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Isle of Man financial review

Zero tax move gets EU 'green light'

The Isle of Man's move to a uniform corporate tax regime has been given the 'green light' from Brussels.

The strategy, which includes a standard zero rate for business, meets new EU rules that seek to phase out preferential tax systems.

Treasury Minister Allan Bell said: 'For the past three years the Isle of Man has been delivering a national strategy of driving down income tax costs for business. Our current standard rate is 10pc and we are on course for the zero target by 2006.

'We welcome the reassurance that the move is in line with the EU Code of Conduct on Business Taxation. This is a significant international endorsement of our taxation strategy and will provide the future certainty for which our industry has been looking.'

Isle of Man Treasury Minister Allan Bell receives the trophy for 'Best International Financial Centre' at the International Investment Offshore Fund & Product Awards in London - see inside

WITHHOLDING TAX PLAN

The new EU tax package also includes a Savings Tax Directive under which member states, dependencies and 'third countries' outside the EU, such as Switzerland, are expected to introduce automatic exchange of information or a withholding tax on interest paid to individual EU investors.

Given the varying standards of information exchange, the Isle of Man, in line with Jersey and Guernsey, has opted to introduce a withholding tax when the directive is due to take effect in 2005. The move does not affect the business sector or individuals living outside the EU and is still subject to all relevant countries adopting similar measures.

INTERNATIONAL SERVICES

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Island will remain a dynamic and competitive economy

Although he doesn't spell it out, Manx Income Tax Assessor Ian Kelly has the air of a man who is wondering just how many more hurdles the Island has to jump successfully before it receives the final seal of approval.

The Isle of Man is not part of the EU but has accommodated the new tax package as 'an internationally responsible jurisdiction cooperating with its neighbours.' The overriding factor in all its dealings with the international community is that the Island remains a dynamic and competitive economy.

This is borne out by the Isle of Man's move to a standard zero rate of income tax for business. While satisfying EU rules on preferential tax rates for particular types of business, the move more importantly gives the Island a strong competitive edge over its rivals.

According to Mr Kelly, the Island's response is 'just another phase' in its ongoing taxation strategy, which began with the Edwards Report on the status of the Crown Dependencies and has continued through negotiations with the OECD and EU.

'We have now had positive endorsement of our zero tax rate and we will continue to act in a constructive and engaged way as the business community moves to adopt truly international standards - but now we would really just like to get on with the job in hand of selling the Isle of Man and its financial services around the world. While important, these things are distractions.

LEADING THE WAY

'The Isle of Man has led the way in its response to international pressures. The important conclusion of all the recent deliberations is that it moves us into a new era where the Island's profile has been raised in a very positive way. We will now build on this by pro-actively raising awareness throughout the global marketplace.'

As one of the main contributors to the Island's national tax strategy, Mr Kelly has always stressed the importance of inbuilt flexibility. Tynwald approved modifications last year that were designed to achieve a uniform tax system for the whole business sector. The strategy currently provides for a new standard zero rate of corporate tax combined with a higher rate of 10pc levied on defined regulated businesses, principally banks.

'The 10pc was achieved in April this year and a move towards a zero rate has already begun. Subject to economic conditions, it remains the Treasury's intention to introduce the zero rate generally by 2006. Following its introduction, the exempt and international tax regimes, perceived to be harmful by the EU Code of Conduct on Business Taxation, will be abolished.

'This will provide a seamless transition into a uniform system of business taxation,' explained Mr Kelly. 'The confirmation that these proposals meet the stringent conditions set down by the code will provide the future certainty for which the industry has been looking.'

The Isle of Man is recognised as a progressive international finance centre with a sound regulatory framework committed to preventing its financial systems being used for criminal activities like money-laundering and the financing of terrorism.

'Cooperation in fighting such matters is neither unique nor new,' pointed out Mr Kelly. 'For many years assistance has been provided to other countries through both the Island's criminal justice provisions and its comprehensive network of mutual assistance arrangements on indirect taxation issues.'

