

GD 0063/12



THE

MANX TAXATION STRATEGY

2013 – 2016

JANUARY 2013

TABLE OF CONTENTS

- 1. INTRODUCTION..... 5
- 2. BACKGROUND..... 5
- 3. AIMS OF THE TAXATION STRATEGY 5
- 4. TAXATION OF INDIVIDUALS 6
- 5. NATIONAL INSURANCE 7
- 6. TAXATION OF BUSINESSES..... 8
- 7. INTERNATIONAL TAXATION 9

1. Introduction

The Treasury Minister, Hon. Eddie Teare, MHK, announced in his first budget on 21 February 2012 that, "I will commit today to publishing a new tax strategy before the end of this year which, if supported by Tynwald, will indicate the areas of the taxation system which I would like to update while I am Treasury Minister."

As part of the preparation of this strategy, Treasury issued a consultation document in July 2012 seeking the views of the Manx community, both private and business, on possible changes to our taxation and national insurance systems. In October 2012, Treasury published a summary of the responses to the consultation. These responses have been taken into consideration in developing this strategy.

This strategy will cover those aspects of Isle of Man revenue which Treasury, with Tynwald's support, may seek to change. By virtue of the Customs & Excise Agreement between the Island and the United Kingdom, value added tax policy is dealt with mainly at European Union level. Treasury considers that maintaining the Customs & Excise Agreement is in the best interests of the Isle of Man, and so value added tax and duties will not be addressed in this strategy.

2. Background

The Isle of Man's taxation policies have played an important part in our economic success.

In 2000, Tynwald approved Treasury's first public taxation strategy. The strategy was subsequently modified in 2002 to meet the twin challenges of the European Union's Code of Conduct for Business Taxation and its Directive on the Taxation of Savings Income (commonly known as the 'EUSD'), and it has continued to evolve in subsequent years.

The key principles of fiscal sovereignty, economic stability and adherence to international standards which underpinned the original taxation strategy remain just as relevant today.

3. Aims of the Taxation Strategy

Treasury considers it important to have a public strategy setting out in general its plans for the Isle of Man tax system during this administration.

The overarching aims of this strategy are to have an income tax and national insurance regime which contributes sustainable revenue to the Isle of Man Government and which, so far as possible:

- is fair;
- supports economic development;
- is easy to understand and to comply with;
- is simple to administer; and
- continues to build the Isle of Man's international reputation.

Although easy to set out, those aims are not always easy to achieve: especially in view of the Isle of Man's current financial circumstances.

Treasury has no intention to introduce capital gains or inheritance/death taxes in the Isle of Man.

4. Taxation of Individuals

Individuals constitute the biggest group of taxpayers in the Isle of Man. Consultation has shown that our community does not see a need for major changes in the way that people are taxed; and Treasury accepts and agrees with that feedback.

Treasury will:

- maintain competitive personal income tax rates as one of the features making the Island an attractive place to live and work;
- retain the basic personal allowance and joint taxation for married couples and civil partners;
- remove other tax allowances and reliefs where appropriate in order to simplify the system, but coupled with compensatory increases in the basic personal allowance or reduced tax rates;
- remove aspects of benefits from the tax system, such as personal allowance credits, while ensuring that vulnerable people are not disadvantaged;
- widen the scope of information required to be provided by local financial institutions so as to remove the need for people with uncomplicated tax affairs to submit tax returns;

- maintain the tax cap system, while regularly reviewing its level; and
- promote and encourage the use of online tax services.

5. National Insurance

The Isle of Man has had reciprocal social security arrangements with the UK for many years; with the result that the national insurance and benefits systems in the Isle of Man and the UK are identical for most purposes; and very similar otherwise. This reciprocity has been viewed as beneficial to the Island over the years, in that the movement of people between the UK and the Isle of Man has been made easier by the transferability of national insurance records and hence entitlement to most benefits.

Since the UK election in 2010, the coalition government has embarked on major changes to the benefits system, including the state retirement pension, and is seeking to bring together the income tax and national insurance systems wherever possible. In the light of such changes, the Isle of Man Government must consider whether we should now have a Manx social security system which is distinct from that in the UK and which meets the current and future needs of the Island.

