

SALES TAXES

Why are they so productive and universal?

Everyone pays them including tourists, business visitors and most importantly those residents who although quite wealthy pay little or no income tax.

Are they regressive?

Yes. The poor pay a greater percentage of their earnings on essentials.

Can the regression problem be overcome?

Yes. As the tax is so productive, jurisdictions can afford high levels of social security support (refer France, Germany etc). Jersey is to fund a low-income support scheme. A proposition in the US is for sales taxes to be repaid up to the poverty level so the poor do not pay at all. (See www.fairtax.org).

Why not target the rich?

To retain their tax attractions and therefore business and employment opportunities, the Channel Islands need a low tax targeted benefit model rather than a high tax wasted benefit economy. High taxes on income or capital become very difficult to collect and can frighten away the very source of wealth. Also tends not to generate sufficient cash.

Why not increase employer / employee taxes?

This would be good news for our competitors. The best way of countering poverty is not through solely attempting re-distribution of wealth but by economic growth and job creation. High employment taxes will lead to the export of jobs. Also such taxes exclude contributions from tourists, wealthy retired etc.

Conclusion

Everyone pays sales taxes so everyone has an interest in controlling public expenditure. Currently for so many residents – rich and poor – public expenditure is someone else's problem.

Sales taxes are highly productive and ensure that other taxes can be reduced if necessary – the Isle of Man has a strong competitive advantage in this regard which we should not ignore.

Sales taxes are almost universal and accepted. Our challenge is to understand that a low broad based sales tax, by allowing us to reduce or eliminate other taxes, can give us a competitive advantage over other jurisdictions. We can also learn from the mistakes of other jurisdictions and avoid complicating and vested interest exemptions and keep the tax low and broad.

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