

“Fairness” should be at the heart of everything government does –in the way it raises revenue via taxation or from the provision of services, and in the treatment of its citizenry in providing those services. It has long been an accepted economic and social principle that those with the highest income – and thus the broadest shoulders – should bear the brunt of taxation via a progressive tax system.

The UK Government has now reduced the top rate of income tax from 50% to 45% - and with spectacularly successful results. The best paid 1% of the UK working population – those earning more than £165,000 per year – earn 13% of all paid income, but pay 28% of the income tax total. The “super-rich” – the top 3000 earners in UK (or one in ten thousand of the workforce) – pay an average of £2.6 million each in income tax, and provide more than 5% of the income tax take.

In the Isle of Man however, we have stood that principle on its head – with the very wealthiest paying the “tax cap” of £120,000 per year, introduced by Allan Bell when he was Treasury Minister. As a result, our top 70 or so earners pay income tax at an average rate of less than 4p in the pound (and a marginal rate of zero!) and contribute 11% of the income tax take, despite earning 21% of total earnings. The reality is that it is the “middle income” earners who are paying the bulk of income tax - 40% of the working population but earning 57% of total income and paying 82% of the tax take (and paying it at the current marginal rate of 20%). Were those 70 “tax cap” individuals paying at the marginal rate of 20% (as per middle income earners), Treasury revenue would increase by £35 million+ per year.

It is also relevant to point out that the increase in the personal allowance this year was a figleaf offered by our seriously challenged Treasury Minister – the increase from £9,300 to £9,500 doesn't even keep up with the current rate of inflation, and if we take the personal allowance in 2007/8 as a starting point (when it was £8,850), the personal allowance would now need to be in excess of £11,000 to have kept up with inflation. The effect is fiscal drag (otherwise known as a stealth tax), and those on low incomes being pulled into the tax net – with consequent need for tax officials to supervise what is then a very low tax take, a very poor return for the cost of employing our tax officials.

It is still a long way to the next General Election, but I can only hope that the electorate has a long memory – and a better sense of “fairness” than the current incumbents of the Treasury and the Chief Ministers Office.

Fairness in Tax Matters

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