rates have so far increased from 13.2% in 2021 to 14.6% in 2026. If the phasing were progressed to completion, it would reach 15.6% by 2031 and would raise more money than it does now.

3.10 The restructure of contributions could be adjusted so that it can progress as a stand-alone item, in the absence of a GST, should the full package not be supported by the States in mid-2026. It would need adjustment to ensure that it raised sufficient revenue to at least match the revenues expected from the phased increase in contributions, likely via a combination of higher contribution rates and a lower allowance.

*Income tax reforms*

3.11 The income tax reforms include two elements, which will reduce the income tax liability of almost all income taxpayers:

- A £600 increase in the Personal Tax Allowance; and
- A reduction in the standard rate of income tax to 15%, with 20% becoming a higher rate of income tax applying to income above £32,400[4].

3.12 **These changes are most beneficial to individuals with an income of between £20,000 and £40,000.** They are less beneficial for households who are currently transferring unused allowances between spouses.

3.13 These changes to the personal income tax system are expected to reduce revenue by £35m relative to forecast receipts for 2025.

3.14 Classifying 15% as the standard rate of income tax will require a review of the tax legislation to ensure all elements of the tax law reflect the policy intention and to resolve potential issues of interaction between the 15% rate and other elements of tax legislation. There are, for example, a number of references to "one half of the standard rate" applied to things like the repayment of pension contributions, or anti-avoidance measures which reference the standard rate, which may need to be amended to maintain the current treatment and ensure there are no unintended consequences of this change.

*Goods and Services Tax*

3.15 The proposal as originally presented and agreed is for a broad-based GST at 5% with a very limited number of exemptions and zero-rating applied (see section 8). There is, as outlined previously, a requirement for the States to consider the application of a standard rate of GST to food or whether this should be zero-rated, which is the one of the primary purposes of this Policy Letter.

3.16 A GST will increase the prices consumers pay for goods and services. The estimated impact is a one-off increase in RPIX of around 3.2%, if a 5% increase in the price of all taxable items is applied to the basket of prices collected for the calculation of inflation statistics.

[4] This threshold will be adjusted for inflation during the period before implementation is completed.

3.17 However, the impact of GST will be different for different households, depending on their circumstances and spending habits. For example, for those who rent or have a large mortgage, a greater share of their spending is likely to be exempt or zero rated than those who own their own home outright. **This means those who are paying rent or a mortgage are likely to be less impacted by GST than those that are not**.

3.18 The application of GST is expected to deliver £63-68m additional revenues from local consumers and £6-8m of revenues from visitors.

3.19 The financial services sector, which primarily provides services to clients and customers outside Guernsey, would, in accordance with international norms, be 'zero-rated'. This means they would not charge GST to their clients based outside Guernsey, but they would incur GST on their local expenses, which they would then have to reclaim through the submission of quarterly returns. For many finance sector businesses who manage hundreds of entities, that could mean a significant amount of administration, but with no net revenue generated in taxes as a result. Therefore, the proposals include provision for an International Services Entities (ISE) scheme. This mirrors arrangements in Jersey, ensuring Guernsey's competitiveness is not negatively impacted.

3.20 The ISE scheme will allow finance businesses with international clients to pay a fee in order get an Exception Certificate that they can provide to their own suppliers, so they are not charged GST on their inputs. The intent of this scheme is to minimise the administration to both businesses and the States in relation to activity that would generate very little net revenue if applied in the traditional way. The fixed fee structure attached to this scheme is expected to generate an estimated £10m-£12m. **This will generate additional revenue from the corporate sector and forms a significant proportion of the anticipated net revenue generation.**

*Pensions & benefits*

3.21 The States Pension, Income Support and other benefits are adjusted each January to reflect price inflation over the preceding year. Because the annual uprating applies published RPIX figures from a historic date (usually the preceding June), if the uprating continues on its normal schedule, it could be up to a year before the impact of GST on prices is incorporated into pensions and benefits. To overcome this, the proposed implementation (should the States decide in Q2 2026 to support the introduction of the GST plus personal income protection package) includes provision to bring forward the increase so that the amount payable is adjusted for the impact of GST on prices at the same time, or slightly before, a GST is introduced, so there is no delay.

3.22 The proposals also include provision to design a scheme to compensate low-income households who may not be in receipt of means-tested benefits, either because they are not entitled to them or because they choose not to claim. This Essentials Cost Relief Payment scheme is described in more detail in section 4.

*Tying personal income protection measures to the GST rate*

3.23 The Policy & Resources Committee recognises that, although these tax reform measures (the social security contributions restructure, the personal income tax allowance, the application of a 15% standard rate of personal income tax, the threshold for the application of the 20% higher rate, the Essentials Cost Relief Payment scheme, the pre-emptive increases to pensions and benefits and a GST) are currently presented as a package, there is a danger that the links could be broken in the future. These provisions are integral to ensuring the overall fairness of this package. Having reflected on concerns that these might not be preserved if a future States should recommend an increase in the rate of GST, the Policy & Resources Committee is proposing that provision be added to the law so that any change in the rate of GST **must** include compensatory adjustments to the other elements of the package. Further, the Committee is proposing that consideration should be given to requiring a two-thirds parliamentary majority should any future States wish to increase the rate of GST, with any recommendation incorporated within the suite of decisions in Q2 2026, if Workstream 1 is part of the final tax reform package.

## 4. The Essentials Cost Relief Payment Scheme

4.1 For most lower- and middle-income households, the application of the 15% income tax rate and the restructure of contributions should materially reduce their income tax and contributions liability. For a single working adult with an income of £35,000, these changes combined could be worth more than £2,000 – substantially more than the estimated £1,300 they might be expected to incur in GST on their purchases.

4.2 Households whose taxable income is very low may not gain the full benefit from these changes. Most households with an income at this level will be entitled to Income Support[5] and will be compensated by the proposals to bring forward the inflationary increase in Income Support requirement rates so that they are applied at the same time GST is implemented.

4.3 However, not every low-income household claims Income Support. Sometimes this is because they choose not to, and sometimes because they do not qualify for other reasons, for example because they have a relatively modest amount of savings. This means there is a group of low-income households who are not on Income Support, but for whom the tax and contribution changes and the adjustments to pensions and other benefits are not sufficient to balance the impact that GST might have on their costs.

4.4 Pensioners with modest incomes make up many households in this group, because:

- they gain little additional benefit from the restructure in contributions, since they already get an allowance, and may be protected by the £23,920 lower

[5] In 2025, a single adult in rental accommodation would have a basic requirement rate plus rent allowance of up to £532.84 a week. This means that, they might be entitled to a top-up from income support if their income after tax is below about £27,700, equivalent to an income before tax of around £34,000.

income threshold, below which they are not required to make contributions at all;

- they often transfer tax allowances between spouses which limits the benefit they gain from the 15% income tax rate;

- they often own their own homes outright, which means the income threshold at which they qualify for Income Support is lower (because they will not get an allowance for rent/mortgage costs); and

- they often have savings at a level which excludes them from Income Support.

4.5 To address this, the Phase 2 Policy Letter included a proposal for a light touch, fixed payment model to reach low-income households not protected by Income Support, but who may not be fully compensated by the income tax and social security contribution changes. It is modelled on a similar scheme applied in Jersey which was initially designed to compensate for the application of GST to food.

4.6 This section presents a more detailed explanation of the proposed scheme which has been adapted to reflect some of the concerns raised about the application of GST to food specifically.

4.7 It is proposed that the Essentials Cost Relief Payment scheme:

- is available to households who have a gross household income of less than £32,400 but who are not on Income Support;

- is a simple fixed payment scheme which can be claimed once a year;

- is set to equal the amount of GST that would be incurred on the basket of goods used to establish the requirement rates for Income Support (determined to be the goods required to maintain a basic acceptable standard of living); and

- is set up as a light touch scheme with a small number of qualification criteria including:

  a) a household income threshold (validated against existing tax records);
  b) the household is not in receipt of Income Support;
  c) a limit of one claim per household; and
  d) at least one adult in the household has been resident for no less than two years.

4.8 An analysis of the Minimum Income Standards (“MIS”) work, which was carried out in 2020/21 to support the setting of Income Support rates, has been undertaken which presents an estimate of GST which might be incurred on the basket of goods. This basket is the agreed benchmark for the minimum needed for a household to achieve an acceptable standard of living. This allows the scheme to be explicitly tied to the amount of GST charged on what is considered necessary to support a minimum acceptable living standard.

4.9 This analysis shows that a total of around £520 of GST would be incurred on the basket of "essential" goods for a single working age adult and £860 for a couple.

4.10 It is recommended that the payment be set with reference to these values and that they be adjusted in line with inflation each year as part of the uprating process. They should also be reassessed alongside Income Support rates each time the MIS exercise is repeated. This benefit would be provided on a non-statutory basis, and the mandate for setting rates would rest with the Committee *for* Employment & Social Security.

4.11 The table below outlines a range of proposed rates considered. Matching the payment to the MIS basket in full will have an additional cost implication of up to £100,000 a year (depending on uptake) beyond the costs incorporated within the modelling of the Phase 2 Policy Letter. The table also includes an indication of the results of the same exercise if it is assumed that food and non-alcoholic drink in a retail setting is zero-rated and the standard rate increased to 6% (see section 6 for more details).

*Figure 4: Calculation of Essentials Cost Relief Payment using MIS basket for Options A and B*

| | Single (£) | Couple (£) | Cost per year assuming 100% uptake (£m) | 80% uptake (£m) | 60% Uptake (£m) |
|---|---|---|---|---|---|
| **Previous modelling** | 510 | 765 | 1.5 | 1.2 | 0.9 |
| **Option A: Standard rate all food and non-alcoholic drink products with a standard rate of GST of 5%** | | | | | |
| **Full MIS level** | 520 | 860 | 1.6 | 1.3 | 1.0 |
| **MIS 90%** | 470 | 775 | 1.5 | 1.2 | 0.9 |
| **MIS 80%** | 420 | 690 | 1.3 | 1.1 | 0.8 |
| | | | | | |
| **Option B: Zero-rate all food and non-alcoholic drink, except those provided on a site under a catering or hospitality registration[6] with a standard rate of 6%.** | | | | | |
| **Full MIS level** | 400 | 670 | 1.2 | 1.0 | 0.7 |
| **MIS 90%** | 360 | 603 | 1.1 | 0.9 | 0.6 |
| **MIS 80%** | 320 | 536 | 1.0 | 0.8 | 0.6 |

4.12 The MIS includes a range of different calculations for pensioners and families with children. In order to retain the simplicity of the scheme it is recommended that the scheme is limited to two levels of payments, noting that the vast majority of families with children who might qualify for this scheme are already in receipt of Income

[6] The EC (Food and Feed Controls) (Guernsey) Ordinance, 2016 (as amended) The EC (Food and Feed Controls) (Alderney) Ordinance, 2019

Support and that the difference in GST incurred between working age and pensioner households is small (with working age households incurring slightly more in GST).

