



**Isle of Man  
Government**

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## **INCOME TAX DIVISION**

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## **PRACTICE NOTE**

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### **The Tax Treatment of Foundations**

#### **Introduction**

The Foundations Act 2011 came into force on 1 January 2012. This Practice Note provides guidance on the treatment of foundations for Isle of Man income tax purposes.

#### **What is a foundation?**

The creation of a foundation will be on public record at the Companies Registry as will a range of information relating to the foundation. A foundation is a legal person having limited liability, and it can therefore own and manage assets, and arrange funding in its own name. These aspects make the foundation similar to a company.

However, a foundation also has some similarities to a trust: in that it has a founder who is similar to a settlor; beneficiaries who have similar rights to those of a discretionary trust; and, a foundation instrument and rules which are similar to a trust deed.

#### **Tax Treatment**

Section 65 of the Foundations Act 2011 amends Section 120 of the Income Tax Act 1970 so as to define a foundation as a corporate taxpayer. This means that for income tax purposes a foundation will be treated in the same way as a corporate taxpayer.

Foundations will be required to submit a tax return and accounts 12 months after the end of its accounting period; and will be subject to penalties should returns not be filed on time. The taxation of the income of foundations will be the same as for companies: subject to a general rate of 0% and 10% where the foundation receives income from Manx land and property. Guidance on the tax administration of corporate taxpayers can be found in GN38 "The Pay & File Income Tax System for Companies".

## **Avoidance**

If the Assessor is of the opinion that the purpose or one of the purposes of creating or administering a foundation is the avoidance or reduction of the liability of any person to income tax, he may make an assessment to counteract the avoidance or reduction in tax (subject to the provisions of Schedule 1 of the Income Tax 1980).

### **M Couch 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.