

The Treasury

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PRESS RELEASE

Government finances – ‘difficult decisions’

MR Bell said ‘many difficult decisions’ had to be made to achieve a balanced Budget this year.

He explained that these included utilising the interest earned on the reserve fund and currency account to support ongoing spending rather than reinvesting them, and reducing the annual allocation of funds from revenue to the capital programme.

The latter had been achieved by reducing the rate of interest on internal Government loan charges by three per cent to 3.25 per cent for 2009-10, which saves departmental budgets £16.8 million. To ensure continued support for the construction industry, £11million would be transferred from this year’s surplus into the capital account.

Mr Bell said the economic slowdown had impacted on Government’s financial estimates. Revenues for the current year would be around £12 million below budget at £587 million. The most significant issue was a fall in Customs receipts, affected by the reduction in the rate of VAT from 17.5 per cent to 15 per cent and by a reducing pool of revenues within the Customs and Excise agreement due to less spending generally.

By contrast, income tax receipts had remained buoyant, coming in at £14 million over budget. Corporate taxpayers reported on a good year, and personal tax receipts had remained strong, with until recently good investment returns and strong employment.

The Minister told Tynwald: 'The revenue outlook for the forthcoming year is a difficult one, and we face problems that have not been experienced in the Isle of Man for a generation. Our fiscal projections have been made to the best of our ability, but there is still a great deal of uncertainty. It goes without saying, however, that we will have less than we had this year.

'I have had to consider whether to raise tax rates, or to abolish tax allowances or reliefs to give us more breathing room in the year ahead, and no doubt many Honourable Members in this court and members of the public outside are expecting just that.

'However, taking all possible circumstances into account, including the discipline of Ministers in terms of their departmental budgets, I have reached the conclusion that it is possible this year to avoid the pain of raising our tax rates, and yet still to offer more to the less well off.'

Mr Bell said Government income levels were expected to recover in 2010-11 assuming that VAT returned to 17.5%, but further difficulties in respect of lower direct tax receipts were anticipated if the economic slowdown became deeper and more prolonged.

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