

**British American Business Inc - October 2002**  
**The Isle of Man - International Finance Centre**  
**- by Hon. Allan R Bell MHK, Treasury Minister**

**An Introduction to the Isle of Man**

• **General**

The Isle of Man is situated in the Irish Sea, close to both the United Kingdom and Ireland, covering an area of about 227 square miles (570 sq. km.). At the last census in 2001 the Island had a resident population of 76,315. The Island has a history of self-government and independence that dates back over 1,000 years.

• **Politics and Constitutional Relationship with the UK**

The Isle of Man has its own parliament, The Tynwald, which is the oldest continuous parliament in the world. The Island is not part of the United Kingdom although it is part of the British Isles and The Queen is the Sovereign. Tynwald consists of two Houses and legislates for all matters affecting the Island; the United Kingdom is responsible for foreign affairs and the external defence of the Island. The Island also has its own judicature, with a legal system similar to the English model in being a common law system.

• **Relationship with the EU**

The Isle of Man is not a member of the European Union but is a signatory to Protocol 3 of the UK's Treaty of Accession. As a result of this there is free trade with other EU countries in agricultural and industrial products and the Island maintains the common external tariff against third countries. No payments are received from or made to European funds and the Island is excluded from most of the effects of the Treaty of Rome.

• **Economy**

Two of the most significant sectors of the economy are financial services and high tech manufacturing which together make up over half of National Income. The currency of the Isle of Man is the pound sterling and the Island issues its own notes and coins which circulate with the UK currency on the Island. For the purpose of exchange control, there are no restrictions on the transfer of funds between the Isle of Man, the UK and anywhere else in the world.

• **Taxation**

In the late 1950's the Government of the Island began to develop a policy of low direct taxation, which was initially intended to attract new residents to the Island and encourage growth in the economy. The standard rate of income tax was reduced and surtax abolished in 1961; further reductions in the standard rate were introduced in subsequent years, down to the present standard rate of 10% introduced in this year's budget under the new Tax Strategy launched in 2000.

Despite this low tax environment, the Island is able to spend a larger proportion of its national income per capita on health, education and welfare state benefits than the UK.

The EU's Code of Conduct on Business taxation and the Savings Directive have been on the radar for many months. Following the Island's commitment to stage one of the OECD's initiative on harmful tax competition in December 2000, focus switched squarely to the challenge posed by the EU's drive to level the tax playing field and introduce widespread exchange of information.

In June 2002, the Isle of Man announced the next stage in the development of its national tax strategy. In doing so, the Island took one of the most radical steps ever taken by an international finance centre as it announced a public commitment to cut the standard rate of corporation tax to zero, subject to approval in its Parliament. In a single move the Isle of Man achieved what many thought was the impossible - providing a workable solution to the challenge of agreeing to the EU's Code of Conduct on Business Taxation while at the same time enhancing the competitive position of the Island.

Under the EU's Savings Directive EU Member States are committed to ensuring the adoption of the same measures in their associated or dependent territories within the framework of their constitutional relationships. The EU will be pursuing equivalent measures with all other financial business centres in its locality (Switzerland, Liechtenstein, Monaco, Andorra and San Marino) and has its eye on countries even further afield - such as the US and Canada.

The Isle of Man is not a member of the EU and, by virtue of its constitutional relationship, was not obliged to comply with this initiative. However, the Island is committed to adhering to established international standards as was shown in its constructive engagement with the OECD (the Island successfully removed any threat of "blacklisting" at the end of 2000, some 15 months before most of its peers managed to achieve similar status). Therefore the Island's national tax strategy was evolved to propose the introduction of a standard zero rate of income tax for all Island companies, except for a handful of regulated financial sector businesses.

While the Isle of Man's proposal provides a neat solution to the alleged harmful tax measures identified by the EU within their Code of Conduct on Business Taxation, it must also be seen as giving the Island an additional economic boost - a process that actually began in June 2000. At that time, through the implementation of Phase 1 of its tax strategy, the Isle of Man embarked on the road to improve the competitive position of its economy by bolstering the financial services industry and

encouraging further economic diversification into areas such as e-commerce and film making.

As the requirements of the EU's Code of Conduct on Business Taxation could be accommodated in the Island's tax strategy the Island felt it made good sense to address the EU's concerns. Similarly, given approval of its Parliament, the Isle of Man will adopt a Savings Directive style exchange of information system with EU members by 2011 subject to the establishment of a level playing field, with the Directive's automatic exchange of information being implemented throughout the EU and all its members' associated territories.

#### • **Tax Information Exchange Agreements**

The Island's taxation system is seen to be complementary to its high standards of regulation. This is evidenced by its commitment to enter into effective exchange of information agreements to help counter criminal tax offences. Such agreements are based on the OECD Model Agreement that the Isle of Man helped to develop.

The first of such TIEAs was with the US and was signed in October 2002. It provides for exchange of information on request and contains adequate safeguards to ensure only genuine requests are made. The Agreement is still subject to ratification by the Isle of Man Government. When in force it will apply from January 1, 2004 for criminal tax matters and January 1, 2006 for all other tax matters. The text can be found on the Isle of Man Government's website. It is notable that at the signing ceremony, US Treasury Secretary Paul O'Neill stated - "This new tax information exchange agreement is an important development, and further demonstrates the commitment of the Isle of Man to co-operating with the USA on law enforcement matters and to upholding international standards in this area. We look forward to continuing to strengthen ties between us".

#### • **Communications**

The Island is connected with the UK and Ireland by direct scheduled air services, which operate daily on all major routes and offer connecting flights internationally. Flight time to London is approximately one hour. Sea connections are also provided by daily services to the UK throughout the year.

#### • **E-Commerce**

The Island is an attractive e-commerce environment, having direct dialling and electronic data transmission facilities with all countries on the international network, including the UK, Europe and the United States utilising fully digital services and 3G mobile systems and these are supported by electronic commerce legislation.

#### • **Financial Services**

The Isle of Man has a mature and established financial services and professional infrastructure with some 60 of the world's top banking organisations and is a leading jurisdiction in the area of life assurance business. The

finance sector contributes over 42% of the Island's national income.

#### • **Principal features of the Isle of Man**

In summary, the Island offers the following principal features:

- Political and economic stability (S&P and Moody's AAA ratings)
- low direct taxation, for both business and individuals together with zero rating for certain business activities
- no capital gains, gift, estate or wealth taxes
- commitment by the government to encourage broad economic development
- a legal system based on English law
- modern electronic transactions legislation and data protection equivalence with the EU
- proximity to Europe, with good communications worldwide
- special trading and customs relationship with the EU
- established trust law
- professional expertise to assist individuals and companies making use of the Island
- an international Shipping Register
- a thriving film production industry
- industrial incentives
- a Freeport/Freezone
- physical space for growth and expansion.

#### • **Contacts**

For further information about the Isle of Man:

International Services Division  
Goldie House  
1-4 Goldie Terrace  
Douglas  
Isle of Man  
IM1 1PG  
British Isles  
Tel. + 44 1624 686400  
Fax. + 44 1624 686454  
email: [is@treasury.gov.im](mailto:is@treasury.gov.im)  
website: [www.gov.im](http://www.gov.im) and  
[www.gov.im/is](http://www.gov.im/is)