

Agenda : Taxwatch

30/09/2016

1. Tax Avoidance?
 - a. What is it?
 - i. Examples
 - b. What is acceptable?
 - c. What can we do?
2. IOM Government funding
 - a. Current position – the IOM Economy
 - i. IOM tax as % of GDP – 11.6%
 - ii. UK 39%
 - iii. US 26.9%
 - iv. Germany 40.6%
 - b. Current position – Govt funding
 - c. The “hole”
 - d. The risk
 - i. Reputation
 - ii. External authorities
 - iii. IOM not “independent”
 - iv. Conversation moving towards tax rates
 - e. The alternative?
3. IOM Companies
 - a. EU Code of conduct means “split-rates” not feasible
 - b. 0% is essential for current economy
 - i. Is accepting rate set by Tynwald “avoidance”.
 - c. Possibly not Progressive or Fair
 - i. BUT, its only temporary
 - ii. Taxable on extraction
 - d. Economy needs to transition
4. Short Term
 - a. Charges
 - b. Tax increases
 - c. Reduced services
 - d. PS pensions benefits mitigated?
 - i. Can we achieve a funded scheme?
5. Long-Term
 - a. A different type of economy
 - b. How to achieve
 - c. How to transition

What is Tax Avoidance?

Here are some ways of reducing a tax bill. Are they ;

- **Mitigation** – deductions that Parliament intended, used in the way intended
- **Acceptable Avoidance** – not quite what Parliament intended but hard to object.
- **Unacceptable Avoidance** – May be effective but Press, Media, NGOs etc hostile
- **Evasion** – illegal, not effective. Tax and Penalties payable, possible prosecution.

1. Brian works as a computer technician. He wishes to pay less tax so he reduces his working hours and thus earns less income.
2. Alan is a painter and decorator. He needs a pension scheme and so acquires a pension scheme via his local IFA. As the scheme is approved and exempt, Alan's contributions are tax deductible and his tax bill falls.
3. Joe runs a small manufacturing business. He wants to buy some premises to operate from. He has saved some money but the projections are marginal. After taking advice he pays a larger than expected amount to a pension scheme, the extra amount being "released" as a result of the tax deduction for the pension contribution. The pension scheme then acquires the premises and rents them to Joe.
4. Roger has some spare money. If he invests in UK shares or Unit Trusts he will suffer tax on income when paid and on gains when sold. If he invests into an IOM Insurance Bond, the investments within the policy will make income and gains but not suffer tax (no tax for life company on the IOM and no tax for Roger as he has not received anything). Eventually Roger will dispose of the bond and achieve a profit that is bigger than it might otherwise be due to non-incidence of taxation but that final rolled-up profit will suffer income tax (higher rates and no CGT allowance).
5. Auntie Jo in Canada is going to leave £10m to her nephew, Howard who lives in the UK. There will be no tax when he receives the legacy. When Howard passes away there will be 40% Inheritance Tax. After taking advice Jo amends her will to pass the funds to Howard's children. This will avoid the 40% charge on Howard's passing away.
6. As above but, after advice, Jo passes the money to a trust in the IOM for the benefit of Howard's children. They will get taxed on distributions from the trust but the amount remaining in trust will not be taxed.
7. Colin lives on the IOM but is going to invest in a UK commercial property which he will let out. He enquires as to the tax exposure this will entail – IHT at 40% on death and income tax at UK rates up to 45% on rental income. Colin enquires as to alternatives and is informed that if he forms an IOM company which he provides funds to and which then acquires the property, the income tax will be capped at 20% and there will be no exposure to IHT. He does this.
8. June lives in Malawi. When she passes away her estate is paid into a trust in the IOM to benefit her children, Anne and George. Distributions are paid to the children over many years. Anne does not consider tax and when her accountant realises what is happening, she insists on rectifying the position. George takes advice and establishes that distributions should be taxed, he does not declare the payments.
9. Dorothy lives on the IOM and passes away. She has an investment company, it passes to her son Wilf who lives in Wimbledon. Wilf uses funds out of this company when outside the UK but does not take any money to the UK. Wilf maintains that as no money has been brought into the UK, he did not believe there was any tax due. This view turns out to be incorrect.
10. An elaborate arrangement with much advisor approved documentation is entered into. A group of IT consultants, electricians and lorry drivers enter in to this arrangement. Whereas they used to earn £100 per week from clients, £100 is now invoiced by an IOM entity. £10 is paid to the employee as a salary and taxed, £5 goes in fees and £85 goes to an

employee trust. The trust loans the funds to the employee – repayment of the loan is not really expected. The salesman is very persuasive, the scheme is registered with HMRC, the documentation looks impressive, the customers are persuaded it is legitimate.