STABILITY IS KEY

The key principles of fiscal sovereignty, economic stability and adherence to international standards remain fundamental to the Island's consideration of any taxation initiative. As for the Savings Directive, the government believes the Island's economic well being will be best served by adopting a withholding tax on interest payable to EU resident individuals (25pc of any withholding tax levied will be retained, with 75pc remitted to the depositor's country of residence). There is also provision for investors to opt for exchange of information with their EU country of residence. Not being a member of the EU, it is open to the Island to enter into bi-lateral negotiations with EU member states to implement the new tax obligations.

The earliest date for application of the directive is January, 2005, but only if by next June agreements are in place with the relevant 'third countries' and associated territories.

Still 'the best financial centre'

The Isle of Man has again been proclaimed the 'Best International Financial Centre' at the prestigious International Investment Offshore Fund & Product Awards in London.

This is the third time the Island has taken the top honours and means the Isle of Man has now won twelve consecutive awards from prestigious international financial publications in just five years, confirming its position as one of the world's premier offshore centres.

Altogether, Island institutions picked up nine of the fourteen trophies, beating off stiff competition from leading jurisdictions. The winning operations were:

- Friends Provident International - Best Offshore Life Product Range.
- Canada Life International - Best International Life Group and Best Commitment to Service.
- Gerrard Private Bank - Best Offshore Bank Product and Best Offshore Bank.
- Abbey National Offshore - Best Offshore Bank Range.
- The Hansard Group - Best Internet Service.
- Scottish Life International - Most Innovative Offshore Product.

Receiving the main trophy, Treasury Minister Allan Bell said: 'This is the third year running that the Isle of Man has received this particular award and it once again endorses the contribution made by those institutions and individuals who comprise the Island's financial services centre and who add so much to the well regulated, progressive and service orientated culture which flourishes here.'

'RESPONDS TO MARKET NEEDS'

The International Investment awards are highly coveted industry endorsements decided by a panel of independent judges, including representatives from AtosKPMG Consulting, Wilfred T. Fry and The Abacus to ensure absolute impartiality and accuracy. The 'Best International Financial Centre' award recognises the finance centre that has demonstrated the ability to respond quickly to market needs by introducing innovative legislation as well as providing adequate protection for investors.

- Previous awards since 1999: Offshore Awards for Excellence (OFFEX) - Best Offshore Centre for Life Assurance (1999 and 2000); Best Offshore Centre for Investment (1999 and 2000).
- International Money Marketing - International Financial Centre of the Year (1999, 2000, 2001 and 2002).
- International Financial Adviser Awards for Excellence - Best International Territory (2001).
- International Investment Offshore Fund & Product Awards - Best International Financial Centre (2001, 2002, and 2003).

Isle of Man retains AAA credit rating

Complying with the new EU Savings Tax Directive will not affect the Island's status as a premier centre for investment. Both leading international rating agencies, Standard & Poor's and Moody's, have newly confirmed the Isle of Man's AAA long-term sovereign credit rating.

'The renewal of our triple-A credit rating shows the underlying strength of the Island's position in the face of external changes such as the EU directive,' said Treasury Minister Allan Bell. 'This is another international endorsement of our economic policies.'

ROBUST FINANCIAL POSITION

- According to S & P, 'Over the medium term, the Isle of Man's very strong credit standing should remain secure against all foreseeable downside economic, political and financial risks.
- 'The government's robust financial position, coupled with close economic and financial ties with the UK, should enable the Island to weather external shocks or significant changes to its economic environment without major strain to its factor markets or overall economic stability.'

The Isle of Man is a self-governing British Crown Dependency with its own government, parliament and laws. Through its national tax strategy it is progressing towards a standard zero rate of corporate income tax, with a higher rate of 10pc for certain regulated businesses such as banks.

The Savings Tax Directive will come into effect on January 1, 2005, at the earliest, subject to final agreements being in place with Switzerland, the Crown Dependencies and others. Withholding tax would be charged at 15pc for the first three years, rising to 20pc for the next three years and 35pc thereafter. Depositors affected would have the choice of paying the tax or authorising the release of information to their home authorities. Most of the tax levied would be returned to the home country with a portion retained by the Island.

