Zero-10 - A new tax regime for Guernsey

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With effect from 01 January 2008 Guernsey implemented fundamental changes to the method by which it collects its revenue. The main change is that Corporation Tax has been reduced to 0% (zero percent). Tax will, however, be collected when a distribution is made to a Guernsey resident shareholder.

Some income will continue to be taxable. For example, income from banking business and lending activities will be taxed at 10%. Income from ownership of land and buildings in Guernsey, including rental income and Guernsey property development will be taxed at 20%. Income from other businesses and other sources will be taxed at 0%.

The current rules on deduction of tax from Guernsey dividends are now abolished. Dividends are treated as being declared at gross. Companies will be responsible for deducting tax (at the rate of 20%) from dividend payments to Guernsey resident shareholders.

The new Law introduces the concept of "deemed distributions". That concept will not apply though in respect of a shareholder who owns 1% or less in a company. Otherwise a deemed distribution will be dealt with in the same way as a dividend payment. A deemed distribution will occur if there is undistributed income. The Law identifies "trigger events" that will be treated as deemed distributions of undistributed income. These include, for example, the disposal of shares in the company, the death of a shareholder (although there is a tax deferral scheme), the departure from the Island of a shareholder, the dissolution of a company or the cessation of business.

The new Law introduces the concept of a "service company". In this way, tax may be deferred until distributions are taken.

The new Law also introduces the concept of loans to "participators" and "qualifying loans". The new Law exempts directors fees paid to non-residents from a charge to tax.

A new general anti-avoidance provision has been introduced. This was controversial at the time. The powers of the administrator are thereby extended. This means that the Administrator of Income Tax may make an adjustment to assessments that are considered appropriate where the effect of a transaction or series of transactions is the avoidance, reduction or deferral of a liability to tax.

The Law amends the Income Tax (Exempt Bodies) Ordinance to restrict the exempt company regime as required by the EU Code of Conduct Group.

A cap is introduced to restrict an individual's tax liability on certain forms of income. It provides details of a tax capping arrangement for individuals. There will be a maximum liability of £250,000 on qualifying income, i.e. income derived from non-Guernsey sources.

This gives a brief overview of somewhat complex legislation. The legislation itself can be accessed through www.gov.gg .

Advocates & Notaries Public,
PO Box 69, 18-20 Smith Street
St Peter Port, Guernsey
Channel Islands GY1 4BL

Tel +44 (0) 1481 713371
Fax +44 (0) 1481 711607
Email mail@babbelegal.com
www.babbelegal.com