

### **IMPORTANT INFORMATION TO ASSIST WITH THE COMPLETION OF COMPANY RETURN FORMS (R1C)**

This booklet is for your use and is not required to be returned to the Income Tax Division.

Further help in completing the return form is available by either telephoning or calling at the Income Tax Division. Guidance Notes (GN), Practice Notes (PN) and Statutory Documents (SD) may be viewed on the ITD website.

The telephone number is (01624) 685400

Website address is [www.gov.im/incometax](http://www.gov.im/incometax)

Email address is [incometax@itd.treasury.gov.im](mailto:incometax@itd.treasury.gov.im)

Office opening hours are

|                   |                 |
|-------------------|-----------------|
| Monday – Thursday | 9.15am – 5.00pm |
| Friday            | 9.15am – 4.30pm |

### **IMPORTANT INFORMATION**

- The return must be completed and submitted by the due date shown on the front page.
- Any tax, Distributable Profits Charge or charge payable are due on the same due date.
- Penalties will apply for late submission.
- Unacceptable returns will incur penalties if not re-submitted and accepted before the due date.

### Introduction

Companies pay income tax in the Isle of Man on a pay and file system based on accounting periods. All companies, except those that have been specifically notified otherwise, are required to complete a Company Income Tax Return Form (R1C) and submit it to the Assessor of Income Tax by the due date stated on the front page, along with any amount payable. The amount of information required on the return depends on the ownership of the company and the income sources it has.

A return may be submitted for acceptance before the due date. Any tax or Distributable Profits Charge (DPC) payable on behalf of the shareholders need not be paid until the due date.

A return that is not accepted for one or more of the reasons stated in the sections of this guide will be sent back for completion or amendment and must be re-submitted by the due date in order to avoid receiving a penalty charge. An unacceptable return submitted on the due date will incur a late return penalty.

This guidance note includes information on the completion of each section of the return form, including details of which companies must complete each section. The numbering of the following sections corresponds with the sections on the return for ease of reference.

## 1

## OWNERSHIP AND RATES OF TAX

**ALL** companies must complete this section of the return.

- The answers provided to questions 1 and 2 in this section will determine which other sections of the return must be completed for the company.
- 'Ownership' means beneficial ownership. The residential status of registered shareholders who are nominees does not count. 'Non-resident' means not resident in the Isle of Man for income tax purposes.
- The percentage of Manx resident ownership is the average for the accounting period, calculated using the method described in section 12 of Distributable Profits Charge Guidance Note (GN36).

Income received by companies is subject to Manx income tax at the standard rate of 0% **except** income from banking activities and from land and property situated in the Isle of Man, which is subject to Manx income tax at 10%. The specific nature of income subject to the 10% rate is defined in the Income Tax (Rates of Income Tax) (Resident and Non-resident Corporate Taxpayers) Order 2006 (SD 224/06).

A trading company whose income is subject to the standard rate of 0% may elect for its profits to be taxed at the 10% rate. An election must be made by the due date of the Return Form R1C, for the accounting period from which the 10% rate is to apply, and is irrevocable by the company for five consecutive accounting periods. An election will be revoked by the Assessor if a company starts to receive investment income (which is subject to DPC at 18% if not fully distributed). Further information on making an election is contained in SD 224/06 and section 4.1 of GN36.

- Please state "No Income" when the company has not been in receipt of income during the accounting period. Do not use it where the company has no taxable income after deduction of expenses and allowances.
- Companies with no Manx resident ownership **AND** either no income subject to the 10% rate or no income whatsoever for the accounting period covered by the return are required to complete section 1 and sections 8 to 11 only.

**The return form will not be accepted if section 1 is not completed.**

It will be sent back for completion and re-submission.

## 2 INCOME AND ACTIVITIES

This section must be completed by all companies with Manx resident ownership for the accounting period covered by the return and non-resident owned companies with income subject to tax at the 10% rate.

- Please select “asset holding company” if the company holds only non-income producing assets.
- Please select “nominee company” if the company is in receipt of income, or holding shares or other assets purely in a nominee capacity.
- Please use “other” if the company is neither an asset holding company, nor a nominee company, but has had no income for the accounting period. Please state the reason for the company having had no income, for example having been a shelf company following incorporation, dormant following cessation of trade or acting as a trustee.
- Accounts must be submitted if the company has income from a trade or profession or income subject to tax at the 10% rate.
- Both questions in this section must be completed.

**If this section is required to be completed and is not complete, the return form will not be accepted.**  
It will be sent back for completion and re-submission.

## 3 INCOME TAX COMPUTATION

This section must be completed by all companies with Manx resident ownership **OR** income subject to tax at the 10% rate for the accounting period covered by the return.

