

When will Jersey realise that as its finance industry d...

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The [Jersey Evening Post has noted yesterday](#) that:

Profits in the [Jersey] finance industry last year were at their lowest levels since records began, according to official figures released today.

The level of profits at £605 million fell by 25% last year from £809 million in 2009 and plummeted by 60% compared to 2008 when profits were at £1.5 billion.

They were at their lowest since the survey of financial institutions started being compiled in the mid-1990s.

That is extraordinary, and perhaps even more severe a decline than I might have predicted. Despite it though Jersey Treasury minister Philip Ozouf said:

that the falling figures did not mean that there would be any need to hit Islanders in the pockets with tax increases to make up the difference.

He said that financial forecasts had already been revised downward twice and that actual taxes received for 2010 were not reflective of such a large drop in industry profits.

I think we can safely call that obfuscation in the face of the evidence.

So let's look at that evidence for a minute. When I was advising a Shadow Scrutiny Committee of the States of Jersey in 2005 it was thought that nearly £200 million (then about 50%) of the total States revenue came from the finance industry at that time - in tax on corporate profits. That was not 20% of those profits because companies could set their own tax rate at that time in Jersey (absurd, but true) but it was a substantial sum.

With profits at £600 million now and only 10% taxes, at most, on them that revenue has collapsed by much more than anyone, me included, might have predicted. Revenues now might be £60 million out of a [sum of more than £500 million](#). I suggested the

Jersey black hole would be £100 million at that time - it now looks like it might be more.

Now of course GST has come in since then, and been increased once, and that has reduced the impact of this loss of revenue, but at the same time few of the savings that the States would be made in government spending at that time have materialised (a common refrain: governments almost always fail in this objective, as George Osborne will discover in due course if he hasn't realised it already). The result is obvious - there is a big and growing black hole in Jersey's finances that can have only two consequences.

The first is that the ordinary people of Jersey be asked to pay more, probably through increasing GST (the local form of VAT) again, soon after its recent rise to 5%.

The alternative is the States will go bust - a scenario GST increases can defer for now and until such time as the local electorate declare that they've had more than enough of being charged the earth to let the wealthy and the large corporations of the world avoid a great deal of tax altogether - but which may not, on the trend of this ongoing collapse in the finance industry be deferred for long.

I said Jersey might be bust by 2015 when I first predicted a black hole in its finances. GST increases may put that off for a year or two, but I increasingly believe that the entire Jersey business model is fundamentally flawed: Jersey cannot meet the reasonable demand of its population for public services on the basis of that model.

I am, of course, the only person to have put forward an alternative business model for Jersey - [Plan B as I called it](#). It has been scoffed at by those in power and by the finance industry in Jersey, but the need for such a plan looks more pressing by the day.

Let's not beat about the bush: the finance industry in Jersey is failing. Its contribution to the States is falling, rapidly, both as a result of policy failings and as a result of its own financial decline. Change is inevitable. The question is when will Jersey wake up and smell the coffee?