Tax in Guernsey an introduction

As an independent, self-governing jurisdiction, Guernsey has developed its own system of taxation for its residents. The island's tax system is very straightforward and caps the amount of income tax payable by residents. Guernsey does not levy capital gains tax, inheritance or wealth tax, VAT or goods and services tax.

Personal income tax is charged at the flat rate of 20% for individuals with caps available. The basis on which income tax is charged depends on the taxpayer's residence status and whether they are "resident only" or "solely or principally resident" in Guernsey for tax purposes.

Guernsey tax residency categories are based on the number of days an individual spends on the Island. The number of days is based on the same principle as the UK "midnight test", where individuals are considered to have spent a day in Guernsey if they are on-island at the end of the day (midnight). As such, days of arrival are counted but days of departure are ignored.

The Guernsey tax year is the calendar year and unless separate assessments are requested, married couples are assessed jointly. Double taxation/unilateral relief may also apply to any non-Guernsey source income which has already been subject to taxation elsewhere.

Definitions

There are a number of categories of residence for Guernsey tax purposes:

Taxation for those who are "Resident only"

An individual is considered to be "resident only" in Guernsey for tax purposes in a calendar year if he is present in one other jurisdiction for 91 days or more, is also present in Guernsey for less than 182 days and:

- he spends 91 days or more in Guernsey during the year, or
- he spends 35 days or more in Guernsey in that year and, during the four preceding years he spent 365 days or more in Guernsey.

Individuals who are "resident only" are subject to income tax in Guernsey on their worldwide income after relevant personal allowances and deductions at the rate of 20%. Alternatively, they are able to elect to pay a "standard charge" which is currently set at £30,000. This provides that non-Guernsey source income is outside the scope of Guernsey tax even if remitted to Guernsey and the standard charge "franks" the tax liability on up to £150,000 of Guernsey source income.

If Guernsey source income was to exceed £150,000 further tax would be due as appropriate. It should be noted that the same annual charge applies for a married couple as it does for an individual.

Definitions (continued)

Taxation for those who are "Solely or Principally Resident"

An individual is "solely resident" in Guernsey if they are otherwise "resident only" as detailed above, but they are not also present in one other jurisdiction for the requisite 91 days.

An individual will be treated as "principally resident" in a calendar year if:

- he spends at least 182 days in Guernsey during the year, or
- he spends at least 91 days in Guernsey during the year and, he has spent at least 730 days in Guernsey during the four preceding calendar years, or
- he takes up permanent residence in the island, is "resident only" as defined and is "solely or principally resident" in the following Year of Charge.

An individual who is "solely" or "principally resident" in Guernsey is liable to Guernsey income tax on their total worldwide income at a flat rate of 20% after personal allowances and deductions. They can however benefit from tax caps.

Non-Resident

An individual who is neither resident only, nor solely or principally resident will generally be considered to be "non-resident" and is broadly only liable to Guernsey income tax on Guernsey source income such as employment or property income. Passive investment income such as Guernsey bank interest is generally not taxable.

Double tax treaty and pensions

Under the terms of the Double Tax Treaty with the UK, pensions are only taxable in the taxpayer's country of residence. Therefore, for individuals moving to Guernsey from the UK, their UK income tax liability will be replaced by a Guernsey income tax liability and the rate of tax will be 20%.

Individuals classed as resident only in Guernsey are not regarded to be Guernsey resident for the purpose of this treaty and relief will therefore not be available in these circumstances.

In addition, it is possible for Guernsey residents to transfer UK pensions schemes to a Guernsey scheme.

UK pensions or former UK pensions are classed for Guernsey tax purposes as non-Guernsey source income and therefore tax capping may apply in certain circumstances.

Tax Capping for Guernsey residents

It is possible to cap exposure to income tax in Guernsey as an alternative to paying a flat rate of 20%.

The maximum tax liability for any individual who does not have Guernsey source income will be £130,000 per annum.

For those who have both Guernsey and non-Guernsey source income (Guernsey bank interest does not count as Guernsey source income) the maximum tax liability is £260,000 per annum.

It is also possible to cap the non-Guernsey source income at £130,000 and pay 20% on any Guernsey source income if this is beneficial.

With effect from 1 January 2018, a tax cap of £50,000 per annum has been introduced for individuals in their first four years of residence subject to the conditions listed below.

An individual must:

- be principally resident in Guernsey
- pay £50,000 or more in document duty for the purchase of an Open Market property purchased on or after 1 January 2018. At the current rates this equates to duty payable on a property purchase of £1.32 million or more (previously £1.5 million)
- make the purchase either 12 months before or after the date of taking up residence in Guernsey

Income from Guernsey land and buildings remains taxable at 20% in addition to any tax cap paid.

Foreign and worldwide tax caps are not limited in duration and are applicable no matter how many years the individual has been solely or principally resident in Guernsey.

A low tax jurisdiction for Companies

There are three rates of tax on companies in Guernsey, with the majority of companies paying the standard rate of 0%.
The three rates are:

- Company Standard Rate – 0%

Every company, unless their activities fall into one of the two corporate groupings below.

- Company Intermediate Rate – 10%

This covers corporate income from banking, fiduciary and insurance business; administration of controlled investments and the provision of custody services and investment management activities to individual clients.

- Company Higher Rate – 20%

This covers corporate income derived from a regulated utility, oil or gas importer or supplier, large retail businesses where the company has a taxable profit of more than £500,000, and from land and buildings situated in Guernsey.

Note that Investment Fund vehicles (companies, partnerships, unit trusts) may apply for exemption from tax in respect of income from sources outside Guernsey.

Important note

Please note that this document is a summary only and has been prepared for information purposes. Locate Guernsey does not provide tax, legal or accounting advice. You should consult your own advisors in relation to your personal situation. Locate Guernsey can put you in contact with Guernsey service providers if you would like more detailed information.

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