

EXECUTIVE COUNCIL

CONFIDENTIAL

Title of Report: Defence Related Taxation Exemptions
Paper No: 194/11
Date: 25 August 2011
Report of: Taxation Officer / Commissioner of Taxation

1.0 Purpose

To seek Honourable Members approval for a further 1 year extension to the Taxes and Duties (Defence Contractors' Employees Exemption) Orders (which only have effect until 31 December 2011).

2.0 Recommendation

Executive Council is recommended to approve the extension of the current exemption for a further year, until 31 December 2012.

3.0 Summary of Financial Implications

- 3.1** There are no direct financial implications from the recommendation in the paper for the 1 year extension since no provision has been made for the taxation revenue from Defence Contractor Employees.

4.0 Background

- 4.1** Some employees in defence related businesses are exempted from paying Falkland Islands Income Tax, subject to certain conditions. These exemptions are contained within the Taxes and Duties (Defence Contractors' Employees Tax Exemption) (No2) Order 2011.
- 4.2** These orders were made under the powers given to the Governor by the Taxes and Duties (Special Exemptions) Ordinance 1987. Section 9A of the Ordinance (which was introduced in 1995) permits the Governor to make such an Order on the advice of the Standing Finance Committee.
- 4.3** Following the acceptance of the proposals presented to Executive Council on 21 October 2010, paper 248/10, it was agreed to extend the exemption from Falkland Islands tax to MoD Defence Related Employees' to at least 31 December 2011.

- 4.4 Due to the increased co-operation of MOD with FIG it is felt that it would not be beneficial to implement any tax measures on MOD employment at this time and the possibility of an increased civilian base at MPN may give rise to additional tax revenue in the future.
- 4.5 However EXCO paper 195/11 refers to proposed amendments to the exemption order to ensure those employees working on both MOD and non MOD contracts are captured for tax on their non MOD employment.
- 4.6 Therefore, it is proposed that the existing exemption remain in place for a further 1 year.

5.0 Financial Implications

- 5.1 The precise financial implications are unknown as tax exemptions are in place and therefore there is no requirement for information on income to be declared for any relevant employment.
- 5.2 In paper 310/05, submitted to Executive Council on 15 December 2005, it was roughly estimated that the annual revenue that could be collected from Defence Contractor Employees' amounted to between £750,000 and £900,000.
- 5.3 Information gathered at that time showed the majority of employees were and would still remain under the personal allowance. It is therefore unlikely that the estimate would have increased significantly.

6.0 Legal Implications

If approved, a further Taxes and Duties (Defence Contractors' Employees Exemption) Order will have to be made. Although Executive Council can approve the policy, the Governor can only make the Order on the advice of Standing Finance Committee. If Executive Council approves, the order can be drafted and Standing Finance Committee's advice sought.

7.0 Human Resources Implications

None.