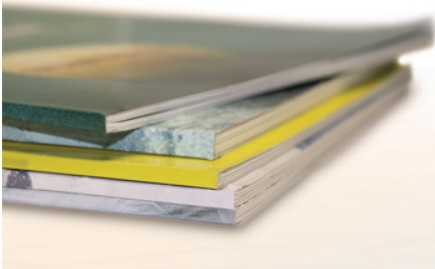


A Review of the Beith Report

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BY NICK VERARDI

A recent report from the House of Commons Justice Committee, chaired by Sir Alan Beith, is likely to play an important role in the continued aspirations of the Isle of Man to be seen and treated by the UK as a democratic self-governing community. The report reinforced the right of the Island to expect the UK to represent Manx interests as a duty. The Isle of Man has felt that it has come under continued attack of late, for example from Stephen Timms, Financial Secretary to the UK Treasury, who commented recently that the Isle of Man, Jersey and Guernsey's corporate tax system was viewed as unacceptably predatory by some European States.

The Isle of Man's taxes are not high by international standards – the top rate of personal income tax is currently 20%, but nevertheless, thanks to 27 years of consistent economic growth, the Isle of Man has been able to build up substantial reserves of almost £1.5 billion. This is an exceptional achievement, especially when you appreciate it has a population of 80,000 people, smaller than the town of Hastings. Moodys and Standard & Poor's have recently reconfirmed the government's AAA status and, thanks to a legal requirement preventing our politicians from budgeting for a deficit, this rating looks secure. The Island's continued growth (estimated for this year at around 2.5%) in large part is down to the government's strategy of diversifying the economy, for example, by encouraging certain business clusters such as hi-tech manufacturing, 'e' commerce, clean tech, film, pensions and aircraft and yacht registration. Central to the government's

strategy has been the creation of an environment to encourage and nurture businesses established in the Island. It does this mainly by building relationships between itself and the private sector. This positive environment, along with the country branding project to allow companies "*the freedom to flourish*", has meant that government has been in a position to set tax rates (corporate and personal) at a level that it considers are sustainable for many years to come. The Island has not positioned its corporate tax rate in a predatory manner – it has just charged tax at a rate sufficient to provide public services to its residents.

Although the Isle of Man supports itself, and has constitutional autonomy over its taxes, we realise that we do not live in a vacuum and our government has, therefore, sought to comply, within the EU framework, with accepted international practices whilst at the same time seeking to encourage profitable businesses to locate in the Island.

The Isle of Man takes its international status very seriously indeed; and it did so long before the recent OECD "*White List*" was produced. In fact, the Island signed its first Taxation Information Exchange Agreement ("TIEA") with the US in 2002. A further eight TIEA's were signed by 2007 and currently the Isle of Man is up to 15, with the list including Australia, Germany, France, New Zealand and the Netherlands. As a further commitment to lead on the international stage, the Island has signed double taxation agreements with the UK, Estonia, Malta and Belgium based on the model published by

the OECD and is currently in negotiation with numerous other states on similar lines. It has had two successful and complimentary IMF reports in 2003 and 2009 and in recently announced plans for the automatic exchange of information on savings interest with the UK and other EU member states. Mr Timms warmly welcomed this move, and his comments were endorsed further by Lord Bach, the minister responsible for Crown Dependencies who commented: "*This is a clear indication of their [the Isle of Man's] commitment to high standards of regulation and tax-transparency and shows that they lead the way in terms of how small jurisdictions with financial services centres should operate.*"

The Crown Dependencies do have something to contribute to the UK. At the beginning of last year the UK government decided to commission an independent report into the Crown Dependencies and the Dependent Territories. The report, authored by Michael Foot, examined the financial supervision and transparency, the taxation in relation to sustainability and future competence, financial crisis management and the international co-operation of these territories. In the report he specifically confirmed that the Isle of Man had a strong, diverse economic base and a good framework for tackling money laundering and terrorist financing. Most importantly, the report, with its supportive appendix from Deloitte, confirmed what most of us have known for a long time: the Crown Dependencies make a significant contribution to the liquidity of the UK market, providing net financing to UK banks of US \$332.5 billion. Attacking the Crown Dependencies may cause these funds to be channelled to other markets.

The Beith report and other reports such as the Foot report all play an important role in explaining and, where appropriate, re-affirming the relationship between the Isle of Man and the UK. They are particularly helpful in explaining the constitutional position of the Crown Dependencies to our European colleagues who sometime fail to understand the subtleties of the position and the role the UK must play when representing us on the international stage.

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