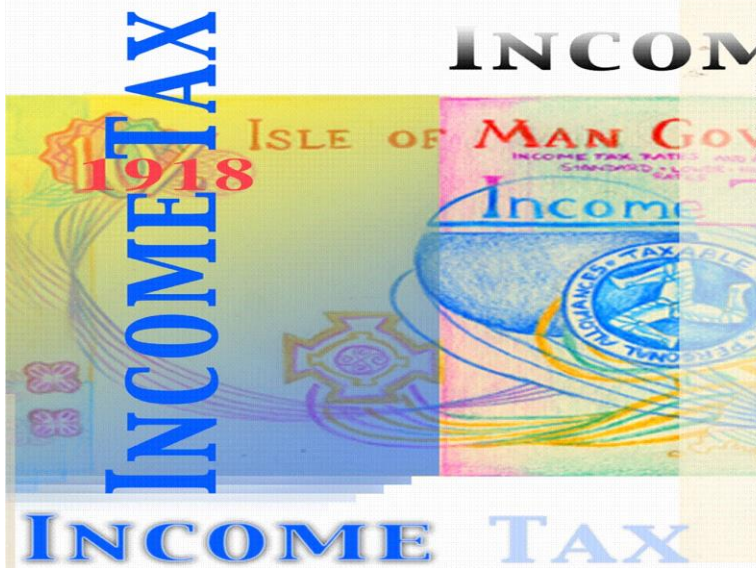




**Isle of Man  
Government**

*Reiltys Ellan Vannin*



#### 1. Introduction

Income tax was first introduced in the Isle of Man by the Income Tax Act 1918 which is described in its preamble as being "An Act to provide for a Tax on income under the system of taxation then in operation in the United Kingdom and in many respects the similarities remain. This is an important factor as regards the interpretation of the provisions of the Manx Income Tax Acts because in a case where the interpretation of a provision or an expression in those Acts has been the subject of an appeal in the courts of the United Kingdom, the judgment in that appeal is a persuasive authority for the adoption of the same interpretation in a similar case in the Isle of Man."

The Income Tax Act 1918 was followed by successive amending Acts in the years that followed until the then existing legislation was consolidated in the Income Tax Act 1946. This was, in turn, followed by successive amending Acts until the then existing legislation was consolidated in the Income Tax Act 1970.

The Income Tax Act 1970 has since been amended by the —

- (i) Income Tax Act 1971;
- (ii) Income Tax Act 1973;
- (iii) Income Tax Act 1974;
- (iv) Income Tax Act 1976;
- (v) Income Tax Act 1978;
- (vi) Income Tax (Retirement Benefit Schemes) Act 1978;
- and
- (vii) Income Tax (Amendment) Act 1979.

These Acts are collectively referred to as being "the Income Tax Acts 1970 to 1979". Section 120 of the Income Tax Act 1970 includes the following definitions—

"Income Tax Acts" means this Act and any other enactment relating to income tax;

"Manx income tax" and "Manx tax" means income tax payable under the Income Tax Acts."

The Income Tax Bill 1979 contains the new income tax provisions that were proposed by the Finance Board as a part of the Budget for 1979/80. The Bill was given its first and second readings by the House of Keys on 30th October and 6th November, 1979, respectively. It was then referred to a Select Committee for consideration. As it is unlikely to complete all its stages and obtain the Royal Assent before some time in 1980, the Bill is likely to be known as the Income Tax Act 1980 when it is enacted. It is proposed that the provisions of this Bill, when enacted, shall have effect in respect of the income tax year commencing on 6th April, 1979, and of each succeeding income tax year.

# New Requirements for Accounting Records

## Guidance Note – GN 54

**PLEASE NOTE:**

This guidance has no binding force and does not affect your right of appeal on points concerning your liability to tax.

The information in this booklet can be provided in large print on request.

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## 1 Introduction

On 20 January 2017 new income tax regulations came into operation in the Isle of Man regarding the making and keeping of accounting records. The Income Tax (Accounting Records) (Retention) Regulations 2016 ([SD 2016/0343](#)) were approved by Tynwald on 17 January 2017.

The regulations were introduced to strengthen and standardise the Island's income tax legislation regarding the making and keeping of accounting records as well as to introduce the international standard for the record retention period. Some requirements concerning the making and keeping of accounting records already exist in income tax legislation as well as in other legislation (eg company legislation) but the requirements introduced by the new regulations will apply **in addition** to any existing requirements.

This guidance note looks at the following:

- who the regulations apply to;
- what accounting records need to be kept;
- how long the records need to be kept for;
- the duty to provide the Assessor of Income Tax with records; and
- what happens if the regulations are not followed.

## 2 Who do the regulations apply to?

The regulations will not affect the majority of individuals who are resident in the Isle of Man provided they are employed and are not in business in their own right. However, they will apply to the persons and entities set out below, and this will be the case regardless of whether or not those persons or entities are required to make an annual income tax return to the Assessor.

### Corporate taxpayers

The regulations introduced in January will apply to the accounting records of all companies that are resident in the Isle of Man for income tax purposes. They will also apply to companies that are not tax resident in the Isle of Man but which carry on a business in the Island or receive income from the "rents of land" as defined in section 58(3) of the Income Tax Act 1970 (this includes rents from buildings and also the annual value of any land or building that is used rent-free by someone other than the owner for residence or pleasure).