11. As above but the documentation and marketing literature is very rough and ready. The customers do not believe the scheme could really be effective but are prepared to “have a go”.
12. Gareth is a publican in an inner city pub in the UK. He puts half his revenue in a UK bank and declares it on his various tax returns. The other half is sent to an IOM bank account and no Income Tax, NI or Vat is paid. Howard then earns interest in the IOM and does not declare this.
13. As above but the funds are paid into a trust. The settlor of the trust is an employee of a Financial Services organisation who lives outside the UK. As the settlor is not in the UK, Howard contends no tax is payable in the UK.

Mitigation – deductions that Parliament intended, used in the way intended

Acceptable Avoidance – not quite what Parliament intended but hard to object.

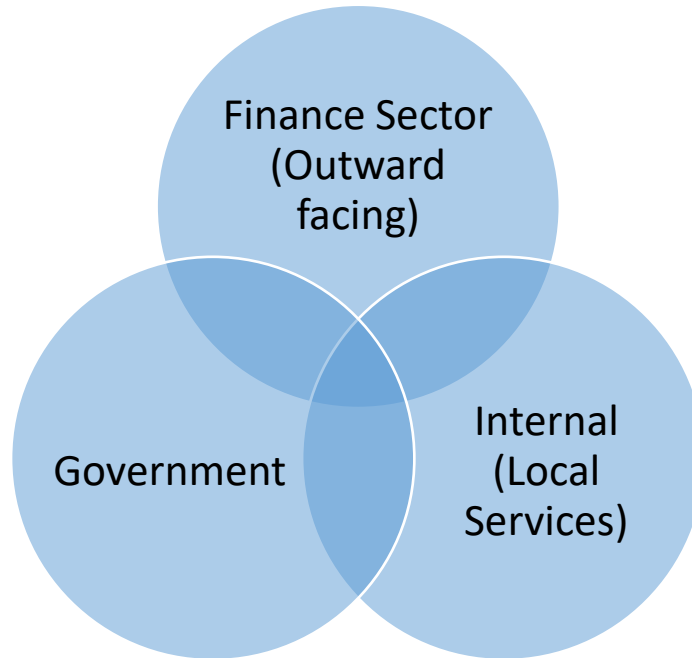
Unacceptable Avoidance – May be effective but Press, Media, NGOs etc hostile

Evasion – illegal, not effective. Tax and Penalties payable, possible prosecution.

What is Tax Avoidance

	Mitigation	Acceptable Avoidance	Unacceptable Avoidance	Evasion	Acceptable? Y/No
1. Brian					
2. Alan					
3. Joe					
4. Roger					
5. Auntie Jo					
6. Jo and trust					
7. Jo in IOM					
8. Colin					
9. June – Anne - George					
10. Dorothy					
11. Elaborate Arrangement					
12. Rough and Ready					
13. Gareth					
14. Gareth and dummy Settlor					

The Isle of Man Economy



Isle of Man Government
Summary of Cash Flow Statements
Extract from Audited Accounts (Dark Blue Book)

