Guernsey Taxation – the way forward

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Introduction

What is the way forward for Guernsey in terms of taxation?

No effort has been made to be sophisticated and we have tried to limit our comments to the bigger issues.

Simply put, we cannot continue to fund the States of Guernsey’s committed expenditure, from our current tax income.

Absent energetic spending controls, which many will not want, we are faced with tax rises that even more will not want.

If we do not want to borrow more, or sell off our investments, we need to raise as much as £220m pa (not the much quoted £85m - £90m) for the foreseeable future by cutting expenditure and / or implementing tax increases.

Borrowing more and/or selling off investments involves risk and merely passes cost to the next generation. In any case, following this route will fund £220m a year for only a few years after which…?

The States’ elected representatives need to act decisively sooner rather than later. We cannot afford to muddle through the next election.

The 2023 Budget shows a worrying capacity for cost cutting; an unambitious 2022 target of £3m pa has become nil.

The only alternative to spending cuts, borrowing or sales of our investments is the aforementioned tax increases. Necessary increases in income, sales taxes and general corporate tax would equate to a cost of roughly £7,000 per working resident every year – that is the magnitude of the issue. This would be a very big dent in household income and with real implications for living standards.

In addition, increasing the tax burden to such a level would make Guernsey less attractive to the financial services industry and prosperous immigrants. Losing these taxpayers would lead to a still worse financial crisis.

Background

Small islands like Guernsey are not financially complex; there is no central bank, no ability to print money etc.

For some years the States' cash income has been below spending and that gap is set to grow.

We have been living on the 'fat' accumulated from prior years and increasingly now, we are mortgaging the future.

The people of Guernsey decided in the distant past that it was a good idea for there to be funds available from the island's population to provide for essential spends which had general benefit. There seems to be little known of taxation before the 1600s other than taxes were being levied by then. Initially taxation would have been for harbours and defence, then roads, poor relief funding and as the economy prospered, for utilities. Over the last century or so, taxation came to provide for significant expenditure on social costs such as pensions and health care. Today a large proportion of taxation has moved to society looking after people, rather than people being forced to look after themselves – when sometimes they could, and sometimes they could not.

As long as the economy grows, then some of the resulting growth can fund a larger taxation take and increase public spending on whatever the electorate wants.

Public spending in Guernsey has grown in recent years and will doubtlessly tend to continue to grow – absent a very marked change in politics.

The following table is lifted from the States' Budget.

Overall Financial Position

1.1 The table summarizes the overall position for 2022 and 2023:

	2023 Budget Estimate £m	**2022 Probable Outturn £m**	**2022 Budget Estimate £m**	**2021 Actual £m**
Revenue Income				
Income Tax	407	384	368	362
Other Taxes	107	102	99	110
Social Security Contributions	32	30	30	-
Miscellaneous Income	36	34	33	36
Revenue Income	**582**	**550**	**530**	**508**
Revenue Expenditure				
Cash Limits	(539)	(495)	(492)	
Budget Reserve	(22)	(19)	(12)	
COVID-19 specific provision	-	(4)	(6)	
GWP / Service Developments	(12)	(14)	(18)	
Savings to be delivered	1	-	3	
Committee Expenditure	**(573)**	**(532)**	**(525)**	**(453)**
Business Support Measures	-	-	(2)	(22)
Revenue Expenditure	**(573)**	**(532)**	**(527)**	**(475)**
Revenue Surplus	**9**	**18**	**3**	**33**
Capital Income–sale of property	3	5	3	-
Investment Return	27	-	17	**43**
Operating Surplus	**39**	**23**	**23**	**76**
Provision for Aurigny loss	-	(1)	(1)	(15)
Provision for Ports loss	(6)	(4)	-	(9)
Surplus	**33**	**18**	**22**	**52**
UNINCORPORATED TRADING ASSETS				
(Loss)	**(9)**	**(9)**	**(8)**	**(12)**

The nonsensical brew of accounting that the States use for arriving at "surplus" (despite funds being voted to go to proper accounting a decade ago) is easily illustrated. A straightforward example is the £9m loss on "unincorporated trading assets" (odd descriptions that no-one understands normally hide something….). These are bundles of assets and liabilities entirely owned by the States but their (largely) cash cost of £9m is somehow excluded from "surplus". There are a number of other things that look astray, but we will leave that detail for a later paper.

