

The Harsh Reality

Written by Chris Blyth

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The Harsh Reality - And Why The "Tax Cap" Must Be Rescinded

Our politicians continue to peddle the message that there is a route back to days of prosperity (via an early return to economic growth), and that we can continue to spend, spend, spend.... but the harsh reality is that our government (and most others) has existing commitments already made to its employees and the electorate which it cannot sustain - so we, the people, will be (indeed, must be) disappointed in our expectations.

Weak growth (which is the best that is promised for some years ahead for all major european markets) means that it is likely that political promises will have to be broken, expectations reduced, and "entitlements" in terms of benefits and allowances lowered or removed entirely..... not a message our politicians want to utter nor to be held accountable for, but we are clearly already in a cycle of "salami cuts", with the necessity for a lot more still to come.

The Manx government has gratefully accepted the UK Government's policy of "Quantitative Easing" and the printing of electronic money, as it has kept interest rates down - which has helped household mortgage bills, and those with major debts incurred during the run-up to the "credit crunch" - but provided a very poor environment for those in retirement who had expected reasonable returns on their investments, or those saving for a future pension.

Unfortunately, a corollary of Quantitative Easing is inflation - and in an economy with higher than desirable levels of unemployment and wage restraint, a consequence of the QE policy is to benefit those who are asset rich (e.g. with bond holdings), whilst penalising the poor whose real wages have been squeezed by inflation - in effect, a regressive tax. But given the high levels of debt facing the UK Government (and lots of others), the era of QE and low interest rates is stretching away into the future, as it means government borrowing costs are minimised, and they can "afford" to pay the interest on those debts - ensuring that it is their creditors who suffer a gradual erosion of the value of their investment.

One of the difficulties facing the island is that it has very high levels of income inequality - 28% of our taxable population has such low incomes that they have no liability to income tax at all, whilst a further 31% are only liable to income tax at the 10% rate - leaving the balance of 41% responsible for a massive 92% of the income tax "take" - whilst some 70+ individuals enjoy a "tax break" of £35

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million thanks to the tax cap of £120,000.

Sir Martin Sorrell, head of WPP (the world's largest advertising agency) acknowledges that "concentration of wealth is a serious issue". John Caudwell, a billionaire who made his wealth with Phones4U, now campaigns for social fairness, and has paid income tax of £253 million to the UK Exchequer on his earnings in the past 5 years - and wants other wealthy individuals to stop shirking their responsibilities and to face up to the moral obligation to pay their fair and reasonable share. The tax cap clearly exists under manx legislation as a maximum for income tax liability, and whilst it is rational to minimise ones liabilities, there are obvious problems for society to have millionaires and billionaires whilst others struggle to make ends meet with meagre pay rises and rising inflation, and a government unable to balance its books.

The inevitable result is that we will see the "politics of envy", resulting in pressure for greater equality in society, and greater contributions from the wealthy who currently enjoy significant tax concessions, such as the "tax cap", and who are able to shelter much of their wealth via low (or zero) levels of corporate taxation, and in an absence of inheritance or capital gains taxes.

No doubt many will have been following the travails of Google, Starbucks, and Apple with their minimal levels of tax payments to the UK and other governments around the world - the analogy with our own manx millionaires and billionaires sheltering their wealth under generous government tax legislation is obvious. It is perhaps time that our government ceases the pretence that the tax cap protects employment or encourages an inflow of wealthy entrepreneurs - and instead requires those wealthy individuals, just like Apple and Google, to pay their fair share of tax - just like the rest of us..... rather than a continual{jcomments off} cutting of services to the public or by pushing the problem on to a younger generation, as yet unaware of the scale of those financial obligations.....