



HM Revenue
& Customs

Commissioners of HM Revenue and Customs in Account with the Government of the Isle of Man

For the year ended 31 March 2018



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An Account of Receipts and Payments presented to Parliament
pursuant to Section 2(5) of the Isle of Man Act 1979

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Accounting Officer's Foreword

1. Introduction

The full title of this account is the 'Commissioners of HM Revenue and Customs in Account with the Government of the Isle of Man' but will be referred to hereafter as the 'Isle of Man (IoM) Account'.

Agreements between the IoM and UK Governments result in certain tax revenue streams, known as 'common duties' being pooled and then shared on an agreed basis. The IoM Treasury is therefore entitled to a share of common duties collected in both the UK and the IoM that is attributable to goods consumed or services supplied on the island.

The common duties included in the share are: VAT, Beer Duty, Wine Duty, Spirits Duty, Cider and Perry Duty, Tobacco Products Duty, Customs Duty and Pool Betting Duty.

In March 2016, HM Treasury and IoM Treasury signed a Final Expenditure Revenue Sharing Arrangement (FERSA) which set out the IoM share of common duties for 2013-14 to 2017-18, the agreed share for 2017-18 was £325.2 million.

In addition to the sharing arrangement the IoM continues to receive Hydrocarbon Oil Duty (HCO) on the basis of actual consumption net of HCO Duty paid back to HMRC (see note 1). The IoM is also credited with Lottery Duty paid in the IoM but collected in the UK (see note 1). An adjustment is made for the costs of collection (see note 3).

To arrive at the final share of revenues we take the total revenue share, deduct the IoM net duties collected in year of account along with all regular monthly payments to the IoM as per the FERSA. This then results in either a payment to be made to HMRC or the IoM Government as final settlement of the closing balance (see note 5).

On 8 November 2018, the EU Commission issued a formal infringement notice to the UK regarding the Isle of Man's VAT practices for aircraft which the UK Government will respond to within the specified timeframe. At the invitation of the Isle of Man Treasury, HM Treasury and HMRC continue to work with Isle of Man Customs and Excise (IOMCE) in respect of their procedures regarding the VAT treatment of aircraft and yachts as well as other areas of VAT administration. The results of this work with the IOMCE carried out thus far have no impact on the figures in the account, which report cash receipts and payments administered in-year in accordance with the FERSA.

As required by the FERSA, in 2018-19 new surveys of household and business expenditure are underway on the IoM to enable new calculations of its share of VAT. For 2019-20 there will be a provisional 4.5% increase on the current revenue share. Survey results once agreed will be applied to the new calculation.

2. Basis for the preparation of the accounts

The IoM Account is compiled annually by HMRC on a cash basis and reports the total share of revenues for the year. It presents receipts and payments made to or by the IoM (see note 4), as accounted for in HMRC's Annual Report and Accounts, and calculates the balance owing to the IoM or UK Government. The Account is prepared in accordance with the Treasury Direction (see page 12) and the principles within *Managing Public Money*.

3. Statutory Background

The Isle of Man Act 1979 requires the UK Commissioners of HM Revenue and Customs to prepare the account for each financial year in such form and manner as HM Treasury may direct and to pay the amount calculated to the IoM Treasury. The requirements for this are set out in Section 2(4) of the Act. Section 2 of the Act also stipulates that copies of the account are laid before Parliament.

4. Audit Arrangements

These accounts have been prepared under a direction issued by HM Treasury in accordance with Sections 2(2) and 2(4) of the Isle of Man Act 1979 and are subject to audit by the Comptroller and Auditor General.

Justin Holliday

HMRC Chief Finance Officer and Accounting Officer for the IoM Account
19 November 2018

Statement of the responsibilities of the Accounting Officer

I have delegated authority from the Principal Accounting Officer of HMRC for the preparation of the accounts and have been appointed as Accounting Officer.

The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balance owing to the Isle of Man Treasury or HMRC at the year end.

So far as I am aware, there is no relevant audit information of which the auditors are unaware. I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

I confirm that the annual report and accounts as a whole is fair, balanced and understandable and that I take personal responsibility for the account and the judgements required for determining that it is fair, balanced and understandable.

I confirm that the Account is prepared in accordance with the Treasury Direction (see page 12) and the principles contained within *Managing Public Money*.

