
PRACTICE NOTE

PN 224/24

Date: 29 February 2024

Corporate Reserve Boxes Simplification Transitional Period from 29 February 2024 to 5 April 2025

Introduction

This practice note is relevant to Isle of Man resident companies with Isle of Man resident individual ownership that are tracking their reserves position for tax purposes and have Box 2 reserves.

In order to reduce administrative compliance for industry and the Income Tax Division a process of simplification of the corporate reserve boxes has commenced. This will be undertaken in a phased approach, with this practice note covering the first phase of simplification. Decisions on future simplification of the corporate reserve boxes will be taken after the current transitional period has ended.

As part of the simplification, a claim form must be submitted by a prescribed due date in order to claim the transitional treatment. Any claims not received by the due date will not be valid.

Key Points

The following are key points regarding the simplification, but should be taken in context of the full practice note and guidance in GN49 Taxation of Distributions from Corporate Taxpayers:

- The "**transitional treatment**" is that companies can distribute from Box 2 reserves, with the existing concessionary tax credit treatment, in priority to Box 1 reserves during the transitional period, subject to the transitional treatment conditions being met.
- The "**transitional period**" is from 29 February 2024 to 5 April 2025, inclusive.
- The transitional treatment conditions are that:
 - only accounting distributable reserves in excess of Box 1 reserves are able to be distributed from Box 2 in priority to Box 1 reserves;
 - a claim for transitional treatment of reserves must be submitted to CompanySection.ITD@itd.treasury.gov.im or be delivered to the Income Tax Division. The deadline is one year and a day following the end of the accounting period used as the basis for the accounting distributable reserves from which a Box 2 distribution is paid. If a claim is not submitted the transitional treatment will not be granted;
 - evidence in support of a claim, including dates distributions were paid and accounting records, must be maintained. The evidence must be provided to the Assessor with the claim or on request,

- and must satisfy the Assessor that the claim is valid; and
- only distributions paid in the transitional period qualify for transitional treatment.
- Any Box 2 reserves remaining at the end of the transitional period will be transferred into Box 1 at 6 April 2025 and will lose their concessionary tax credit treatment.

Current treatment

The current concessionary treatment of distributions is outlined in PN174/12 and GN49. In the absence of a valid claim being made for the transitional treatment of a distribution paid in the transitional period, the current concessionary practice still applies.

Overview of transitional treatment

The reserves treatment has remained largely unchanged since 2012 and can be complex to track. Due to the complexity of the rules, simplifying the current box system cannot be achieved in one step.

Therefore, this first step in simplification is aimed at providing the ability to clear the Box 2 reserves, containing profits accrued before 5 April 2006, subject to certain conditions.

In order to clear Box 2 reserves, there will be a transitional period, from 29 February 2024 to 5 April 2025, where Box 2 reserves are permitted to be distributed in advance of Box 1 reserves.

The ability to do this will be subject to the conditions specified in 'transitional treatment conditions' below.

During the transitional period, the current concessionary treatment to allow non-refundable tax credits on Box 2 reserves for historic Isle of Man tax suffered in the company will be maintained. This means that for a limited period of time only, companies may be able to distribute their historic Box 2 reserves, with non-refundable tax credits attached, in priority to their Box 1 reserves, which have no tax credits. This will provide a limited period of potentially advantageous tax treatment for impacted shareholders.

Box 2 reserves distributed prior to 6 April 2025 will continue, by concession, to carry a non-refundable tax credit, which could range from 10% to 20% based on the method of calculation used when the original GN49 schedule was submitted and agreed by the Division. Box 2 reserves are distributed on a first in, first out basis. If the Box 2 reserves available for distribution are restricted due to the level of available accounting distributable reserves, the distribution should be paid from the highest credit percentage first, where relevant.

The transitional period will end on 5 April 2025, at which point any undistributed Box 2 reserves remaining after the deduction of distributions paid up to and including 5 April 2025 will lose their concessionary credit treatment, and will be transferred into Box 1 reserves on 6 April 2025. Any Box 2 reserves distributed from one member of a group to another as a dividend since 5 April 2006 and added to the recipient company's Box 2, will also be transferred to Box 1 on 6 April 2025.

Transitional treatment conditions

1. Amount that can be distributed from Box 2 in advance of Box 1

The Box 2 reserves can only be distributed in advance of the Box 1 reserves during the transitional period (29 February 2024 to 5 April 2025) to the extent that the company's accounting distributable reserves exceed the Box 1 reserves.

