States of Guernsey
Revenue Service

GSCCA Circular 22
12 December 2022

Income Tax Measures in the 2023 Budget and Social Security Measures in the 2023 Contributory Benefit and Contribution Rates Report

Personal Measures

- **Withdrawal of personal allowances for high earners**

The threshold, at which tax allowances and withdrawable deductions will be withdrawn, has been reduced to £90,000 with effect from 1 January 2023.

Any bonuses, payments in lieu of notice, or sums drawn from pensions are included in a person's "calculated income", therefore one-off payments, such as the commutation of a pension fund for example, may tip individuals into being high earners for that year.

- **Increase of the tax cap to £150,000 (qualifying income) and £300,000 (non-qualifying income)**
- **Payments made to sponsors under the Ukrainian Sponsorship Scheme have been made exempt from income tax**
- **Tax allowances, and Deductions**

The personal and other supplementary tax allowances have been increased in line with inflation.

The withdrawal of tax relief on mortgage interest for a principal private residence has been paused, therefore the maximum relief available will remain at £3,500 in 2023, for an individual. With the introduction of Independent Taxation, the doubling of the allowance for a married couple has been withdrawn.

- **Benefits in kind**

Values for Benefits in kind (where the benefit is set by Regulation) have also been increased in line with inflation for 2023 - 2025.

An uplift to the aggregate of employee benefits in kind exempt from tax (where the benefit is not specifically exempted or set by Regulation) has also been made, increasing the amount from £450 to £900.

- **Increase in Social Security Contribution Rates**

The agreed 10-year increase in contribution rates continues, with the rates for 2023 as follows:

  - Class 1 Employer - 6.8%
  - Class 1 Employee – 7.0%
  - Class 2 Self-Employed – 11.6%
  - Class 3 Non-Employed (under pension age) - 11.0%

- Class 3 Non-Employed (over pension age) - 3.6%

- **Independent Taxation**

Not a budget measure, however a reminder that independent taxation also takes effect from 1 January 2023. This means that each islander will be taxed as an individual and be responsible for their own tax affairs.

Whilst independent taxation comes into force in 2023, it won't be until 2024 that customers will need to complete and submit their first individual return.

Unused allowances will continue to be transferrable between spouses, (but not mortgage interest) and cohabiting couples with children can continue to transfer any unused personal allowances. Customers will have the opportunity to request the transfer when their coding notice is issued or when they receive an interim assessment (likely to be issued in March 2023) and they will then also need to confirm the transfer on their 2023 personal tax return.

No Authorities will be carried across to the new Tax Reference Number of a spouse that was not the lead taxpayer, so Forms of Authority will need to be submitted, should you be engaged to deal with their affairs. The Authority will remain in place for lead taxpayer, so if you are no longer dealing for that individual you will need to let us know.

For more information on independent taxation please refer to Circular 21 or visit the website at www.gov.gg/independent-tax.

Miscellaneous Amendments

- **Tax relief on let property in Guernsey/Alderney**

Tax relief on residential let property in Guernsey/Alderney will be phased out over the same period as the withdrawal of mortgage interest relief on a principal private residence. This restriction of interest will apply whether the rental income is received by individuals, companies or other entities.

The % of interest paid eligible for tax relief will be as follows:

2023	75%
2024	50%
2025	25%
2026 onwards	0%

Relief will be limited to the level of income generated from lettings (i.e. it cannot create a loss). No relief in respect of a domestic dwelling will be available to be carried forward to the first year of letting should that be after 2026.

- **Enhanced 50% rate of tax on unauthorised pension payments**

Penal measures have been introduced in the form of an enhanced 50% rate of tax on any unauthorised payments made from approved pension schemes. This aims to deter serious breaches of the conditions for approval of pension schemes, or payments which are not allowed by the Income Tax Law.

The income tax charge would be levied against the individual who had received the unauthorised payment. Such income would be excluded from the tax caps and standard charge, meaning the recipient would pay tax on these payments in addition to any limits on the amount of tax payable that may be in place.

The Revenue Service would have the ability to abate the liability to tax by an amount which, having regard to the relevant circumstances, is just and reasonable. It is envisaged that this may be applicable where it is the actions of a trustee or employer, and not the actions of the individual member, which has caused the payment to be made.

- **Grandfathering section 157E exempt pension schemes**

In line with the Statement made by the Treasury and Resources Department Minister to the States of Deliberation on 27 June 2012, section 157E exempt pension schemes have been grandfathered.

This means that no new schemes will be approved and no further transfers or contributions can be made into existing section 157E exempt pension schemes, with retrospective effect to 27 June 2012.

Legislation

The Income Tax (Guernsey) (Amendment) (No. 3) Ordinance, 2022 will be considered by the States at their 14 December meeting (see [States Meeting on 14th December 2022 - States of Guernsey (gov.gg)] under “legislation for approval), and if approved will be effective from 1 January 2023.

The Income Tax (Guernsey) (Valuation of Benefits in Kind) (Amendment) Regulations, 2022 have been made by the Policy & Resources Committee and are effective from 1 January 2023. These Regulations set the values of benefits in kind for the years of charge 2023, 2024 and 2025.

The Social Insurance (Rates of Contributions and Benefits, etc) Ordinance, 2022 was approved by the States at their 23 November meeting and is effective from 1 January 2023. This can be found on the Guernsey Legal Resources website.

The website and relevant forms are in the process of being updated to reflect these changes.

N Forshaw

Director of the Revenue Service