

The Treasury

Yn Tashtey

PRESS RELEASE

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ISLE OF MAN TO WITHDRAW ARI

In her budget speech today (15 February 2011) Treasury Minister Anne Craine MHK announced that the Isle of Man was withdrawing the attribution regime for individuals (ARI) from 6 April 2012.

Mrs Craine told Tynwald that the tax anti-avoidance mechanism was likely to be declared harmful under the European Union Code of Conduct for Business Taxation. Removing the ARI should end concerns over the Island's zero-ten company tax system, she said.

The Minister pointed out that the group set up by the European Union to monitor compliance with the Code of Conduct (Code Group) and the EU's Economic and Financial Affairs Council (ECOFIN) had agreed in 2003 that zero-ten systems were not harmful. Therefore, she said: 'the Isle of Man Government considers that with the removal of the ARI, our business taxation system does not have features which can be considered to be harmful under the provisions of the Code of Conduct, and we have today communicated that view to the Chair of the Code Group.'

Mrs Craine said, 'We remain committed to our policy of being a good neighbour, which encompasses being responsive to the views of the European Union. At the same time, the Isle of Man is fiscally independent, and participates in the Code of Conduct process on a voluntary basis.'

She went on to say: 'It is not in the Island's interests to have aspects of our tax system which the EU sees as causing difficulty, and so I have today taken what I feel is the right course and moved to abolish the ARI.'

The ARI is designed to deter local shareholders from avoiding Manx personal tax by rolling up income in companies subject to the 0% tax rate. This piece of legislation has been under review since late 2008 by the Code Group, in order to determine whether it could be considered a harmful measure.

After monitoring the Code Group's work in 2010, and being mindful of the views of ECOFIN when it met on 7 December 2010, the Isle of Man Government indicated that it would wait for the report requested by ECOFIN from the Council High Level Working Party for tax issues (HLWP) on its review of the scope of the Code of Conduct before determining its position.

A recommendation being made today by the HLWP to ECOFIN is that the *"attribution provisions are effectively designed to provide an alternative means of taxing domestic business profits and are therefore within the scope of the Code and must be included in an evaluation under the Code of Conduct for business taxation"*.

In view of the likelihood that the Code Group will move quickly to declare the ARI a harmful measure, the Isle of Man has decided that the ARI should be repealed.

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NOTES

The Code of Conduct for Business Taxation was agreed by the EU member states in 1997. While it is a political commitment, not part of the body of EU law and so is not binding, the Code seeks to curb harmful tax measures in order to reduce distortions in the single market, prevent significant losses of tax revenue and help tax structures develop in a more employment-friendly way.

The Isle of Man is a fiscally independent dependency of the British Crown. Matters of taxation fall outside the scope of the Island's relationship with the European Union. In 2002 the Isle of Man Government gave a voluntary political commitment to participate in the Code of Conduct process, and as a result made significant changes in the taxation of companies. Introduced in 2006, the revised taxation system was often described with the abbreviated phrase, "zero-ten system".

The Isle of Man also voluntarily assists the European Union by operating the Directive on Taxation of Savings Income in the form of Interest Payments (the "EUSD"), and is moving to full automatic exchange of information under the EUSD from 1 July 2011.