Funding the Future

# The EU is to investigate the UK's tax havens. It should...

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As the Guardian reported late yesterday:

*The European parliament has voted to launch an inquiry into financial crime, tax evasion and tax avoidance, saying the* Paradise Papers had revealed the "unfinished work" needed to secure fair taxation.

A special committee of 45 MEPs, provisionally entitled Taxe 3 in its terms of reference, will spend a year investigating issues including those raised in the leak of data from the offshore law firm Appleby.

A key focus for the inquiry will be the use of offshore tax havens to save on VAT. The leak exposed how the Isle of Man had issued £790m in VAT refunds to the owners of 231 private jets.

The Taxe 3 inquiry marks a further threat from the EU to the UK's network of offshore tax havens following the EU referendum. The terms of reference specifically promise that "particular attention shall be given to the crown dependencies and overseas territories".

I sincerely hope I get a chance to report to this committee. **As I noted last November:**

*The reality is that it still appears to be true that the UK is subsiding the Isle of Man to be a tax haven. My estimate that the current subsidy may be more than £70 million a year. The scale is not as big as it was, but it's still serious. As ever some data helps explain the conclusion.*

*All the data referred to in what follows is summarised in this one table:*

**UK GDP data is from HM Treasury and VAT revenue from budget data. Similarly, Isle of Man data for GDP and revenue comes from Isle of Man**

government published sources. The first two columns compare these ratios at face value. The Isle of Man now seems to collect less VAT as a ratio to GDP than the UK, which is a complete reversal of the situation observed a decade ago, and so it would appear that all is now OK with the world, and that the shortfall might be explained, logically, by the higher level of supply of financial services in the Isle of Man economy, with these sales being considered exempt for the purposes of VAT.

Experience has, however, taught me not to take numbers at face value. I thought I'd rummage a little deeper because what we now know is that GDP is a notoriously unreliable indicator of national income in a tax haven, as Ireland has proved. As we now know the real economy there is vastly lower than the GDP figures imply. So I looked into the Isle of Man's GDP and found this (page 8, here):

Sixty two per cent of the Isle of Man's GDP is corporate profits. For comparison the UK equivalent data (from table D in the PDF download here) is 21%. To put it another way, 41% of Isle of Man GDP is made up of corporate profits that flow through the place, but which do not stick there (of course), which do not represent sales arising or value added in the island. Knock this out and the result is a much better indication of what really actually happens in the island on real economic activity that might happen there, which is, of course, the basis on which VAT can be recovered because VAT relates to sales, not corporate profit flows. And when this is done then it is readily apparent that the rate of VAT attributed to the Isle of Man is still way over the odds when it comes to the VAT common purse. It is collecting nearly 9% of GDP in VAT whilst the UK, which has an identical VAT system, collects just over 6%.

The result is obvious: we are still paying the Isle of Man to be a tax haven. The subsidy is now likely to exceed £70 million a year.

And in case you are wondering where all the profits come from, page 6 of the Isle of Man data already noted explains this.

Let's be quite clear that the egaming earnings of the Isle of Man are not domestic. It's a pretty bleak place, but the whole island does not egame constantly as a consequence. Nor are 15% insurance or 8% banking or 9% other finance sectors mainly domestic either (and all are VAT free, of course). Finance makes up about 10% of UK GDP (give or take). Add these together and they are 51% of GDP. If 10% out of that total is domestic I'd be surprised.

**The rest is excess profit flows having nothing to do with domestic activity. That's 41% to eliminate then - or exactly the difference in profit rates, noted above, corroborated in a different way.**

**The evidence is clear: current rules are still letting the Isle of Man get away with VAT claims against the UK which seem excessive. I am aware that the situation has been under review, but the reality is that it's now clear that nothing has yet stopped the VAT subsidy to the Isle of Man to be a tax haven. It's time it was made clear that this has ended, for good.**

I suggest that the time has come for the EU to investigate this issue on which I have campaigned for well over a decade. I hope to play a part by supplying evidence.