

Isle of Man

International Finance Centre



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1. Overview

The Isle of Man is an established international finance centre, with a secure base built on political stability, low taxation and a firmly established fiscal and regulatory environment independent of the UK. In relation to providing international services it is fully supported by a modern infrastructure. It is one of the few international finance centres where Government's objectives for economic growth are matched by the physical space and labour resources needed to sustain them. In addition to the introduction of new investment and taxation vehicles designed to maintain and develop the Island's status as one of the premier offshore locations, the Isle of Man Government is already well advanced in the implementation of a new and dynamic zero tax strategy. To encourage further inward investment the Government has also initiated a strategy and provided funding to establish the Isle of Man as a leading e-commerce platform.

2. Constitution, Government and Stability

The Isle of Man is an internally self-governing dependent territory of the British Crown. It is not and has never been part of the United Kingdom but is within the British Isles. Queen Elizabeth II is acknowledged by the Island as its Head of State, but the Island is politically and constitutionally separate from the United Kingdom. It is technically a Crown Dependency and is thus independent in all matters except foreign affairs and defence, both of which are the responsibility of the United Kingdom Government and for which the Isle of Man pays an annual contribution.

The Manx exercise their extensive political and legislative independence through their ancient parliament, Tynwald, which is the oldest legislature in the world in continuous existence. Tynwald has two branches, consisting of the House of Keys (which is elected by universal suffrage) and the Legislative Council (whose members are elected by members of the House of Keys). The 24 members of the House of Keys are popularly elected every 5 years and the overwhelming majority are independents. The next general election is in November 2006. The Island is noteworthy for its relative absence of party politics; this has contributed to the remarkable stability of the Manx system.

The Island has a ministerial system of government that is headed by the Chief Minister who selects the Manx Cabinet (the Council of Ministers). The Chief Minister is nominated by Tynwald from amongst its members after each general election.

Tynwald, considering a report on independence for the Island, concluded that, 'the Isle of Man should remain a Crown Dependency whilst pursuing the constitutional development of the Isle of Man'. It resolved to achieve this 'by promoting and defending vigorously the Island's autonomy in relation to its internal affairs, and seeking to extend the Isle of Man's influence over external issues affecting the Island'.

3. Relationship with the United Kingdom

Although the United Kingdom Parliament retains the power to legislate for the Isle of Man, it is accepted that the Island is internally self-governing. Parliament does not therefore legislate for the Island in any domestic matters. In respect of subjects that are of common concern to both territories, such as defence, nationality and immigration, United Kingdom legislation may be extended to the Island, but this only happens after the Isle of Man Government has been consulted and its approval sought. The origin of Parliament's authority to do this is obscure but, in practice, is not really questioned. In 1969 a Royal Commission examined the constitutional conventions that governed the relationship between the United Kingdom and the Isle of Man.

The Commission concluded that the United Kingdom required legislative powers so long as it remains responsible for the international relations of the Isle of Man and for its good government.

Effectively, therefore, the Island is subject to two legislatures: Tynwald and Parliament. As stated, the United Kingdom is responsible for the Island's external relations. The Manx Government is, nonetheless, consulted on any international convention, treaty or agreement that would affect the Island. The consent of the Manx Government is sought before the UK's ratification of any such agreement is extended to cover the Isle of Man. Indeed, the Isle of Man is increasingly interfacing with international matters that directly affect it. For example, the Island is an active member of the OECD's Global Forum, and is represented at ministerial level at the summits of the British-Irish Council.

Unlike the British Overseas Territories, for which the Foreign and Commonwealth Office has responsibility, it was traditionally the Home Office that had responsibility for the UK Government's relationship with the Crown Dependencies. In 2001 that responsibility was transferred to the Lord Chancellor's Department, which became the Department for Constitutional Affairs in 2003. There is a good working relationship between the Isle of Man Government and the DCA, with frequent contact on a wide range of issues and regular meetings both in London and on the Island.

4. Relationship with the European Union

The relationship of the Isle of Man with the European Union is set out in Protocol 3 annexed to the Act of Accession of 1972, by virtue of which the United Kingdom became a member of the European Community. The Island is not a Member State of the European Community, nor is it an associate member. The effect of Protocol 3 is that the Island is part of the customs territory of the European Union and there is free movement of goods between the Island and the European Union in industrial and agricultural products. Any trade between the Island and non-EU member countries is subject to the Common Customs Tariff levies and other agricultural import measures.

The Island is outside the European Union for the purposes of trade in financial services and their associated products and the European Union provisions in respect of the free movement of persons, services and capital do not apply. The Island's relationship with the European Union cannot be changed unless the terms of Protocol 3 are changed; any change in the terms of this Protocol would require the unanimous decision of all Member States of the European Union.

European Community law has direct application to the Island only for very limited purposes. The Council of Economic and Finance Ministers (ECOFIN) has drawn up a draft EU Code of Conduct on Business Taxation (the Code) as part of the European Commission's efforts to urge greater tax co-ordination within the Union. Six taxation measures in the Isle of Man were regarded as containing harmful measures. Although not part of the EU, the Isle of Man recognises the need to engage constructively with initiatives regarded as important to the international community. Accordingly, the Treasury has announced that it will seek to implement the legislative changes to the taxation system necessary to meet the principles of the Code. Most notable of the required changes proposed is the abolition of ring-fencing (i.e. the discrimination between resident and non-resident business for tax purposes), in light of which exempt companies are due to be replaced by an all-encompassing zero rate company tax regime. The Government's commitment is conditional upon the Code being adopted by the EU and dependant and associated territories.

