

Positive Action Group

Ms Clare Terry – Policy Officer
Income Tax Division
Government Office
Douglas
IM1 3TX

27th December 2007

Dear Ms Terry

Proposals for the Manx Taxation Strategy for the period 2007 - 2012

We refer to the above document published in November 2007 on the Government web site at the following location www.gov.im/lib/docs/treasury/incometax/pdfs/notices/taxstrategy2007.pdf

Presently, we are unsure as to the document's status as it appears to be an undated Internet publication. However, PAG would not wish the content of the document to be adopted as "Government Policy" without proper consultation and debate.

This letter encloses PAG's comments upon the document, which are summarised below:

- We consider that Public Taxation Policy and the level of Tax burden met by those contributing to Island tax revenue are fundamental to the democratic process. Consequently, we are also forwarding our views to elected MHKs and MLCs.
- As it stands, many of the issues covered appear to be accepted convention or good housekeeping, rather than strategic developments. We wish to see the document developed into a wider ranging and forward looking strategic tax plan.
- We consider the major taxation issue which the document ought to address to be :
How can IoM create and sustain a world beating, transparent and vibrant ultra low tax regime, based on a simple, understandable tax structure that is easy to market at home and abroad ?
We feel that the document would benefit from additional discussion of this objective.
- The document exposes a serious failing by the Island to honour its 15p maximum income tax pledge. This pledge has been marketed to: existing Island taxpayers; prospective tax residents seeking a suitable new home location; the international community at large.
- If existing public taxation pledges are not honoured, we consider that any equivalent future pledges to the public promising them "*Freedom to Flourish*" etc., will be seen as lacking in true credibility.
- PAG consider that the promised 15p maximum personal tax rate should be implemented urgently. As long as this promise fails to be honoured, 17,000+ tax assessments levied at 18p are being overcharged and vast numbers of middle ranking taxpayers are being treated unfairly. The extra 3p tax constitutes a 20% penalty surcharge on the promised 15p tax rate [3p / 15p = 20%]

We trust you find our comments helpful

Yours faithfully

Roger Tomlinson - Chairman
Positive Action Group

POSITIVE ACTION GROUP

Comments

on

Proposals for the Manx Taxation Strategy for the period 2007 - 2012

1.1. The above document was published in November 2007 on the Government web site at the following location www.gov.im/lib/docs/treasury/incometax/pdfs/notices/taxstrategy2007.pdf

PAG Comment

- The document ought to be dated for future reference purposes
- The document's status should be made clear
- The circulation of the document for consultation purposes should be made clear

1.2 1. INTRODUCTION

The Tax Strategy Objectives appear to be :

- Simplification
- Encouraging retention of savings on Island
- Growing an international reputation
- Growing the economy
- Ensuring tax compliance

PAG Comment

- We cannot disagree with the objectives listed in the Introduction, as they comprise generally accepted and uncontroversial concepts
- We would wish a 5-Year Tax Plan to explore more fully the strategic vision to meet tax competition from new and rival low-tax jurisdictions

1.3 2. BACKGROUND

We note that 3 objectives in the 2000 Tax strategy have still to be completed viz.,

- To reduce the standard Income Tax Rate to 15p before 2005
- To introduce initiatives on Pensions and Savings to further encourage self reliance
- To simplify the number of Allowable Tax Deductions

PAG Comment

- The demonstrative failure to honour the promised reduction in the higher rate of Income Tax is the most serious of these unfulfilled pledges.
This objective was not rescinded in 2002 and is implicit in the latest strategy (para 2.3.1)

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- The rate of income tax is a critical marketing banner for any low tax economy. Arguably, it is the component of any tax system that most catches international attention.
- It is unacceptable for the Island to make promises on the international stage that it will reduce income tax rates to no more than 15p by 2005 and to fail to honour such undertakings.
- Ongoing delay imposes a discriminatory 20%** tax penalty surcharge upon bona fide taxpayers who have relied upon fulfilment of such promises.

** 18p assessed – 15p promised = 3p tax penalty surcharge
 3p / 15p = 20% tax penalty

- Ongoing initiatives to liberate and encourage Pension Participation are supported.
- Work delays in reviewing tax deductions postpone a possible redistribution of potential tax savings to other areas. This failure is secondary to delivering the lower rate of Income Tax.
- On taxation of savings interest, this area is often perceived as inequitable “*Double Taxation*”. PAG support simple tax incentives to encourage on-island retention of such personal savings. On balance, we favour a simple solution which is easily implemented e.g. only taxing (say) 85% of “Island Interest received”

1.4 3. THE FUTURE

The document assumes that the principles of Fiscal Sovereignty; Economic stability; International Standards Adherence continue from previous strategies and PAG agree.

Against that backdrop, the Strategy makes 3 Assumptions about future desired direction of the Island:

- To remain a competitive Financial Services centre
- To get wealthy individuals/entrepreneurs to manage off-island businesses from IoM
- That income tax will be used as the device to ensure budget surpluses

PAG Comment

- It is shortsighted to place over-emphasis on the Financial Services Sector.
- PAG believe tax policy needs to encourage a more diversified and resilient Island economy.
- The strategy to attract budding entrepreneurs/wealthy businessmen appears flawed.
 - The corporate tax system favours business owners who register their business here but live elsewhere. Owners of such companies are effectively taxed at 0 %.
 - Business owners who relocate here are effectively taxed at 10+% (due to the corporate profits charge) and then must fall back on tax capping provisions.
 - Income tax capping may encourage re-investment of dividends distributed due to corporate charge into new Island ventures.
- It is misguided to view captive Income Tax payers as the means of balancing the Budget. Like every other tax contributor, resident income tax payers are entitled to expect government to manage their tax impositions within an agreed policy framework and to keep its word on stated tax levels.
- In balancing any budget, the role played by good expenditure control and value for money reviews is of equal importance.