4.13 The scheme is designed without a capital threshold. This is because there is a portion of the community who may have a moderate amount of savings, but very limited income. In some cases, they may be using these savings to support their day to day living expenses. The current Income Support rules require such individuals to draw down their savings to below specified limits (£15,000 for a single person or up to £27,000 for a family in 2025) before they qualify for assistance. Within this group there are households (typically pensioners) who might still be considered financially vulnerable and will become more so as their savings are drawn down. Allowing these households to claim this support will prevent the changes to the tax system accelerating the rate at which their capital is drawn down to the point they become reliant on Income Support.

4.14 The definition and validation of capital assets for the purpose of means testing is also complicated and runs counter to the intended simplicity of the scheme. Given the intention is that the scheme be light touch, the Policy & Resources Committee wishes to avoid adding this complexity if possible. The assumption, based on Jersey's experience, is that those with low income but who own significant assets will not seek to claim what to them will be a relatively small amount of money.

4.15 If it becomes evident that there are significant numbers of claims which do not meet the spirit of the scheme, a capital limit could be added at a later date.

***Alderney***

4.1 Under the provisions of the 1948 Agreement, Alderney residents pay Guernsey taxes and, in return, the States of Guernsey assumes financial and administrative responsibility for certain public services (known as 'the transferred services'), such as policing, healthcare and education. As a general principle, all scales of taxation which are levied in Guernsey automatically apply in Alderney. For the purposes of taxation (and unless otherwise agreed by the States of Deliberation), both islands are generally treated as one.

4.2 During consultation on the proposals set out in this Policy Letter, concerns have been raised by political and industry representatives in Alderney that the changes may have a greater impact on Alderney residents due to the higher costs of living (primarily food and fuel).

4.3 Alderney's demographic and economic make-up is substantially different to Guernsey. The population has a lower average income, and a much higher percentage of pensioner households. As a result, the expected net revenue per capita from Alderney as a result of the application of this package is less than half that anticipated from Guernsey. It also means the proportion of households who could potentially qualify for this scheme is significantly higher in Alderney (up to 29%) than in Guernsey (up to 15%).

| | Entire data set | Alderney only |
|---|---|---|
| **Approx. median gross equivalised household income [7]** | £70,000 | £52,000 |
| **Lower quartile gross equivalised household income** | £42,000 | £32,000 |
| **Upper quartile gross equivalised household income** | £105,000 | £74,000 |
| **Households with working age adults only** | 35% | 34% |
| **Households working age adults with children** | 19% | 8% |
| **Households with pensioners only** | 22% | 34% |
| **Est percentage of households better off under GST+** | 51% | 52% |
| **Max Percentage of households qualifying for ECRP** | 15% | 29% |

4.4 Alderney residents also experience higher prices in some areas, particularly in relation to food and energy. Replicating (as far as feasible) the calculations above for Alderney suggests that the basket of goods applied for a working age couple would cost around 7.5% more in Alderney and incur between £69 and £85 a year more in GST.

4.5 **Consideration will be given to whether a *higher* Essentials Cost Support Payment could be offered for Alderney residents.** At the level set out above, this would cost up to £20,000 a year.

***Additional notes on the interactions between the tax reform and Income Support***

4.6 In addition to the Essentials Cost Relief Payment, there will be movements in both directions within the Income Support system. This is because Income Support works by topping up a household's income, after income tax and social security contributions, to the requirement rate determined for that household[8].

4.7 The requirement rates will be revised upwards to anticipate the impact of GST on inflation, which will increase the size of the top-up a household may be entitled to. However, where a household has income from employment or a pension (which most do), they may also be paying less in income tax and social security contributions. This will reduce the amount of Income Support they might need to top them up to their requirement rate.

4.8 The balance between these two factors varies from household to household, but the net result can be summarised as follows:

[7] Equivalisation adjusts for household composition, to reflect the fact that more income is required to achieve the same standard of living if more people are supported by that income. The equivalisation scale used adjusts incomes to a baseline of two adults without children. Approximate household incomes presented have been adjusted for inflation and will not matched data published elsewhere.

[8] Requirement rates are calculated based on the number of individuals in the household, their ages plus an element for the households rent or mortgage costs

- a net *upward pressure* of £1.2m above normal policy because of the increased requirement rates (noting that because the impact on inflation is to be pre-empted, it will be higher than this in the first year); and

- an estimated £2.1m *reduction* in Income Support costs because claimants who have some income of their own will have a higher net income because they are paying less in tax and social security contributions.

4.9 Combined, the two factors could result in a net *decrease* in Income Support costs, while still ensuring that households claiming Income Support see their total net income, after taxes and benefits, increase in line with the anticipated impact on prices.

## 5. Exemptions & Zero-Rating within a GST

5.1 The two concepts of zero-rated and exempt supplies are often confused but the application of the two concepts is substantially different, both in effect and administration. The table overleaf provides a quick reference guide; a more detailed explanation is provided in **Appendix 2.**

*Figure 5: Summary of Standard rated, exempt and zero rated treatment*

| | | |
|---|---|---|
| **Standard rated supplies** | If registered, must collect GST and *can* reclaim GST incurred. | Remitted/rebated GST = GST collected – GST incurred |
| **Exempt supplies** | Does not need to register, does not collect GST and *cannot* reclaim GST incurred. | Remitted GST = 0; Rebated GST = 0 |
| **Zero-rated supplies** | If registered, collects GST at 0% and *can* reclaim GST incurred. | Remitted GST = 0; Rebated GST = GST incurred |

5.2 The most important concepts in relation to these are that:

- for **standard rated** goods, the total amount of tax collected through the supply chain as a percentage of the *final* sale price should equal the headline rate (5%, or 6% if food is zero-rated);

- for **zero-rated** goods the total amount of tax collected through the supply chain should net out to zero and the effect on the final price should be minimal (0%); and

- for **exempt supplies**, some GST is incurred through the supply chain, which is not reclaimable by the final supplier, who does not charge GST on the final product. There may be some impact on the final price of the product, reflecting irrecoverable GST incurred by the supplier, which may be added into the final price (between 0% and 5%).

5.3 In terms of their impact on the price of the final product, standard rating should have the largest impact, zero rating should have little or no impact. Exempt supplies will fall somewhere in between, and this will typically depend on how much of the cost of making the supply of goods or services comes from taxable things, like goods and energy, and how much is wages (which are outside the scope of GST).

## 6. Taxation of foodstuffs

6.1 The Resolutions made in November 2024 include specific direction for the States to further consider the standard or zero-rating of food. To meet this obligation an options appraisal and industry engagement have been undertaken.

6.2 In the process of compiling the options, key assumptions and considerations included:

- a recognition that reducing the administrative simplicity and bureaucratic burden as much as possible for the retail sector is important;
- the policy intent of the Resolutions was to more closely examine the implications of standard or zero-rating food as an 'essential' on households, with a particular focus on low income or vulnerable households;
- a requirement to retain the net revenue-raising potential of the proposals whether food is standard or zero-rated;
- a requirement that any legal definitions need to be clear and unambiguous; and
- a regard for international norms with regards to taxing food.

***International practice***

6.3 There is no single international standard for the treatment of food and non-alcoholic drinks within the context of GST or VAT schemes and treatment varies widely. Of 71 schemes analysed (see Appendix 3):

- 80% tax all food and non-alcoholic drink products, as follows:
  a) 39% standard rate all food and non-alcoholic drinks;
  b) 34% apply reduced rates to at least some items where the lowest rate is 5% or more; and
  c) 7% apply reduced rates to at least some items where the lowest rate is less than 5%.
- 20% apply a zero rate to at least some food and non-alcoholic drinks. The definitions used vary widely, **but none of the jurisdictions analysed zero rate food in catering settings.**

*Discounted options*

6.4 Given that the proposed standard rate is 5%, options to apply a reduced rate to food have not been further explored.

6.5 Replicating the UK's complex definition of 'essential' foods does not meet the required criteria for clarity and administrative simplicity. It is not supported by retailers, who would bear responsibility for correctly interpreting the detailed and extensive guidance on what items are and are not subject to zero-rates and standard rates. This would significantly increase the costs of compliance for businesses which would be particularly difficult for smaller food retailers. The added complexity would also require additional support and compliance activity from the Revenue Service and a more substantive process for addressing appeals to the classification of particular items. This would increase the Revenue Service's costs, reducing the net benefit of introducing GST. For all these reasons, replicating the UK's approach to food is considered unworkable in a small jurisdiction like Guernsey and has been discounted.

6.6 The zero-rating of **all** food and non-alcoholic drinks would be the administratively simplest alternative but would involve zero-rating all restaurant meals which does not align with international practice, or any assumed intent from the States' Resolution to assist lower income households over higher income households. It would also reduce net revenues at a 5% rate by a *further* £5m and is discounted for these reasons.

*Preferred Options*

6.7 A comparison between two options has been examined:

- **Option A**: Standard rate all food and non-alcoholic drink products with the standard rate of GST at 5%; and

- **Option B**: Zero-rate all food and non-alcoholic drink, except those provided on a site under a catering or hospitality registration[9] with the standard rate of GST at 6%.

6.8 Alcoholic drinks would be standard rated in both retail and catering settings under either option.

6.9 In the context of Option B, it is assumed that a catering or hospitality registration would incorporate restaurants, cafes, snack bars, public houses, canteens, hotels, guest houses, caterers and any other site where the primary activity is food preparation and service.

6.10 The zero-rating of food as described in Option B is expected to reduce the expected tax-take from GST at a standard rate by approximately £8m. To retain the *overall* net

[9] The EC (Food and Feed Controls) (Guernsey) Ordinance, 2016 (as amended) The EC (Food and Feed Controls) (Alderney) Ordinance, 2019

revenue within the context of the proposals, the standard rate of GST on all other items would be increased from 5% to 6%[10].

| | Estimated revenue from local consumers (£m) | Estimated revenue from visitors (£m) | Total rate dependent revenue (£m) | Rate required to achieve the same revenues (%) |
|---|---|---|---|---|
| **Option A: GST standard rated on all food items at 5%** | 68 | 6 | 73 | - |
| **Option B: GST zero rate on all food items at 5%, except where provided in a catering setting** | 60 | 5 | 65 | **6** |

6.11 Further details of the options analysis are included in Appendix 4 and the findings are summarised below. Note that the analysis of these options includes the differential treatment of the Essentials Cost Relief Payment scheme described in section 4.

*Figure 6: Summary options analysis*

| Category | Option A | Option B |
|---|---|---|
| **Revenue Raising** | | |
| **Progressive tax[11]** | | |
| ***Perceived* Fairness** | | |
| **Economic Efficiency** | | |
| **Clarity of definitions** | | |
| **Internal administrative simplicity** | | |
| **Business administrative simplicity** | | |

6.12 ***The impact of Option B relative to Option A for households in the lowest income quartile is estimated to average less than £5 a month in either direction, and for many low-income households the outcome may be worse under Option B.***

6.13 While lower income households spend more as a percentage of their income than higher income households on food, they also spend more on other taxable goods. This is partly because they are less likely to be saving money, but also because older householders, with limited rent and mortgage costs (which are zero-rated), make up a large percentage of lower income households. **As a result, much of the benefit to lower income households is lost when the standard rate on all other goods and services is increased to 6%**.

6.14 The expected net change for a household in the lowest income quartile (i.e. the 25% of households with the lowest income) averages less than £5 a month (assuming the

[10] Other options for offsetting the reduced tax-take from Option B, such as applying the 15% personal income tax rate to a lower threshold or reducing the allowances applied were reviewed but resulted in poorer outcomes for low-income households.

