

ONLY LITTLE PEOPLE PAY TAX....

Written by PAG

Thursday, 17 July 2014 22:32



Letter to Isle of Man Newspaper by PAG committee member Chris Blythe (in personal capacity):

I refer to the letter from Alan Croll last week ([We're no secrecy jurisdiction](#)) and the faint aroma of self-interest in his assertion that tax avoidance is common sense as well as perfectly legal, his criticism of Tax Justice Network, and his statement that the Isle of Man is not a secret jurisdiction.

He is quite correct in stating that an economist's attitude (and clearly his) is that tax avoidance is legal whilst tax evasion is illegal. However, to the ordinary man in the street, the words avoidance and evasion are remarkably similar – to the point that it is very hard sometimes to distinguish the two, as Gary Barlow and other wealthy "tax avoiders" in the UK have found to their cost. And when HMRC tests (allegedly legal) tax avoidance schemes in court, it is often found that the borderline has been crossed and the intent of the relevant tax laws breached. In those circumstances, avoidance and evasion may be considered two sides of the same coin - "weasel words" designed to cloak the sometimes legal / sometimes slippery practices / sometimes illegal practices of well-paid tax accountants and lawyers looking for opportunities and loopholes in the wording of tax laws.

The main point of the Tax Justice presentation was to emphasise the swing in the international environment towards a much more transparent and fairer tax system generally. Tax Justice Network takes the moral high ground – that all governments need revenues to fund services – health, education, roads etc. No-one enjoys paying taxes, and no-one wants to pay more than their due amount. But when an individual or company "avoids" or "evades" their due tax using corporate structures, multiple registrations in multiple jurisdictions (think Apple, Google, Boots Allianz, Fiat and Amazon), someone else or some other company has to make good the deficit if services are to be maintained. That is then a distortion (and an anti-competitive, unfair practice) in the market.

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It is the campaigning action of organisations such as Tax Justice Network that has revealed the extent of the tax avoidance and evasions of the multi-national companies such as Starbucks, Apple and Amazon – paying little or no corporation tax thanks both to sweetheart deals in tax-competitive jurisdictions such as Ireland, Luxembourg and Switzerland (the “drive to the bottom”) and to “ghost” companies and absence of tax liabilities or domicile anywhere. The resultant emphasis on transparency and a fairer tax contribution to markets in which business has taken place is now an almost unstoppable imperative – and hence the island signing up to tax information exchange agreements and the Foreign Account Tax Compliance Act with USA. That pressure will only increase in future as the widespread nature of the uses and abuses of the financial regulatory systems worldwide becomes ever more apparent.

As regards the specifics relating to the Isle of Man in Mr Croll’s letter, Tax Justice acknowledged progress towards a more transparent regime on the island – hence the improvement in our standing in the “financial secrecy index”, and much better than Jersey, Gibraltar, or Bermuda. But we clearly maintain aspects of a secrecy jurisdiction given the absence, for example, of a requirement to reveal beneficial ownership of companies or that company accounts be publicly available. If there is nothing to hide, why not ?

It is also only right to point out that most governments find ways to tax both income and wealth, individuals as well as companies. However, in the instance of the Isle of Man, government has completely overturned the basic economic principle of a progressive tax regime - that those with the broadest shoulders should carry the biggest burden of tax. Our elected government takes the stance not to tax wealth, capital or (in the main) companies – hence no capital gains taxes, no inheritance taxes, fairly minimal corporate taxes, and (the ultimate insult to most of the electorate) an income tax cap of £120,000 for our 70 or so millionaires and billionaires. The result is that those 70 or so on the tax cap pay less than 4p in the £ as their average rate of income tax – not dissimilar to someone on the minimum wage. And hence my headline statement that “only little people pay tax” on this island.....it is the lower and middle income earners who pay the bulk of our government’s revenues – via direct taxes such as income tax and national insurance contributions (a direct tax on workers), and via the indirect taxes such as VAT, tobacco and petrol duties, and charges such as rates, toilet tax, and parking fines. Very high income earners and the very wealthy are protected from the embarrassment of paying a pro rata tax contribution – and are thus arguably avoiding their fair share of the tax burden.

Chris Blyth