The EU Savings Directive (the Directive), whose aim is to ensure that individuals who are resident of the EU pay tax due on the interest of their savings in their home state regardless of where in Europe their savings are invested, is due to come into force in July 2005. This is subject to all countries, including third countries, being in a position to operate the Directive from that date. The final agreement between the member countries of the EU has been criticised by the OECD since it is considered by that body that the compromise reached undermines the work of the OECD in the area of tax transparency and exchange of information. This is due essentially to the choice member countries have of either introducing automatic exchange of information on interest payments or a form of withholding or retention tax on such payments. Although the choice is expressed to be for a transitional period of some seven years, it appears likely that this date will be materially pushed back.

The Isle of Man has agreed to introduce a withholding tax when the directive takes effect. This will apply only to EU resident individuals, who may choose to opt out of the withholding tax by agreeing to the exchange of information to their EU country of residence.

5. Relationships with International Bodies

A. OECD

The Island is also a member, through the United Kingdom, of the OECD; thus its financial products and services have access to markets where OECD membership is an entry requirement.

In 1998 the OECD published a report entitled Harmful Tax Competition - An Emerging Global Issue. Subsequently the OECD pursued its interest in a group of offshore centres with particular taxation regimes. In June 2000 the OECD published a list of 47 jurisdictions, including the Isle of Man, which it considered met its tax haven criteria. The purpose of this report was to provide an opportunity for these jurisdictions to illustrate their support and cooperation with the OECD in curbing harmful tax practices.

Intensive dialogue and negotiation followed between the OECD and the Isle of Man Government on the issue of preferential tax regimes and exchange of information arrangements. In December 2000 the Isle of Man entered into an advance commitment with the OECD and was removed from the OECD's draft black list of non-cooperative tax havens. The OECD finally published its list of un-cooperative tax havens (seven in total) in April 2002.

As part of its commitment, the Island is prepared on a bilateral basis to enter into exchange of tax information on request by 2006 with OECD member countries providing it is satisfied a level playing field exists. The OECD published the finalised model Agreement on Exchange of Information on Tax Matters in April 2002, which the Island helped to draft. This model has since been used as the basis on which an Exchange of Information Agreement was concluded between the Isle of Man and the USA in October 2002.

The US agreement provides for a bilateral exchange of information based upon a formal request being received by the competent authority in the Isle of Man. A request must be made on an individual case basis and the subject of the request must be under investigation in the requesting jurisdiction. Other safeguards are included to prevent 'fishing expeditions'. All information exchanged may not be passed on to third parties, and there are strict confidentiality measures in place. The model has effect from 2004 in respect of criminal tax matters and 2006 with respect to all other tax matters. This Agreement is expected to enter into force in 2005.

In the continued absence of a level playing field the Isle of Man will continue bilateral discussions with OECD member countries, not for the present on the basis of its commitment to the OECD, which remains in place, but on the basis of seeking mutual economic benefits. Discussions are currently underway with a number of countries and more are planned.

B. FATF

FATF is a body established to examine measures to combat worldwide money laundering. It was set up originally by the G7 Summit held in Paris in 1989. FATF has welcomed the significant progress made by the Island in respect of anti-money laundering legislation and implementation and regards the Island as a cooperative jurisdiction. The FATF Annual Report 2000-2001 stated that, 'the Isle of Man has a robust arsenal of legislation, regulations and administrative practices to counter money laundering. Perhaps more importantly, the authorities clearly demonstrate the political will to ensure that their offshore financial institutions and the associated professionals maximise their defences against money laundering, and cooperate effectively in international investigations into criminal funds'. The report added 'the standards set in the Isle of Man are close to complete adherence with FATF's 40 recommendations'.

Following the tragic events of September 11th 2001, the remit of FATF was extended to encompass the worldwide effort to combat terrorist financing. It agreed a set of Special Recommendations on Terrorist Financing, which commits members to a range of new standards aimed at denying terrorists, and their supporters, access to the international financial system. All countries were invited by FATF to undertake a self-assessment exercise measuring their compliance with the Special Recommendations and their commitment to comply with the original 40 recommendations.

The Isle of Man Government submitted its response in April 2002 demonstrating its strong anti money laundering position and its ability to comply with the Special Recommendations on Terrorist Financing. Subsequently the Government has re-affirmed its commitment to comply with the principles of all the FATF recommendations as revised in June 2004.

C. International Monetary Fund (IMF)

The IMF is an international organisation of 184 member countries. It was established to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment.

Prompted by the work of the Financial Stability Forum, the IMF is undertaking a review of the regulatory standards in jurisdictions worldwide on a rolling programme basis. The Isle of Man was subject to detailed assessment when a team from the IMF visited the Island in October 2002. This represented the most comprehensive review of the Island's regulatory and anti-money laundering framework to date, and provided an opportunity to benchmark the Island against published standards. The results of the assessment, published in November 2003, confirmed the Island's reputation as being amongst the best regulated international financial centres. The IMF report stated that 'The jurisdiction has a high level of compliance with all of the standards against which it was assessed'. The Island's authorities were also praised within the report for their 'proactive stance in establishing high standards for banking and securities supervision'. The text of the full report can be viewed on the website of the Financial Supervision Commission, www.fsc.gov.im

D. Financial Stability Forum (FSF)

In March 2000, a working group under instructions from the Financial Stability Forum completed a report addressing the implications of offshore financial centres on global financial stability. The offshore jurisdictions considered were grouped into three categories reflecting their perceived quality of supervision and degree of cooperation. The report listed the Isle of Man as one of only eight offshore jurisdictions that it considered fell into category 1, the high standards group. Offshore centres in the high standards group were rated as having supervisory practices consistent with their relative size and level of cooperation 'that is largely of good quality and better than that found in other offshore financial centres'.