[11] A progressive tax or tax system is one where the amount of tax paid as a percentage of total income increases as income rises

benefit mechanisms are adjusted to reflect the differences in inflation and the Essentials Cost Relief Payment scheme). Around 23% of households in the lowest quartile could expect to be better off by more than £5 a month under Option B than option A, but 28% could be worse off by more than £5 a month.

6.15 The benefit is greater for the second quartile (what might be considered lower to middle-income households) but still averages only about £5 a month.

6.16 This means the added complexity provides little or no improvement for the intended beneficiaries, particularly given the majority of this group would be net beneficiaries in the overall package.

*Figure 7: Comparing the estimated impact on households of 'zero-rating' food vs including food in the standard rate* ***(as a percentage of gross income)***

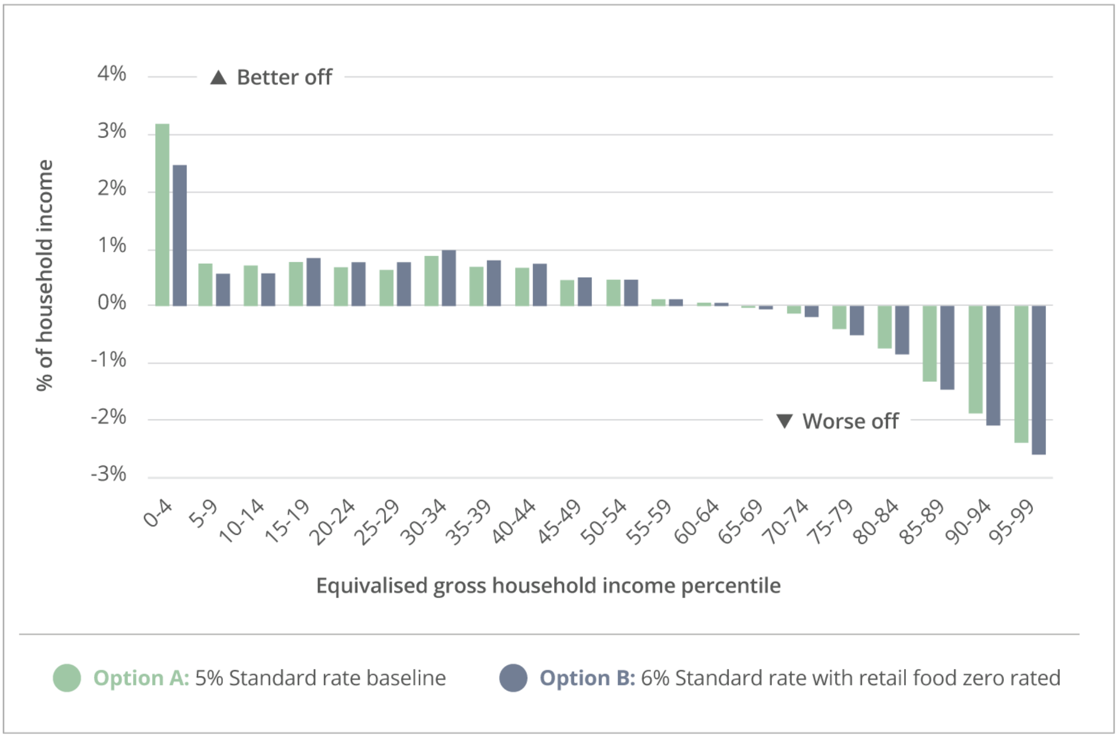
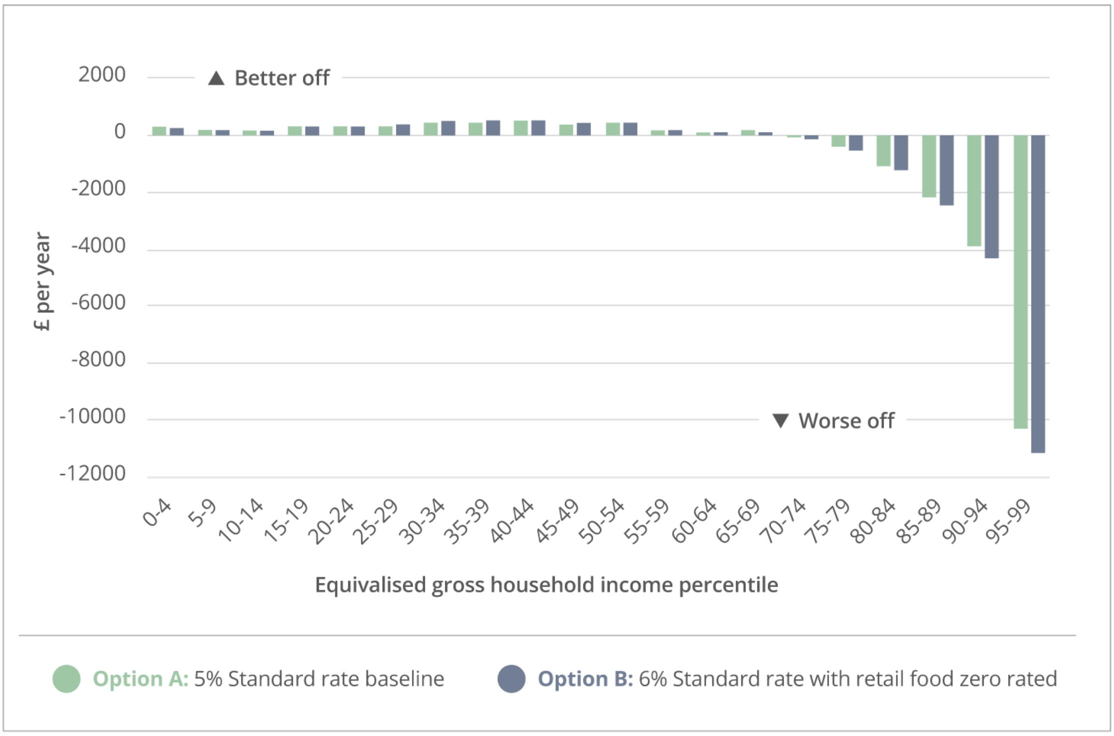


*Figure 8: Comparing the estimated impact on households of 'zero-rating' food vs including food in the standard rate* ***(£ per year)***




***Not all food is essential and things other than food are necessary***

6.17 In monetary terms, higher income households spend more on food and therefore contribute more GST as a result. This is because they are more likely to be buying premium goods. However, differentiating between essential and luxury foods is complex, both in terms of establishing clear legal definitions and allowing for efficient administration.

6.18 Further, having established the precedent of zero-rating 'essential' food, this argument can be extended to progressively more goods and services, eroding the base of the tax and increasing its complexity.

6.19 This Policy Letter presents an alternative approach to addressing such concerns by reshaping the proposed Essentials Cost Relief Payment scheme, to mirror the basket of goods derived from the Minimum Income Standards survey, deemed to be that necessary to maintain an acceptable standard of living. This would allow targeted support for low-income households to be specifically compensated for the GST incurred on their necessary spend, either via the inflation uplift to Income Support, or access to the fixed value Essentials Cost Relief Payment scheme. This is discussed further in section 4.

***Both food retailers and food service providers have stated a clear preference for a single standard rate***

6.20 Engagement with food businesses confirms that, **if** a GST is to be adopted, the food retailers have a clear preference for standard rating **all** food items because their administration would be much simpler if all products they are selling were subject to the same treatment. Some of the challenges they anticipate arising from zero-rating retail food products are described in the following sections.

6.21 For those businesses which operate in both Guernsey and Jersey, Option A also allows businesses to apply the same processes and price setting considerations in both islands.

6.22 Hospitality representatives also stated a preference for a single standard rate, highlighting that zero-rating food in a retail setting while also applying a 6% rate to food in a catered setting, further widens the price differential between eating at home and eating out and could distort spending patterns away from their businesses.

6.23 Appended to this Policy Letter (Appendix 6) is a formal submission from the Chamber of Commerce supporting Option A.

***Application of both zero- and standard rates for businesses supplying both food and non-food items is more complex than a single standard rate***

6.24 Very few businesses sell only food items. If food and non-alcoholic drink is standard rated (Option A), the application of the tax is relatively straightforward, since it will be applied at the same rate to all items sold regardless of their nature.

6.25 In Option B, retail businesses will need processes to differentiate between food and non-alcoholic drinks to be zero-rated, and alcoholic and non-food items that are standard rated and report this correctly on receipts. A typical large food retailer might have several thousand product lines which need to be classified, with the constant addition of new lines on an ongoing basis. Not only will each line need to be assigned either a zero or standard rate within the system, but a judgement will be needed where the classification might be unclear – for example, where bundled goods, like a Christmas hamper, contain both food items and alcoholic drinks.

6.26 This implies a more complex process for the businesses involved, with retailers holding legal responsibility to define what is taxable at which rate. It also implies more compliance activity from government to ensure the rates are being applied consistently.

***For food businesses with a single activity, Option B should be relatively clear, but there is potential for grey areas and compliance issues***

6.27 Within Option B, the use of the Environmental Health regulations provides a route to establishing a clear definition for most businesses, enabling them to be classified as sites which are permitted to zero-rate food products (like retail shops), or who are required to standard rate food products (like hotels and restaurants). This has the advantage of providing clear boundaries for both business and the government on when a food item should be zero- or standard rated.

6.28 However, there are businesses which might have activities falling in both categories. For some businesses, like the larger retail supermarkets with coffee shops, this may be managed by applying separate Environment Health registration to different areas of the business and operating separate till systems.

6.29 For smaller retailers, with less distinction between business areas this may be more difficult. For example, where a restaurant also allows customers to purchase packaged items like cheese and meats to consume at home; or for a small corner shop that also sells takeaway coffee and prepares fresh sandwiches to order. In such instances, the expectation is that a single classification will be applied to the site and the Revenue Service will need discretionary powers to determine the primary classification.

6.30 It also means that the same item might be treated in a different way based on the setting in which it is sold. A chocolate bar sold in a supermarket would be zero-rated; the same item, sold in a café would be standard rated.

6.31 This also implies that there will need to be a route for a business to dispute the classification.

6.32 Other examples of potential grey area, and complications are outlined in Appendix 4.

***Differential rates complicate the handling of goods at the border***

6.33 Where imported goods are destined for registered businesses, the intention is that any import GST would be addressed via the quarterly returns process, which poses no additional challenges for the Guernsey Customs and Immigration Service (GCIS).

6.34 However, where goods are destined for an unregistered business or a private individual, the GCIS will need to be able to distinguish between food and non-food items. The existing manifest systems will need to be adapted to accommodate the distinctions. Further complications arise where there may be a mix of food and non-food goods included in a single consignment.

6.35 The overall position of the Policy & Resources Committee is that, even under the relatively simple classification Option B presents, this is a complex way to address the perceived concerns raised about standard rating food. **The Committee instead recommends that standard rating of food is retained, noting that that the Essentials Cost Relief Payment is calculated to reflect GST applied to all 'essential' items, not just food and noting that the payments made to claimants under this scheme will be *higher* in the event that food is standard rated, better protecting those households from the impact of GST.**

## 7. Extension of International Services Entities (ISE) Scheme to International Insurance Services and E-gaming

7.1 The International Services Entity scheme is an element of GST replicated from Jersey's regime. It is designed to gain an increased tax contribution from the financial services sector, while minimising the administration for both businesses and the government.