	31/03/2007	31/03/2008	31/03/2009	31/03/2010	31/03/11	31/03/12	31/03/13	31/03/14	31/03/15	Total	Average
Net Cash Inflow from Operations	139,887	533,658	(341,394)	(91,149)	211,486	(40,657)	(36,350)	(145,603)	23,105	252,983	28,109
Returns on Investments	128,708	118,635	16,620	75,157	54,771	33,093	57,563	64,400	39,786	588,733	65,415
Capital Expenditure	(64,004)	(46,511)	(87,118)	(77,548)	24,688	(67,961)	(39,632)	(56,003)	(37,965)	-452,054	-50,228
Net Purchase of Investments	(4,333)	-11249	(94,048)	(101,163)	13,049	(96,408)	(38,466)	72,965	8,524	-251,129	-27,903
Financing	4,160	2239	3,691	(3,663)	10,759	12,623	4,683	(39,204)	(683)	-5,395	-599
Increase/(Decrease) in Cash	204,418	596,772	(502,249)	(198,366)	314,753	(159,310)	(52,202)	(103,445)	32,767	133,138	14,793
Repay Loans			70,000	420	5,278	2,277	3,165	39,550	7,979		
New Loans			(35,820)	6,689	(99,923)	(2,526)	(3,731)	(670)	(7,397)		
Repay Finance Leases	4,384	2561	2,709	3,251	4,425	4,674	4,348	4,635	4,815		
Finance Lease Inception	(1,694)		46,153								
Re-classify Finance Lease			(10,609)	2,284	319	2,954	(676)	1,013	4,026		
Currency Revaluation											
Total Net Cash Movements	207,108	599,333	(429,816)	(185,722)	224,852	(151,931)	(49,096)	(58,917)	42,190		
Opening Net Cash Position	36,339	243,447	847,488	417,672	193,698	418,550	281,957	232,861	173,944		
Closing Net Cash Position	243,447	842,780	417,672	231,950	418,550	266,619	232,861	173,944	216,134		

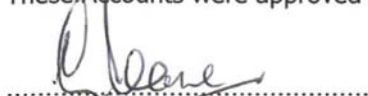
	Summary of Detailed Government Accounts									
	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15
Customs and Excise	369,186,390	438,494,127	429,888,937	408,470,000	372,922,034	350,000,504	366,350,349	296,000,000	312,000,000	319,700,176
Income Tax	160,595,272	162,072,222	159,392,775	184,487,049	186,468,919	173,683,046	170,973,066	185,979,175	196,115,917	203,045,245
Other Treasury Income	6,786,472	5,848,581	9,036,014	5,770,628	10,195,620	13,968,853	16,073,298	15,210,314	13,264,402	11,600,720
Treasury Reserves Income										
Treasury Gross Expenditure										
	536,568,134	606,414,930	598,317,726	598,727,677	569,586,573	537,652,403	553,396,713	497,189,489	521,380,319	534,346,141
Dept Exp	483,727,312	498,386,458	518,186,393	545,938,658	543,281,635	486,731,763	485,354,910	478,248,244	473,796,202	
Other Bodies	24,571,808	24,775,220	20,066,712	21,289,426	24,165,440	36,917,742	40,241,356	51,499,516	60,075,242	
Legislature	4,315,003	5,037,909	4,855,016	5,140,877	4,950,072	4,412,212	4,678,918	4,570,486	4,358,403	
	512,614,123	528,199,587	543,108,121	572,368,961	572,397,147	528,061,717	530,275,184	534,318,246	538,229,847	540,610,895
Net Revenue	23,954,011	78,215,343	55,209,605	26,358,716	(2,810,574)	9,590,686	23,121,529	(37,128,757)	(16,849,528)	(6,264,754)
Net Transfer to Reserves	(13,000,000)	(59,000,000)	(68,000,000)	(30,000,000)			(15,000,000)	15,000,000	23,600,000	10,500,000
PYA										
Surplus for Year	10,954,011	19,215,343	(12,790,395)	(3,641,284)	(2,810,574)	9,590,686	8,121,529	(22,128,757)	6,750,472	4,235,246
B/f	28,020,368	38,974,379	58,189,722	45,399,327	41,758,043	38,947,469	48,538,155	56,659,684	34,530,927	41,281,402
PYA/roundings									3	
C/f	38,974,379	58,189,722	45,399,327	41,758,043	38,947,469	48,538,155	56,659,684	34,530,927	41,281,402	45,516,648