1.5 4. PROPOSED STRATEGY DEVELOPMENTS

Set out below are PAG’s views regarding the specified proposed developments in the areas of

Simplification; Individual Incentivisation; International Reputation; Encouraging Economic Growth; Improving Tax Compliance.

PAG Comment

Simplification

- Simplification is a laudable concept. But, it requires rigorous single-minded implementation.
- We agree that Tax Approved depreciation ranges should replace Capital Allowances.
- We agree that Tax Assessments should be based upon a tax approved Accounting Profit.
- We accept that tax on unincorporated businesses should be simplified - but not at the risk of aiding under-declaration, particularly in cash intensive businesses.
- Consolidation of Acts must still enable for efficient subsequent updating of component parts
- Dispensing with Annual Returns is opposed. This element is vital to retain Honesty
- For the same reason, we oppose the objective of a “No Tax Return” collection system
- PAG oppose creating an integrated tax database with all client bank/employment details etc., This is highly dangerous. Recent UK loss of mass personal data has demonstrated this fact. Secure discrete boundaries are essential between any computer databases which exchange data.
- Simplification of Tax Reliefs is supported.
- Extension of On-line services is supported – subject to secure access protections
- Banks should not be treated as a “special case” for corporate tax simplification. Tax simplification should be confronted by having one uniform ultra-low tax rate for all. Such a uniform approach would be far easier to market at home and internationally.

Individuals

- PAG supports proposals to incentivise residents to invest their savings on the Island
- Incentives must be proportionate to have significant effect (e.g. 85% of interest taxed)
- Not only does an ‘Exemption’ approach rebuild complexity into the system again, it fails to be equally attractive to the largest savings investors.

International

- PAG accept the aims of
 - complying with accepted International Standards
 - expanding International Tax Agreements
 - Honouring International Tax Agreements
- However we would suggest as equally important the need to defend the Island’s right to and reputation for an ultra low tax regime combined with good ethical conduct

Economic Growth

- Encouraging new business development is supported
- Any necessary Financial Incentives should be provided by
 - repayable loans (possibly interest free) secured on business assets or
 - deferment of tax payments during start up years or
 - additional equity injection with voting rights
- No assistance should be provided in the form of Non-Repayable Grants

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- No assistance should be provided in the form of “Write Offs of Tax Due”
- Both of the latter are pure subjective “Gifts” from the public purse and capable of abuse
- The policy to encourage re-investment of business profits conflicts with another policy requirement to either distribute Dividends or face the penalty imposition of a Corporate Profits Charge
- PAG agree that the available incentives should be used to encourage international expansion and growth of Manx Businesses, as well as inward investment from sources off-island
- Tax relief confined to “Manx” graduates is discriminatory and questionable. Secure economic growth is achieved by attracting the best graduates – not just graduates of home nationality

Improving Tax Compliance

- PAG view this as normal good housekeeping and the duty of any fair tax collection system

PAG Conclusion

PAG wishes the 5-year Tax Strategy to be developed, to become more wide-ranging and to demonstrate that the Island can be trusted to deliver upon taxation promises.

We believe that a number of issues need to be addressed in the next draft

- If future tax pledges are to be trusted, the promise to introduce a maximum 15p in the pound income tax rate by 2005 must be honoured as soon as possible. PAG calls for the urgent honouring of this pledge.
- The presentation of a comprehensive, simple, ultra low income tax regime strategy that is easy to market internationally - without the need to read the small print. PAG prefer a low single tax rate with compensatory personal tax allowances adjustments.
- Establishing an ultra low company tax regime that assesses on an Accounting Profit basis.
- The fundamental re-examination of the “zero tax” company regime is required. Advocating a “pay no tax” philosophy has dubious connotations - as if tax must be avoided. Foreign business owners appear enticed by the Island to conduct their affairs so as to obstruct their natural homeland in levying tax upon them. Unless the Manx Government openly advocates action for the tax otherwise due to it to be similarly avoided, such a strategy appears unethical and not a sensible image to foster. PAG prefer replacement with a simple, uniform, ultra low corporate tax for all companies.
- Removal of the various ‘favoured industry’ tax treatments that allow some industries to benefit from a totally subjective granting of special tax treatment, while others are denied the same. These subjective tax favours create an inequitable patchwork of tax impositions. In effect, they are discriminatory against those not specially favoured.
- To openly seek to attract new age industries involved in such areas as Green Power Generation; Manx Certified Organic Products; Activity Holidays for Tourism; Specialist Island Health Cure Treatments; Computer Software Development...etc., to reduce reliance on the finance sector.
- To advocate more speed, simplification, openness and liberalisation of the Planning System, so that investment of private risk capital into property development is deemed as welcome and widely supported – unless there are valid public objections to the contrary.
- To correctly charge tax on financial rewards paid to people in the form of non-cash benefits. Presently recipients avoid tax on substantial benefits that colleagues have to acquire out of their post-tax income. For example, some employees are given car parking spaces worth £1,250+ per year, whereas colleagues have to pay for equivalent car parking.

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This is inequitable, a failure in tax benefit assessment and it loses valid tax receipts.

- To consider a tax-free period (e.g. 3 mths) for new workers joining the island community.

We hope our comments will assist in developing a robust future 5-Year strategy.