Roger Tomlinson has asked me to examine the case for abrogation because I was a guest on Sunday Opinion just after the VAT bombshell hit us and I had prepared a 15 point plan for the Government to consider as a way out of the mess they had found themselves in. That plan was published on the PAG site with my permission and one of the action points called for abrogation when we could be seen to be capable of collecting such a tax ourselves.

You cannot really assess the case for abrogation without knowing something of the history of the Common Purse Agreement. The Liberal Vannin position paper on CPA can be commended to you and that too is on the PAG website. The section on VAT covers the hi story of the tax on the Island quite well and, although I do not agree completely with its conclusions, I do acknowledge the call for Tynwald to re-examine the CPA agreement

Purchase tax – How many here remember it? Definitely a flawed tax but boy was it simple compared to VAT!

The design and inception of vat was by UK civil servants and sharing a common pool was good for us at that time as we had no customs and excise geared up to cope. I worked with the UK C&E to ensure that the software package MASTER that we were designing for Manx companies to use would satisfy all aspects of the tax. Fortunately we ignored their assertions that there would only ever be one rate of tax and that the concept of zero rating and exempt outputs were only insignificant exceptions. The MASTER suite is still running perfectly 40 years later and handles all the abstruse calculations and exceptions of modern VAT with ease.

Value added as designed was relatively simple but became increasingly complicated with these multiple rates and many – often convoluted – exceptions – printing worst of all. Those involved in the trade will recognise the absurdity of a client bringing a leaflet which he wanted printing directly as a circular – standard rate – whereas if we retyped or reset and then mailed it then it became zero rated.

There was a move towards abrogation in 1976 resulting in a consultancy report from PA consultants recommending abrogation as a driver for offering cheap booze and fags to bolster the dying tourist sector – but not, in my opinion, creating sufficient extra income to balance the scrapping of an increasingly important indirect tax. However, one of the recommendations was that the island should set up its own customs and excise which it did.

IOM gradually built up expertise and took over collection, and the UK and IOM created a number of secret agreements which defined how the pool was to be shared. Note that the fundamental agreements were not secret – what was secret until very recently was the sub rosa details of the mechanism.

The sharing arrangement was initially based on the relative populations in the two jurisdictions and calculating a notional fiscal population where the actual census figures were adjusted for visitors to the Island.

It should be recognised that the practical difficulties of negotiating a genuinely fair distribution of the pool of VAT are considerable. Residents were exhorted every ten years in the decennial test to declare all sorts of off-island purchases that might help to swing the balance towards the Island.

The main concession obtained by IOM was for the tax on locally consumed services to remain on the island and not be contributed to the pot, some of which were charged at a lower rate eg accommodation. Although the history of own trade codes is found in the 80's and 90's, in the noughties we negotiated a very good deal which gave us the scope to 'own code' a number of important services such as the film industry, energy from waste operations etc etc and, as I understand it, sharing was fundamentally based on GNP. As our GNP was increasing relative to that of the UK we were always going to benefit

In 2007 after months of negotiation the UK insisted that own coding must be abolished and the island agreed provided that the base pot was calculated as that at 2000 increased by the percentage increase in GNI (the new name for GNP) since the millenium. Future sharing would be the relative percentages of national income earned by each jurisdiction with the base being as now calculated.

What happened last October was that the UK woke up to the fact that their freely negotiated sub rosa agreement in 2007 essentially stiffed them and so they demanded a new agreement – one that IS published and, crucially, depends on the share of the base pot being established again, this time with reference to the latest ratio of IOM GNI to the combined IOM/UK GNI, applied to the actual combined vat receipts of UK and IOM as at 2010/11. Gone are all references to own coding or self consumed services and the new base is much smaller than the one calculated in

2007 with reference to the percentage increases since 2000. Hence the anticipated loss of 100 million after the transition concession. I have a copy of this sharing arrangement with me which I can circulate if anybody wants to read it.