The Box 1 reserves used in the calculation are those included in the reserve schedules agreed with the Income Tax Division at the latest accounting period date. Any trading losses are treated as outlined in GN49 section 4.1.1.

The accounting distributable reserves are the reserves of a company available for distribution as defined

by recognised accounting standards, and which are available for distribution under the relevant Companies Act in the Isle of Man.

For the purpose of the transitional treatment, a company must use the accounting distributable reserves from the financial statements for the last accounting period ended before the distribution that qualifies for transitional treatment. The tax reserves for that accounting period are also used for the calculation.

2. Transitional treatment claim requirement

A company that wishes to claim transitional treatment must provide a claim form by one year and a day from the end of the accounting period used as the distributable reserves and tax reserves basis of the dividend paid from Box 2 in the transitional period. As an example, if the accounting period ended 31 December 2024 is used as a distributable reserves basis for a transitional period Box 2 distribution paid on 22 March 2025, the claim form would need to be submitted by 1 January 2026. A claim form is included at the end of this Practice Note and will be made available for download on the Income Tax Division's website, which must be used when making a claim.

The claim form must be emailed to CompanySection.ITD@itd.treasury.gov.im, or delivered to the Division, prior to the deadline in order to be accepted as a claim and should attach relevant supporting information as outlined within the section entitled "Supporting information to be submitted with the claim". The claim should not be attached to the tax return submitted.

Any claims received after the due date will be rejected.

Any claims made before the due date which do not provide the required supporting information with the claim or within 30 days of a request will also be rejected.

Where a claim is rejected:

- any distributions paid on or before 5 April 2025 will be treated as being paid from the lowest Box number, as per the rules prior to the introduction of the transitional provisions; and
- any remaining Box 2 reserves, after adjusting for the distribution being paid from the lowest Box reserve, will be transferred into Box 1 on 6 April 2025.

3. Requirement to satisfy the Assessor through provision of evidence

If the information provided to the Assessor is insufficient to support that a distribution is able to be paid from Box 2 reserves under the transitional treatment, the Assessor will re-assess the Isle of Man resident individual shareholder on the basis of concessionary rules prior to the transitional period. In these circumstances, based on the adjustments made, the Box 2 reserves will be recalculated for the purpose of determining the reserves to be transferred to Box 1 reserves as at 6 April 2025.

4. Date of distribution being paid requirement

A distribution must be declared and paid within the transitional period. Any distributions that are paid before 29 February 2024 or after 5 April 2025, will not qualify for transitional treatment.

The Assessor requires that records to evidence the declaration and payment of a distribution be maintained in order to provide evidence of the date a distribution was paid. Examples of this evidence include a dated resolution of the directors authorising payment of a distribution and evidence of cash payment or accounting entries to evidence when a payment became due and payable to the shareholder.

Supporting information to be submitted with claim

In accordance with existing company law and tax law, the directors of companies are required to maintain accounting records and to provide information to the Assessor when requested.

In order to evidence the payment of distributions during the transitional period, the Assessor will require information to be retained. This evidence must support the date of payment of a dividend and include calculations for distributable accounting reserves being in excess of Box 1 reserves.

Information that must be provided with the claim form:

- Dividend vouchers – template within GN49, along with confirmation of how much of the distribution has been paid from each reserve box.
- The tax reserve schedules as at the last accounting period ended before the date of payment of the distribution that qualifies for transitional treatment.
- The signed financial statements prepared under generally accepted accounting principles or practice for the period ending in the income tax year and on which the accounting distributable reserves calculation was made.
- The calculations used to determine how much of the distribution paid in the period is able to be distributed from Box 2 and how much is distributed from other reserve boxes.

Other Supporting information that can be provided with the claim form. If not attached to the claim form it must be provided to the Assessor within 30 days of request:

- Board meeting minutes and/or AGM minutes of the company declaring and authorising the distribution and, where possible, confirming whether it will be paid via cash, asset distribution or via accounting for shareholder creditor increase/creation or offsetting against a shareholder debtor balance.
- Bank statements to evidence payment of distributions and/or ledgers showing loan account movements for shareholders and/or the date on which a transfer of legal title of an asset became enforceable.
- Other additional supporting information that evidences the date of payment of a distribution.

A dividend voucher must be provided by the company to each of its individual shareholders and this voucher must be included with their individual tax return form, where the new concessionary treatment is being requested.

