LTS TAX

Chartered Tax Advisers

Living in Guernsey

Guernsey provides a high standard of living, with a good education system, stable government, good infrastructure and a convenient location close to the UK and Europe.

Guernsey is an independent self-governing island and is renowned for being a safe place to live with beautiful beaches, scenery and cliff walks.

For many it is surprisingly easy to become a resident of Guernsey. Individuals with a British or EU passport have an automatic right of abode and can immediately buy and live in any of the many fantastic properties available on the “open market”. Individuals other than British and EU passport holders can also obtain a right to live here and occupy open market accommodation, via an investor or entrepreneur visa depending on circumstances. Generally individuals who can obtain a “leave to enter” the UK can also reside in Guernsey on making an application to do so.

Guernsey is therefore a very attractive place to live because of its proximity to the UK and Europe, its safe environment and easy availability of property. In addition to this, the tax system is relatively benign compared to many other jurisdictions.

Guernsey does not levy capital gains tax, inheritance or wealth tax, VAT, GST or gift taxes. There is a flat rate of tax of 20% for individuals and companies are subject to a standard rate of 0%.

There is an intermediate rate of income tax at 10% for corporate income derived from sources including banking, fiduciary fund administration and insurance business; and there is a higher rate of income tax at 20% for corporate income derived from a regulated utility, or from land and buildings situated in Guernsey.

Reserves of non Guernsey companies that are in existance prior to the individual taking up Guernsey residence, and that are distributed within two years can be regarded as capital in the hands of the individual for Guernsey tax purposes and therefore will be free of Guernsey tax.

Tax residency

Guernsey tax residence is based on the number of days an individual spends in the Island. A “day” is treated as being spent in Guernsey if an individual is in the Island at midnight. There are a number of categories of residence for Guernsey tax purposes:

Resident only

An individual is regarded as “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:

(a) he spends 91 days or more in Guernsey during the year, or

(b) 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, as an alternative to paying 20% on their worldwide income, able to elect to pay a “standard charge”, currently set at £30,000. This provides that an individual’s liability on non-Guernsey source income is satisfied by payment of the standard charge, 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.

Solely Resident or Principally Resident

An individual is solely resident in Guernsey if they are otherwise “Resident Only” as above, save for the fact that 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:

(a) he spends at least 182 days in Guernsey during the year, or

(b) he spends at least 91 days in Guernsey during the year and, during the four preceding calendar years, he has spent at least 730 days in Guernsey, or

(c) 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 after personal allowances and deductions at a flat rate of 20% unless tax capping applies.

Non-Resident

An individual, who is neither resident only, solely or principally resident will generally 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.

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.

In order for the tax cap to apply, an individual must meet the following conditions:

- be principally resident in Guernsey
- pay £50,000 or more in document duty in respect of an Open Market property purchased on or after 1 January 2018: this is the duty payable on property purchases of £1.32 million or more (£1.5 million to 31 December 2018)
- make the purchase either 12 months (6 months to 31 December 2018) before or after the date of taking up residence in Guernsey.

A £50,000 tax cap is also available to Alderney residents under specific conditions.

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

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. This means that for individuals moving to Guernsey, their UK income tax liability will be replaced by a Guernsey income tax liability and the rate of tax will fall from a maximum 45% to 20% providing a Double Taxation application is submitted to HMRC.

Furthermore, as it is non-Guernsey source, Guernsey tax due on UK pension income is satisfied by payment of the Standard Charge for resident only individuals.

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

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

Conclusion

At the start of this article we described some of the non-financial reasons for living in Guernsey and in conclusion we believe that the island, with its picturesque beaches, stunning cliffs, winding country lanes and a way of life that echoes of days gone by, offers much more than just a beneficial tax climate. Guernsey is a lifestyle choice for many where the work life balance is very much in focus.

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