At Appendix 1 is a numeric list of the available Trade Classification Numbers (TCNs). A list of TCNs categorised according to the activity can also be found on our website at [www.gov.im/incometax](http://www.gov.im/incometax).

### 3.1 INCOME FROM TRADE OR PROFESSION

All companies with income from a trade or profession in the Isle of Man are required to complete this section of the return. Rental income should be noted at section 3.2.

- The 2XX-00 TCN appropriate to the trade or profession should be used.
- A separate computation to support the accounts and the figures in this section can be attached where required.
- ‘Adjusted Profit’ is the accounting profit or loss after adding back amounts not allowable for income tax purposes and deducting amounts not taxable as income, **plus** any amount accounted for as a capital receipt which is taxable as income **less** any amount accounted for as a capital payment which is deductible for income tax purposes (e.g. leasing payments).
- A separate capital allowances computation must be submitted to support the figures for capital allowances and/or a balancing allowance/charge.
- Where losses are surrendered or claimed as group relief, the name of the claimant or surrendering company (or companies) must be provided.
- Where the computation is not completed, the return form will not be accepted and will be sent back for completion.
- Where the supporting accounts are not submitted, providing all other relevant sections of the return form are complete, the return form will be accepted and the accounts will be requested separately.

### 3.2 INCOME FROM MANX LAND AND PROPERTY

All companies in receipt of rental income from land and property in the Isle of Man are required to complete this section of the return. Section 3.1 should be completed for income from Manx land and property derived from a development trade. The rate of tax is 10% for rents received from the letting of commercial or residential property but capital allowances differ, as detailed below.

- TCN 297-00 should be used for the letting of commercial property in the Isle of Man and TCN 535-00 should be used for the letting of residential property in the Isle of Man.
- 'Adjusted rents' is the net accounting rental income after adding back non allowable expenses, e.g. depreciation and any capital expenditure included in repair and maintenance costs. Capital expenditure may qualify for capital allowances.
- Practice Note PN 51/94 'Assessment of Income arising from Land and Property' summarises the types of expenditure that may qualify for capital allowances. Commercial letting i.e. where the tenant carries on a trade or profession qualifies for plant & machinery allowances, with rates of 100% first year allowance and 25% writing down allowance. Residential letting qualifies for an annual allowance of 10% of cost over 10 years (straight line basis).
- Details of repair and maintenance costs claimed (after any adjustment as above) should be provided with the return, i.e. a brief description of work done, except where the amount is consistent with previously established annual costs under that heading.
- 'Excess utilised' refers to agreed excess property expenses brought forward.
- A separate computation to support the accounts and the figures in this section can be attached where required.
- Where the computation is not completed, the return form will not be accepted and will be sent back for completion.
- Where the supporting accounts are not submitted, providing all other relevant sections of the return form are complete, the return form will be accepted and the accounts will be requested separately.

### 3.3 OTHER INCOME

All companies with income from other sources are required to complete this section of the return.

Appendix 1 details a numeric list of the available Trade Classification Numbers (TCNs) which is grouped according to source.

- If the company has investment income from the Isle of Man then a 5XX-00 TCN should be used.
- There are four specific TCNs to be used for dividend income:
  - 555-00 Dividends received with no tax or DPC credit
  - 555-01 Dividends received with DPC credit
  - 555-02 Dividends received with tax credit
  - 556-00 Distributions from company reserves
- Any DPC or tax credit vouchers must be included with the return when income is declared using the above TCNs.
  - The value of the credit voucher should be stated in the 'Tax Rate or Credit Voucher Value' column.
- If the company has income from the UK and overseas, that has not already been taxed, then a 6XX-00 TCN should be used. This includes overseas trading profit that has not already been taxed.
- If the company has income from the UK and overseas, that has been taxed, then an 8XX-00 TCN should be used. This includes overseas trading profit that has been taxed.
  - Details of the rate of tax suffered on UK and overseas income should be completed in the 'Tax Rate or Credit Voucher Value' column.
- If the company is an Investment Holding Company, the net taxable income figures should be stated and a computation provided, as detailed in Practice Note PN 68/97 Investment Holding companies – Allowable Expenses.

**4 DIVIDENDS AND DISTRIBUTIONS PAID**

All companies that have paid dividends and distributions during the accounting period are required to complete this section of the return.

In order for the DPC to be calculated correctly, the **total** distributions and dividends have to be entered in the boxes and a separate schedule provided for dividends paid to Manx residents only.

- The schedule should detail the recipient's name and address, amount of dividend/distribution, the date of payment, the accounting period profits from which it was paid and the amount of DPC or other tax credit.

