

Press Release

UK Subsidises the Isle of Man to be a tax haven by £270 million a year

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The Isle of Man says its “an internally self-governing dependency of the British Crown”ⁱ which “has a history of low personal and company taxation”ⁱⁱ. New research shows that it can only offer low taxes because its government is heavily dependent on the UK for much of its income. Although the Isle of Man is legally independent of the UK (and the European Union), the UK subsidises the island by a total of at least £270 million a year. This subsidises the Isle of Man to compete as a tax haven with the likes of Jersey and Guernsey whilst undermining the UK’s own tax regime.

Most of this subsidy is paid because of the historic ‘common purse’ agreement between the two governments, under which all VAT collected in the Isle of Man is paid into a common fund with the UK. That fund is then split between the UK and the Isle of Man according to agreed formulas and not on the basis of the actual cash raised.

The formulas used to apportion that fund are not published. What is clear is that they are heavily biased in favour of the Isle of Man. For example, the Isle of Man is paid £50 extra from the ‘common purse’ fund for every visitor to the Isle of Man, however long they stayⁱⁱⁱ. There is no published justification for this. The curious nature of that payment led Richard Murphy of Tax Research LLP to look at the Isle of Man government’s VAT receipts in more detail to see if there was anything else unusual about them.

The findings were surprising. The most recent year for which data is available for research purposes is 2004/05. In that year the Isle of Man government enjoyed VAT receipts of £325.8 million under the common purse arrangement. That amounted to 68% of all its government income in that year^{iv} and was 21.7% of its Gross Domestic product of £1,495 million for the year in question^{v vi}.

The UK as a whole, which has an almost identical VAT system^{vii} and an almost identical GDP per head of population, had GDP of about £1,188 billion^{viii} in 2004/05 and enjoyed £73 billion of VAT receipts. That means the UK raised just 6.1% of its VAT in GDP, in marked contrast to the Isle of Man’s 21.7%.

The contrast is so stark that it is clear is that the Isle of Man's VAT income can have no basis in the reality of its economy. This is obvious: the maximum VAT rate was 17.5% but it appeared to collect a greater percentage of its GDP than that as VAT income. The 21.7% of GDP it did collect was even more surprising, given that on any reasonable basis the Isle of Man should collect a lower ratio of VAT in proportion to GDP than the UK since its economy is dominated by the financial services sector and those business do not charge VAT, which is not taken into account in our calculations that follow, so they should be treated as conservative estimates.

So marked is the contrast that only one conclusion could be drawn. The Isle of Man's extraordinary VAT receipts have nothing to do with what is happening in its economy but have everything to do with the favourable way in which the 'common purse' agreement allocates income to the Island under its unpublished formulas.

The subsidy must amount to 15.6% of the Isle of Man's GDP in that year (the difference between its VAT receipts at 21.7% of GDP and those it should have collected -- at most -- of 6.1% of its GDP, using the UK as a benchmark.) That is a subsidy of £233 million in that year paid by the UK to the government of Isle of Man without any apparent economic reason.

And that is not the end of the subsidy the UK provides. The Isle of Man only pays notional sums to the UK for some services the UK government supplies to it, such as defence. This payment amounted to just £2.4 million in 2002^{ix} or just £32 for each person in the Isle of Man^x. The £32 billion UK defence budget, however, costs each person in the UK £528 a head. Given that the defence of the UK involves the defence of the Isle of Man as much as it does any other part of the UK's domain this means that the Isle of Man is subsidised by at least £37 million a year with regard to its defence budget.

In combination, this means that the UK government provides subsidies to the Isle of Man government of at least £270 million a year. That is more than half of its government income, which in 2006/07 is estimated at £530 million^{xi}.

The Isle of Man was cited extensively in a 2006 US Senate report on how offshore finance centres are used to undermine, circumvent and violate tax, securities and anti-money laundering laws. When one considers that the Isle of Man drains tax revenues not just from rich countries like the UK but also from many poor nations in places such as Africa, this subsidy seems even harder to justify.

Richard Murphy who undertook this research said "This is an extraordinary situation. The UK is effectively paying the Isle of Man to be a tax haven so that it can steal tax revenues due to the UK and other governments around the world. This has to stop."

John Christensen of the Tax Justice Network said "It is hard to see any case for this subsidy, especially since the Isle of Man has taken advantage of the situation to

undercut the tax regimes in the Channel Islands and elsewhere. This seems to be another failure on the part of the UK government to protect its own citizens, and others, from harmful tax competition.”

Tax Research and the Tax Justice Network are calling for a renegotiation of the ‘common purse’ agreement as a result of the findings of this research, and are calling on the UK government to stop subsidising tax haven activity wherever it happens.

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ⁱ <http://www.gov.im/isleofman/externalrelations.xml>

ⁱⁱ <http://www.gov.im/lib/docs/treasury//finalpdf/treasuryplan20056.pdf> page 3

ⁱⁱⁱ <http://www.tynwald.org.im/papers/hansards/2005-2006/kh06122005.pdf>

^{iv} <http://www.gov.im/lib/docs/treasury/economic/2006digestcolour.pdf>

^v “Tax Haven Abuses: The Enablers, the Tools, the Secrecy,” U.S. Permanent Sub-Committee on Investigations, August 2006.

^{vi} <http://www.gov.im/lib/docs/treasury/economic/income/natinc04052ndedition.pdf>

^{vii} <http://www.gov.im/treasury/customs/who/>

^{viii} Calculation based on http://eh.net/hmit/ukgdp/ukgdp_answer.php

^{ix} http://en.wikipedia.org/wiki/Common_Purse_agreement

^x Population details from <http://www.iomguide.com/peoplelivingfactfile.php>

^{xi} <http://www.gov.im/lib/docs/treasury/budget/2006/budget0607pinkbook.pdf>