

The FT fails to spot the folly at the heart of the Isle...

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[FT.com / UK - Isle of Man plans tax rises and spending cuts.](#)

The FT reports:

The Isle of Man on Tuesday proposed a painful mix of tax rises and spending cuts, including a multi-year public sector pay freeze, in an austerity budget triggered after the UK clawed back £140m in annual tax receipts.

As it noted:

Allan Bell, treasury minister of the tiny offshore financial centre, told its parliament that "the world has changed" and that its low-tax, high welfare model needed revision.

Something I've said, often. But then the fun starts, as the FT notes:

Government spending would have to fall by £49m, almost 10 per cent, annually, by 2015.

So that leaves £91 million to find then. But as the FT notes:

Higher taxes and charges would raise £20m in 2010-11 with a further £7m required the year after. Some £15m would be taken from the £300m reserve fund.

So that's £27 million of extra tax and the Isle of Man piggy bank can chip in £15 million a year for twenty years. That's £42 million of the gap then.

Which leaves £49 million to find then. There's not a hint about where that is coming from. But the FT does say:

The measures are in marked contrast to the UK's approach of continued borrowing: the Manx constitution demands a balanced budget.

The trouble is - it very obviously is not balanced. And the following comment does not square the circle:

Mr Bell said the island was embarking on a five-year programme to put public finances on a secure footing, which would use £114m of its reserves to cushion the transition. It has £1.28bn of invested reserves earmarked to cover pension and national insurance liabilities.

Are we to assume then the pensioners will pay? Someone has to if the equation is to be balanced after all. No, it looks like they're falling back on the old assumption of growth:

The Manx model has embraced low taxation to suck in rich immigrants and entrepreneurs, combined with a sizeable welfare state to buy social peace and attract skilled workers from the UK. The island has enjoyed 26 years of economic growth since it became an offshore haven. Growth was estimated at 2.5 per cent in 2009, rising to 4.5 per cent in 2010. Unemployment in January was only 2.4 per cent, with 1,029 of the 80,000 population jobless.

Someone should remind Mr Bell of his opening comment (well, it looks like I have as no doubt he will read this):

Allan Bell, treasury minister of the tiny offshore financial centre, told its parliament that "the world has changed"

Yes it has Mr Bell - and tax havens are history. And don't blather on about the fact you're not a tax haven - even your own press admitted that's exactly what the world thinks you are last week, and for good reason. You can only con yourself by denying it.

The [reality is this](#):

More than \$500bn (â, -368bn) has left offshore accounts in Europe in the past two years as the wealthy repatriate funds in the face of a crackdown on tax havens and tougher economic conditions, according to research by Financial News.

The amount represents almost 25% of the estimated \$2.1 trillion held in Europe's offshore centres. Accounts in Switzerland and the Channel Islands have been hit by heavy outflows. However, Liechtenstein and San Marino suffered the biggest outflows.

That's what's happening and to assume that the Isle of Man will grow when its main business is in deep decline is just folly - a folly at the core of this budget that the FT, either through incompetence or wilful turning of a blind eye, failed to spot.