E. The World Trade Organisation (WTO)

The WTO has taken over from the General Agreement on Tariffs and Trade (GATT) for the purpose of promoting free trade. The Isle of Man has in place all the legislation necessary to comply with the requirements for membership of the WTO and the agreement has now been extended to the Isle of Man.

F. The United Nations (UN)

The UN Programme Against Money Laundering Forum was established to prevent the misuse of offshore centres by criminals laundering money. It has agreed a set of minimum performance standards.

The Isle of Man is committed to these standards that in any event are in accord with established practice in the Island. The Isle of Man's competitive position will be enhanced as other regimes strive to adapt their laws, procedures and cultures to standards long accepted as the norm on the Island.

6. The General Economy

The Isle of Man economy is currently in its twenty first consecutive year of growth. The period since the mid-90's witnessed a particularly impressive economic performance with real growth averaging almost 10% p.a. between 1997 and 2002. Although the rate of growth has slowed over the last three years it is estimated that the economy is still expanding at something around 5% p.a. in real terms.

The key sectors in generating this performance have been financial services (this sector has grown by around two-thirds in the last six years) and professional services (growth of 50%). Banking generates typically around one quarter of the Island's gross domestic product, with the rest of the finance industry adding another 15 to 20%.

One consequence of the economy's performance has been an ongoing strengthening of public finances. Over the last six years alone Treasury's receipts have increased from £300 million to over £475 million.

An important element of the Island's fiscal strength is the long established and self imposed legislative requirement that Government must budget for a surplus in respect of its annual revenue spending. Whilst meeting this requirement Government has continued to invest in developing and updating the Island's infrastructure, for economic as well as social benefit.

The Island's unemployment rate has been below 1.5% (of an economically active population of 40,000) for over six years. However labour market conditions for employers are considerably eased through the freedom to recruit and transfer personnel from off-Island. Although the Island operates a work permit system, it does so liberally, as evidenced in the information that shows around 13,000 permits being granted annually and refusals running at below 100 per year. The ability to bring in labour from outside is a key factor in constraining wage pressures.

Although increases in mortgage rates and energy prices conspired to push retail price inflation on the Island to over 6% in late 2004, expectations are for the rate to head back towards 4% over the course of 2005, a level that had previously not been exceeded for over eleven years.

The combination of low mortgage rates, rising disposable incomes and an expanding population has resulted in increases in local house prices, but at 8% over the last twelve months the current rate of increase is not inconsistent with that being reported for the British Isles as a whole. Reduced level of inward migration and increased housing supply on the Island are likely to contain increases to single digits in 2005.

7. Currency and Absence of Exchange Controls

The Isle of Man is in currency union with the United Kingdom although it issues its own currency, which is legal tender only within the Isle of Man. One Manx pound is therefore equivalent to one UK pound sterling. The Island's distinctive notes and coins circulate within the Island side by side with United Kingdom bank notes. Although the notes and coins are denominated in the same manner as in the United Kingdom, they are not accepted in the United Kingdom as legal tender. Manx notes are, however, accepted by United Kingdom banks.

In relation to the euro it is the Manx Government's position that, if the United Kingdom decides to participate in the European Single Currency, then it would be likely that the Island would also choose to participate. Primarily this is because most of the Island's trade is with the United Kingdom and Europe and the introduction of currency controls would not be in the Island's best interests.

There are currently no exchange controls that apply to the movement of funds in and out of the Island, whether of capital or income, nor is there any legislation in place whereby such controls may be imposed.

8. Regulation

The Island has developed a reputation for being a premier jurisdiction in terms of regulation, achieving a balance of providing a business friendly environment whilst meeting international standards of financial supervision. Recognition of the Island's status is important in ensuring that it attracts quality institutions and enjoys reciprocal access to overseas markets.

A number of independent assessments of the Island's regulatory framework have been conducted which verify the Island's status. The most recent and comprehensive of these was the assessment carried out by the IMF which was completed in November 2003, but they have also included the report of Mr Andrew Edwards for the UK Home Office in 1998, the positive assessment by the Financial Stability Forum of May 2000 identifying the Island as a 'category 1' jurisdiction, and confirmation by the FATF in 1999 and 2000 that the Island is regarded as cooperative for anti-money laundering purposes.

Regulation on the Island is conducted by the Financial Supervision Commission (for banking, investment business, funds and fiduciaries businesses), and by the Insurance & Pensions Authority (for insurance and pensions businesses). Regulation by the Financial Supervision Commission for trust service providers will be introduced in 2005. Financial institutions of high repute from these sectors are welcome on the Island. Full details about the regulatory frameworks can be found on the respective websites, www.fsc.gov.im and www.gov.im/ipa.

The Island's regulators maintain close contact with their international counterparts. They also participate in a wide range of international groupings including both the Offshore Group of Banking Supervisors and the Offshore Group of Insurance Supervisors, the International Organisation of Securities Commissions, the International Association of Insurance Supervisors and the International Organisation of Pensions Supervisors.

A key part of supervisory coordination is a jurisdiction's willingness to cooperate in the pursuit of financial crime. The Island has adopted extensive regulatory measures to prevent money laundering and the financing of terrorism, and has a Financial Crime Unit which receives and, together with Customs & Excise, investigates reports of suspicious transactions. While there is the common duty of customer confidentiality on the Island, there is no secrecy legislation. Information can be passed through established gateways and under specific agreements and legislative powers, where needed to assist in criminal and other investigations.

