Guernsey
The symbol of international finance

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Key developments in Guernsey over the last year

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"We have a saying in China – hearing 100 times is not as good as seeing it once. I've learnt a lot" said Her Excellency Madam Fu Ying, Chinese Ambassador to the United Kingdom when she visited Guernsey in November 2009. An offer remains open to all of those who wish to understand more about Guernsey. It is now without question that offshore centres are firmly placed high on the international political agenda and Guernsey will seek to engage proactively at an international level with the proposed opening of a representative office in Brussels.

January

On 6 January 2009 the Guernsey Financial Services Commission (the Commission) published on its website a report, led by Michael Foot, into the circumstances leading to the rescue of Northern Rock (Guernsey) Limited and the placing of Landsbanki Guernsey into administration. The report concluded that the Commission measured up to good practice and that their actions were wholly justifiable having regard to the facts known at the time and what could reasonably be foreseen. The report highlighted two important issues for banks in small jurisdictions and their regulators:-

1 In the past small retail depositors were seen to bear at least some risk and apparently that expectation is that they should no longer bear any risk, however remote. Whilst the introduction of the depositor compensation scheme addresses part of this expectation new supervisory standards need to be adopted internationally;

2 Corporation and information exchanged between regulators is absolutely critical particularly when a crisis occurs. The global assistant cooperation is not working well at present.

It should be noted that Guernsey now has a depositor compensation scheme in place.

February

In February Guernsey received a top credit rating from Standard & Poor's. When Guernsey was assigned "AAA" long-term and "A+1" short-term sovereign credit ratings. This placed Guernsey in the top 25 of more than 120 rated jurisdictions in the world and ahead of many competitor international finance centres. This put it on a par with much larger onshore jurisdictions. Standards & Poor's said that the ratings reflected "a very robust fiscal position, based on sound fiscal policies". There was a recognition of the challenge of the Island's finances in the short-term by the introduction of the zero-ten tax package and subdued economic activity. However, it expects Guernsey's financial position to be maintained over the medium-term. More on the zero-ten tax package below.

March

In March 2009 Lord Hunt was commissioned by the Island's Commerce and Employment Department to conduct a strategic review of Guernsey's banking industry to help develop a sustainable strategy for the future of the sector, in response to the global economic situation and its effect on Guernsey and specifically the banking sector. During the investigations and interviews undertaken by the team, Lord Hunt stated that he found much to encourage him thinking that Guernsey could expect a major contribution to its economy from banking for years to come.

The independent report "Success and Stability: A Strategic Review of Guernsey's Banking Industry" was published in November and highlighted that there were definite opportunities to be researched and potentially exploited by the Guernsey banking sector but the Island could not afford to be complacent. The report highlights threats and risks to be mitigated as well as the opportunities which must be addressed by the public and private sector in order to remain competitive.

In addition to providing traditional banking services to the local, domestic and business community, it identified that most Guernsey banks offer core products to all other parts of the finance sector and that this also added to Guernsey's infrastructure and general offering.

Private banking and the provision of all professional services, including banking, to the world's wealthy families, wherever they live, was identified as an opportunity for Guernsey. The relocation of wealthy individuals to Guernsey who may bring part of their business to Guernsey was also identified as an opportunity.

April

It was at the start of April 2009 that following the G20 summit in London, Guernsey welcomed its "white-listing" by the OECD. The inclusion of the Island on a white-list with some of the world's top financial centres cemented Guernsey's position as an internationally compliant and transparent low tax jurisdiction. Guernsey had until that point signed thirteen tax information exchange agreements and has signed more since as an indication of its commitment to international recognition. As well as entering into tax information exchange agreements there have been various double taxation agreements that have been entered into with the following countries: Netherlands, Nordic countries, United Kingdom, Ireland, New Zealand, Australia.

In April 2009 the Commission in conjunction with the working party representative of practitioners across the investment industry took for consultation a new conduct of business rules for all entities licensed under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 as amended. The product of this is the Conduct of Business Rules that are the first, and major, part of a process to replace the Licensees (Financial Resources, Notification, Conduct of Business and Compliance) Rules, 1998 and the Collective Investment Schemes (Designated Persons) Rules, 1988. The second and final part of the process is the revision of the Capital Adequacy Rules which were released for consultation at the end of November 2009.

