

The business sector and Guernsey

Dr Raymond Ashton explains why we should be encouraging entrepreneurship to bring greater investment in the business sector

THIS short piece will look at the importance of the business sector for the island of Guernsey. It will focus on the taxation aspects of this issue and specifically the rate of tax on business income and the taxation of employees.

The problem with all business taxation is that it reduces after-tax profit. As such it lowers the rate of return on investment and potentially leads to less investment. Readers may be sceptical of the effect of taxation but it is significant, as seen by the effect on new business of the 12½% rate in the Irish Republic.

Clearly the lower the rate the more likely business will be to make new investment and create employment, both in terms of absolute numbers and in terms of wage rates. It follows that there is a tension between corporate taxation and employment. The higher the former the less likelihood a business will expand the latter. There is a further spin off: new investment is likely to result in increased productivity and wages and, as a corollary, taxation receipts in the form of monthly employment receipts.



Thus the business sector generates two categories of receipt, one the levy on profits and secondly the monthly levy on salaries and wages.

Where does all this lead us? Given that the expenditure in the States sector is largely fixed, comprising employment and capital expenditure in the form of infrastructure such as the hospital, it is not easy to reduce expenditure. It then follows that a vibrant business sector has to be stimulat-

ed to increase tax receipts. This brings into focus a factor often neglected - the entrepreneur. This is a person who brings together land, labour and capital infrastructure, etc. This is one person who should be encouraged as, to use the words of Schumpeter, profit is 'the reward for risk and uncertainty'. This would suggest a low rate of

personal and business tax. Compared to the UK there is no capital gains tax or inheritance tax and income tax is lower. What is needed is an encouragement to business in the form of increased allowances for investment and improved infrastructure - although the latter can lead to increased government expenditure. Certainly matters such as easing planning permission and the encouragement of workers are two options.

In conclusion this short paper has shown that the States is in a difficult position. One area which has been neglected has been the role of the entrepreneur and it is to be welcomed that, to name just two - Stephen Lansdown and Guy Hands - are here. They provide the vibrancy for the economy which results in increases in employment, productivity and taxation. This is to be commended.



A DIRECTOR'S PERSPECTIVE

BY DR.RAYMOND ASHTON



Raymond is pictured with broadcaster and journalist Eamonn Holmes who visited Guernsey to speak at the launch of the first edition