9. Data Protection

Data Protection on the Island is governed by the Data Protection Act 2002. The Act applies to the processing of information relating to living individuals and in particular:

- Applies to information processed automatically, for example on computer, certain structured manual records and certain health, housing and educational records
- Businesses that process personal data are required to notify their processing to the Data Protection Supervisor
- Sets out eight data protection principles to be followed when personal data is processed
- States lawful conditions which must be satisfied when personal data is processed and further conditions for the processing of sensitive personal data, such as health records or ethnic origin
- Establishes rights for an individual including the right of access to personal data and the right to object to direct marketing
- Establishes remedies for an individual, such as the right to seek compensation for any damage and distress caused if a business breaches any of the data protection principles
- Sets out rules for the transfer of personal data to other countries

The Island's data protection legislation has been formally recognised by the European Commission as providing an adequate level of protection for personal data and, as a result, personal data is able to flow between the EEA and the Island without the need for additional safeguards.

Further information is available from the Office of Data Protection Supervisor.

Tel +44 (0) 1624 661030 Email odps@odps.gov.im Website www.gov.im/odps

10. Companies and Trusts

The FSC has responsibility for the maintenance of the register of companies. The Companies Acts 1931-2004 require that certain specified information is maintained at the Companies Registry upon incorporation of a company and thereafter in respect of, inter alia: changes in directors, secretary, shareholders, registered office, the registration of charges, the filing of annual accounts for public companies (private companies are not required to file their annual accounts) and the filing of annual returns. The Registry is open to the public and company files may be inspected either at the offices of the Financial Supervision Commission or on-line (at www.fsc.gov.im) for a small fee. Company stationery should state the address of the registered office and the name of each director. The FSC may exempt a particular company from this latter requirement if special circumstances exist.

Manx companies incorporated after 1988, are not permitted to include a list of the Company's objects in their memoranda of association unless they are registered charities. The principle, as embodied in the Companies Act 1986, is that a company is capable of doing anything an individual can do unless it is expressly restricted by its memorandum.

There is no general requirement for the details as to the beneficial ownership of issued shares of a company to be disclosed to the FSC, the Assessor of Income Tax or the Collector of Customs and Excise. However, corporate service providers need to know who the beneficial owners are of companies they administer.

The provisions of the Registration of Business Names Acts 1918 and 1954 require the registration of partnership names and companies' business names at the Companies Registry if such names differ from the names of the respective partners or the company's name as registered. Partnership agreements and partnership financial accounts do not have to be filed at the Companies Registry. However, every Manx limited partnership must be registered with the Companies Registry.

Save for those partnerships and companies exempt from income tax, the accounts of sole traders, partnerships and companies must be submitted every year to the Assessor of Income Tax to confirm the income tax returns already submitted. Annual accounts may also be inspected by the Collector of Customs and Excise.

No public register of non-charitable trusts exists, and there is no general requirement to file trust accounts or other information. There is likewise no requirement to disclose the names of likely beneficiaries of a discretionary settlement to any of the above mentioned public bodies.

In assessing the fitness and propriety of persons authorised to carry on regulated business (banks, investment businesses, insurance companies, corporate and (soon) trust service providers), the Island's regulatory bodies (the FSC and the IPA) require disclosure of beneficial ownership of the licensed entity.

11. Depositor and Investor Protection

Depositors Compensation Scheme

All licence holders conducting retail banking must be members of the Depositors Compensation Scheme which was introduced in 1991, the Island being the first offshore centre to introduce such a scheme. The amount of compensation payable to each depositor is an amount equal to 75% of the eligible protected deposit liability, subject to a maximum compensation payment to any depositor of £15,000. Protection is extended to foreign currency as well as sterling deposits.

Policyholders Protection Scheme

For life assurance companies, the Isle of Man's Life Assurance (Compensation of Policyholders) Regulations 1991 ensure that in the event of a life assurance company being unable to meet its liabilities to its policyholders, up to 90% of the liability to the protected policyholder will be met.

Unlike many other policyholder protection schemes, the Island's scheme operates globally, providing protection to policyholders no matter where they reside.

Investor Protection Scheme

Compensation is paid to investors in authorised collective investment schemes if a manager or trustee of an authorised scheme is unable to satisfy clients in respect of a civil liability incurred by them in connection with their business. The regulations provide for the levying of contributions to the fund from managers and trustees of authorised schemes.

Compensation is paid on a pro rata basis up to a maximum of £48,000.

Financial Services Ombudsman Scheme

The Island operates a free, independent dispute resolution service for customers worldwide with a complaint against an Isle of Man financial firm such as a bank, insurance company or financial adviser (but not currently corporate and trust service providers).

The Scheme operates under sections 21A, 21B and 21C of the Financial Supervision Act 1988 and is operated by the Isle of Man Office of Fair Trading. The Isle of Man Government funds the scheme. The scheme's adjudicator has the power to impose directions to remedy the position, and can make monetary awards of up to £100,000.

12. IT Infrastructure and Telecoms

The Isle of Man has world-class telecommunications infrastructure and services which cater for the full range of modern corporate voice and data communications requirements. Manx Telecom, a wholly owned subsidiary of mm02, a leading pan-European telecommunications company, is the Island's principal network operator operating advanced fixed and mobile networks across the Island. Both Manx Telecom and Cable & Wireless provide services under telecommunications licenses granted by the Isle of Man Communications Commission and approved by Tynwald, and a number of ISPs and IT companies provide corporate network and related services.

