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OUTCOME OF PROCEEDINGS

From: General Secretariat of the Council

To: Delegations

Subject: The EU list of non-cooperative jurisdictions for tax purposes

- Compilation of commitment letters received from jurisdictions
- = Isle of Man
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Office of the Chief Minister
Oik yn Ard-Shirvelshagh

Hon Howard Quayle MHK
Chief Minister
DOUGLAS
Isle of Man
IM1 3PG

Ms Fabrizia Lapecorella
Chair of the Code of Conduct Group (Business Taxation)
General Secretariat of the Council
Rue de la Loi
Wetstraat 175
B-1048 Brussels, BELGIUM

Telephone: +44 (0) [REDACTED]
Email: [REDACTED]

17th November 2017

Dear Ms Lapecorella

I refer to your letter dated 6th November 2017 addressed to Ms Nicola Guffogg.

The Isle of Man has a long history of full cooperation and constructive engagement with international standard setters and of seeking to diversify its economy. **I therefore have no hesitation in confirming the Isle of Man Government's commitment to address the concerns identified by the EU Code of Conduct Group.**

I can assure the Group that the Isle of Man will make all necessary changes to address the issues identified in connection with entities operating without any substance. To this end the Isle of Man will:

1. make certain that it has an appropriate legal and regulatory framework to ensure relevant businesses have sufficient economic substance in place **by 31 December 2018** including any additional accounting and tax reporting obligations that may be required;
2. ensure that the relevant authorities in the Isle of Man have sufficient resources to implement that legal and regulatory framework and that it is implemented and monitored effectively;
3. ensure that there are appropriate sanctions in place for failure to adhere to that framework (and that they are applied in appropriate circumstances); and
4. ensure that its framework is reviewed to establish that it is achieving the desired objectives.

To aid this process and ensure that we can fully address the concerns identified, the Isle of Man requests that the Code Group share its Expert Panel's Report on the Island at the earliest opportunity. Although we have provided written submissions and responses to date we have not had the opportunity to discuss these matters with the Group, but we remain keen to do so.

As your letter envisages a very short timeline for implementation, it is important that detailed dialogue commences as soon as possible particularly with regard to obtaining a shared understanding of the industries/sectors that present the most risk to the European Union and how "economic substance" can be identified.

The Isle of Man with others has called for consistency in the adoption of standards in this area as we believe this is the best way to ensure they achieve their objectives. We would also welcome the opportunity to assist in any way we can to achieve this.

I can assure you that the Isle of Man will be able to correct the concerns identified by the Code Group by 31 December 2018. The Isle of Man has a history of implementing changes quickly and effectively and has recently completed the introduction of a beneficial ownership register in a similar timescale.

As you have requested precise time lines and description of implementation steps, my officers have prepared the attached Annex which provides for a more detailed timeline including the steps to be taken to implement changes within the agreed timescale which I hope you will find informative. My officers and I would be happy to discuss this in more detail with the Code Group.

Yours sincerely

A handwritten signature in black ink, appearing to read 'H. Quayle', written over a horizontal line.

Hon Howard Quayle MHK
Chief Minister
Isle of Man Government

Annex

The Isle of Man will implement a programme of change to its taxation, regulatory or corporate law systems which will address the concerns of the Code of Conduct Group regarding substance.

The Isle of Man has already considered the steps that need to be taken to address the perceived risk and analysed them as falling into the following categories:

1. Industry/Sector classification and identification to determine those that may present a risk.
2. Substance requirements, domestic reporting and monitoring.
3. Possible consequences for those failing substance requirements.
4. Reporting/notification and exchange of information with EU Member States.

Implementation and timeline

The steps required for implementation potentially include changes to primary law, secondary law and computer systems.

In terms of timeline, once there is clear understanding on the requirements for any primary law changes e.g. for Industry/Sector classification, such that the legal draftsmen can be instructed, the quickest that new primary legislation can be in place is 12 months. Depending on the complexity (or whether new systems need to be developed) the timetable to deliver the changes needed to computer systems is approximately the same. This is based on the time it took to introduce the Beneficial Ownership Act 2017 and build the infrastructure for the new database that legislation envisages.

The timeline below illustrates the steps in the Isle of Man legislative process required to introduce new primary legislation. This timeline is ambitious but there is some flexibility as it currently envisages completion of the process by 6 November 2018 and many changes may only require secondary legislation.

The timetable for the introduction of secondary law changes is significantly shorter. It is anticipated, for example, that any new reporting or notification requirements that can build on the existing international framework, will only require secondary legislation.

Parliamentary Process by 6 November 2018