7.2 The ultimate clients of international financial services businesses are not resident in Guernsey, and the services are therefore exported. In line with the standard international treatment of exports in global consumption tax systems, all goods and services are zero-rated when they are exported (i.e. they are moving outside Guernsey's tax jurisdiction and into another). **This means that in the absence of an ISE scheme, there will be no net revenue generated from international financial services businesses.** To benefit from the zero-rating and reclaim any GST they might incur, the service providers would need to register for GST and complete quarterly returns, and in some cases that could mean that companies like fund administrators and corporate service providers would need to complete hundreds of quarterly returns on behalf of their managed entities. This creates an uncompetitive administrative burden for the business in submitting and processing returns and reclaims. It would also increase the administrative resources requirements and cost burden for government.

7.3 The scheme developed in Jersey allows businesses of this nature to register as International Services Entities (ISEs). To register (which is optional), the primary managing or administering entity pays a 'lead' fee, with a further small fee payable for each managed entity they wish to register. Registered ISEs are not required to register for GST in the normal way or complete quarterly returns. They are provided with an End User Relief Certificate (EURC) which they are then able to provide to their suppliers which directs the suppliers not to charge them GST. They are also allowed to reclaim any incidental GST they incur via an online form.

7.4 The ISE Scheme is expected to deliver a significant contribution from the financial services corporate sector if applied as it is in Jersey (estimated at between £10m and £12m). However, the Jersey scheme does not cover International Insurance Services or E-gaming, because these are not activities that are common in Jersey's economy. These activities have significant parallels with the activities captured within Jersey's scheme – the services are ultimately exported to clients outside Guernsey, and the activities are typically undertaken by specialised service providers. Having discussed options with industry representatives, the recommendation of the Policy & Resources Committee is that fee categories are established for both International Insurance and E-gaming services.

7.5 Initial estimates of the scheme were compiled on the assumption that this would be the preferred approach, so no changes in revenue are incurred in confirming the assumption. Should this not be applied it is estimated that revenues from the ISE scheme would be reduced by £1m to £2m.

## 8. Confirmation of Other Zero-rating and Exemptions

8.1 The Tax Review: Phase 2 Policy Letter included the outline list of exemptions and zero-rating below.

*Figure 9: Exempt and Zero-rated items as listed in the Tax Review: Phase 2 Policy Letter*

**Zero-Rated**

- Export Services
- Exported goods
- Sale of a going concern
- Transport of passengers and goods to or from Guernsey or Alderney from outside the Bailiwick
- Transport of goods and passengers between Guernsey and Alderney/Sark/Herm

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- Postal Services
- Creation, sale, or lease of a residential dwelling

**Exempt**

- All services provided by the States of Guernsey
- Domestic financial services
- Primary medical care
- Ambulance services
- Dentists

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- Opticians
- Registered long-term care provision
- Childcare
- Supplies by charities (applying a source of income-based approach like that applied in New Zealand

8.2 As part of this Policy Letter, the Policy & Resources Committee is seeking clarify the application and provide additional detail on the exemptions proposed. The Policy & Resources is not recommending widening the scope of goods that will be standard rated and these remain as originally presented in 2023. The proposed revised provision is included below:

**Figure 10: Revised zero-rated and exempt provisions**

| Zero-Rated | Exempt |
|---|---|
| Export services | Public services provided free at the point of use by the States of Guernsey |
| Exported goods | Domestic financial services |
| Sale of a going concern | Domestic insurance services |
| Transport of passengers and goods to or from Guernsey or Alderney from outside the Bailiwick | Medical and paramedical supplies made by registered professionals or institutions |
| Transport of goods and passengers between Guernsey and Alderney/Sark/Herm | Childcare for a child below school age provided by a registered provider of childcare or pre-school services |
| Postal Services | Supplies by charities (with provision to reclaim input GST) |
| Creation, sale, or lease of a residential dwelling | Burial and Cremation services |

### *The treatment of public services*

8.3 The provision listed in figure 10 is intended to clarify the treatment of public services. The exemption applied to public services which are provided free at the point of use means that no GST can be applied and no reclaim of input GST made. This prevents a situation where there are substantial internal (to government) reclaims of GST within the core public service and all the associated administration attached. The expectation is that this exemption will extend to basic administrative fees for things like planning applications and licences.

8.4 Where the States gain revenues from quasi-commercial activities, such as fees charged for the hire of school halls for leisure services or evening classes, these may attract GST and provisions made for an appropriate administrative treatment (see the section on the Education of Children).

8.5 The activities of the States' unincorporated trading entities, which are providing essentially commercial services, would be subject to the standard rate where appropriate in line with the proposal presented in 2023.

### *Treatment of taxes and duties*

8.6 Taxes, like TRP, would be exempt from GST.

8.7 Import and excise duties are payable on the import of goods into the island. These are effectively incorporated into the final consumer price set by the retailers which is subject to GST.

### *Charitable sector*

8.8 The charitable sector (sometimes known as the third sector) provides important support structures for the community and the intention has always been to provide a facility to exempt the majority of charitable services from the GST.

8.9 Upon review and consultation with stakeholders, the Policy & Resources Committee is recommending a slightly different approach to that included in the Phase 2 Policy Letter, which was likely to prove too complex to administer.

8.10 Zero-rating charitable supplies would have the least impact on the charitable sector, but to benefit from the zero-rating within the formal process of GST, charities would need to be registered and complete quarterly returns. Given that many of Guernsey's charities are very small, this would be an unreasonable administrative burden.

8.11 Instead, the proposal discussed with charities is that charitable activities would be treated as exempt, but to offer charities a facility by which they can reclaim any GST they might incur through a simple online process, without the need to register and complete quarterly returns in the normal way. This would have the same effect as zero-rating charitable supplies, with less administration for the charities themselves.

8.12 To access this facility, charities would be required to retain copies of receipts and submit these for inspection as required. The Revenue Service would also retain the discretion to apply a different categorisation to all or part of the activity of a charity, if they are deemed to be conducting a commercial activity, which might be considered to be competition with a commercial business.

8.13 Note that where an organisation is operated on a charitable basis, but is providing other exempt services, such as medical and care or childcare services (as described below), in direct competition with commercial providers, that classification would supersede their charitable status to ensure organisations providing equivalent services are treated the same.

***Medical and care services***

8.14 It is suggested that to align with the legislative application in Jersey, this is rephrased as "medical and paramedical supplies made by registered professionals". This broader definition will encompass all primary medical care services, ambulance services and services like dentistry, opticians and care homes (as previously listed).

8.15 This exemption would also incorporate the fees charged for hospital services.

***Childcare***

8.16 This definition is expanded to ensure that this refers only to services provided by registered childcare providers for children under five.

***Education of children***

8.17 Queries have been raised regarding the treatment of the grant-aided colleges. Within the original proposals as agreed by the previous States, all education services are considered standard rated.

8.18 The treatment of education services varies from jurisdiction to jurisdiction. In the UK private schools are subject to the standard rate (prior to 1 January 2025 they were exempt) and in Jersey specific named entities are provided with an exemption.

8.19 The Policy & Resources Committee has, in consultation with the Committee *for* Education, Sport & Culture, given further consideration to this matter. While the Policy & Resources Committee members remain of the opinion (by majority) that the grant-aided colleges should remain subject to the standard rate, it has explored two potential approaches, with either a standard rate or an exempt status applied.

8.20 To be clear, the provisions suggested apply only to fee-paying educational services provided by specified entities, namely Blanchelande College, Elizabeth College and The Ladies' College (together "the Colleges"), for children between aged 4 and 18 at the commencement of the school year. The two options presented either standard rate or exempt these services. To ensure consistency, consideration is also given to treatment of fee-based services provide by The Guernsey Institute[12].

8.21 Having considered the two options overleaf, the Policy & Resources Committee is not proposing any change to the previously assumed treatment of the Colleges as described in Option 1 and therefore no Proposition on this subject is included.

***Option 1: All fee-based education services are standard rated (current assumed treatment)***

8.22 ***For the Colleges***, this would mean GST would apply at a standard rate on their primary and secondary education provision and they would be able to reclaim any GST incurred in providing these services. The Colleges would need to register for GST and provide quarterly returns.

8.23 All three colleges provide some pre-school education provision, and the current direction is that this provision would be exempt from GST. The Colleges would need to separate the provision of their primary school and secondary schools from the provision of pre-school education for the purpose of their GST returns. In all three cases, the pre-school is co-located with the primary school provision, and agreements may be needed to determine what share of GST incurred on pooled costs would be eligible for reclaim. Such agreements could be managed through regulations and guidance notes and determined pro-rata based on the number of students in the pre-school element of the service provision.

8.24 This treatment may place an upward pressure on fees of no more than 5%.

8.25 ***For The Guernsey Institute College and University Centre,*** this would mean that fee bearing services would be standard rated. Under normal circumstances, GST incurred on inputs relating to taxable supplies could be deductible from the amount remitted, but that can be challenging where costs are shared with the provision of public services which are out of scope. It is recommended that this is resolved by establishing a fixed percentage of the GST they collect to be remitted to the Revenue Service, which

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[12] The Guernsey Institute (TGI) comprises three entities:

- TGI College (was the College of Further Education) is part of the core post 16 education provision which is free at the point of use. It also provides some fee-based services including tertiary level courses and evening classes. The College also generates revenue via the Princess Royal Centre for the Performing Arts and the hire of the theatre for commercial events and the running of the bar.
- TGI University Centre (was the Institute of Health & Social Care Studies) provides professional training services primarily to the Committee *for* Heath & Social Care. Some services are provided to private care providers who would be exempt and unable to reclaim GST.
- TGI Business School (was the Guernsey Training Agency – 100% States of Guernsey shareholding) operates on a commercial basis and provides fee-based services, generally to businesses which would be either GST registered and able to reclaim GST as part of quarterly returns, or ISEs to whom GST would not be charged. The Business School is operated on an arm's length basis with separate accounting.

reflects an estimated amount of GST incurred in the provision of these fee bearing services.

8.26 There are other areas of the States where similar quasi-commercial fees are charged for services which are comparable to services offered by the private sector (e.g. for the hire of school halls). A similar approach could be applied in these circumstances.

8.27 ***For The Guernsey Institute Business School,*** all services would be standard rated, and the organisation would be registered for GST in the normal way.

***Option 2: Fee-based education and school services provided to children under 19 in specified institutions are exempt; all other fee-based education and training services are standard rated, and 0.1% added to the standard rate to compensate for loss of revenue***

8.28 ***For the Colleges***, this would mean they would not have to charge GST on their services but would not be able to reclaim input GST. Because the treatment of the pre-school and the primary and other elements would be aligned, no provisions would be needed to separate the treatment.

8.29 Any payment for ancillary services made to the Colleges could be treated as immaterial and incorporated within the exemption.

8.30 Payment for services provided by third party providers on the Colleges' sites would be subject to whatever provisions were appropriate for those providers.