October

Guernsey introduced its zero-ten corporate tax regime in 2008 in response to changing international standards in tax policy. The tax exempt regime was maintained for investment funds and their subsidiaries. The Island's Government resolved at the time of the introduction of the new regime that this would be a two stage process and review of the effects of zero-ten would be undertaken. It was also recognised the Island's own need to raise tax renews might require changes to the tax regime.

As a result of the global economic developments and feedback from the EU Code of Conduct Group the crown dependencies (Guernsey, Jersey and the Isle of Man) are required to review their corporate tax regimes sooner than originally anticipated.

With that backdrop in mind, the States of Guernsey passed a resolution on 27 October 2009 to include, in its final review, the current corporate income tax review. Under the current regime the general rate is 0%. This rate does not apply to investment funds as they are exempt from corporate income tax altogether, on making an appropriate election.

The review is in its preliminary stage at present and it is therefore too early to ascertain its outcome. Guernsey will be working with the United Kingdom and the EU Code of Conduct Group and the other Crown Dependencies towards a common end. While the outcome of the review is not yet known Guernsey intends and expects to retain its exempt regime for investment funds.

Until such time that the planned review is completed, the existing zero-ten corporate income tax and tax exempt fund regime will remain in place. It is unlikely the changes to the current regime will be brought into effect until 2012 at the earliest.

In December 2008 the UK Government announced that Michael Foot would lead the independent review of British offshore financial centres announced at the pre-budget report 2008. The review was designed to look at the immediate and long-term challenges facing British offshore financial centres in the current economic climate. The final report of Michael Foot's review of the opportunities and challenges facing the British crown dependencies (Guernsey, Jersey and the Isle of Man) and the six overseas territories (Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Gibraltar, Turks and Caicos Islands) was published on 29 October 2009. The report was broadly welcomed in Guernsey as recognising the well regulated and cooperative jurisdiction which Guernsey is, with a sound and diverse economy able to cope with and adjust to global economic crises. It also confirmed that Guernsey provided a positive economic benefit to the UK. There were a number of issues which the review suggested be considered by all of the British offshore centres including a potential ombudsman scheme.

November

In November 2009 and following a number of delegations from Guernsey to China as noted above, the Chinese Ambassador to the United Kingdom visited Guernsey. In particular she noted the innovative decision to establish a representative office in Shanghai for Guernsey Finance. She also offered Guernsey the use of the Chinese Embassy in London for assistance in future projects.

Also, in November two significant amendments were made to the income tax law in Guernsey reducing the tax cap and extending it to local income and changing the basis of taxation of "resident only" individuals.

The aim of the "tax cap" is to attract high net worth individuals to establish themselves and their business interests in Guernsey. When it was originally introduced on 1 January 2008, the tax cap was set at £250,000 and covered non-Guernsey income only: Guernsey source income remained chargeable in full. It was agreed following a review of similar tax caps in other financial centres and after a period of consultation, that level of tax cap should be reduced and the scope widened to encompass local source income.

The tax cap on non-Guernsey source income has now been reduced to £100,000. Just as importantly, an option to cap the total tax liability arising from worldwide income has been introduced at £200,000 starting with the year of charge 2009.

The impact of this is that no Guernsey resident individual can pay more than £200,000 maximum tax in Guernsey each year.

In relation to the taxation of "resident only" individuals there is a new legislation where individuals either:-

1 pay Guernsey tax on a worldwide income; or

2 elect to pay an annual “standard charge” of £25,000 plus tax on Guernsey source income (excluding bank interest) – with the proviso that the standard charge is available for offset against the tax liability arising on Guernsey source income. Resident only individuals will need to analyse their worldwide income to determine whether the election is advantageous based on their individual circumstances.

With effect from 30 November 2009 the Channel Islands Stock Exchange (CISX) became the first exchange to provide transaction settlement at Euroclear UK and Ireland for open-ended investment companies (OIECs). The CISX has been trading OEICs since March 2005, and now offers listed issuers in Guernsey OEIC transaction settlement at Euroclear UK and Ireland for transactions on or outside dealing days. It is hoped that this new facility will add to the CISX’s appeal to fund managers and investors alike, as it will enable investors to redeem and subscribe for shares electronically on or outside normal dealing days. The move should enhance the efficiency of the settlement process for investors to bring new opportunities both at the CISX and for Guernsey, particularly it is significant for securities with monthly or less frequent dealing days. It is hoped that the CISX’s clients will see processing cost decline and written errors associated with manual transaction processing substantially reduced as a result of the electronic settlement of OEIC transactions.