6.6 Balance Sheet

		Group		Central Government	
	Note	2014-15 £000's	2013-14 £000's	2014-15 £000's	2013-14 £000's
Long Term Assets					
Fixed Assets	7.7	2,781,992	2,778,380	2,274,440	2,263,165
Long Term Investments	7.9	1,205,737	1,156,107	1,205,737	1,156,107
Long Term Debtors	7.11	23,098	19,492	543,681	536,157
		4,010,827	3,953,979	4,023,858	3,955,429
Current Assets					
Stocks and Work in Progress	7.12	10,996	10,804	4,303	4,085
Debtors and Prepayments	7.13	72,678	139,884	70,830	139,563
Short Term Deposits	7.14	272,436	230,488	237,974	198,034
Cash at Bank and in Hand	7.15	293,161	289,420	246,366	243,231
		649,271	670,596	559,473	584,913
Current Liabilities					
Creditors	7.16.1	(57,978)	(79,447)	(41,742)	(61,725)
Loans Payable	7.17	(130)	-	-	-
Bank Overdrafts and Loans Payable	7.15	(20,877)	(8,394)	(20,801)	(8,297)
		(78,985)	(87,841)	(62,543)	(70,022)
Net Current Assets		570,286	582,755	496,930	514,891
Long Term Liabilities					
Loans Payable	7.17	(262,775)	(263,035)	(260,000)	(260,000)
Pension Scheme Liability	7.20.3	(3,014,245)	(2,319,941)	(3,009,000)	(2,318,000)
Other Creditors	7.16.2	(74,374)	(83,039)	(30,781)	(32,301)
		(3,351,394)	(2,666,015)	(3,299,781)	(2,610,301)
Total Net Assets		1,229,719	1,870,719	1,221,007	1,860,019
Represented by					
Net General Revenue Account	7.19.1	45,517	41,281	45,517	41,281
General Revenue Adjustments Account	7.19.2	(395,053)	286,630	(396,974)	284,709
Hospital Estates Development Fund	7.9.3	43,451	44,339	43,451	44,339
Manx Currency Account	7.9.3	80,629	76,366	80,629	76,366
Media Development Fund	7.9.3	34,096	34,466	34,096	34,466
National Insurance Fund	7.9.3(ii)	774,519	727,207	774,519	727,207
Public Service Employees Pension Reserve	7.9.3	226,423	237,316	226,423	237,316
Reserve Fund	7.9.3	342,068	334,481	342,068	334,481
Internal Funds and Reserves	7.19.5	78,069	88,633	71,278	79,854
		1,229,719	1,870,719	1,221,007	1,860,019

The Notes on pages 24 to 56 form part of these Accounts.

These Accounts were approved by the Treasury on 23 September 2015 and signed on its behalf by:



Hon. W E Teare ACIB, MHK, Minister for the Treasury



S Lowe, Chief Financial Officer

Isle of Man Government Reserves

	Extract from Audited Accounts								
	31/03/2009	31/03/11	31/03/12	31/03/13	31/03/14	31/03/15	31/03/2009	31/03/2015	Change
Net General Revenue Account	38,947	48,538	56,660	34,531	41,281	45,517	Reserves and non-reserves	920,701	(349,536)
General Revenue Adjustments Account	881,754	970,530	815,407	438,923	286,630	(395,053)			
Economic Development Fund	15,712	13,211	17,545						
Hospital Estates Development Fund	46,270	45,804	46,514	46,271	44,339	43,451			
Manx Currency Account	73,027	72,047	74,969	77,301	76,366	80,629			
Media Development Fund	47,787	43,564	38,986	40,003	34,466	34,096			
NATIONAL Insurance Fund	631,983	673,695	664,228	705,875	727,207	774,519			
Public Service Employees Pension reserve	236,275	249,243	244,242	250,766	237,316	226,423			
Reserve Fund	402,897	420,466	410,861	386,505	334,481	342,068			
Internal Funds and Reserves	120,250	101,239	73,837	103,330	88,633	78,069			
							1,574,201	1,579,255	5,054
Total Funds and Reserves	<u>2,494,902</u>	<u>2,638,337</u>	<u>2,443,249</u>	<u>2,083,505</u>	<u>1,870,719</u>	<u>1,229,719</u>	<u>2,494,902</u>	<u>1,229,719</u>	<u>(1,265,183)</u>