Justin Holliday

HMRC Chief Finance Officer and Accounting Officer for the IoM Account
19 November 2018

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

Opinion on financial statements

I certify that I have audited the financial statements of Commissioners of HM Revenue & Customs in Account with the Government of the Isle of Man for the year ended 31 March 2018 under the Isle of Man Act 1979. The financial statements comprise: the Receipts and Payments Account and the related notes. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the financial statements properly present the receipts and payments of Commissioners of HM Revenue & Customs in Account with the Government of the Isle of Man for the year ended 31 March 2018; and
- the financial statements have been properly prepared in accordance with the Isle of Man Act 1979 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Commissioners of HM Revenue & Customs in Account with the Government of the Isle of Man in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of the Responsibilities of the Accounting Officer, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they are properly prepared.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to examine and certify on the financial statements in accordance with the Isle of Man Act 1979 s.2 (4).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error

and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the HM Revenue & Customs' internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commissioners of HM Revenue & Customs in Account with the Government of the Isle of Man's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Foreword. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- in the light of the knowledge and understanding of HM Revenue & Customs and its environment obtained in the course of the audit, I have not identified any material misstatements in the Foreword; and
- the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements and have been prepared in accordance with the applicable legal requirements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Foreword to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit;

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

22 November 2018

Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Receipts and payments account

For the year ended 31 March 2018		2017-18	2016-17
	Notes	£	£
IoM share of Consolidated Revenue Receipts	1	357,442,413	343,127,279
IoM Net Duties collected	2	(193,911,702)	(187,941,480)
		163,530,711	155,185,799
Cost of UK collection	3	(979,588)	(900,561)
Total IoM share of Revenues		162,551,123	154,285,238
The IoM Cash Account			
Balance owing to the Government of the IoM at the start of the year	4	8,695,960	16,793,186
Total IoM share of Revenues, as above		162,551,123	154,285,238
Sub-total		171,247,083	171,078,424
Less payments made by the UK	4	(173,694,826)	(162,382,464)
Balance due to/(due from) the Government of the IoM at the end of the year	5	(2,447,743)	8,695,960

Approved by the Accounting Officer of HM Revenue and Customs on behalf of the Commissioners of HM Revenue and Customs.

Justin Holliday

HMRC Chief Finance Officer and Accounting Officer for the IoM Account
19 November 2018

Notes to the account

1. Consolidated IoM Share of Revenue Receipts

The IoM share of common duties for 2017-18 has been agreed between the IoM Treasury and HM Treasury as £325.2 million under the Final Expenditure Revenue Sharing Arrangement (FERSA) signed on 2 March 2016. The agreed share is based on the following common duties - VAT, Beer Duty, Wine Duty, Spirits Duty, Cider & Perry Duty, Tobacco Products Duty, Customs Duty and Pool Betting Duty.

In addition to this share, the IoM is also credited with receipts of HCO on an actual consumption basis and Lottery Duty, as lottery receipts are paid in the IoM but the duty is collected from Camelot in the UK. A small element of HCO Duty paid to HMRC is also adjusted in these accounts to compensate for subsequent IoM repayments of Duty to qualifying charities and businesses and the total added to net HCO receipts.

Removals adjustments take place when eligible IoM charities and businesses purchase HCO's from within the UK and pay the duty to the UK, they subsequently reclaim that duty from the IoM, the IoM then reclaims the duty from the UK by completing 4 quarterly returns detailing all approved transactions, this is then accounted for by adding the removals totals back into the net HCO receipts.

The tables below provides further detail.

	2017-18 £	2016-17 £
Details of total IoM share		
Agreed share 2017-18	325,200,000	311,200,000
Lottery Duty ⁽¹⁾	1,783,252	1,357,201
HCO Duty <small>detailed breakdown below ⁽⁴⁾</small>	30,459,161	30,570,078
Total	357,442,413	343,127,279
HCO Duty details		
IoM HCO net receipts ⁽²⁾	30,374,516	30,294,990
Removals to IoM - ex bonded warehouses ⁽³⁾	61,872	106,273
Removals to IoM - registered fishing vessels ⁽³⁾	18,959	164,316
Removals to IoM - RNLI vessels ⁽³⁾	3,814	4,499
Total IoM allocation⁽⁴⁾	30,459,161	30,570,078

(1) Source of figures - monthly returns from Camelot

(2) Source of figures - IoM Service Account (note 2)

(3) Source of figures - IoM quarterly schedules of UK removals

(4) Total IoM allocation includes £84,645 HCO Duty paid to the UK

2. Isle of Man Customs & Excise Service Accounts of the Duties collected in the Isle of Man

These figures are taken from the certified IoM Customs & Excise Service Accounts of the duties collected in the IoM for the year ended 31 March 2018.

Year ended 31 March 2018	Gross Duties Collected £	Drawbacks, Repayments & Allowances £	Net Duties collected 2017-18 £	Net Duties collected 2016-17 £
Duties in common with the UK				
Beer	518,120	(712)	517,408	605,259
Spirits	58,807	(10,179)	48,628	(2,489)
Wine	77,273	0	77,273	49,751
Tobacco	509,425	0	509,425	513,166
HCO	30,408,972	(34,456)	30,374,516	30,294,990
Total	31,572,597	(45,347)	31,527,250	31,460,677
Consumer taxes				
Value Added Tax	555,000,886	(392,633,761)	162,367,125	156,451,196
Customs Duties				
Customs Duties order 1979	17,403	(76)	17,327	29,607
Total Common Duties	586,590,886	(392,679,184)	193,911,702	187,941,480

3. Costs of collection

In accordance with Section 2(2)(b) of the IoM Act 1979, HMRC deducts the cost of collecting taxes from the amount of the UK revenue attributed to the IoM. These costs are reviewed annually.