Some capital expenditure is expensed – but its far from easy to work out the number!

The easiest game to modify "surplus" under the State's bizarre accounting rules is to simply contribute more or less cash into the Pension funds – this year £9m of the surplus is a poorly justified unbudgeted reduction in pension contributions. This does not feature in the budget notes.

It looks like, as the scientists would say the existence of a real annual revenue cash surplus or deficit for the States is "within experimental error". Its near nil, but, in any case, the long-term position is not about a current annual cash number. Liabilities always become a cash issue over the longer term.

GPEG has on several occasions pointed out the unwillingness (the last actuarial review was 2 years delayed, so see no evil….) of the States to deal with the Elephant in the room – **there is nothing more structural than a whacking great defined benefit scheme!** The States', main staff schemes showed a £1.6bn actuarial deficit at last valuation. Increased inflation expectations and low investment returns mean this deficit must be a lot higher now.

Jersey paid off a similarly derived deficit in its pension funds by the States by borrowing £500m this April (at 2.875% - looks brilliant today!) and the £500m effectively became a direct liability of the States and on its balance sheet. Good morally, and financially realistic. Guernsey would blow its own self-imposed borrowing limits if it did this.

What is the structural deficit we are talking about then?

The dictionary definition is "A budget deficit that results from a fundamental imbalance in government receipts and expenditures, as opposed to one based on one-off or short-term factors."

Our imbalance has several components.

1. Necessary and needed capital expenditure – not an easy number to be sure about. Certainly. our politicians are far from sure about it. Timing, cost overruns and inflation are important. Projects may be extended or cancelled. We are told in the budget that £528m is to be spent during the term of this States (4 ½ years) = £117m pa; or alternatively £76m pa. (These 2 numbers are in consecutive paragraphs in the 2023 Budget Foreword!) Given inflation, call it £100m pa. is needed for capital expenditure. Note there is potential for very substantial capital spending on our power supply due to its equipment's age and the increased power needed for heat pumps and electric vehicles, which seems not to be factored into the capital spending estimates.

2. Way back, the States set up a target of having a reserve (investments) of 100% of the States' annual revenue in a safety net called the Core Investment Reserve. This is now around £430m short of its target; and its investments are effectively funded by States' borrowings. (A home-grown hedge fund.) To get back to the States stated safety aim would

requires c£600m. Say 10 years to get there? Lets call it £60m pa.

3. Then, there is the pension scheme. If we copied Jersey then we might pay off the deficit in 30 years at £50m pa. - it might be a bit more.

4. And there is the structural burden of heathcare and state pensions driven by demographics and healthcare inflation (and complicated by partial funding structures) – which is hard to estimate and very susceptible to political decisions. Certainly £10m pa. And likely to be a lot more.

5. The current runrate "surplus" is approximately zero. So

0 +100 + 60+ 50 +10 = £220m pa. The structural deficit!

No pretence is made as to accuracy. Political decisions – not easy ones – could make a large difference.

We have discarded any idea that economic growth would fish us out of this position. It would have to be spectacular and no short- or medium-term scenarios that do this are apparent. Indeed, given the very recent UK recession forecasts, a drop in economic output seems quite plausible.

The safety net could be discarded. This is probably the easiest political action to reduce the structural deficit.

Pension costs could be attacked and greatly reduced.

We could ask how much of our current government expenditure is really essential.

But it looks like the £80-90m pa shortfall quoted in the Budget is just optimistic.