If you are the officer of such a company, (eg a director, company secretary), then you are responsible, together with the company, for making and keeping adequate accounting records in respect of the company.

### Non-corporate taxpayers

The regulations also require certain non-corporate taxpayers to make and keep adequate accounting records. The non-corporate taxpayers affected are those who carry on a business (including a trade or profession) or who receive income from the "rents of land" as described above. A non-corporate taxpayer can include individuals, trusts, etc. However, if, as an individual, you are simply employed then the regulations will not apply to you.

### Partners

If you are a partner of a partnership, either general or limited, and you are resident in the Isle of Man, you will be required to make and keep adequate accounting records in respect of the partnership of which you are a member.

### Trustees

If you are a trustee and are resident in the Isle of Man you will be required to make and keep adequate accounting records for any trust you administer.

### Foundations

For foundations, the regulations apply to the registered agent, enforcer and members of council. If you act in any of these capacities you will be required to make and keep adequate accounting records in respect of that foundation.

## **3 What accounting records need to be kept?**

Section 2 above mentions those who are responsible for making and keeping "adequate accounting records". For accounting records to be "adequate" they must be sufficient to enable accounts to be prepared and they must show and explain the transactions of the entity (the company, partnership, trust, etc). They must also show the financial position of that entity, with reasonable accuracy, at any time. In addition to this, for accounting records to be adequate they must also contain specific records which are dependent upon whether or not the entity carries on a business. These are set out below.

### An entity that carries on a business

If the accounting records concern the carrying on of a business the records must also contain:

- a) records of all amounts received and spent by the business and the reasons for the receipt or expenditure;
- b) in the case of a business dealing in goods, records of all sales and purchases of goods made in the course of the business;
- c) records of all assets and liabilities of the business, including in particular –
  - (i) all shares, interests or units held by the business in any person or arrangement; and
  - (ii) records of all stock in hand at the end of the accounting period and a statement of the basis on which the stock is valued;

- d) all invoices, receipts, certificates, contracts, vouchers or other supporting documents relating to records described in (a) to (c) above; and
- e) in a case where there are no supporting documents in relation to any goods bought by the business, the name and address of the supplier of the goods.

#### Any other entity

For any other entity the records must contain the following in relation to the income and expenditure of the entity:

- a) records of all amounts received, arising or accruing and of all amounts spent;
- b) the names and descriptions of the persons or sources from which these amounts were received, arose or accrued and the details of and reasons for the amounts spent;
- c) records of all assets and liabilities of the entity, including in particular all shares, interests or units held by the entity in any person or arrangement;
- d) any other records which contain, or may contain, information relevant to any liability to tax to which the entity is, or may be, subject or the amount of any such liability;
- e) all invoices, receipts, certificates, contracts, vouchers or other supporting documents relating to records described in (a), (c) and (d).

## **4 How long do accounting records need to be kept?**

Those who are responsible for making adequate accounting records must keep the records for a minimum period of five years, which is the international standard for record retention.

Where the records relate to a year of assessment or to an accounting period for which an income tax return is required, the five year period begins immediately after the end of the year of assessment or the end of the accounting period to which the records relate.

If an income tax return is not required, then the five year retention period begins immediately after the end of the calendar year in which an accounting record was created.

## **5 Duty to provide the Assessor with accounting records**

The regulations allow the Assessor to write to anyone who is responsible for making and keeping accounting records, asking them to produce all or specified parts of those records by a certain date or within a certain period.

If the records are not kept in the Isle of Man then those responsible for making and keeping them must make sure that the records remain within their power and control and that there are workable arrangements for delivering the records to the Assessor in the Isle of Man if she writes to request them under the regulations or if they are requested to be provided to the Assessor or another person under any other legislation.

## 6 What happens if the regulations are not followed?

If you are responsible for making and keeping accounting records under the regulations and you fail to comply with any part of them you will be liable to a penalty of £2,500. If this happens, the Assessor will notify you and you will have a right to appeal against our conclusions and the imposition (but not the amount) of the penalty to the Income Tax Commissioners, who are an independent body.

In addition, if you either deliberately or carelessly provide the Assessor with incorrect records when requested under the regulations, you will be committing an offence and will be liable, on summary conviction, to a fine. If it is determined that the incorrect records were provided as a result of carelessness then you will be liable to a fine of up to £2,500. However, if it is decided that you provided them deliberately, then you will be liable to a fine of up to £10,000. In addition, if you provide the Assessor with accounting records and you subsequently notice that they are incorrect, they will be treated as having been provided carelessly unless they are corrected promptly.

## 7 Contact information

<b>Address</b>	The Treasury Income Tax Division Second Floor Government Office Buck's Road Douglas Isle of Man IM1 3TX
<b>Telephone</b>	(01624) 685400
<b>Fax</b>	(01624) 685351
<b>E-mail</b>	<a href="mailto:incometax@itd.treasury.gov.im">incometax@itd.treasury.gov.im</a>
<b>Website</b>	<a href="http://www.gov.im/treasury/incometax">www.gov.im/treasury/incometax</a>
<b>Opening Hours</b>	Monday to Thursday 9.15am – 5.00pm Friday 9.15am – 4.30pm