Manx Telecom has invested in excess of £50 million in infrastructure during the last five years to provide additional capacity and new services in line with market requirements. As a result of this investment, the Island now has 100% ADSL broadband availability to both households and business premises. The company is credited with Europe's first all digital fixed network and the first commercial 3G mobile trial outside Japan. It is now investing in what is expected to be Europe's first HSDPA ("3.5G") mobile network.

Connectivity off the Island is provided by two resilient fibre optic rings, owned respectively by BT and Cable & Wireless, which connect the Island with the North of England and Northern Ireland. These links employ `self-healing SDH loop` technology which guarantees that if a fault occurs at any part of the link, voice and data traffic is seamlessly re-routed in the other direction. Their total available capacity is 3 million channels (240 Gigabytes) which, with a current capacity utilisation of less than 0.2% on the main cable alone, represents huge potential for the future. In addition, the Manx Government owns a third undersea cable connecting the Island with the North of England and is currently evaluating commercial and technical options for activating this capacity to support Island businesses.

The Isle of Man was one of the first countries to pass dedicated e-business legislation with the introduction of the Electronic Transactions Act in November 2000. Additional business continuity regulations introduced in 2002 enable banks, investment businesses and corporate service providers which are regulated in approved jurisdictions to use Isle of Man based computer servers in the event of catastrophic failure.

The Island's strong position in financial services and e-business make it the perfect location for companies in the business of electronic trading platform development.

The Island also has a sophisticated internet hosting infrastructure. There is a choice of service providers whose range of services include hosting, managed services, internet security services, connectivity and consultancy. Web hosting business solutions are offered to businesses of all sizes.

The Isle of Man telecommunications and IT infrastructure may be summarised as follows:

- Part of the UK numbering range
- Resilient high capacity fibre optic cables connecting the Island to the North of England and Northern Ireland
- Direct dialling to 99% of numbers globally
- High internet and ADSL penetration
- Island wide mobile data (GPRS)
- Quality of service to world standards
- High quality web hosting / co-location
- 100% broadband availability
- Free broadband connections for all households and businesses
- Short lead times for telephone and broadband installation
- Higher speed connectivity for business available via extensive Island wide fibre and radio networks
- State of the art business continuity / disaster recovery facilities widely available

13. Postal Services

Isle of Man Stamps enjoys an excellent reputation worldwide for the quality and variety of their stamp issues and collectables, commemorating subjects as diverse as Manx History and Heritage, Golf, and the recent blockbuster movies 'The Lord of the Rings' and 'Harry Potter'. The Isle of Man was the only country outside of New Zealand which was granted permission to produce the commemorative 'Lord of the Rings' stamps. The full collection of Isle of Man stamps is available to view online at www.gov.im/post/stamps. Stamps can also be purchased via this website.

Isle of Man Post offers a vast range of services providing quick, easy access to domestic and international destinations at competitive prices.

They offer a First Class only service which allows for next day delivery within the UK.

Parcel services operate on a 24 or 48 hour service to the UK, with a 98% quality of service, with an onward service to international destinations.

14. Residency

Under the Income Tax Act 1970 a person who is resident in the Isle of Man and assessable to Manx income tax in respect of that person's total income from all sources (whether or not remitted to the Island) is regarded as a Manx income tax payer. For the purposes of the Income Tax Acts a 'person' includes any association of persons, corporate or unincorporated.

'Residence' is not defined in the Income Tax Acts and the Manx Assessor of Income Tax will therefore have regard to United Kingdom decisions on comparable legislation, which would also be regarded as persuasive authority by the Manx courts.

An individual will be regarded by the Assessor as resident in the Isle of Man for a year of assessment if that individual is present in the Island for more than six months in that year, or arrives in the Isle of Man intending to establish residence therein, or visits the Isle of Man over a period of four consecutive years for an average of more than three months per year. Further, an individual who has accommodation in the Island available for that individual's use and visits the Island in a year of assessment is regarded as resident in the Isle of Man for that year, however under the Short Term Residence Extra Statutory Concession, the Assessor will not pursue the person's liability to Manx income tax if the period spent in the Island by that person, his wife or dependants does not in aggregate exceed four months in any two consecutive years of assessment.

In April 2003 the Short Term Residence Extra Statutory Concession was modified so that a person coming within the concession may elect to be treated for income tax purposes in a similar manner to a person who is not resident. This removes unintended tax planning opportunities and ensures the concession is used only for the purpose for which it was originally intended. The modification ensures that any local source of income received by a person falling within the concession (e.g. rent) attracts the same taxation liability as it would if paid to a non-resident individual.

From 6th April 2003 the Treasury introduced a package of measures to assist where individuals are required by contractual obligation to take up residence in the Isle of Man to facilitate the process of starting up a new business or the diversification or expansion of an existing one. An approved individual will be able to enjoy his or her first three years of residence being taxed only on Isle of Man source income and his or her employer will be given relocation financial assistance.

15. Work Permits

Whilst there are no special restrictions on access to the Island (other than those under the Immigration Act which apply equally in the United Kingdom), the ability of newcomers to take up work is governed by the Control of Employment Acts which require anyone who is not an Isle of Man worker to have a permit before starting employment or self-employment in the Island.

Qualification as an Isle of Man worker includes being born on the Island, resident for at least five years, married to an Isle of Man worker, having received full-time education during residence (and having remained on the Island thereafter) or having a Manx-born parent who has spent the first five years of their life on the Island.