Each tax⁽¹⁾ incurs a different percentage cost of collection, this percentage is applied to the difference between the calculated split of the IoM Share of Revenue Receipts⁽²⁾ and the actual duties collected in the IoM. This results in the total costs incurred by the UK in collecting tax on behalf of the IoM. The resulting average of the seven different tax stream percentages is shown below.

	IoM share of Trust Statement Receipts ⁽²⁾ £	Less IoM net duties collected £	Balance being UK/ (IoM) Revenue collected £	Resulting Average cost % per £1 ⁽³⁾ %	Allocated Cost of collection 2017-18 £	Allocated Cost of collection 2016-17 £
Cost of Collection	357,442,413	193,911,702	163,530,711	0.60	979,588	900,561
Total cost of collection carried forward to the IoM Account					(979,588)	(900,561)

Notes

- (1) The seven tax streams involved are VAT, Import VAT, Tobacco, Alcohol, Customs, Pool Betting and HCO. Lottery is not included as this duty is collected by Camelot and not by HMRC therefore no cost of collection is involved.
- (2) The IoM share of Revenue receipts by tax stream is calculated using the certified UK Trust Statement collection figures. HMRC use the FERSA Revenue share figure and apply the certified UK Trust statement tax stream percentage splits to it to calculate the agreed share for the IoM by tax stream.
- (3) This is the resulting average cost of collection per £1 of the balance of the IoM share of revenues collected in the UK.

4. Payments made by HMRC

HMRC make monthly advance payments to the IoM based on the IoM agreed share of revenues (see note 1) and a forecast of receipts to be collected in the IoM. This is then adjusted quarterly to account for actual collection figures. Further payments are made to settle any outstanding balances owed to the IoM from the prior year.

	2017-18 £	2016-17 £
April	13,300,000	10,900,000
May	13,300,000	10,900,000
June	13,300,000	10,900,000
July	19,800,007	22,894,164
August	13,300,000	10,900,000
September	13,300,000	10,900,000
October	21,591,111	4,182,085
November	13,300,000	10,900,000
December	13,200,000	10,900,000
January	4,207,748	20,413,029
February	13,200,000	10,900,000
March	13,200,000	10,900,000
Totals	164,998,866	145,589,278
Closing balance owing from previous year's annual accounts settled in year of account	8,695,960	16,793,186
Payments made by the UK	173,694,826	162,382,464

5. Closing balance

	2017-18 £	2016-17 £
Balance due to/(due from) the Government of the IoM at 31 March 2018	(2,447,743)	8,695,960

The balance due from the IoM reflects the position at 31 March 2018. This is due to a higher than forecast collection yield in the last quarter of 2017-18. The UK subsequently retained £3,336,054 from the IoM on 21 April 2018 as the adjustment for the final quarter of 2017-18, as required under FERSA.

This resulted in a net balance of £888,311 payable to the IoM that will be accounted for in the 2018-19 cash account in the first month after certification of the 2017-18 annual account.

Direction given by HM Treasury in respect of the Account prepared by the UK Commissioners of HM Revenue & Customs in connection with payments made by them to the Isle of Man Treasury

HM Treasury, in pursuance of Sections 2(2) and 2(4) of the Isle of Man Act 1979, hereby gives the following direction.

1. The UK Commissioners of HM Revenue and Customs shall prepare in respect of each financial year an account of the sums paid by them to the Isle of Man Treasury under Sections 2(2) and 2(4) of the Isle of Man Act 1979.
2. This Direction shall apply to the accounts prepared in respect of the financial years ended 31 March 2016 and all subsequent years until this direction is amended. This statement shall comprise of:
 - a. a foreword
 - b. a statement showing:
 - the consolidated Isle of Man share of revenue receipts;
 - the share of revenues agreed between the respective governments;
 - a calculation being a record of previous years' adjustments;
 - Isle of Man net duties collected;
 - cost of collection charges;
 - a statement of balances made to or received from the Isle of Man Treasury; and
 - c. explanatory notes as considered necessary
 - d. minor presentational changes may be made without seeking prior Treasury approval.
3. The account shall be signed and dated by the HMRC Principal Accounting Officer or by a person authorised on their behalf.
4. The Direction shall be reproduced with the published statement of account.
5. HMRC shall send a copy of the signed account to the Comptroller and Auditor General to examine and certify no later than the end of November in the following financial year.
6. HMRC shall send a copy of the signed and certified account to the Isle of Man Treasury.
7. This Direction supersedes any previous Accounts Direction.

Vicky Rock

Deputy Director, Government Financial Reporting, HM Treasury
3rd October 2016