The Foreword concludes by saying that it we don't have tax rises we will need 10% across the board spending cuts. That would certainly raise hell in the States - but would only raise £60m pa.

Borrowing and "can kicking" have been increasing over recent years.

An example of can kicking is not putting up the cash for a new aircraft for Aurigny by leasing rather than owning the plane and paying "on the drip" over, say, 10 years. A much bigger can kicking area is the assortment of States' pension liabilities where the liability rises each year, but payment is way in the future. These types of manoeuvres are often called "kicking the can down the road". They differ from borrowings by not (rightly or wrongly) appearing as liabilities on balance sheets,

So, for algebraic readers:

Public spending = taxation + cash from investments + increases in borrowing + the increase in stuff kicked down the road.

> So simply if you want to spend money you have to find it in one of these four routes.

How much should/could we borrow?

Borrowing has its limits – we are a small jurisdiction and our ability to borrow is limited. As we push towards that limit, lenders will want higher interest rates as the perceived risk of default rises.

Recent events in the world markets saw a big lift to UK Government debt ("gilt") interest rates as the UK's historically high debt, together with a shambles of a Government, made investors demand higher interest rates for the increased risk they see.

Because the UK Government can simply produce more sterling, the risk of non-payment on gilts is nil but the risks of inflation, higher interest rates on future debt issues (which causes the value of older cheaper fixed rate debt to drop) and, for non-UK investors, the risk of sterling continuing its decline against other currencies, all conspire to make borrowing more expensive as the debt load rises. Increasingly you will see interest costs having to be covered by new borrowings at ever worsening terms. The UK is struggling with this issue now.

We cannot produce money like the UK does, Guernsey could go bust. (Not even the gloomiest member of the GPEG team believes this to be a short-term risk!)

Importantly borrowing has a moral side to it. Having a 30-year loan to build infrastructure at least spreads the cost (very roughly) over the lives of people who will use the asset. But debt funding of current expenditure for the kids and grandkids to pick up the interest for the next 30 years and then find the cash to repay the loan is clearly quite immoral.

Some numbers for you. With the usual caveats that the States' accounting habits are unique and some debt in States' owned entities is not properly accounted for – but in round figures:

- the States have £380m in debt.

- They have undrawn (as far as we know) facilities to borrow a further £75m in debt from Banks. (Perhaps more available in Aurigny.)

- The States have an income of around £550m with 95% of that from taxes of various types - £360m of that in income taxes and the rest in duties and property related taxes.

- Annual cash revenue expenditure is pretty near to the total income.

Bermuda has roughly the same population as Guernsey, but its GDP is around £6bn compared to Guernsey's £3.2bn. Bermuda has debt equal to half its GDP so perhaps Guernsey could borrow another £1bn or so in debt without too much difficulty.

Interest rates are rising so the cost of debt will also rise – it might be that a billion more debt would cost 10% , and perhaps 15%, of the current Government's income in just paying the interest. The Isle of Man has £550m of debt with a GDP of £2.3bn.

Jersey has a quite detailed and sophisticated debt policy which includes its pension deficits – it actually raised £0.5bn in bond debt to pay off the hole in its States' employee pension fund this year. Including pension deficits it aims at target debt of 30 to 40% of GDP which, if Guernsey followed the same rules for deficits would leave little, or no, room for further borrowing by Guernsey.

A key risk that will be very apparent to potential lenders to the Bailiwick is the high dependency of Guernsey on financial services.

Our current relative prosperity largely rests on the income coming from that industry. This industry could contract substantially and rapidly. This is all too easily imagined – competition from other centres, scandals and regulatory excess or shortage could all cause a rapid decline in this industry - with dire effects on the States' income and a simultaneous need for increased social support. Prudence would suggest not being exposed to a situation where a modest downturn in financial services rapidly becomes an economic crisis due to high borrowings.

Guernsey should clearly not get heavily indebted.

How much can kicking could be done?