Application for work permits is made to the Department of Trade and Industry's Employment Division. Broadly speaking, permits are issued where there are no suitable local workers available for the job concerned and where there is no reason to doubt the good character of the person for whom the application is made. Except in the case of self-employment, permits are issued for specific jobs with specific employers and are normally limited in duration, but may be renewed.

16. Employment Legislation

The Island's employment law is based on the English law framework and provides support for employers and employees in the employment relationship. There is an Employment Tribunal, which, in 2003, determined 15 cases. The Manx Industrial Relations Service achieves a conciliated settlement in the vast majority of cases.

The Island has a good history of industrial relations with only one dispute resulting in industrial action in the last decade.

Existing legislation provides for, among other provisions: protection against sex discrimination in employment; a minimum wage; a right to receive a written statement of terms and conditions; and for compensation in cases where a dismissal is found to be unfair. There is currently a cap on all compensation levels of £30,000.

The Island's Department of Trade & Industry is in the process of modernising and consolidating the Island's employment law framework. An Employment Bill is being drafted which aims to:

- Provide more certainty for employers in dealing with employment relations
- Provide and reinforce fundamental rights
- Promote social inclusion
- Promote and support labour market participation
- Enhance rights for working parents and carers

If you would like any further information on the Island's employment law please contact the Employment Law Policy Unit, Department of Trade & Industry on +44 (0) 1624 682371/2, email: emplaw@dti.gov.im or consult the website at www.gov.im/dti/employmentrights

The Manx Industrial Relations Service can be contacted on +44 (0) 1624 672942 or iro@industrialrelations.gov.im

17. Quality of Life

The Island has a land area of 227 square miles (572 sq. km) and a population of around 77,000 giving a population density of 340 people to each square mile. By comparison Jersey has a population density of 1888 and Malta 3562.

MORI Isle of Man Quality of Life Survey 2002

Satisfaction with the Island as a place to live is among the highest in MORI's experience. 93% of residents are satisfied with the Island as a place to live increasing to 96% satisfied in socio-economic group AB.

The Island's beautiful countryside, its suitability for family life and its safe environment are cited among the best things about living on the Island.

Satisfaction is also high with the way the Government runs the Island with 70% overall and 78% AB being satisfied. This compares well, even accepting their different roles and contexts, with Jersey (46% in 2000), Guernsey (44% in 2002) and the UK (33% in 2002).

The Island has excellent health care, high educational standards and efficient transport and communication systems. It has a relaxed, friendly and peaceful way of life. Whilst offering all the services and facilities of a modern European centre, the Island also boasts a fine selection of restaurants, shopping and leisure facilities. Yet away from the busy commercial centre, the Island has retained a pace of life that is the envy of most urban dwellers.

Newcomers to the Island are surprised by the variety of scenery that exists, from rolling hills to picturesque farmlands, from spectacular coastal scenery to secluded glens. The Island provides a wealth of diverse leisure activities, with an emphasis on sport and outdoor pursuits. The choice of outdoor sport is considerable, including such activities as golf, sea and river fishing, sailing, windsurfing, hang gliding, diving or just rambling. International car rallying, cycling and motorbike races, including the famous TT Races, are also annual events.

The Isle of Man also has a surprising range of wildlife habitats for its land area, and its wildlife can be spectacular. Sea bird colonies thrive on the coastal cliffs, and traditional farm management practices provide havens for many birds under threat in other parts of the British Isles. Choughs, rare in the UK, do particularly well on the Island, as do Hen Harriers, Peregrines and Ravens, the last two species appearing on the Government coat of arms.

The seas around the Isle of Man are famous for their rich marine life. Grey seals are common, especially on the rocky coast of the south west, and basking sharks, small whales, dolphins and porpoises are regularly seen.

On land the Manx flora and fauna is also distinctive. Along the northern coast sand dune habitats are host to orchids, unusual ground lichens and burrowing bees in the Island's first National Nature Reserve. In the lowland Ballaugh Curragh wetlands, flower rich meadows, bogs and willow scrub support a wealth of wildlife. The uplands in the centre of the Island are best seen in high summer when the heather and Western gorse are in flower and a blaze of purple and yellow.

Cultural heritage forms an important part of Island life, in the form of museums, castles and a rich spectrum of other ancient monuments spanning 10,000 years of Manx history. Remains of Viking and Celtic settlements are visible in the landscape, and some of the important carved stone crosses from the medieval period can be viewed inside churches.

18. Purchasing Property

Ownership

Subject to immigration rules, the Island currently has no restrictions as to who may purchase property and live on the Island. The Government has been considering introducing new residency qualifications that will effectively replace the existing employment work permit legislation. A person of legal age or body corporate may own property.

Pricing

House prices start at around £90,000 for first time buyer properties. Plots of land (where available) start at around £50,000. Prices are generally lower in the north of the Island than the south, due to the proximity of the airport and private schools.

Renting

There are a large number of rental accommodation units on the Island that are privately owned. These offer a variety of sea, country or town locations, with short and long-term options. In addition, a number of properties are let on 3-6 month terms in the winter period, reverting to short term letting in the summer tourist season. The Government has implemented regulations on the standards and safety of rented property, which vary depending on the type of property. The Island also has no restriction as to who may rent property.

19. Education

State Education

A combination of the best in traditional and modern approaches to teaching and learning continues to ensure high standards throughout the Manx educational system. Schools are well maintained and well resourced with books, computers and equipment. The pupil to teacher ratio is generous resulting in small sized teaching groups. Manx culture and history is taught to all children from the age of five. All children from the age of seven study French and Manx language is also offered from the age of seven, but only to those whose parents wish their children to be involved.

