

The Isle of Man - still subsidised by the UK to be a ta...

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I last reviewed the [Isle of Man's subsidy from the UK](#) as a tax haven in tax year 2004/05. Then [I estimated it](#) to be as high as £270 million a year. The VAT subsidy alone was some £233 million a year.

I have recently been challenged on this issue - [some people](#) saying that the subsidy has been eliminated as a result of the [revision of this VAT sharing agreement](#) in 2007. Others have questioned the data used because of the range of years involved. I have recalculated the data to deal with this issue.

The Gross Domestic Product of the Isle of Man is now [£1.8 billion](#) according to the [latest data](#) I can find from the IoM government. That [for the UK](#) is £1,275 billion, in contrast.

In 2008/09 the Isle of Man [expects to collect £339 million in VAT](#) - 59% of its total government income of £574 million. This is 18.8% of IoM GDP - which leapt in the meantime, including by an improbable 11.2% in 2006/07.

In the UK the identical VAT system (for all practical purposes) [collects](#) £83 billion a year - or 6.5% of GDP.

That means the IoM, which has reason to have a much lower VAT collection rate because of the very large size of its exempt VAT outputs in the financial services sector collects 12.3% more of its GDP in VAT than the UK does using an identical (indeed, shared) system.

This is, obviously, impossible. Just as it is impossible for a country to collect more in VAT than its GDP multiplied by the VAT rate (17.5% when the IoM budget was set). So it is glaringly obvious there is still a subsidy. I now suggest that the VAT subsidy is 12.3% of its GDP - or £221 million a year. There are other subsidies on health and defence over and above that. I have not revisited those issues.

In other words, for all practical purposes the revised Common Purse Agreement of 2007 has left the Isle of Man enjoying exactly the same subsidy as it did before the change.

And they use this to do three things:

- a) Force down tax rates in all the Crown Dependencies, so undermining their financial stability - a process the Isle of Man started when it announced 0% tax rates on companies in 2000 - a move it could only afford because of the UK subsidy, and which Jersey and Guernsey had to copy despite not having a similar subsidy;
- b) It undermines tax revenue in the UK. For example, it refuses to automatically share data with the UK under the EU Savings Tax Directive, and so hides UK tax evaders in its banks. £400 million was recovered from such evaders as a result of a UK tax amnesty covering the Isle of Man in 2007.

The obvious question is this: when UK government revenue is so tight, why are we spending more than £200 million year to subsidise a tax haven to steal our tax revenues? Surely this is a question the Treasury has to answer.