One way to financial independence for the Isle of Man?

1) **Reduce IOM Government Expenditure to a sustainable level**
2) **Re examine whether the continuation of the Common Purse Agreement is in the interests of the IOM**

The Predicament

At the time of the 2011 General Election the IOM faces some stark choices concerning the expenditure of its government. The current IOM government has not faced up to these choices voluntarily. Instead, the UK government has imposed the requirement to make these choices upon the IOM.
In order to do this the UK government has used its powers under the Common Purse Agreement [CPA], whereby the UK treasury decides the amount of VAT to be received by the IOM government.
The UK government has already reduced the VAT income of the IOM government by approx £100m in VAT Grab 1 and has announced a further reduction of £75m as VAT Grab 2.
VAT Grab 2 amounts to around 15% of IOM government income.

The Question

Is the CPA, under which the UK government now in effect decides the VAT revenue of the IOM government, any longer desirable or sustainable in the interests of the IOM?

Governments have no money of their own. They can only raise money by taxes on persons and activities. Governments are expected to provide services and goods to their people on a reliable and consistent basis. In order to achieve this, governments need to be able to predict their income from taxes for some years ahead.
This basic requirement cannot be met whilst the UK government is empowered - upon its own whim and entirely in its own interests - to decide the amount of a substantial part of IOM government revenue.

The Common Purse Agreement (CPA)

The last comprehensive examination of the CPA was carried out by PA Consulting in 1976 and their report to the IOM Government broadly recommended that the CPA be ended.
The world around the IOM has changed so much since 1976 that it is almost unrecognisable. The IOM has changed too: it has grown in financial strength generally and is more certain of its desire and intention to control its own future.
The UK has also changed: from a somewhat relaxed and benign partner to a rather greedy stance without much consideration for any interest other than its own.
My conclusion is that it is time to look at the CPA again.
I am not saying that we must abrogate the CPA, for I am aware that there are disadvantages which must be considered. What I am saying is that this is the right time to take another look at the pluses and minuses for the IOM

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The Time is Right

In life one of the most important factors in any decision is timing. Below are some of the reasons why I believe that now is the right time to move towards taking a greater degree of control over our finances

Future Intentions of the UK

In my opinion, the UK may attempt a third VAT Grab and possibly instigate further fiscal measures. All of these measures will be against the interests of the IOM.
It is important to remember that the UK is in simply dreadful financial circumstances - with high levels of debt in both the public and private sectors - and so is desperate to access any additional income sources.
In addition, the UK is governed by a coalition and one party to that arrangement - the Lib Dems - have an obsessive dislike of tax havens and include the IOM in that category.
So that looking at the future intentions of the UK in relation to the IOM - it surely must be concluded that it is more likely than not that they will be entirely contrary to the IOMs interests.

Our Circumstances

In contrast, the IOM is stronger financially that it has ever been.
The government does not maintain a deficit on its current account - in fact it budgets for a surplus. Nor does the government have large borrowings and actually has some reserves.
In addition, the private sector of the IOM economy - whilst buffeted to some degree by an international slow down - is generally in good health: our private sector is mostly modernised and diversified.
Given these circumstances, there must surely be an argument that this is the moment when we have the financial resources to re-consider our relationship with the UK and the CPA.

The Answer: Greater Independence

So the question becomes - does the IOM have the desire and drive to grasp this opportunity for greater independence?
In my opinion, the key first step should be to reduce the IOM government's expenditure to a sustainable level: the UKs VAT Grab 2 may even serve as a useful stimulus which we may turn to our advantage.
Although there are downsides to the ending of the CPA - such as customs controls on travellers and exports - there are some potentially attractive benefits too: such as being able to set our own tax rates on activities and consumption to suit our own circumstances and perhaps, even, to our competitive advantage.

A more independent IOM government would have the power to lower the rates of taxation on goods and services and so reduce the cost of living.

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