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PRACTICE NOTE

PN 135/06

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REPEAL OF SPECIAL COMPANY INCOME TAX REGIMES FROM 6 APRIL 2007

Introduction

This Practice Note provides further guidance on the tax position of companies that were within the special regimes as set out on page 2 of Practice Note 127/06 – ‘Taxation of Companies in the Isle of Man from 6 April 2006’. Those regimes are being repealed with effect from 6 April 2007, and are:

- Tax Exempt Companies (TEC),
- International Business Companies
- Non-Resident Company Duty
- Exempt Insurance Companies
- Exempt Managed Banks

What will happen on 6 April 2007?

Section 19 (2) of the Income Tax (Corporate Taxpayers) Bill 2006 will repeal the legislation supporting the special company income tax regimes with effect from 6 April 2007, and all companies in those regimes on 5 April 2007 will automatically become subject to the resident system for Manx income tax purposes on 6 April 2007. The Assessor will not require any declaration from the company of that change in its status.

What will be required from 6 April 2007?

Companies becoming subject to the resident system from 6 April 2007 will fall into the new corporate income tax regime and will be required to submit income tax returns on an accounting period basis, with the first period commencing on 6 April 2007.

Example 1

A company held tax exempt company status to 5 April 2007 and became resident for Manx income tax on 6 April 2007.

The company makes up annual accounts to 30 September, and its tax obligations are as follows:

Period	Tax Status	Return Required for Period?
1/10/2006 to 5/4/2007	TEC	No
6/4/2007 to 30/9/2007	Resident	Yes
1/10/2007 to 30/9/2008	Resident	Yes

Income tax returns in 2006/2007

All companies that are resident for Manx income tax purposes for all, or part, of the year ending 5 April 2007 will be required to complete and submit the resident company income tax return (form R1C) together with supporting accounts.

Supporting accounts will be those of accounting periods ending in the year to 5 April 2006 for companies on a preceding year basis of assessment, or those ending in the year to 5 April 2007 for companies on a current year basis of assessment.

Where the first accounting period of a company moving from a special regime is greater than 12 months and ends after 6 April 2007, the accounts for that accounting period will be required to support the company's 2006/07 return of income.

Supporting accounts must be audited in all cases where the company does not qualify for audit exemption (see Practice Note PN 6/2006 "Audit Exemption Regulations" issued on 1 May by the Financial Supervision Commission, and the Press Notice issued by Treasury on 16 June 2006 for more details on Audit Exemption).

Companies that were in a special regime to 5 April 2006 and which do not reapply for that status for 2006/07 will be resident companies and subject to the above return obligations.

Example 2

A company held tax exempt company status to 5 April 2006 but did not reapply for it and so became resident for Manx income tax purposes on 6 April 2006.

The company makes up annual accounts to 30 September, and its tax obligations are as follows:

Period	Tax Status	Return Required for Period?
1/10/2005 to 5/4/2006	TEC	No
6/4/2006 to 30/9/2006	Resident	Yes
1/10/2006 to 30/9/2007	Resident	Yes

Reapplication for special regime status in 2006/07

Some companies that were TEC in 2005/06 may not have reapplied to continue that status for the final year of 2006/07 on the incorrect assumption that the normal return and accounts submission requirements would not apply to resident companies for the year.

Given the proximity of 30 June 2006 (the normal reapplication date for continued TEC status), the Division will accept reapplications for continued status at the normal fee of £475 provided they are received in the post or at the public counter in the Division on or before Friday 14 July 2006. Normal late reapplication fees will apply after that date.

New applications for any of the special regimes will not be accepted in 2006/07; neither will new retrospective applications for prior years.

A simplified corporate tax return and other matters

It is intended to introduce a simplified company income tax return for as many companies as possible for periods of account ending on or after 6 April 2007.

The Assessor will consult with interested parties regarding the format of such a simplified return, and which companies will be able to use it. At this time it is not possible to indicate what the format of the return will be. For the purposes of national economic data, it will be vital to require companies to provide some financial data, although this comment should not be construed as implying that accounts will be required to accompany the simplified return.

The Division will shortly commence consultation in respect of simplified corporate tax returns, the taxation of foreign companies in the Isle of Man and some related miscellaneous corporate charge points so as to give certainty at the earliest opportunity.

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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.