After the transitional period

From 6 April 2025, Box 2 will no longer exist. Any remaining Box 2 reserves at the end of the transitional period must be incorporated into the Box 1 reserves as at 6 April 2025 and will have no tax credits on distribution.

For distributions paid on or after 6 April 2025, the following reserves can continue to be distributed at any time without reference to the distribution preference ordering:

- Distributable Profits Charge (DPC) reserves,
- Attribution Regime for Individuals (ARI) reserves,
- Personal Service Company (PSC) reserves,
- 10% statutory credit reserves, and
- 20% statutory credit reserves.

However, distributions from the numbered boxes will be in the following prescribed order:

- Box 1,
- Box 3, then
- Box 4

i.e. all reserves in Box 1 must be distributed before reserves in Box 3 are able to be distributed, and so on.

Illustrative examples

The following examples are provided in respect of companies that are wholly owned by Isle of Man residents and companies with mixed Isle of Man/non-Isle of Man resident ownership.

Where distributions are paid in respect of a share class, the distribution should be paid in the ratio of the shareholdings. Distributions paid on the same date should be pro-rated across the boxes for each shareholder in accordance with their shareholdings.

Example 1

Company A has the following taxable reserves as at 31 December 2024, its accounting year-end:

Box 1	£100,000
Box 2	£ 50,000
Box 4	£ 10,000
DPC reserves (net)	£ 5,000
Accounting distributable reserves at 31 December 2024	£200,000

The accounting distributable reserves at 31 December 2024 exceed the total of the Box 1 and Box 2 reserve balances.

Subject to company law requirements and a timely successful claim with the provision of supporting information to the Assessor to evidence the distribution during the transitional period, the directors would be able to distribute all £50,000 of the Box 2 reserves **on or before 5 April 2025**.

If the Directors of Company A declare and pay a distribution on 15 March 2025, based on the distributable reserves in the accounting year ended 31 December 2024, the claim form must be submitted by 1 January 2026 in order to be within the deadline; and any supporting information should be provided with the claim or within 30 days of request.

Example 2

Company B has the following taxable reserves as at its accounting year-end, 31 March 2025:

Box 1	£100,000
Box 2	£ 50,000
Box 4	£ 10,000
DPC reserves (net)	£ 5,000
Accounting distributable reserves at 31 March 2025	£90,000

The accounting distributable reserves at 31 March 2025 are lower than the Box 1 reserves.

The directors are unable to allocate any distributions against the Box 2 reserves. Subject to company law requirements, they are able to make a distribution of up to £90,000, which could either be allocated as £5,000 against DPC reserves (with the associated tax credit) and £85,000 against Box 1, or fully allocated against Box 1.

Example 3

Company C has the following taxable reserves as at its accounting year-end, 31 December 2023:

Box 1	£100,000
Box 2	£ 50,000
Box 4	£ 10,000
DPC reserves (net)	£ 5,000
Accounting distributable reserves at 31 December 2023	£120,000

The accounting distributable reserves at 31 December 2023 exceed the Box 1 reserves by £20,000.

Subject to company law requirements and a timely successful claim with the provision of the required information to the Assessor to evidence the distribution during the transitional period, the directors would be able to distribute £20,000 of the Box 2 reserves. The directors could then distribute Box 1 reserves but in this scenario choose not to do so.

If the Directors of Company C declare and pay a distribution on 1 May 2024, based on the accounting distributable reserves in the accounting year ended 31 December 2023, the claim form must be submitted by 1 January 2025 in order to be within the deadline; and any supporting information should be provided with the claim or within 30 days of request.

The company continues to trade and has the following reserves position at 31 December 2024:

Box 1	£140,000
Box 2	£ 30,000
Box 4	£ 10,000
DPC reserves (net)	£ 5,000
Accounting distributable reserves at 31 December 2024	£144,000

The accounting distributable reserves at 31 December 2024 exceed the Box 1 reserves by £4,000.

Subject to company law requirements and a timely successful claim with the provision of the required information to the Assessor to evidence the distribution during the transitional period, the directors would be able to distribute £4,000 of the remaining Box 2 reserves on or prior to 5 April 2025. The directors could then distribute Box 1 reserves but in this scenario choose not to do so.

If the Directors declare and pay a distribution on 22 March 2025, based on the accounting distributable reserves for the accounting year ended 31 December 2024, the claim form must be submitted by 1 January 2026 in order to be within the deadline; and any supporting information should be provided with the claim or within 30 days of request.