A simple form of can kicking is delaying capital expenditure beyond its due date. This ends up hurting the population, future and present. People on the Island are already using hydrocarbon fuelled electricity generators for their homes because the grid is beyond its capacity. The Alderney airport runway is falling apart….delay is expensive.

Certainly can kicking has its limits, eventually the bills (or the bits of Alderney's runway) need to be picked up. Can kicking does end up looking like borrowing at some point but the limit is not very precise as much ingenuity - and some obscuring accounting in Guernsey – makes determining limits difficult. Again, the morality is poor as the benefits (if any) tend to be for the current generation and the bills fall to the next generation.

Markets are rarely stupid for long periods, sooner or later lenders will notice lots of can kicking and borrowings will be restricted and increasingly expensive. But otherwise, the only limits to can kicking are the creativity of our politicians and the ability of the politicians to persuade the population that "it will be all right on the night" when the liabilities crystallise.

What investments can we sell?

The investment portfolio can always be converted into cash. Whilst still owned the investments can also provide a limited income but once they have gone, they have gone.

The balance sheet at 31st December 2021 shows £2.7bn in investments. You could sell the lot but as long as you believe that the available return exceeds the cost of borrowing this would be foolish.

In a very unclear "moral" commitment £1.6bn is there to partly secure civil service pensions so that would be an issue if it was raided. Pension costs would rise as they would no longer be funded by assets. Other allocations (potentially reversible by a desperate States) of investments to Social Security and Health mean that if all are honoured there is approximately £500m to spend by selling investments.

Overall

The States' "Funding and Investment Plan" is a complex read but it makes it clear that on current spending and taxation there are no spare annual cashflows to fund capital expenditure.

(There are differences between the Accounts of the States and this Plan – even 2021 income is different - £542m in the Plan and £574m in the Accounts! And different again in the Budget. But the differences really don't affect the general drift much at all).

Now the Plan talks of not needing borrowing to meet this capital spending but of using "reserves". This is polite language, not readily understood by the average citizen. It actually means raiding the investments and selling these to avoid borrowing. This makes a more cheerful headline, "No More Borrowing!". Actually if you assume (as the States does for pension calculations) that you will realise more return from the investments than it would cost to borrow the same amount – its grossly inappropriate.

Certainly, on a 5-7 year view it is quite possible that all the saleable investments would have gone if taxes and spending stay roughly as they are.

Over and above the already estimated cost of the major capital works you could add perhaps a further 25% for the likely overspends (large capital projects run by governments routinely overspend – look at the States' IT spending!). And then there is electricity.

A recent States' consultation showed spends in the next decade of hundreds of millions being needed in capital expenditure over the next dozen or so years. They put no price on the essential upgrading of the Grid on Island as energy use moves from high carbon fuels to extensive use of clean or cleaner electricity – this will be huge. Net zero is expensive. These costs could be borne by electricity consumers rather than taxpayers generally.

All in all, something has to give if this capital spend (of perhaps towards a billion in inflated, nominal pounds, in the next 5 years or so) has to be made.

You can release more money by spending less on some areas of government – this is certainly possible but requires political will. Short term pain for the long term good is rarely popular with politicians – even though much of the population would probably welcome such. The long term does not have a vote in the next election.

Clearly there is no belief in the deliverability of cost-cutting from our politicians.

> The available strategies are to cut capital spending to the absolute minimum which is definitely unattractive - or raise, and/or release, more money from borrowing or from selling investments.

Or Guernsey could raise taxes

Certainly, in income taxes, corporation and sales taxes, we are at low levels internationally. We do not have capital taxes.

How much to raise? It's at least an annual £150m in current pounds –more like £220m every year if you don't want to raid investments or increase borrowing. Let's call it £200m pa but more if you keep adding costs for social purposes or health. (Less if you cut the States' spending but this seems a remote possibility!). Inflation, and the uncertainties of economic growth means that the nominal amount is uncertain in any case – precision is not possible.

