

It's time to mention Plan B - for Jersey

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It's been [said by a commentator on the blog this morning that](#):

In this instance the thing that irks me is that Monty and others on the left have absolutely no solutions to diversifying our economy. I would have more respect if he was to come forward with credible solutions to move Jersey away from the reliance on the Finance industry.

That's not true. [I wrote Plan B for Jersey in 2010](#). Here it is, again:

Jersey is in a profound mess. Its finance industry is failing, with funds under management [rapidly leaving the island](#) and the profits of its finance sector [falling by fifty per cent](#) in 2009. Worse still, it faces a government [spending deficit of at least £100 million a year](#) representing 18% of its total annual government income unless radical reforms take place soon. To compound matters its corporate tax system [faces being ruled unacceptable](#) by the European Union, threatening another £120 million of its state income.

In the face of this crisis the government of Jersey has begun a fiscal strategy review. It has [suggested](#) increases in personal taxes amounting to £50 million a year and cutting government spending by the same amount will solve its problems, whilst [adopting a new corporate tax system](#) and planning for growth will keep the economy in balance.

There is however a fundamental problem at the heart of this plan: it does not address the fact that Jersey's one and only major business — offshore finance — is failing in its current form. As such making choices on raising taxes are largely irrelevant because there may be little to tax if urgent action is not taken by Jersey to transform its future.

I have therefore written [a new Tax Research UK Briefing](#) that propose Plan B for Jersey — the alternative industrial strategy it has never had. This is a radical plan, but one which builds on Jersey's two competitive advantages, the first of which is its ability to legislate and the second of which is its ability to arrange and administer financial structures. It exploits those strengths by turning the entire logic of the past history of Jersey as a finance centre on its head. Instead of basing that offshore activity on

secrecy — as historically Jersey has always done — it suggests that Jersey should base its future activity on radical transparency.

This transparency would be total: everything about finance in Jersey would be on public record and automatic information exchange would be offered to all who wanted it unless human rights were threatened as a result. Far from being a secrecy jurisdiction as Jersey is now it would trade on the exact opposite — as being the most transparent place to do business in the world.

The economic reasoning for this is easy to explain: transparency reduces risk. Many people appear to need the tax neutrality (or no tax) structures Jersey offers because of the complexity of the interaction of tax laws of other, more populous, countries, but the secrecy Jersey offers at present attaches risk to those structures, and this increases their cost for users. If this risk, and so cost, were removed by total transparency people using Jersey would as a result be willing to pay Jersey itself more in fees because transparency was offered and more in fees to companies based in Jersey who would manage these structures if, uniquely, those structures were completely transparent.

As a result of offering total transparency Jersey would move away from being tainted as tax haven. This would be of enormous advantage to it.

And Jersey would as result secure new business because there are large numbers of companies who want to use offshore but do not want questions asked about why they do so: they can justify the use openly and legitimately, they say, and would appreciate the transparency Jersey would then have on offer to let them answer all questions that might be put to them.

And this in turn would ensure new profits were available in Jersey to be subject to corporate income taxes charged on a territorial basis that would meet the requirements of the European Union. There would in addition be a plentiful supply of new employees wanting to work offshore in Jersey untainted by the stigma of secrecy who would be willing to pay higher social security and income tax charges for the benefit of having an easy conscience.

This then is Plan B for Jersey — a truly new opportunity for it to create a market that would be all its own from which it could profit and which could provide it with long term sustainability.

Jersey may not opt for Plan B but if it does not then we will know two things. The first is it will surely fail as an independent jurisdiction: no place can run deficits forever, least of all if it expects the UK to bail it out — as the UK must, constitutionally. The second is that we will know secrecy is too important to Jersey to give up and that in turn will tell us that the secrecy is actually the bedrock of what it does (whatever it may now claim) and it will automatically follow that we will know that illicit transactions are the real foundation of its finance industry, again, whatever it may say to the contrary.

So this is a time for real choice: Jersey can turn its back on its past, hold its head high, and even ask for international financial assistance to transform its finance industry and so secure for itself an ongoing income stream that should last well into the future where transparency becomes the foundation of all it does and legitimacy is the guarantor of its well being.

Or it can carry on with secrecy and face a desperate future.

Those are Plan B and Plan A respectfully. The Jersey government has only presented the people of the island with Plan A as part of its fiscal strategy review. But Plan B is now on the table.

Jersey has to decide, is it A or is it B?

It may be the most important decision it's made for a long time.