8.31 This treatment would place an upward pressure on fees but by less than 5%.

8.32 ***For The Guernsey Institute College and University Centre,*** fees for education services provided to children under 19 would be considered exempt. An extension could be made to exempt training for nurses and carers provided by TGI where fees are applied (noting that the majority of places are provided to the States of Guernsey. There are a relatively small number of places provided to private care homes, who are expected to be exempt from the GST and therefore unable to reclaim costs).

8.33 Other fee-based services, like evening classes and other adult education courses, the hire of facilities and the proceeds of the bar would continue to be standard rated. Again, this creates an issue with the reclaim of GST on costs which could be managed in a similar way to Option 1.

8.34 ***For The Guernsey Institute Business School,*** all services would be standard rated, and the organisation would be registered for GST in the normal way.

8.35 **There is a revenue implication of providing an exemption for education services as described. Option 2 implies a loss of revenue of an estimated £0.4m to £0.6m. This lost revenue would need to be borne the consumers of all other goods and services, meaning the standard rate of GST would need to increase by 0.1% (i.e. to 5.1% or 6.1%, depending on the States' decision in relation to GST on food) to compensate for this lost revenue.**

***Burial and cremation services***

8.36 This is added to be consistent with the treatment in Jersey.

## 9. Anticipated timeframes

9.1 It is anticipated that the work of the Tax Review Sub-Committee will be completed in the first quarter of 2026, and that its findings and recommendations will then be considered by the Policy & Resources Committee. The Policy & Resources Committee hopes to bring recommendations to the States about how they should progress with tax reform in the second quarter of 2026.

9.2 If this timeline is met and the decision were made to continue with the package of measures considered in this Policy Letter, the expectation is that the Social Security and Income Tax elements of the proposal will go live on 1 January 2028, and that GST and benefits elements will go live later in Q1 2028.

9.3 Because of the mechanics of the Social Security and Income Tax regimes, if the timeframe for those changes moves beyond 1 January 2028, or there is a risk that the go live of GST will be delayed beyond Q2 2028, the implementation will need to be deferred until 2029.

## 10. Consultation and engagement

10.1 Extensive engagement has been undertaken through a series of workshops. This covers both consultation on the specific policy decisions required for this Policy Letter and technical engagement on the potential implementation of the previously agreed package of tax reform more generally. All engagement undertaken to date has been conducted on the understanding that the objective is to ensure the detailed design of the package is clear and effective, should the States choose to progress the implementation to completion.

10.2 The industry engagement which began in this phase will continue throughout any implementation to ensure that businesses are fully informed and have a forum in which to raise and discuss technical challenges so these can be addressed early.

10.3 The engagement programme includes the formation of an Industry Change Panel (ICP), made up of businesses, industry associations, and sector organisations that may be impacted. Their role is to provide feedback and suggestions on technical details.

10.4 This panel has met on four occasions prior to the publication of this Policy Letter and will continue to meet on a regular basis throughout the implementation period. More detail on the ICP is included in Appendix 7.

10.5 A series of industry-specific workshops have also been undertaken with industry and community groups, which are also listed in Appendix 7.

10.6 Further industry engagement sessions will continue through 2026 up to the debate on the findings of the Tax Review Sub Committee in Q2 2026. The nature of engagement beyond that point will depend on the direction provided by the States of Deliberation.

10.7 All the technical details discussed at these engagement meetings require further States decisions and, where no policy direction is needed, the details are not included within this Policy Letter. Sessions have been well attended and constructive.

## 11. Conclusion

11.1 The Policy & Resources Committee will bring proposals to the States in Q2 2026 based on the findings and recommendations of the Tax Review Sub-Committee. At this time, it is not known whether the package of tax reform approved by the last States will form any part of those proposals and the long-term solution to the States' financial challenges. In laying this Policy Letter, the Policy & Resources Committee is seeking to ensure that, should this package have a role to play, the policy is structured in a way that offers the best opportunity for successful implementation, and that implementation can be progressed with minimal delay.

11.2 The Policy & Resources Committee is improving some of the core elements of the package including:

11.3 **Committing to making the package beneficial for lower income households by:**

- formally tying the Essentials Cost Relief Payment scheme for low-income households to the value of GST incurred on a basket of essential goods and services;
- committing to the progressive restructure of Social Security Contributions which will benefit low income employed and self-employed people;
- confirming an increase in the tax allowance and lower standard rate of income tax at 15%, reducing the tax liability for low- and middle-income households;
- adjusting in advance for the impact of GST on prices by bringing forward the inflation uplift to pensions and benefits;
- maximising the protections for charitable activities, while minimising the administration; and
- requiring that any future changes to the headline rate of GST must be accompanied by appropriate adjustment to all of the measures above.

11.4 ***Keeping* it *simple and easy to administer for businesses by:***

- applying the standard rate on a broad basis while maintaining alignment with Jersey on the application of GST to food in order to reduce the burden on retailers, keep the standard rate low and minimise the costs of administration; and

- extending the International Services Entity scheme to International Insurance and e-gaming activities to ensure a fair contribution from the corporate sector.

## 12. Compliance with Rule 4

12.1 Rule 4 of the Rules of Procedure of the States of Deliberation and their Committees sets out the information which must be included in, or appended to, motions laid before the States.

12.2 In accordance with Rule 4(1)(a), the Propositions which this Policy Letter accompanies consider technical detail of the application of a GST, should this be the policy chosen to address the States long-term financial stability.

12.3 In accordance with Rule 4(1)(b), the Propositions have been discussed with various Committees where these touch on their mandate. Policy details have also been discussed with relevant industry stakeholders as part of ongoing engagement.

12.4 In accordance with Rule 4(1)(c), the Propositions have been submitted to His Majesty's Procureur for advice on any legal or constitutional implications. She has advised that there is no reason in law why the Propositions should not be put into effect.

12.5 Rule 4(1)(d) concerns the financial implications to the States of carrying into effect the proposals. The Propositions have implications for the States revenues should the policy outlined be supported as a way to address long-term financial stability.

12.6 In accordance with Rule 4(2)(a), the Propositions relate to the duties of the Committee to raise tax revenues and manage the States finances.

12.7 In accordance with Rule 4(2)(b) of the Rules of Procedure of the States of Deliberation and their Committees, it is confirmed that the Propositions above have the unanimous support of the Members of the Committee.

Yours faithfully

H L de Sausmarez
President

G A St Pier
Vice President

C N K Parkinson
S J Falla
Y Burford

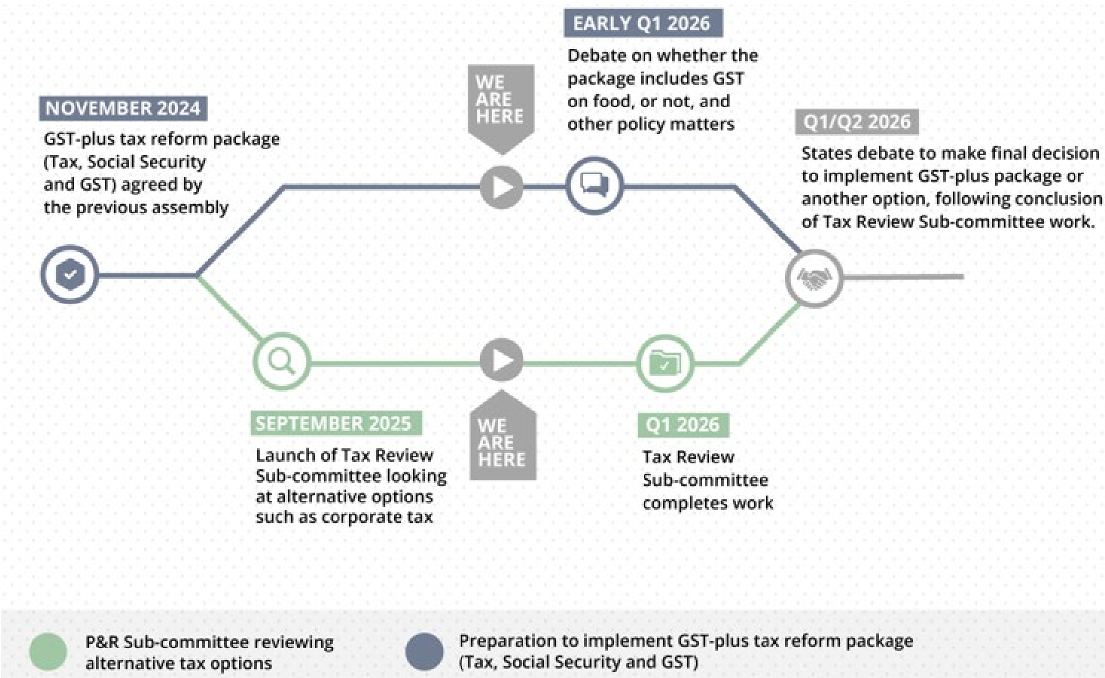
**Appendix 1. Important notes on timing and analysis**

A1.1 In considering this Policy Letter, there are a number of key points States Members should keep in mind:

***The Tax Review Sub Committee and the parallel workstreams***

A1.2 The Tax Review Sub-Committee is progressing work looking at other routes to raise additional revenues, particularly within the corporate tax sphere, in parallel to the groundwork and policy development being undertaken to progress the implementation of the previously agreed package.

A1.3 This Sub-Committee's work is expected to reach completion in Q1 2026 and the Policy & Resources Committee will present the findings and recommendations to the States in Q2 2026. This will provide the States with an opportunity to consider and debate the recommendations on the appropriate way forward with regards to raising additional revenues. At this point, in Q2 2026, it is expected that the States will be presented with a final decision on whether or not to progress the GST plus personal income protection package in its entirety, to progress an alternative revenue raising model focused on the taxation of corporate entities, or to progress some combination of these.




A1.4 The work to progress the implementation of the GST plus personal income protection package is being conducted in parallel to minimise any potential delay in the implementation, should the final direction be to implement some or all of the package. This is intended to allow for the implementation of changes from 2028, should the direction from the States in June 2026 be to proceed in this direction.

A1.5 The parallel progression is required because it is necessary to allow a minimum of 12 months (preferably 18 months) between the final decision and the approval of legislation, in order to give businesses sufficient notice to adapt their own systems. It will be necessary to launch systems procurement and development as early as possible. It will also enable progression of the preparatory policy work and scoping of the technical requirements ahead of the Q2 2026 debate without delay.

A1.6 Changes to Tax and Social Security systems must be implemented in full calendar years, commencing in January, which means even relatively short delays risk tipping the completion date into the following year. If a decision on the policy detail described in this Policy Letter is delayed until *after* the debate on the work of the Tax Review Sub-Committee in June 2026, and at that point the decision is made to continue with some or all of the proposals within the GST plus personal income protection package, completion of implementation will likely need to be deferred until 2029. This will mean the States will need to carry a significant structural deficit for a minimum of an additional year.

***Household impact analysis and the impact of changes***

A1.7 The household-level analysis of the expected impact of the GST plus personal income protection package is built from the bottom up using full electronic census data. This data covers a comprehensive level of detail and incorporates not only each household's declared income, but also their composition, detailed benefits status and details of their accommodation. Data from the Household Expenditure Survey is then added to the data set to create a profile of household spending.