As mentioned above, the UK is looking to align income tax and national insurance. The issue driving this move is the same in the Isle of Man: namely that the levying of income tax and national insurance are based on completely different definitions, reference periods, limits, thresholds and rates. This leads to a heavy 'red tape' burden for employers, who are obliged to run what amounts to two distinct systems in parallel. Employed people and self-employed people also face different national insurance rules and rates.

When the national insurance system was introduced, its aim was to oblige people to make contributions to a fund from which, when circumstances dictated, certain benefits would be payable. This 'contributory principle' has been eroded over the years, and now many benefits could be paid without the recipient ever having made national insurance contributions. In addition, employers must pay a form of national insurance which does not affect the benefits entitlement of their employees, and which can, therefore, be seen as little more than a payroll tax. In times when the revenue available to pay for public services is restricted, and when economic growth is of vital importance, both of the points highlighted cannot be ignored.

Treasury will, in collaboration with the Department of Social Care:

- review whether the current reciprocal agreement with the UK remains 'fit for purpose';
- consider aligning income tax and national insurance in a simple to understand and easy to administer system which does not adversely impact the competitiveness of the Island; and
- ensure that the scope of national insurance contributions and entitlement to associated contributory benefits is fair and consistent for everyone.

6. Taxation of Businesses

The taxation of businesses in the Isle of Man takes two basic forms. Corporate business income is taxed at a rate of 0%: unless the income is from banking business or is derived from Manx land and property, when the rate is 10%. This is often known as '0/10'. For unincorporated businesses such as sole traders and partnerships, business profit, once determined and allocated, is subject to the normal individual income tax system.

The Channel Islands have corporate income tax regimes similar to our own, but nevertheless have different approaches. In Jersey, all regulated financial services companies are taxed at 10%; not only the banks. Both Guernsey and Jersey also have 20% rates of tax for utility companies and land and property companies.

Treasury will:

- maintain a competitive business tax system in the Isle of Man to support economic development;
- retain the '0/10' corporate income tax system in the Isle of Man;
- retain the current capital allowances system, while considering initiatives to support further business investment; and
- simplify the tax system for unincorporated businesses.

7. International Taxation

The following policy in relation to international taxation has been in place for over a decade.

“The Isle of Man Government remains committed to preserving the Island’s status as a top class financial centre with good regulation and co-operation with other jurisdictions, conducting high-quality, substantial business with transparency and full participation in the work of international regulatory organisations. It is implicit in this principle that the Island will, so far as that is consistent with the pursuit of the economic well-being of its people, endeavour to comply with international standards and norms and it is part of the Island’s responsibilities to assess those standards and norms in relation to taxation, as with other areas, to ensure the Island’s practices remain compatible with such standards and norms.”¹

Treasury considers the principles set out in this policy to be as relevant today as they were 12 years ago, and sees no need to change any of them. Although it is not possible to provide direct evidence, Treasury also considers that following this policy has protected the Island’s economy from a number of external pressures; thus contributing to continued economic growth.

This international taxation policy has led the Isle of Man:

- to collaborate with the European Union on the EUSD and Code of Conduct for Business Taxation;
- to build a significant network of tax co-operation agreements with other countries;
- to play an active role in the Global Forum on Transparency and Exchange of Information for Tax Purposes, and to receive an excellent report on the Island’s tax standards from the Global Forum; and
- to work with the United States on the smooth implementation of the Foreign Account Tax Compliance Act (‘FATCA’), and in doing so to give Isle of Man business as much support as possible.

Many international taxation issues affect the Isle of Man because of the financial services which we provide to global markets. As markets change, so do the rules associated with them; including in the tax area. The consequence of this is that the Isle of Man has made

¹ Extract from “The Organisation for Economic Co-operation and Development – Harmful Tax Competition”, a report by the Council of Ministers approved by Tynwald in 2000.

many changes, and Treasury considers that more changes will need to be made in the near future.

Treasury will:

- ensure that the Island maintains and is recognised for excellence in international tax co-operation, and prioritise resources to deliver such work;
- maintain the Isle of Man's compliance with international taxation standards;
- continue to build the Island's network of tax co-operation agreements;
- introduce legislation allowing the Isle of Man to operate all aspects of double taxation agreements;
- consider joining the multilateral Convention on Mutual Administrative Assistance in Tax Matters;
- ensure that the Island's reputation for transparency and effective exchange of information for tax purposes remains of the highest order; and
- consider working with other countries and multilateral organisations on the development of co-operation systems similar to FATCA.