Yes, we know that a crudely estimated £87m was used by the States as the annual need when it wrote the 2021 tax review – but we simply think it's too low on the visible facts.

To arrive at a figure, you have to make big assumptions about the future but £200m pa seems like a sensible round working number.

You could cover £200m pa for 5 years by selling off £500m of the investments and borrowing £500m. This would greatly raise the fragility of the Island's financial position and we do not recommend this.

If you agree with this negative recommendation, then serious tax rises there have to be.

The Economic Effects of Tax Changes

Taxation has a complicated relationship with its economic effect on economies. Actually, the extent and nature of public spending has much more of a measurable effect on economic growth than tax levels have. High spends on health and social services are particularly clearly associated with lower growth.

The greatest pressure for increased spending is from health and social security (driven by ageing) and as these consume more of the economy the rest of the economy has to do better and better to generate growth from a smaller proportion of the economy.

Taxation is generally not clear in its economic effects. Countries like Denmark have high taxes and resilient – but not exciting – growth. Countries with flat taxes seem to do better economically.

It is not just the rate of tax, it is tax thresholds, marginal rates, ease of avoidance, complexity, frequency of change, rate competition with competitive economies, mobility of capital, leakiness of borders, general economic status and more. These factors interact in a complex way. (see https://taxfoundation.org/overview-tax-foundation-s-taxes-and-growth-model/).

> Higher personal taxes have one guaranteed effect; those who pay these taxes suffer a drop in their living standards. Would you rather your wallet was under your control or spent as directed by Mr Ferbrache or Mr Roffey?

GPEG really cannot tell you that higher, or lower, taxes would have much effect on economic growth. There are too many variables,

Taxes have social effects – they can redistribute wealth from the rich to the less well off. An old-fashioned capitalist would say that this reduces economic output as more people simply collect rather than work. Maggie Thatcher was in that direction. Equality proponents would think otherwise. In any case tax rises of the size we are looking at will have to affect many less well-off households.

Here in Guernsey, there is a clear majority of households who take more from the States than they put in. And all the proposals put forward in recent times to increase taxation in Guernsey were actually designed to increase this loading on the better off who already pay more tax and use less services.

There are two significant differences in sensitivity to tax levels in Guernsey, as opposed to most other jurisdictions, both driven by the relevant taxpayers' ease of moving jurisdiction.

We are unusual in the mobility of our main industry. Financial services are internationally mobile and frequently companies have multiple geographic locations around the globe. If people in these industries believe they would experience a better lifestyle elsewhere, whether because of tax or otherwise – they will leave. If this happens to a significant extent, then it is easy to see an economic spiral downwards. Taxes are a substantial component of international competition for financial services businesses so raising taxes on employees or corporations in that sector carries an obvious risk. Guernsey does not exist in a vacuum.

The States' Tax Review in 2021 said "Guernsey's corporate tax regime was not borne out of competitiveness" – it should have been a prime factor we think.

A peculiarity of the island is that it has a number of high-net-worth residents, often past normal retirement age, who definitely are very substantial contributors to the States' coffers. These people are attracted by lower taxes with a particular attraction being the absence of capital taxes. Recent hefty increases in property transfer taxes have had an adverse effect on the desire of people to move here. This is a mobile group, so change is risky.

Capital taxes (inheritance taxes, capital gains tax and wealth taxes) definitely diminish entrepreneurial activity a bit but do not seem to have much effect on economic growth generally. But academic inputs are varied! Here in Guernsey, we could rapidly lose our high net worth, high contributing individuals if they see capital taxes coming.

Sales taxes ("GST") or VAT are easy to collect but regressive in that they take a larger proportion of the income of a lower income household than a richer one. The permanent step up in the cost of living on introducing such a tax would have a marked impact on cost of living of several percentage points. Given current inflation, the voters' response is readily predicted. Some degree of cushioning for the less-well off would be needed. There would also be substantial administration costs involved.