A1.8 The complete model can then be used to compare a household's current position to what they might be expected to experience after the changes are fully implemented. This means the analysis accommodates:

- The positive and negative movements in Income Tax and Social Security Contributions.
- The positive and negative movements in pensions and benefits receipts.
- The estimated impact on households of the anticipated changes in prices (i.e. inflation) on the costs experienced by households.
- The differences in the way households might be expected to spend their money.

A1.9 The analysis therefore presents the change in a household's position considering the impact of changes on both their income and expenditure.

***The Minimum Income Standards Survey***

A1.10 The Minimum Income Standards Survey is a regular survey conducted in order to support the setting of Income Support requirement rates. Minimum Income Standards (MIS) are based on detailed, public consultations about the goods and services required for a socially acceptable standard of living, including a nutritionally adequate diet (determined in line with dietary guidelines). This was last conducted locally in 2021.

A1.11 This is used to derive a basket of goods which is priced in order to provide a benchmark for establishing the requirement rates applied in the Income Support Scheme. Its application in this context includes the application of item specific inflation in the intervening period.

## Appendix 2. Explanation of standard, exempt and zero-rated supplies and price setting behaviours

### *Standard rated supplies*

A2.1 In the application of GST to standard rated supplies, a registered business is required to charge GST at the standard rate to the customer on the goods they sell, but they can net off any GST they incur in producing that supply from the amount they remit to the government.

A2.2 There may be some instances (e.g. where a company has stockpiled or made a significant investment) where during a specific period GST incurred may be greater than GST collected, and they may receive a rebate.

***Remitted/rebated GST = GST collected – GST incurred***

A2.3 The outcome should be that total amount of GST remitted in respect of a standard rated good or service should equal the full standard rate as applied to the price that supply is sold to the final consumer. That total remittance is distributed through the supply chain so each business in the chain remits a portion of the final total.

### *Exempt supplies*

A2.4 These are goods and services on which there is no requirement to charge GST on the sale of those supplies to a purchaser. For a business producing exempt supplies, there is also no provision for reclaiming any GST which might have been incurred on the input of those supplies. This means that there is a cost implication borne by the business producing those supplies which cannot be reclaimed, even though the final customer does not have to pay GST on the goods or services they have purchased. There may still be some impact on the final price of the item (but this should be less than the standard rate).

**Remitted GST = 0 ; Reclaimed GST = 0**

A2.5 Where businesses have a mix of exempt and standard (or zero-) rated supplies, they would need to set up their systems to charge different rates at the point of sale. They may also need to allocate GST incurred between different income streams, so they can reclaim that attributed to standard (or zero-) rated supplies, but not that attributed to exempt goods. This mix – known as a partial exemption – can be more complicated for businesses to administer.

### *Zero-rated supplies*

A2.6 Zero-rated supplies are taxable supplies with the rate set at 0%. This means that GST is charged at 0% on that item, with the business able to reclaim any GST they incur in production. This means the impact of GST on the price of zero-rated goods should be minimal.

**Rebated GST = GST incurred**

A2.7 A business must register to be able to apply zero rating to their supplies and will be required to file quarterly returns. A business with a mix of standard and zero-rated supplies would need to set up their systems to charge different rates at the point of sale.

***Unregistered businesses***

A2.8 Businesses which are not registered for GST are treated as a final consumer. They are not required to charge GST, complete quarterly returns or remit GST to the government. However, they are also not able to reclaim any GST they might incur themselves on producing goods or services. This means that in practice, the impact of GST on the provision of goods and services by unregistered businesses is very similar to the impact of exempt goods or services.

***GST price setting behaviour***

A2.9 While ostensibly the application of a 5% GST could add 5% to the final cost of a good or service, in reality companies' price setting behaviour is rarely that simple. There are many considerations which go into price setting, including consumer sensitivity to prices and the logistics of pricing across multiple tax jurisdictions which may play a significant role.

A2.10 Currently, some retailers operating in both Jersey and Guernsey do apply 5% pricing differences between the two islands, but some do not. Members will be aware that many national retailers who operate in Guernsey charge the same prices as they do in the UK and in Jersey and do not adjust their prices to reflect the difference in consumption (or any other) taxes applied in different jurisdictions, particularly where the different rates are applied to individual stores in large national networks. This means that the change in the price charged to the customer as a result of the application of GST will vary from business to business, with some passing on the standard rate in full, while others may not change their price at all but will simply absorb the cost into the business.

A2.11 As a further example, when UK VAT was removed from feminine hygiene products, the assumed 5% reduction in the price of items to consumers did not manifest in full. While some retailers committed to a full 5% reduction in the price (at least initially), the commitment was not universal and the actual benefit to consumers was estimated at only 1%, with the rest of the benefit retained by the retailers and other businesses in the supply chain[13].

A2.12 The current estimates of the impact of GST on inflation (of approximately 3.2% above the baseline) assume a full 5% increase in the price level of all standard rated goods and services. But this may not be the reality. The introduction of GST will result in a one-off increase in prices, but how much by will depend on the behavioural response of businesses.

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[13] Concerns over price rises for period products despite removal of tampon tax | Tax and spending | The Guardian

## Appendix 3. Treatment of food in other VAT/GST schemes

*Analysis compiled by Co-pilot*

| Country | Tax Type | Standard Rate | Rate on Food | Exceptions / Notes |
|---|---|---|---|---|
| **AE UAE** | VAT | 5% | 5% | No exemptions; VAT applies to all food including groceries and dining |
| **AM Armenia** | VAT | 20% | 20% | VAT applies to all food; no exemptions |
| **AT Austria** | VAT | 20% | 10% | Reduced rate for groceries; restaurant meals taxed at standard rate |
| **AU Australia** | GST | 10% | 0% | GST applies to prepared meals, snacks, takeaway food, and restaurant meals |
| **AZ Azerbaijan** | VAT | 18% | 18% | VAT applies to all food; no exemptions |
| **BD Bangladesh** | VAT | 15% | 0% or 15% | Basic food zero-rated; restaurant meals taxed |
| **BE Belgium** | VAT | 21% | 6% | Basic food taxed at reduced rate; alcohol and catering taxed at standard rate |
| **BH Bahrain** | VAT | 10% | 10% | VAT applies to all food; no exemptions |
| **CA Canada** | GST/HST | 5–15% | 0% or 5% | Basic groceries zero-rated; snacks and restaurant meals taxed |
| **CH Switzerland** | VAT | 8.10% | 2.6% or 3.8% | Reduced rate for food; restaurant meals taxed at 8.1% |
| **CL Chile** | VAT | 19% | 19% | No exemptions for food |
| **CN China** | VAT | 13% | 13% | VAT applies to all food; no exemptions |
| **CO Colombia** | VAT | 19% | 0% or 19% | Basic food zero-rated; restaurant meals taxed |
| **CR Costa Rica** | VAT | 13% | 1% or 13% | Basic food taxed at 1%; restaurant meals at 13% |
| **CZ Czech Republic** | VAT | 21% | 12% | Reduced rate for food; restaurant meals taxed at standard rate |
| **DE Germany** | VAT | 19% | 7% | Reduced rate for groceries; restaurant meals taxed at 19% |
| **DK Denmark** | VAT | 25% | 25% | No reduced rate for food |
| **EE Estonia** | VAT | 22% | 9% | Reduced rate for food; restaurant meals taxed at 22% |
| **EG Egypt** | VAT | 14% | 0% or 14% | Basic food zero-rated; restaurant meals taxed |
| **ES Spain** | VAT | 21% | 4% or 10% | Basic food taxed at 4%; processed food at 10%; restaurant meals at 21% |
| **FI Finland** | VAT | 25.50% | 14% | Reduced rate for food; restaurant meals taxed at 14% |
| **FR France** | VAT | 20% | 5.50% | Restaurant meals taxed at 10% or 20% |
| **GB United Kingdom** | VAT | 20% | 0% or 20% | Standard rate applies to catering, hot takeaways, confectionery, soft drinks |
| **GE Georgia** | VAT | 18% | 18% | VAT applies to all food; no exemptions |
| **GR Greece** | VAT | 24% | 13% | Basic food taxed at reduced rate; alcohol and catering taxed at standard rate |
| **HU Hungary** | VAT | 27% | 5% | Reduced rate for essential food items |
| **ID Indonesia** | VAT | 11% | 11% | VAT applies to all food; no exemptions |

| Country | Tax Type | Standard Rate | Rate on Food | Exceptions / Notes |
|---|---|---|---|---|
| **IE Ireland** | VAT | 23% | 0% or 13.5% | Most food zero-rated; catering and hot food taxed at 13.5% |
| **IL Israel** | VAT | 17% | 17% | No reduced rate for food |
| **IN India** | GST | 18% | 0% or 5% | Basic food zero-rated or taxed at 5%; restaurant meals taxed at 5–18% |
| **IR Iran** | VAT | 9% | 9% | VAT applies to all food; no exemptions |
| **IS Iceland** | VAT | 24% | 11% | Reduced rate for food; restaurant meals taxed at standard rate |
| **IT Italy** | VAT | 22% | 4% or 10% | Basic food taxed at 4%; processed food at 10%; restaurant meals at 22% |
| **JE Jersey** | GST | 5% | 5% | No food exemptions; GST applies to all food |
| **JO Jordan** | VAT | 16% | 0% or 16% | Basic food zero-rated; processed food and dining taxed |
| **JP Japan** | VAT | 10% | 8% | Reduced rate for food and non-alcoholic beverages |
| **KR South Korea** | VAT | 10% | 10% | No exemptions for food |
| **KZ Kazakhstan** | VAT | 12% | 12% | VAT applies to all food; no exemptions |
| **LB Lebanon** | VAT | 11% | 11% | VAT applies to all food; no exemptions |
| **LK Sri Lanka** | VAT | 18% | 18% | No exemptions for food |
| **LT Lithuania** | VAT | 21% | 5% or 9% | Reduced rate for food; restaurant meals taxed at 21% |
| **LU Luxembourg** | VAT | 17% | 3% or 8% | Basic food taxed at 3%; processed food at 8% |
| **LV Latvia** | VAT | 21% | 5% or 12% | Reduced rate for food; restaurant meals taxed at 21% |
| **MM Myanmar** | VAT | 5% | 5% | VAT applies to all food; no exemptions |
| **MN Mongolia** | VAT | 10% | 10% | VAT applies to all food; no exemptions |
| **MX Mexico** | VAT | 16% | 0% or 16% | Basic food zero-rated; restaurant meals taxed |
| **MY Malaysia** | SST | 10% | 0% or 10% | Basic food exempt; restaurant meals taxed |
| **NL Netherlands** | VAT | 21% | 9% | Reduced rate for food; restaurant meals taxed at 21% |
| **NO Norway** | VAT | 25% | 15% | Reduced rate for food; restaurant meals taxed at 25% |
| **NP Nepal** | VAT | 13% | 13% | VAT applies to all food; no exemptions |
| **NZ New Zealand** | GST | 15% | 15% | No exemptions—GST applies to all food |
| **OM Oman** | VAT | 5% | 5% | VAT applies to all food; no exemptions |
| **PA Panama** | VAT | 7% | 0% or 7% | Basic food zero-rated; restaurant meals taxed |
| **PE Peru** | VAT | 18% | 18% | No exemptions for food |
| **PH Philippines** | VAT | 12% | 0% or 12% | Basic food zero-rated; restaurant meals taxed |
| **PK Pakistan** | GST | 18% | 0% or 18% | Basic food zero-rated; processed food and dining taxed |
| **PL Poland** | VAT | 23% | 5% or 8% | Basic food taxed at 5%; processed food at 8%; restaurant meals at 23% |
| **PT Portugal** | VAT | 23% | 6% or 13% | Basic food taxed at 6%; restaurant meals at 13% |