E.g. £10,000 distributed on 31 March 2007 from the reserves of the accounting period ending on 30 June 2004, with a tax credit of £1,000.

The date of the accounting period profits from which the dividend/distribution is paid is required in order for the Assessor to correctly verify the value of any tax or DPC credit attached to the dividend/distribution.

Where the supporting schedule is not submitted with this return, providing all other relevant sections of the return form are complete, the return form will be accepted and the schedule will be requested separately.

**5 DISTRIBUTABLE PROFITS CHARGE**

All companies with any Manx resident ownership are required to complete this section of the return.

- If the answer to question 5.1 is YES, the company is a distributing company and will not be subject to DPC. Therefore, questions 5.2 and 5.3 do not need to be completed.
- For a trading company to qualify as a distributing company under question 5.2, 55% of the distributable trading profits must be distributed. This is the distribution test referred to in section 4 above.
- For an investment company to qualify as a distributing company, the lower of 100% of distributable investment income, or the whole of the accounting profit, must be distributed. Where the company has distributed 100% of its accounting profit, this reason should be specified in question 5.3.
- When calculating the distributable profit, where income has been taxed in the UK or overseas at a rate of less than 18%, then the amount of tax paid is deducted from the distributable profit. Where the tax suffered is at a rate of 18% or more, the income can be excluded from the distributable profit.
- Further guidance in relation to the qualifying criteria for use in question 5.3 can be found in GN36 Distributable Profits Charge Guidance Note.
- Where the company is a non-distributing company and the DPC computation is not submitted with this return, providing all other relevant sections of the return form are complete, the return form will be accepted and the DPC computation will be requested separately.

**6 LOANS TO MANX RESIDENT PARTICIPATORS**

All companies that have made any advances, or written off, or received any repayments of loans, to Manx resident participators during the accounting period are required to complete this section of the return.

- Copies of each participator's loan account for the accounting period will suffice as the schedule required.
- The net advance made to each participator during the accounting period is the chargeable amount. If regular advances made throughout an accounting period are repaid at the end of it, no charge will be made. Repayment may be made by a direct loan account credit of a dividend declared. In practice, repayments made after the end of the accounting period but before the due date for submission of the return (and the payment of a charge) will be taken into account if they are reported.
- Where the supporting schedule is not submitted with this return, providing all other relevant sections of the return form are complete, the return form will be accepted and the schedule will be requested separately.
- Further information regarding loans to participators is detailed in Practice Note PN 106/04 Loans to Participators.

**7 PARTICULARS OF OTHER PAYMENTS MADE BY THE COMPANY**

All companies that have made any of the payments specified during the accounting period are required to complete this section of the return.

- Where the supporting schedule is not submitted with this return, providing all other relevant sections of the return form are complete, the return form will be accepted and the schedule will be requested separately.

**8 INCOME DETAILS**

Only companies with no Manx resident ownership **AND** no income subject to Manx income tax at 10%, or no income at all, should complete this section of the return.

- The amount stated should be the accounting profit for the period.
- Supporting accounts are not required to be submitted with the return.
- Where the company has more than three sources of income, any extra sources can be provided on a separate schedule.

**If this section is not complete the return form will not be accepted**

It will be sent back for completion and re-submission.

**9 ACCOUNTING PERIOD**

This section of the return should be used to inform the Assessor of changes in the accounting period covered by the return form.

- This section can be left blank if there have been no accounting period changes.
- It is important to advise the Assessor of accounting period changes as these periods set the due date for filing of income tax returns and the payment date for income tax and DPC.

**Late notification of a change could result in the issue of late return form penalties, and also the charging of interest on any payments made.**

**10 ADDITIONAL INFORMATION**

This section should be used to confirm whether or not the company was a member of a group for the accounting period.

This information will be used to ensure that a company is identified as a member of a group for DPC and accounts submission purposes. If one Isle of Man group member is required to submit accounts, all Isle of Man members are required to submit accounts, unless otherwise instructed by the Assessor.

**11 DECLARATION**

**ALL** companies must complete this section of the return form.

- The return form must be signed by an officer of the company.
- The computed amount of income tax payable must be stated, even if it is £0. Any payment must be remitted by the due date for the submission of the return (i.e. with the return where the return is not being submitted until the due date).

**If this section is not signed the return form will not be accepted.**

It will be sent back for signature and re-submission.