As I understand it we were told “accept the new arrangement or we will give notice of termination – now extended to 2 years from 6 months by the 2007 agreement. There was no negotiation at all – it was more of a horse's head event.

Unfortunately it is my firmly held opinion that senior members of government and/or senior civil servants made a gross error in simply accepting the ultimatum. As far as I know they did not even consult their colleagues either privately or in Tynwald and simply rolled over.

I am not saying that these were bully boy tactics by the UK – although I understand those that hold this opinion. I just acknowledge that, in the dire straits that face the UK economy, their senior civil servants were tough negotiators and may even have been playing poker. There was no chance that they would get stiffed this time round.

What we should have done is to call the bluff and either they would have backed off and renegotiated a softer deal, perhaps incorporating a limited measure of own coding, or they would have given notice in which case we would BE 150 MILLION POUNDS BETTER OFF!

How? Well we would have maintained the agreements in place at that time instead of losing 50 million 2010/11 and 100 million 2011/12 we would have retained those monies. It would also have given us two full years to plan for operating VAT ourselves.

And yes I said operate it ourselves. There is no question whatsoever of abolishing VAT – we need this level of indirect taxation to provide for all the services we crave. Yes we could modernise or change rates in due course but we would be doing so under Manx Treasury guidance and not at the whim of a foreign chancellor who apparently never considers the consequences of a change in his VAT rates on the Isle of Man. He does not even notify our Minister in advance and our Treasury are reduced to listening for announcements on the radio.

Can we run such a tax ourselves? Of course we can. The staff in the Long Room have been managing very well for years and certainly the mass of law could be slimmed down over time to make it a more manageable tax.

But what about the downside? How about the extra burden on manufacturers exporting? In the past this was thought to be a really severe problem with doom laden messages about all manufacturers upping sticks and leaving the island but I honestly do not think this is the situation today. If you export other than to the UK you have to complete customs documentation and my own experience over many years has never found this to be particularly onerous. A recent radio interview with an Onchan major manufacturer confirmed this view and it must be remembered that our trading partners are now world wide rather than primarily UK.

On the contrary I see the inwards situation as being the one where problems will arise. Notifying and persuading those that sell to the Isle of Man that sales are now exports and thus zero rated, as to the Channel Islands, will be a considerable task and the question of just how our customs & excise will collect tax due on goods bought by private individuals eg over the internet is one that will no doubt exercise the minds of those down on the quay. Not to do so would place local retailers at an unacceptable disadvantage.

A further problem arises with ports of entry. Liverpool has a customs presence but Heysham does not at present. It is possible that we would be asked to cover part of that cost. However one may contrast the economic downside with the positive social upside in helping to eliminate the import of drugs because a customs presence is a strong deterrance to drug smugglers.

I accept that the case for abrogation is now much weaker because of the Manx Government's rollover and the consequent loss of 150 million pounds because we are now probably just about in balance or our share is slightly positive. Yes our GNI is increasing due to wealthy incomers, but we are losing out when Tesco, B&Q and the major clearing banks for example are English companies and so therefore I assume are in the English share of the GNI calculation.

However, if we are more or less in balance then the imperative of maintaining the sharing arrangement disappears and the absolute nonsense of having nearly half of our revenue dictated by the whim of a chancellor of another jurisdiction who cares not one whit what effects his dictats have on us must be extirpated.

I have to ask. Do we really see ourselves as a genuine player in Europe or even world wide? I have visited 65 countries in the last few years, often evaluating how small jurisdictions manage their external relationships. Many of these were smaller than the Isle of Man with even smaller revenue streams. Although some were struggling, most were not and I believe that we here are in a far better position to fully manage our own affairs. If we are, then it is imperative that we manage our own indirect taxation, so VAT has to go. The rest of the CPA can either go at the same time or be phased out over a period.

If the CPA goes then frankly I can see no effective barrier to full independence as a commonwealth member with the crown remaining as head of state by 2020 – ten years hence.

NOW THAT IS A TARGET TO AIM AT!