The remaining Box 2 reserves of £26,000 as at 6 April 2025 would be reallocated into Box 1 giving a new total of reserves in Box 1 of £166,000. The DPC reserves could continue to be distributed at any time subject to company law requirements.

Nicola Guffogg
Assessor of Income Tax

This Practice Note is intended only as a general guide and must be read in conjunction with the appropriate legislation. It does not have any binding force and does not affect a person's right of appeal on points concerning their own liability to income tax.

Comments and suggestions for improvements of issued Practice Notes and suggestions for future Practice Notes are always welcome.

**Corporate Taxpayer
Income Tax Return**

**Corporate Reserve Box 2
Transitional Period Claim**

Income Tax Division
Government Office, Douglas
Isle of Man, British Isles
IM1 3TX

Telephone (01624) 685400
Email incometax@gov.im
Website www.gov.im/incometax

Company Name:

Tax Reference Number:

Accounting Period End:

IMPORTANT INFORMATION

This Corporate Reserves Box 2 Transitional Period Claim Form must be submitted or the transitional treatment will not be granted. A claim must be submitted to CompanySection.ITD@itd.treasury.gov.im or be delivered to the Income Tax Division by one year and a day following the end of the accounting period used as the basis for the accounting distributable reserves from which a Box 2 distribution is paid.

Please refer to Practice Note 224/24, Practice Note 174/12 and Guidance Note GN49 'Taxation of Distributions from Corporate Taxpayers' for further information about the questions asked on this form and the responses required.

The 'transitional period' is from 29 February 2024 to 5 April 2025 inclusive. Any claims made before the due date which do not include the required supporting information will be rejected if the required information is not provided before the due date. If further information regarding a claim is requested and is not provided within 30 days of a request, the claim will be rejected. Any claims received after the due date will also be rejected.

Evidence in support of a claim, including dates distributions were paid and accounting records, must be maintained, and provided to the Assessor with the claim, or on request and must satisfy the Assessor that the claim is valid.

Important: This form must not be attached to the company's annual tax return form.

1. Transitional Calculation

Box 1 Reserves (A)

Box 2 Reserves (B)

**Accounting Distributable Reserves (C)
at Accounting Period End**

Total Box 2 Reserve able to be Distributed

(C)	(A)	(C)-(A)=(D)

**Box 2 Reserves available to
distribute: Lower of (B) and (D)**

**Have Box 2 Reserves previously been
distributed during the Transitional
Period? If so, please state amount.**

3. Documents Attached to evidence date of distributions

GN49 Reserves Schedule (required)

Distribution Vouchers (required)

Signed Financial Statements (required)

Relevant Accounting Ledgers

Board Meetings/AGM Minutes

Bank Statements

Other Additional Information

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4. Declaration

The person signing this declaration must be a director or secretary of the company.

I declare that the information given in this transitional period claim application is correct and complete to the best of my knowledge and belief.

Full Name:	
Capacity:	
Signature:	
Date:	

5. Tax Agent (if applicable)

If you would like someone else to act on behalf of the company in dealing with its tax affairs then please complete form R212C 'Appointment of Tax Agent by a Company' which can be found on the Income Tax Divisions website.

6. USE OF DATA

The information you have provided on this form is required under the Isle of Man Income Tax Act 1970 for the purposes of the assessment and collection of income tax.

Privacy Notice: To find out more about how we collect and use personal information, contact our office or visit our website at <https://www.gov.im/treasuryprivacy-notice/>. We will send you a paper copy if you telephone us or write to us using the contact details on this form.

The information provided on this form may also be used for compilation of Government Statistics.

NOTES FOR GUIDANCE

The completed application, together with all supporting documents, can be handed in at the Income Tax Division counter, or posted to the Division at the following address:

The Treasury Income
Tax Division
Government Office
Douglas
Isle of Man
IM1 3TX

Telephone: (01624) 685400
Email: CompanySection.ITD@itd.treasury.gov.im

If mailing this form, it must be received by the Income Tax Division before the due date to be valid.

Office Use Only:	
GN49 reserves schedule received? (required)	Yes/No
Distribution Vouchers received? (required)	Yes/No
Signed Financial Statements received? (required)	Yes/No
Relevant accounting ledgers received?	Yes/No
Minutes/Resolutions received?	Yes/No
Bank Statements received?	Yes/No
Other additional documents received?	Yes/No
Officer Signature:	
Date:	