**Appendix 1 – Trade Classification Numbers**

| TCN Description                 | TCN Number | TCN Description                  | TCN Number |
|---------------------------------|------------|----------------------------------|------------|
| <b>Manx Profit</b>              |            |                                  |            |
| Agriculture, Forestry & Fishing | 20100      | Property owning and management   | 27000      |
| Food & Drink                    | 20500      | Estate agents                    | 27001      |
| Engineering                     | 21000      | Other Business Services          | 27500      |
| Manufacturing                   | 22100      | Info/Communication Technology    | 27600      |
| Mining & Quarrying              | 22200      | Space Industry                   | 27601      |
| Hydrocarbons                    | 22300      | Legal Services                   | 28100      |
| Construction                    | 22500      | Accountancy Services             | 28200      |
| Property Development            | 22503      | Trust/Company Fiduciary Services | 28201      |
| Trades/Contractors              | 22530      | Fund Manager/Administrator       | 28202      |
| Utilities                       | 23400      | Education                        | 28300      |
| Transport                       | 23500      | Medical & Health Service         | 28400      |
| Shipping                        | 24000      | Tourist Accommodation            | 28500      |
| Aircraft Operation              | 24300      | Other Professional Services      | 28600      |
| Wholesale Distribution          | 24500      | Consultants - General            | 28603      |
| Retail Distribution             | 25000      | Catering and Entertainment       | 29100      |
| Retail - Food Shops             | 25050      | On line gaming                   | 29102      |
| Retail - Non Food Shops         | 25060      | Film Production                  | 29200      |
| Insurance                       | 25500      | Miscellaneous Services           | 29500      |
| Banking and Bill Discounting    | 26000      | Public Administration            | 29600      |
| Other Financial Services        | 26500      | Commercial Property Letting      | 29700      |

|  |       |                                     |       |
|--|-------|-------------------------------------|-------|
| <b>Manx Investment</b>                         |       |                                     |       |
| Rental Income                                  | 53500 | Dividends received with tax credit  | 55502 |
| Post Office Interest                           | 54000 | Distributions from company reserves | 55600 |
| Bank Interest                                  | 54500 | Loan & Mortgage Interest            | 56500 |
| Building Society Interest                      | 55000 | Debenture Interest                  | 58000 |
| Loan Interest                                  | 55300 | Government Securities               | 58500 |
| Dividends received (with no tax or DPC credit) | 55500 | Trust/Estate Income                 | 59000 |
| Dividends received with DPC credit             | 55501 | Investment Products                 | 59500 |

|                                  |       |                                |       |
|----------------------------------|-------|--------------------------------|-------|
| <b>Overseas Income (untaxed)</b> |       |                                |       |
| UK Profit                        | 60600 | UK Trust/Estate Income         | 65100 |
| UK Lloyds Underwriting           | 60900 | UK Investment Products         | 65400 |
| UK Rental Income                 | 62100 | Overseas Profit                | 66300 |
| UK Post Office Interest          | 62400 | Overseas Rental Income         | 66900 |
| UK Bank Interest                 | 62700 | Overseas Bank Interest         | 67200 |
| UK Building Society Interest     | 63000 | Overseas Dividends             | 67500 |
| UK Dividends                     | 63300 | Overseas Dividends (Other)     | 67800 |
| UK Dividends (Other)             | 63600 | Overseas Debenture Interest    | 68100 |
| UK Loan & Mortgage Interest      | 63900 | Overseas Government Securities | 68400 |
| UK Debenture Interest            | 64500 | Overseas Trust/Estate Income   | 68700 |
| UK Government Securities         | 64800 |                                |       |

|                                    |       |                                    |       |
|------------------------------------|-------|------------------------------------|-------|
| <b>Overseas Income (taxed)</b>     |       |                                    |       |
| UK Profit Taxed                    | 80600 | UK Trust/Estate Income Taxed       | 85100 |
| UK Lloyds Underwriting Taxed       | 80900 | UK Investment Products Taxed       | 85400 |
| UK Rental Income Taxed             | 82100 | Overseas Profit Taxed              | 86300 |
| UK Post Office Interest Taxed      | 82400 | Overseas Rental Income Taxed       | 86900 |
| UK Bank Interest Taxed             | 82700 | Overseas Bank Interest Taxed       | 87200 |
| UK Building Society Interest Taxed | 83000 | Overseas Dividends Taxed           | 87500 |
| UK Dividends Taxed                 | 83300 | Overseas Dividends (Other) Taxed   | 87800 |
| UK Dividends (Other) Taxed         | 83600 | Overseas Debenture Interest Taxed  | 88100 |
| UK Loan & Mortgage Interest Taxed  | 83900 | Overseas Govt Securities Taxed     | 88400 |
| UK Debenture Interest Taxed        | 84500 | Overseas Trust/Estate Income Taxed | 88700 |
| UK Government Securities Taxed     | 84800 |                                    |       |