The Island's youngsters achieve good results at General Certificate of Secondary Education examinations at age sixteen (55% of students achieved 5 or more A* - C grades at GCSE in 2004, compared with 52% in England). The staying on rate into sixth form is high, with students also obtaining good results across a wide range of Advanced Level General Certificate of Education subjects. Each of the Island's five comprehensive secondary schools has a reputation for academic excellence. An impressive range of facilities, from sports halls to Information Technology areas, is to be found at all secondary schools.

For students wishing to pursue university qualifications, the Isle of Man Government meets the university fees and provides a means tested maintenance grant system.

Independent Education

Independent education in the Isle of Man is provided by King William's College and the Buchan School. The two schools merged in 1991 to make a continuous educational provision for boys and girls, day pupils and boarders from the age of 4 to 18. Pupils follow a range of extra curricular activities and almost all Sixth Form leavers proceed to Higher Education.

International Business School

The Isle of Man supports life long learning, both vocational and professional, through the Isle of Man College and the rapidly developing Isle of Man International Business School. Emphasis is placed on finance industry qualifications and both are affiliated to Universities in the United Kingdom. The International Business School offers a range of Masters level programmes including an MBA and an MSc in International Banking and Finance, as well as an undergraduate Business Studies programme. It is possible to carry forward credits from other internationally recognised Higher Education institutions to join these courses. The International Business School is able to accredit prior learning and experience. It is possible to access these courses at the beginning of both the first and second semester - in September and January respectively. A range of professional qualifications is also available. There is a very informative website at www.ibs.ac.im.

20. Health

The Manx Government's commitment to a comprehensive National Health Service is an integral part of its policy to develop a prosperous and caring society. Health Services take a high priority in Government expenditure plans, a fact which is reflected in the quality and extent of services. In July 2003, a new £112 million state of the art hospital opened.

The Island's Department of Health and Social Security provides a range of services, from hospitals and specialists to district nursing. It is also responsible for family health services, i.e. doctors, dentists, optometrists and pharmacists.

Whilst very similar in structure to its UK counterpart, with which it retains close links, the Manx NHS is regarded as superior in many respects. A consistent approach on the part of Government has spared the Island's hospitals from the kind of political upheavals suffered elsewhere.

The service remains free at the point of delivery and where there are charges they are generally low.

21. Taxation Policy Background

At the outset it is worth noting that the key principles of fiscal sovereignty, economic stability and adherence to international standards remain fundamental to the Treasury's consideration of any taxation initiative.

The Isle of Man has three forms of taxation which need to be taken into account:

- Direct taxation: income tax is the only direct tax there being no capital gains tax, stamp duty or inheritance tax;
- Indirect taxation: there is an inter-governmental negotiated Customs and Excise Agreement with the UK which provides for the same Customs, Excise and VAT rates to be applied but with some notable exceptions;
- National Insurance Contributions (NIC): there is a reciprocal arrangement with the UK whereby it adopts, with one or two exceptions, the same level of NIC as the UK.

22. Direct Taxation

Income tax was introduced into the Isle of Man in 1918 and is based on an income tax year commencing 6th April. It works on the basic principle of residence in that a person resident for income tax purposes is liable on worldwide income, calculated in line with generally accepted tax principles. A non-resident person is only liable on local source income unless specifically exempted e.g. bank interest.

For a company, residence is determined on the basis of central management and control and/or incorporation test. A company that is not resident but has a place of business on the Island will fall within the non-resident income tax regime on income and profits earned through that place of business.

There is a comprehensive system of relief for capital expenditure with most qualifying expenditure attracting a 100% first year allowance. Any grants received do not reduce the amount on which capital allowances are granted. Unrelieved capital allowances may be carried forward or may feature in a loss or group relief claim.

The Isle of Man started to plan the modernisation and restructuring of its direct taxation systems back in the mid to late 1990's. The recommendations included the introduction of a corporate tax system based around the company accounting period. It was also proposed that the tax system for individuals should be simplified and incentives introduced for the key employees of new and expanding businesses.

At about the same time the Treasury also started to look at the question of further double taxation agreements as a method of removing or easing taxation barriers to trade in other countries. It was only the subsequent work of the OECD on harmful tax practices that delayed this work.

Despite the delays occasioned by the international tax issues, that earlier work has not been wasted in that it informed the team of public and private sector individuals charged with the task of considering both the OECD and EU tax initiatives. The foundation for the responses to those initiatives has been the Taxation Strategy, formally adopted by Tynwald in October 2000 and again in October 2002 when modifications were proposed.

The collaboration with the private sector enabled effective and acceptable early responses to be made. This has proved to be beneficial. It has provided the Treasury with an opportunity to play a constructive role in the international debates from an early stage, a process in which the business community has also continued to have an involvement. This has earned the praise of mature pragmatism from the private sector and removed a lot of uncertainty, enabled more effective medium term business planning, enhanced the Island's international standing, and been seen by other jurisdictions as a model.

The Taxation Strategy incorporates a number of measures, the most significant being a move to a standard zero rate of corporate tax combined with a higher rate of 10% applied to certain defined regulated businesses, principally banking activity. The budget on 17 February 2004 announced a reduction in the non-resident rate for trading companies to 10% bringing them into line with other trading companies and thereby achieving the strategy for the banking community. The Island's economic strength has enabled the Taxation Strategy to be introduced smoothly and with a principal 2006 target date.

The budget on 15 February 2005 announced the early introduction from 6 April 2005 of the zero rate of corporate tax in respect of e-gaming, tourist accommodation, film and television production, agricultural activities, fishing and manufacturing. These, coupled with the activities already subject to the zero rate (insurance, shipping, fund management and aircraft operation), provide a clear indication that the 2006 target date will be met.