(GST introduction would also add scores of millions of pounds to the liability for the index-linked portions of the States' employee pension fund).

Small amounts of tax can be extracted from increasing "sin taxes" on booze, cigarettes and petrol but they would barely move the needle financially though they can have other beneficial effects. Perhaps sadly, Guernsey is not long on sin.

Actually, it's what taxes are spent on that has the greatest purely economic impact. Money going into productive infrastructure clearly does more for the economy than money spent on social or health services. Money going into unproductive infrastructure (eg statues of Chief Ministers) has an even worse impact. Paying interest on borrowings clearly is an unattractive use of tax revenues. More borrowings, more interest…..

Economic statistics are not the only targets for a country's policies. Cultural, environmental, and social issues need factoring into policies – having a strong economy makes addressing these issues easier.

There is a longer term but relentless trend to increasing healthcare and pensions costs for Guernsey as the population ages. Economic growth, despite this ageing drag, is essential unless spending is cut, and/or taxes raised and living standards allowed to diminish. Pro-growth actions are not optional.

We should run the economy at a high level of efficiency. In one-on-one chats with States' Members most state a considerable belief that that there is substantial waste – especially in the civil service which is widely criticised as bloated and expensive. However, as a group they seem much biased to inaction! Beyond doubt the public servants are better paid than the private sector employee and can expect to draw, largely index-linked, pensions 3 or 4 times those in the private sector. Public servants generally have better working conditions and job security than those in the private sector. Cuts are possible there, other reductions are doubtless available in Government and should be fiercely sought before taxes are jacked up.

Tax options to raise £200m annually (roughly £6,500 per working resident) might approximate a 10% rise in the main personal income tax rate together with a general 10% corporate income tax and a sales tax ("GST") of around 10%. These headline numbers would vary quite a bit on the mitigations and exceptions (eg for GST - is food taxed? Children's' clothes? Etc.). Clearly the introduction of taxes at these levels would lead to very marked drops in living standards which no-one would relish.

But to avoid any taxation increases (or borrowing or asset sales) would mean a very considerable (20%+) reduction in the size of States' spending, priorities such as green efforts, social entitlements, education, would have to be reassessed. It is doubtful the States would have the appetite and courage to implement the kinds of things needed to make a noticeable impact.

There are other issues to be considered – our corporate tax regime is a frequent issue with the international standards that the OECD promulgates and rate rises in the corporate tax regime would actually be helpful there. But corporate tax increases would not solve 10% of the £200+m gap.

The States have a self-imposed limit on public spending – clearly what the States create they can also destroy so this is a silly debating point.

A final thought – we should remember our small scale. We lack economies of scale and sensibly would have a simpler government than larger jurisdictions. Our ambitions seem to have exceeded our capabilities.

GPEG is **not** advocating the potential tax levels talked about above. **There are no easy options.**

We suggest the following approach to tackling the structural deficit:

- Dropping the policy of maintaining the Core Investment Reserve. This would reduce the "Structural Deficit" by something like £60m pa.to £160m.

- Tackle the pension fund cost and exposure. Taking £30m pa out of this might be doable. Down to £130m?

- A much more determined effort at seeking out cost savings in Government. We simply cannot estimate what could be done but 5% would get to another £25-30m. Down to £100m?

- And then we should really do a very thorough job on reviewing capital expenditure proposals. Given the financial position, capital expenditure should only go ahead if it is essential or has a high probability of an economic return. The government Work Plan has lots of new projects, many not costed, which would not meet these criteria. (See GPEG paper on capital spending). We cannot estimate this opportunity at all well, but it needs doing before decisions are made on taxation in January.

- Doing less in Government will naturally lead to reductions in the Civil service and in public costs. The large number of pending further things for the States to do all cost money and employ civil servants……

In summary

Our advice to the States is:

Deal with the issues sooner rather than leave it until the next election. The later we head for a more sustainable economy the harder it will be to get to one.

