

Tax and transparency: perspectives from the Isle of Man



**Allan Bell MHK,
Chief Minister of
the Isle of Man
Government**

As leaders of the world's most powerful nations and institutions, you are gathered to address the challenges of generating growth, jobs and prosperity for the long term. These challenges could not be more pressing.

Five years since the global crisis, developed nations chart their return to sustainable prosperity against an uncertain backdrop. In his speech to the World Economic Forum, the British Prime Minister David Cameron framed this challenge in terms of 'how do we compete and succeed in the global economic race'.

I share with Mr Cameron the view that succeeding in this race is not simply about domestic economic reforms and what happens within our national borders. The challenge is broader and more complex. How we compete in the global race is about the 'rules of the system' and 'the fairness and openness that characterise it'.

It is on this topic - the rules of the system - that I would like to share some

thoughts. By rules, I mean how the norms and the agreements that govern cooperation between countries in tax matters should be changed.

Following the global financial crisis it is evident that the public mood on tax and transparency has moved both decisively and irreversibly.

As citizens struggle to acclimatise to conditions of austerity and governments

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painfully rebalance their public finances, it is understandable that highly artificial and abusive tax avoidance schemes challenge basic notions of fairness. Public expectations about what is acceptable in tax planning have exceeded the ability of countries and institutions to act. So too have the sophisticated accounting practices of global companies whose assets are ever-more mobile. It is these changes that explain the growing public voice urging leaders to do something about the perceived lack of fairness to the ordinary taxpayer.

As Chief Minister of a leading international business centre, I have long realised that both large and small economies need to recognise this changing sentiment. So how should the global community change and respond?

Automatic exchange emerging as global standard

Firstly, jurisdictions must recognise that the basis of international tax cooperation is changing very rapidly. Back in December 2012, when agreeing with the UK to automatically share information on our respective tax payers, I was clear that automatic exchange is the emerging global standard. I was pleased to see Jersey and Guernsey follow the Isle of Man's lead and enter similar agreements. It is important that this approach is taken up by other nations.

The US Foreign Account Tax Compliance Act (FATCA) was the game changer for tax transparency, and a group of countries led by the UK, France, Germany, Italy and Spain have taken this approach forward significantly with an agreement to pilot automatic multilateral tax information exchange based on FATCA principles.

However, we should not overlook the European Union (EU) Savings Directive. When I committed the Isle of Man in 2009





A HISTORY OF LEADERSHIP, INNOVATION AND INTERNATIONAL COMPLIANCE

- The Island's parliament, Tynwald, founded more than 1,000 years ago, is the oldest continuous legislature in the world.
- The Isle of Man was among the first countries to give the vote to women in 1881 and to 16 and 17 year olds in 2006.
- It was instrumental in developing the model Tax Information Exchange Agreement with the Organisation for Economic Cooperation and Development (OECD) a decade ago.
- The Isle of Man was one of the first non-EU countries to automatically share bank account information with European Union member states.
- The Island is currently negotiating an intergovernmental agreement with the USA to implement its Foreign Account Tax Compliance Act (FATCA) legislation for automatically sharing tax information.
- In December 2012, The Isle of Man was the first Crown Dependency to announce its intention to also meet a similar standard of information exchange with the United Kingdom.
- The OECD reported to the 2012 G20 meeting that the Isle of Man was one of only a few jurisdictions to have all elements of effective information exchange in place.
- In a report to the G20 in 2011, the Financial Stability Board placed the Isle of Man in the highest category of cooperative jurisdictions strongly adhering to international standards of cooperation and information exchange.
- The OECD Global Forum on Transparency and Exchange of Information concluded that the Isle of Man's "regulatory environment is comprehensive and, particularly for anti money-laundering purposes, all major financial sector industries are subject to active oversight".
- A wide-reaching regulatory framework governs the Island's financial services industry: deposit-takers and those in the investment business, including corporate service providers, are licensed and supervised by the Financial Supervision Commission; the insurance sector is regulated by the Insurance and Pension Authority.

to automatic exchange of information under the directive, I did so because I believed it was wrong for investors to hide behind a withholding tax. Eight years after that directive came into force it is surely right that all member states fully comply with it.

Transparency not a threat to competitiveness

There are some who say automatic exchange along the FATCA model is a step too far. They claim that removing confidentiality may impair commercial attractiveness. Legitimate concerns about the confidentiality of taxpayer information should not be dismissed, yet this policy must also be applied as equally as possible to create a level playing field.

These important considerations aside, we should not see the growth of information sharing between tax authorities as an inherent threat to economic competitiveness – indeed, quite the opposite. Part of the marketing offering for international business centres looking to attract global business is their reputation for probity. We need international investors to feel confident that they are doing business in environments that comply with global standards of best practice. This may not have been a concern a decade ago, but it is now a key element of any country's commercial reputation.

It is tempting to measure the progress on transparency with each new agreement and accord signed, yet this overlooks the

crucial implementation phase. The global community must recognise that to fully deliver the enhanced transparency the public demands, the ability of smaller jurisdictions to collect, process, exchange and, crucially, act on this information needs to be supported. Important initiatives such as Tax Inspectors Without Borders will share best practice and support less developed tax collection agencies.

An initiative that the Isle of Man Government closely supports is the Small Countries Financial Management Programme. This capacity-building course was developed in conjunction with the World Bank, the Commonwealth Secretariat and the Small States Network for Economic Development to benefit small developing countries around the world, including nations from Africa and the Caribbean, and Pacific and Indian Ocean Regions.

The programme is delivered in the Isle of Man and Oxford, giving participants access to professors from leading universities, as well as to experts – many from the Island – in the fields of tax policy, risk management, combating financial crime, and advanced negotiation strategies.

Being part of the solution

Your deliberations during this important Summit will cover a wider range of critical international issues and may set the nature of international cooperation for years to come. Agreeing a way forward on tax avoidance and transparency will require international acceptance of equitable and fairly enforced standards.

As we have done for many years, the Isle of Man remains willing to be part of the solution with its international partners.

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