DIVERSIFIED, FLEXIBLE AND COMPETITIVE

- S & P recently carried out an in depth report on the likely implications of the EU Savings Tax Directive with the conclusion that it would have no sovereign ratings impact for non-EU financial centres in Europe - borne out by their latest affirmation.
- 'The financial sector of the Isle of Man is diversified, flexible and competitive with its competitive advantage not solely based on an advantageous tax regime and/or bank secrecy. This should enable the Isle of Man to cope with the potential adverse effects of the EU Directive,' says S & P.
- 'Furthermore, sudden large-scale capital outflows as a result of the implementation of the directive are improbable, due to its limited scope, as well as the fact that the directive requires the main financial centres to comply, providing for a relatively level playing field.
- 'The financial systems in the Isle of Man are characterised by adequate regulation and supervision, mature deposit insurance systems and sound prudential indicators,' the report concludes.

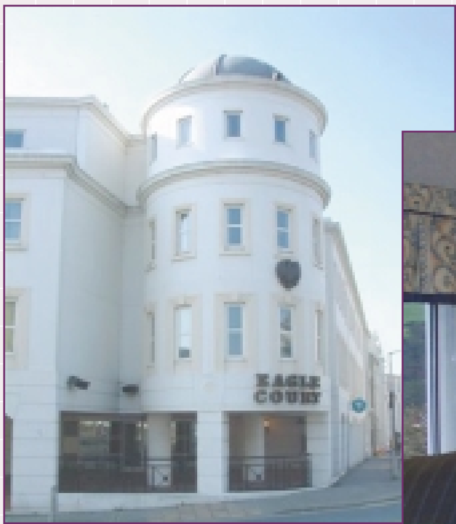
DIRECTIVE'S LIMITED SCOPE

Stressing the limited scope of the Savings Directive, S & P point out that the proposed withholding tax will apply to the interest income of EU residents only. The interest income of non-EU residents and companies is unaffected, as are non-interest capital gains in general. In addition, the savings of EU residents that have declared (and continue to do so) their interest income to their domestic tax authorities are unaffected, as in this case domestic tax rates continue to apply.

Where a withholding tax is to be levied, the savings of EU residents that do not declare interest to their domestic tax authorities may still be taxed at a lower rate than it would be in their country of residence, especially while the rate of the new withholding tax is still low.

The Isle of Man's decision in favour of the withholding tax option, taken after consultation with the local finance industry, is in line with the approach taken by three EU members - Austria, Belgium and Luxembourg - as well as Switzerland and the Island's fellow British Crown Dependencies, Jersey and Guernsey. The proposal will go before Tynwald, the Island's parliament, for approval in October.

'The Isle of Man is a dynamic and highly competitive economy,' said Treasury Minister Allan Bell. 'And it will remain so, as proved by our commitment to a zero rate of income tax for business.'



Risk Director Phil O'Shea who has been overseeing relocation of the control centre for Barclays' international banking operations to the Isle of Man.

Decision removes uncertainty

Barclays' Phil O'Shea is pleased the three Crown Dependencies have adopted a consistent approach to the Savings Directive. The bank has just switched control of its international operations to the Island, but has interests in all three jurisdictions.

'Certainly from our point of view, this agreement is politic in terms of promoting a level playing field,' said Mr O'Shea, who is Risk Director of Barclays Private Clients International. 'It is indicating that when other key players take the required action, we will be more in line, and I think this is absolutely appropriate. The result delivers this quite effectively.

'This issue has been bubbling within the EU environment for about five years now and that's a long period of uncertainty, both for the finance sector in terms of clarity of planning and equally for our clients. The fact that the Isle of Man, the other dependencies and Europe have agreed their approaches is extremely helpful and we can now get on with dealing with the implications and seek to meet what are going to be quite tight deadlines. We have organisations with operations in all three islands and I suspect for those operationally it will be more effective. And in terms of offering a united front, I think having a consistent solution is going to help that.'