| Country | Tax Type | Standard Rate | Rate on Food | Exceptions / Notes |
|---|---|---|---|---|
| **QA Qatar** | VAT | Pending | — | VAT expected to launch in 2025; rate likely 5% |
| **RO Romania** | VAT | 19% | 5% or 9% | Reduced rate for food; restaurant meals taxed at 19% |
| **RS Serbia** | VAT | 20% | 10% | Reduced rate for food; restaurant meals taxed at 20% |
| **SA Saudi Arabia** | VAT | 15% | 15% | VAT applies to all food; no reduced rates |
| **SE Sweden** | VAT | 25% | 12% | Reduced rate for food; restaurant meals taxed at 12% |
| **SI Slovenia** | VAT | 22% | 9.50% | Reduced rate for food; restaurant meals taxed at 22% |
| **SK Slovakia** | VAT | 20% | 10% | Reduced rate for food; restaurant meals taxed at standard rate |
| **TH Thailand** | VAT | 7% | 7% | VAT applies to all food; no exemptions |
| **TJ Tajikistan** | VAT | 14% | 14% | VAT applies to all food; no exemptions |
| **TM Turkmenistan** | VAT | 15% | 15% | VAT applies to all food; no exemptions |
| **TR Turkey** | VAT | 20% | 1% or 10% | Basic food taxed at 1%; processed food at 10%; restaurant meals at 20% |
| **UZ Uzbekistan** | VAT | 12% | 12% | VAT applies to all food; no exemptions |
| **VN Vietnam** | VAT | 10% | 5% or 10% | Basic food taxed at 5%; restaurant meals at 10% |

## Appendix 4. Detailed options appraisal of standard rating or zero-rating food in a retail setting

*Figure 11: Options analysis for standard or zero-rating food and non-alcoholic drinks*

| Category | Description | Assessment | Option A | Option B |
|---|---|---|---|---|
| Revenue Raising | The zero-rating of food reduces revenues and necessitates a higher rate on other items. | At a 5% standard rate, zero-rating retail food products reduces projected revenues by an estimated £8m. **To accommodate this, the standard rate would need to be increased to 6% to recover the lost revenue**. | | |
| Progressive Taxes | Low-income households spend a higher proportion of their income on food than higher income households. | Option A already offers, on average, a substantial net benefit for low-income households. Option B offers no additional benefit to low-income households when compared to Option A, with the impact estimated at about +/-£5 a month for households in the lowest income quartile with 28% worse off under option B by more than £5 a month. There is a limited net benefit (est £5 a month) for households in the second income quartile. | | |
| *Perceived* Fairness | The perception is that all food and non-alcoholic drinks are 'essential' and therefore should not be subject to tax. | While some food items are considered essential, others are not, and the system cannot readily handle the complexity of a definition between essential and non-essential food.<br><br>Further, because GST is collected as a percentage of the sale price, in monetary terms it is worth more on the purchase of premium items than it is on the purchase of budget equivalents, meaning that higher income households contribute more by virtue of their consumption patterns.<br><br>The definition of "essential" is also open to interpretation and there are numerous other goods for which a similar argument might be made risking a progressive narrowing of the tax base.<br><br>While Option B is simpler than an assessment of "essential food" it does include potential for the same item to be taxed at different rates in different settings.<br><br>The Minimum Income Standard work used to underpin the Income Support rates defines a basket of goods which are deemed necessary to support a basic living standard. This provides a more targeted and evidenced based route to addressing concerns over progressive taxation and fairness. | | |

| Category | Description | Assessment | Option A | Option B |
|---|---|---|---|---|
| Economic Efficiency | Consumption taxes cause the least economic impact if designed with a broad base and low rate. | Option A is designed to maximise economic efficiency. By zero-rating a substantial area of consumption, Option B performs less well against this metric and is more likely to distort consumption patterns and economic activity. | | |
| Clarity of definition | Lack of clarity in the legal definition of products in different rate categories can lead to poor compliance and legal challenges. | The definitions applied in Option A are very clear with regards to the treatment of food. Whilst if the application of Option B is tied to a formal legal requirement for food licensing this should significantly reduce the potential for conflict regarding the definitions, there may still be grey areas where businesses may be conducting both retail and catering activities. **(see Appendix 2)** | | |
| Internal administrative simplicity | Additional internal complexity increases the resource requirement to manage and implement processes and increases the likelihood of compliance issues. | Option A maximises administrative efficiency. Option B will create additional compliance check requirements at the Revenue Service with regards to retailers required to apply both standard and zero rates (including all major food retailers) and to assess the primary activity of food premises conducting more than one activity.<br><br>Option B also introduces the prospect of mixed rate imports which may need to be addressed at the border. This could be minimised if the majority of mixed deliveries are procured by or from GST registered retailers, but there will be additional complexity in dealing with personal imports including both food and non-food items. This may need to be mitigated with a higher *de minimis* limits. | | |
| Business complexity | Additional complexity for retailers increases the cost of administration for businesses and increases the likelihood of compliance issues. | A number of businesses will offer both food and non-food items for retail. The application of different rates in Option B will mean additional management of systems in order to ensure the right rate is applied to the right products. It will require categorization of every product line. For those operating in both Guernsey and Jersey, it will mean applying a different approach between the two islands.<br><br>Businesses with both retail and catering activities may be required to operate different point of sale systems in order to separate the sale of zero-rated and standard rated food products. | | |

*Comparative impact of options on households*

A4.1 The analysis below presents the estimated GST that will be incurred by households on food at a 5% standard rate across the household income spectrum. This analysis is based on the profiling of households by both income and household composition using data from the latest Household Expenditure Survey.

A4.2 This analysis shows that, relative to income, unsurprisingly GST incurred on food products is higher for households with lower income. For those in the lowest equivalised household income quartile (the 25% of households with the lowest gross income after adjusting for household composition) this ranges from 0.7% to 0.9% of their total income, compared to 0.2% to 0.3% for households in the upper quartile of income.

A4.3 Higher income households will incur more GST on food in monetary terms, estimated at more than £360 a year, compared to an estimated £275 or less for household in the lowest income quartile.

*Figure 12: Estimated GST liability on food at a 5% standard rate by gross household income*

| Household equivalised gross income percentile | Est GST incurred on Food at 5% standard rate (as % of gross income) | Est GST incurred on hotels and restaurants at 5% standard rate (as % of gross income) | Est GST incurred on Food at 5% standard rate (£ per year) | Est GST incurred on hotels and restaurants at 5% standard rate (£ per year) |
|---|---|---|---|---|
| **0-4** | 0.9% | 0.4% | £142 | £57 |
| **5-9** | 0.9% | 0.4% | £200 | £85 |
| **10-14** | 0.9% | 0.4% | £240 | £97 |
| **15-19** | 0.8% | 0.3% | £250 | £99 |
| **20-24** | 0.7% | 0.3% | £275 | £108 |
| **25-29** | 0.7% | 0.3% | £312 | £118 |
| **30-34** | 0.6% | 0.2% | £320 | £119 |
| **35-39** | 0.6% | 0.2% | £347 | £128 |
| **40-44** | 0.5% | 0.2% | £330 | £123 |
| **45-49** | 0.5% | 0.2% | £342 | £134 |
| **50-54** | 0.4% | 0.2% | £360 | £155 |
| **55-59** | 0.4% | 0.2% | £381 | £171 |
| **60-64** | 0.4% | 0.2% | £397 | £186 |
| **65-69** | 0.3% | 0.2% | £362 | £209 |
| **70-74** | 0.3% | 0.2% | £371 | £231 |
| **75-79** | 0.3% | 0.2% | £368 | £253 |
| **80-84** | 0.3% | 0.2% | £393 | £280 |
| **85-89** | 0.2% | 0.2% | £405 | £294 |
| **90-94** | 0.2% | 0.2% | £439 | £329 |
| **95-99** | 0.2% | 0.1% | £828 | £588 |

A4.4 **This suggests that while in relative terms, the zero-rating of food is of more benefit to lower income households than those of higher income, it is a poorly targeted way of assisting low-income households.**

A4.5 Note that lower income households also spend a larger proportion of their income on most other taxable goods and services. This is in part because they have a lower propensity to save and in part because a large proportion of the lowest income households are pensioners who own their home outright and therefore have a very limited proportion of their spending dedicated to zero-rated rent and mortgage costs. **This means that increasing the rate of GST charged on all other items to recoup the lost revenue typically erodes almost all the net gain of zero-rating food for lower income households.**

A4.6 Figure 13 below compares the overall impact on households of the package of measures proposed under Options A and B. For the lowest income quartile the difference between the two options is less than £5 a month, in either direction for just under half of households. An estimated 23% are expected to be better off under Option B than Option A by more than £5 a month, but 28% would be more than £5 a month worse off.

A4.7 Option B is more beneficial for the second income quartile (who might be considered lower middle-income households), but the net gain still averages only around £5 a month,

A4.8 Note that other options for recouping the lost income within the boundaries of the package presented, such as reducing the level at which the higher rate of income tax (20%) would apply or the allowance applied to the Social Security Contributions system, tend to result in a worse outcome for lower income households and are not presented.

*Figure 13: Estimated impact on households as a* ***percentage of gross income***