Sadly, we do not think you will grasp the nettle with an election in sight. Spend, pretend and obfuscate will be the likely route. And the nettle will get larger. You might seriously have to look at radical tax reform – perhaps using flat taxes – more in the Appendix.

Absent economic growth or increased taxation, or less likely, sharp reductions in public spending, Crunch Day will come within the next decade.

Crunch Day is when we run out of saleable assets and the ability to borrow more is gone. Can kicking will largely crystallise and massive numbers such as the unfunded defined benefit and largely indexed Civil Service pension fund will have to be addressed. The then population will then be faced with paying for the liabilities run up by a previous generation.

Given the reliance on financial services, if things go badly for that industry then Crunch day could be greatly accelerated as lenders stop lending and tax revenues decline. We should not be selling the fire extinguishers!

Appendix

What the Academics Say

A very brief review of the academic evidence on taxes and economies follows. It's mostly based on the US so may not be totally applicable to Guernsey.

Changes in marginal rates can have more effect on the economy than changes in the absolute rate of income tax.

Decreases in income tax rates, in the UK, of 1% increases GDP by 0.78% in the 3 years following the decrease.

A 1% decrease in tax for the bottom 90% of earners raises a jurisdiction's GDP by 6.6%. Hours worked increased 2% too.

1% off corporate tax rates generates a 0.2% increase in employment and 0.3% increase in wages.

Nobody has ever reported that tax increases help an economy to grow (though they may help part of the population).

(https://taxfoundation.org/reviewing-recent-evidence-effect-taxes-economic-growth/ has a fuller listing of the academic evidence).

An IMF study found that a rise in VAT financed by a fall in income taxes could generate growth but did not if the VAT structure had multiple rates.

In short – not very helpful.

Flat taxes

For the ninth year in a row, Estonia has the best tax code in the OECD, according to the freshly published Tax Competitiveness Index 2022. (The UK came 26th!).

Estonia has a small economy, and was a quite poor country 20 years ago, but things have prospered with a novel and extremely simple tax system

- It has no corporate income tax on reinvested and retained profits (and a 14-20 per cent corporate income tax rate on distributed profits). This means that Estonia's corporate income tax system allows companies to reinvest their profits tax-free.

- It has a flat 20 per cent tax on individual income. The tax is not applied in the case of distributed dividends that have already been taxed with a corporate income tax (see above).

- Its property tax applies only to the value of land, rather than to the value of property or capital.

- It has a territorial tax system that exempts 100 per cent of foreign profits earned by domestic corporations from domestic taxation.

- VAT is 20% too.

- A little spoilt by 33% social security tax paid on payroll by employers,

The normal objection to such a system is that the less well-off get to pay some tax as opposed to little or none under (say) a UK progressive tax system. In fact, Estonia has decent support for the needy and free universal health care and things like paternity pay etc. Inequality of income and wealth have improved substantially in recent years.

Estonia has a cultural bent towards self-reliance – a common view there is that getting everybody to pay some tax (even if very little) makes for better resource allocation.

The economy has done really well - since the UK's referendum on EU membership in 2016, some 4,000 UK companies have set up in Estonia lured by the tax system and highly efficient and sensible government.

Estonia's GDP – has risen from €6.2bn in 2000 to an estimated €26.8bn in 2021. Lithuania has a similar tax system and grows even faster!

Over the 11 years 2010-2021 Estonia grew at an average 3.8% to the UK's 1.7%pa.

Worth a look for Guernsey?

Estonia was famous for the vigour of its economic activity in the 2000s. Public spending was cut rapidly by 20% followed by a doubling of unemployment in one year, largely reversed the next and rapid growth from the suddenly larger private sector with considerably supply-side actions helping a lot.

In passing it seems to have six times the Guernsey number of civil servants for 20 times the population…..we have not yet explored this in depth.