Bankers welcome 'level playing field'

The key issue for the finance sector in the Island's response to the EU Savings Tax Directive is that it must deliver a 'level playing field' for players in the global market.

While each jurisdiction has had to look at the issues on their own merits, with competition being an obvious consideration, the fact remains that many leading banking and investment institutions have organisations with interests that span several jurisdictions and their operational needs have had to be taken fully into account.

The decision by the Isle of Man Government to opt for a withholding tax - along with those of Jersey and Guernsey - when the Savings Directive is scheduled to come into effect in January, 2005, has therefore been welcomed by the Association of Licensed Banks.

In a statement, the ALB says: 'It has taken the EU over five years to agree the directive and we believe that such a protracted period of uncertainty has not best served either our clients or our industry generally.

'We do note that the Isle of Man's decision for the withholding tax option is in line with some EU member states and other dependent territories and progresses our stated desire for a level playing field in this and other fiscal and regulatory matters.

'Whilst there remain outstanding many of the finer details related to implementing this arrangement, our organisations can now progress planning the necessary systems and processes that will be required. This additional workload will require prioritisation in terms of procuring the necessary resources if we are to deliver within very tight deadlines.

'The Association of Licensed Banks has also noted the EU Code of Conduct Group's confirmation that the Island's tax strategy meets the stringent conditions laid down. Given that this is already well in course of implementation here, this affirmation enables the jurisdiction to continue to plan its long term economic growth.'

The ALB concludes: 'We will continue to liaise with the Isle of Man Government as well as associated colleagues in the finance sector both here and outside the Island to promote the best long term interests of the banking industry.'

Favourable IMF report expected soon

The International Monetary Fund is expected shortly to add its authoritative voice to the list of important international organisations that have recently sanctioned the Island's professional approach to meeting its global responsibilities.

An in depth review of the Isle of Man's regulatory arrangements was recently carried out by the IMF, whose assessment is due to be published soon.

'The IMF review has already given very clear recognition to the Financial Supervision Commission's pro-active stance in establishing high standards of supervision to attract and maintain a reputable financial centre,' said FSC Chief Executive John Aspden.

Concerning the outlook for business in general, Mr Aspden added: 'I believe that financial sector confidence overall remains cautiously positive. It has become inevitable that costs are under close scrutiny and strategic decisions are being affected. However, providers are being encouraged to innovate and the sector can emerge fitter and stronger for the next period of growth.'

Customers will have choice

The Isle of Man's choice of a withholding tax provides investors with the option of agreeing to exchange of information with their EU country of residence. 'Although we have chosen withholding tax,' said Treasury Minister Allan Bell, 'EU resident individuals who wish to exchange information rather than have the tax applied, can opt to do so. This means that each individual customer now has the choice to decide in which direction they wish to go.

UNIFORMITY ACROSS ISLANDS

'The argument between withholding tax and automatic exchange has been finely balanced in our industry locally. There are strong arguments on both sides but one consistent point made is that organisations would like to see uniformity across the three islands and this has now been achieved. We have all independently come to the same conclusion that this is the best way forward and will remove any leverage there may have been otherwise for businesses to move from one island to another.

GOOD GLOBAL NEIGHBOURS

'The Isle of Man has an established policy of respecting international standards on issues such as the exchange of tax information, on the basis that this provides a fair and level playing field for competing economies. The Island is already committed to the OECD's global standard of exchange of information on request. This is accepted by countries around the world, including the USA, with whom we have signed a new tax information exchange agreement. We will also consider further bi-lateral arrangements where there is a clear mutual economic benefit.'

Mr Bell believes the latest move will not affect the Island's attractiveness as a premier investment centre. 'The debate latterly has centred on the Savings Directive and whether we go in one direction or another. But included in this package is approval of the Isle of Man's proposals in relation to the Code of Conduct concerning harmful tax practices. Our approach has now been endorsed by the EU, which means that our tax strategy - to move towards a zero rate of corporate tax by 2006 - has now been firmly endorsed not just by the UK but also by Europe itself and that in itself will make the Isle of Man far more competitive than many other jurisdictions in Europe.'

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