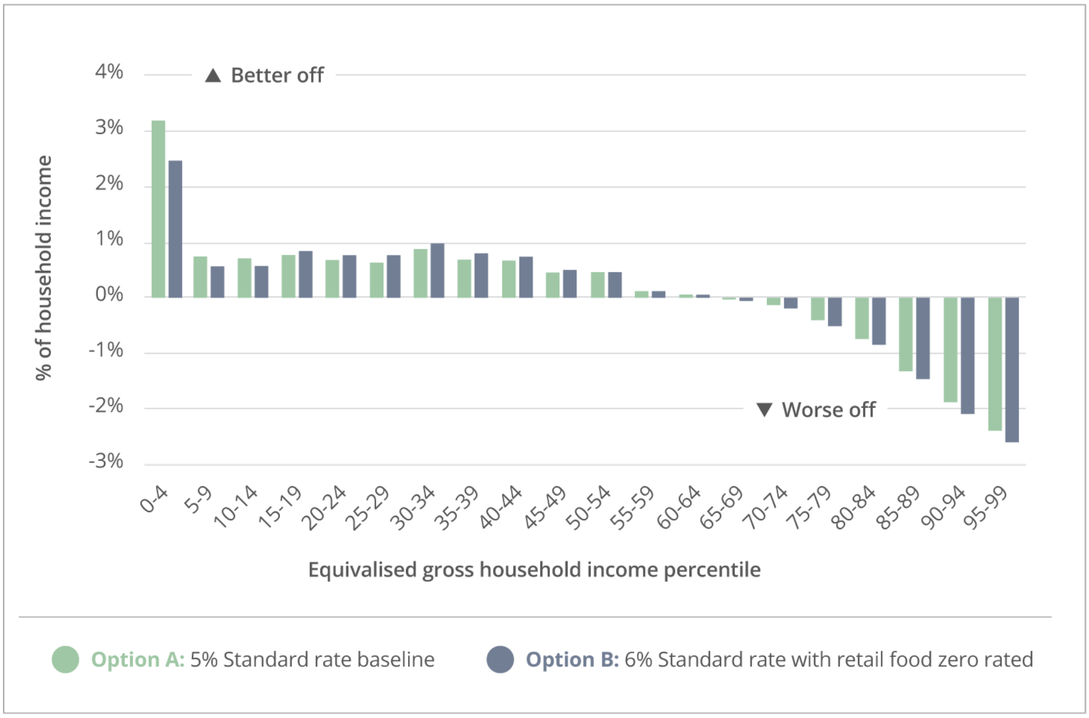
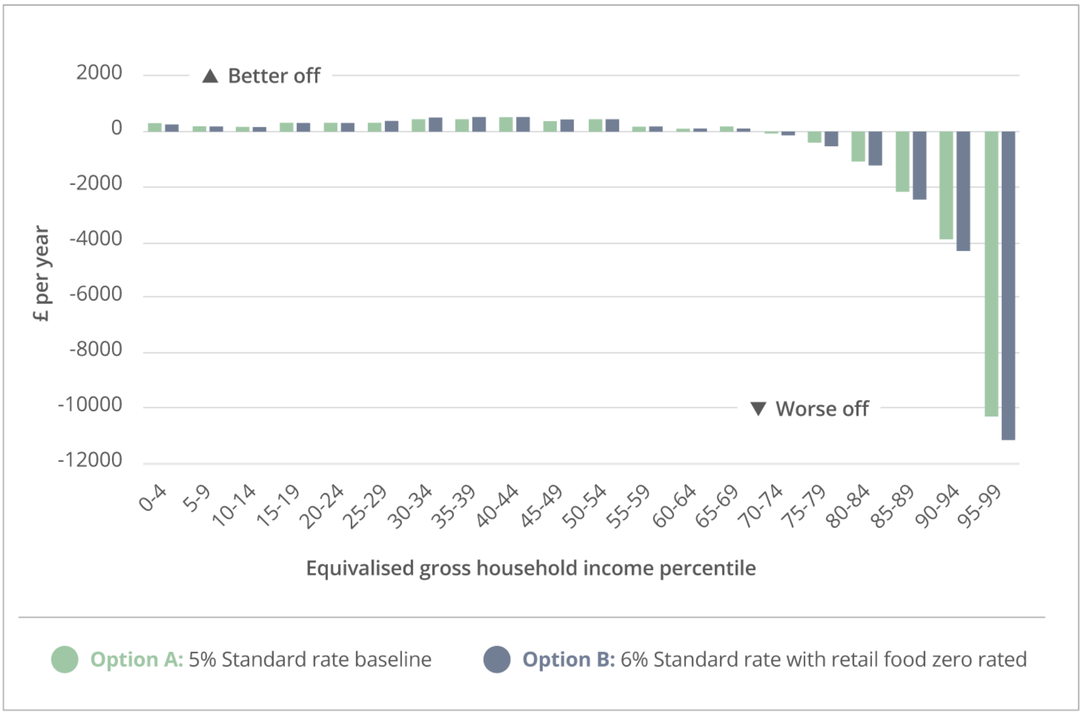


*Figure 14: Estimated impact on households **£ per year***



## Appendix 5. Legislative definitions and administrative considerations of Option B

A5.1 The Option B proposal as outlined requires some additional consideration in relation to definitions in legislation and the processes applied to implement it.

A5.2 The current proposal is that the definition for whether food items are provided within a catering or hospitality setting will be determined by the primary activity of the business providing it, as declared in their food registration form[14]. It is anticipated that food will be zero-rated through the supply chain, up to the point it is deemed to be incorporated into a food supply taxable at a standard rate. This means the food wholesaler would zero-rate sales to both shops and restaurants. The retail shop would continue to zero-rate any onward sale to a consumer, but the restaurant would standard rate their products

A5.3 While registration for businesses undertaking significant food retail is required, the categories used in the registration are not defined in the EC (Food and Feed Controls) Ordinances. This means that these would need to be defined in the GST legislation and the application for registration of food premises amended to capture the relevant information.

A5.4 These definitions will need to be clearly stated but it is envisaged that standard rating would be applied to:

- Restaurants
- Cafes
- Snack Bars
- Public houses
- Takeaways
- Canteens
- Caterers
- Hotels
- Guest houses

A5.5 All other declared business types (including those not registered selling incidental amounts of food) would be permitted to zero rate their food sales.

A5.6 Where businesses undertake only a single activity type, or where all their activity types fall under the same rate, this should be relatively straightforward to apply.

A5.7 However, the definitions may become complex where businesses are conducting activities from a single site in multiple categories. For larger businesses it could reasonably be expected that they would apply separate registration for different business areas (for example the café areas in Waitrose or M&S). For smaller businesses this is likely to prove difficult, particularly where the same product is being sold under

[14] Office of Environmental Health and Pollution Regulation - Application for Registration of Food Premises

both a retail and catering service (for example a restaurant/cafe offering things like meats and cheese for sale). In these instances, the expectation is that the application will be determined by the primary activity of the business and the standard rate or zero rate applied accordingly.

A5.8 This implies:

- Compliance activity to determine the primary activity of the business where multiple activities are taking place, and
- The potential for a legal challenge to the definition of the primary business activity.

A5.9 There is also the potential for the same physical product to be taxed at a different rate depending on the classification of the business selling it and a perceived unfairness. For example, a small caterer may make sandwiches and sell them in three ways:

- Made fresh and sold directly to the customer, which would be a standard rated activity
- Provided as part of a catering service to non-retail businesses, also standard rated
- Provided as part of a wholesale service to a retailer who will sell these as a packaged product to consumers under a retail registration with a zero-rate applied.

A5.10 The current expectation is that the primary issues are likely to arise with intermediate sized businesses operating across multiple activity types who may not have the capacity to divide their operations between separate registrations for zero-rated and standard rated services, or who may perceive the onward sale at a zero rate of products that they are required to sell at a standard rate as unfair when prepared fresh and sold on-site. Alternatives, like attempting to define individual products as pre-prepared meals within a retail setting, are not considered feasible.

A5.11 The expectation is that most larger businesses should be able to put systems in place to manage these processes, but that it may require some additional administration to set up and maintain it.

A5.12 For smaller businesses selling food on a retail basis which are below the proposed registration threshold (£300,000) the application of a zero rate to food in a retail setting is likely to incentivise them to register on a voluntary basis, since doing so will allow them to reclaim any GST they might incur on non-food inputs to their business (electricity, water etc).

**Appendix 6. Letter Received from Chamber of Commerce regarding the application of GST to retail food and non-alcoholic drinks**

Chamber of Commerce
Business Development Centre
Market Buildings
St Peter Port
GY1 1HE

**BY EMAIL: liz.laine@gov.gg**
**Subject: Guernsey Chamber of Commerce Response to Consultation on the Application of GST to Food**

Dear Liz,

I am writing on behalf of the Chamber of Commerce, we appreciate the opportunity to provide our input and suggestions on matters that are of vital importance to our local business community.

We understand that the two options under consideration are:

**Option A:** Standard rate all food and non-alcoholic drink at 5%.
**Option B:** Zero-rate all food and non-alcoholic drink, except those provided on a site under a catering or hospitality registration, with a standard rate of 6%.

Should the GST-plus package be implemented, the Guernsey Chamber of Commerce **would support Option A.**

Please note we have not surveyed our members specifically on this issue.

Option A avoids complicated product classifications, reduces compliance burdens, and provides a simple and consistent system for businesses of all sizes. Retailers in particular have strongly and consistently expressed that option B would introduce complexity and cost. For many businesses, this would be disproportionately onerous.

Option A ensures that GST is easy to administer, straightforward for consumers to understand, and fair for those tasked with collecting it. Option A is simple, and the most workable solution in Guernsey's economic context.

We acknowledge the policy intent behind Option B. However, even when approached pragmatically, Option B introduces unavoidable commercial and logistical challenges, and based on the data shared in the consultation does not protect those with lower incomes.

In addition, Different rates also create a new unfairness. Some establishments could be classified as zero-rated because they mainly sell food, even though they also sell items that would attract GST if sold elsewhere. This means their product rates are overridden simply because of the type of business they are, rather than what they actually sell.

Chamber remains committed to engaging constructively in this process and is ready to support further work to ensure any GST system is well-designed, efficient, and fit for Guernsey's unique circumstances.

Should you wish to discuss the content of this letter further, please do not hesitate to get in touch,

Yours sincerely,

Alice Gill
Executive Director, Chamber of Commerce

## Appendix 7. The Industry change panel and specific engagement with industry and community groups

*The Industry Change Panel*

A7.1 The Industry Change Panel (ICP) is a preparatory forum established to engage with businesses, industry associations, and sector organisations that may be impacted by GST plus personal income protection package.

A7.2 Whilst awaiting a decision from the States of Deliberation on the preferred tax reform approach, should the decision be made to implement the previously agreed package, the ICP's role will support early engagement with industry. This will help ensure the delivery programme can progress swiftly and effectively.

A7.3 Working closely with industry now, allows us to anticipate impacts, assess readiness, and understand support needs, ensuring that, if required, implementation is smooth, efficient, and well-informed.

A7.4 Guiding Principles:

- Transparency and open communication;
- Build collaboration and mutual respect;
- Understand the practical challenges and surface insights; and
- Inclusivity across sectors and organisations.

A7.5 Role of Panel Members

- Share and communicate related updates and messages;
- Clarify and feedback questions or concerns;
- Provide insights on constraints, impacts, readiness, and timeframes;
- Identify sector-specific considerations;
- Identify training needs and help shape training plans;
- Review and shape content (where applicable);
- Support delivery through briefings and training; and
- Feedback, experiences, and lessons learned post go-live.

A7.6 Up to the publication of this Policy Letter the ICP has met four times.

***Engagement with industry and community groups***

A7.7 The following sector or policy area specific engagements have been undertaken to date:

| *Meeting* | *Date* |
|---:|---|
| *Initial Industry Engagement Event (IIE)* | 8 - Sept 2025 |
| *Charities* | 14-Oct |
| *Freight and Postal Services* | 15-Oct |
| *Food 1 (largely food retailers)* | 15-Oct |
| *Food 2 (largely hospitality)* | 15-Oct |
| *eGaming* | 15-Oct |
| *Chamber of Commerce* | 16-Oct |
| *International Insurance* | 16-Oct |
| *Alderney (Officer presentation to Alderney States Members)* | 17-Oct |
| *Alderney (Chamber of Commerce)* | 17-Oct |
| *Alderney (Political engagement with SoA and CoC)* | 13- Nov |
| *Motor Trade 1* | 10-Dec |
| *Motor Trade 2* | 11-Dec |
| *Carers and Care Homes* | 17-Dec |
| *Representative for Grant Aided Colleges* | 6-Jan 2026 |
| *Third sector welfare charities (regarding ECRP and food)* | 7-Jan |
| *eGaming* | 9-Jan |