In his latest budget speech the Treasury Minister also made it clear that a dynamic package of measures on company law, company taxation and individual taxation will provide a solid foundation for future prosperity. As part of this package an early consultation exercise is to be undertaken with a view to introducing a cap on personal tax liabilities to encourage the relocation to the Isle of Man of individuals with significant wealth and also business entrepreneurs, who will not only buy local goods and services, but also invest in more significant ways by setting up business ventures.

At the heart of the strategy is the Island's intention to remain competitive but within an acceptable international framework and in keeping with the reputation the Island has gained for its modern and progressive regulatory standards. A simple system that seeks to compete only on the basis of its highly competitive and transparent direct tax rates, one which is sustainable because of the overall approach to taxation and control of public expenditure - a point not overlooked by the recent confirmation of the Government's AAA credit rating by Standard & Poor's and Moody's.

23. Indirect Taxation

The Isle of Man enjoys a unique and longstanding relationship with the UK (and consequently with the EU) by virtue of the negotiated inter-government Customs & Excise Agreement. This provides for the unhindered movement of goods and facilitates trade with our EU partners and beyond.

Whilst it is true to say that the terms of this Agreement link the Isle of Man to the UK with regard to Customs, Excise and VAT methodologies, it does not bind the Island to adopt all indirect taxation initiatives emanating from the UK or beyond. Significantly the Isle of Man has chosen not to introduce taxes such as insurance premium tax, landfill tax, aggregates levy etc, nor is it currently seeking to extend the scope of its indirect taxation.

Several areas of flexibility exist to benefit both Isle of Man VAT registered businesses and/or Island residents. For example, i) the Island's approach to VAT on international services, and ii) the 5% VAT rate on the provision of hotel and holiday accommodation. However, for a business to profit from the full range of benefits the Island has to offer, it needs to be VAT registered in the Isle of Man.

Whilst the unique position of the Island provides an ability to settle disputes locally, business customers retain the right of access to the services of the fully independent UK VAT Tribunals (which sits in the Island to hear appeals) and, if necessary, can call on EU VAT Directives and decisions of the UK and EU courts systems.

24. National Insurance Contributions

The Isle of Man has a reciprocal arrangement with the UK whereby it adopts, with one or two exceptions, the same level of National Insurance Contributions as the UK. This ensures full reciprocity to be maintained and removes any problems where a person moves between the two jurisdictions over contributory benefits, such as the National Insurance Retirement Pension.

For the purposes of this exercise, the two main contributions which need to be taken into account are the Class 1 contributions for an employed person and the employer's contributions. Unlike the UK, the Isle of Man has not adopted the Class 1A and Class 1B secondary contributions on payments such as benefits in kind.

Contributions are based upon the income tax year and are deducted from an employee's pay by the employer and paid over each month to the Income Tax Division together with the employer's contribution.

The level and the amount of the contribution are dependent upon a number of factors. First for the employee there is a primary earnings threshold and then an upper earnings limit. Earnings between those two limits are subject to contributions at a specified rate. For an employer there is no upper earnings limit.

For both an employee and an employer the rate of contribution will depend upon whether the employee is contracted out of the State's additional pension scheme.

25. Financial Assistance Scheme

The Isle of Man Treasury introduced the Financial Services (Inward Investment) Assistance Scheme 2004 on 1st August 2004.

The Scheme is directed at providing financial service businesses with financial assistance to establish a new physical presence on the Island and is aimed at assisting with certain elements of start up cost during the establishment period of the first two years.

It is targeted at attracting new businesses of a recognised international standing and/or likely to be complimentary to the existing finance industry within the Isle of Man.

The Scheme provides for grants of up to 50% for the setting up of a new financial institution on the Island. The elements of expenditure which are covered by the Scheme and can be considered within an application could include one or more, or a package of all of the following items:

- external supply of consultancy costs of a one off nature associated with setting up business on the Island (first financial year);
- relocation costs of key staff and equipment (first financial year);
- office rent to be incurred on premises used by the business during the first two financial years;
- information technology (including telecommunications equipment), incurred during the first financial year;
- external training costs to be incurred during the first financial year (where not otherwise supported financially by Government);
- off-Island marketing costs to be incurred during the first financial year;
- other specific costs associated with setting up business on the Island in the first financial year to be incurred on external supplies made to the business may be taken into consideration for potential support at the invitation of the Department. (It is envisaged that any such items of cost would be the subject of discussion prior to application).

Note: although not a condition of assistance under the Scheme, applicants are encouraged as far as possible to contract for their supplies and services within the Isle of Man.

The Scheme provides for a maximum payment of up to 50% of the cost of the items of expenditure mentioned above. It is possible that the full award may be reduced in certain circumstances, either on the package of assistance as a whole or in respect of individual components of expenditure.

To be eligible to apply for assistance, the business must fulfil all of the following criteria:

It must be a Financial Services Business which:-

- a) intends to establish a new financial services business on the Isle of Man whether as a branch or subsidiary of an off-Isle of Man concern; and
- b) will require a licence or authorisation to operate in the Isle of Man from either the Financial Supervision Commission or Insurance and Pensions Authority; and
- c) will directly employ its own staff in the Isle of Man.

Note: other businesses of a non financial nature, e.g. manufacturing, may be eligible for financial assistance under a separate scheme operated by the Department of Trade and Industry.

Further information relating to the Financial Assistance Scheme, along with a list of frequently asked questions is available on the Isle of Man Finance website www.isleofmanfinance.com

Notes



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