

Corporate Income Tax Regime

Proposal Document

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1 Background and purpose of this document

It is Treasury policy to introduce a new tax regime for Manx companies. The concept of a separate Manx Corporate Tax was originally proposed by the Corporate Tax Working Party in July 1994, and a Corporate Tax Consultative Document was issued in February 2001.

However, with the move to a 0% rate of tax for the majority of companies, and the introduction of the Distributable Profits Charge (DPC) by the Income Tax (Amendment)(No.2) Bill 2005, both from 6 April 2006, the introduction of a completely new tax for companies may no longer be appropriate.

Nevertheless, many of the administrative features proposed by the original Corporate Tax Working Party continue to be appropriate, so the Income Tax Division proposes an updated income tax regime for companies which embodies those administrative features within the rules already contained within the Income Tax Act 1970.

The purpose of this document is to provide an outline of the proposed Corporate Income Tax regime, and to seek views and comments in relation to the operation of certain aspects of the regime.

2 The proposed Corporate Income Tax regime**2.1 Scope**

The Corporate Income Tax regime will apply to all entities defined as “corporate taxpayers” in section 120 of the Income Tax Act 1970.

Income tax will continue to be charged on the worldwide income of resident companies, and on the Manx source income of non-resident companies.

The proposed corporate income tax regime will come into effect for periods of account ending after 31 March 2007.

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2.2 Rates of Income Tax

- 1 The standard rate of tax applicable to the profits of most Manx companies will be 0% with effect from 6 April 2006. Higher rates will be applied to particular sources of income and to specific situations which will be identified on a schedular basis as follows:-

Schedule	Proposed rate of corporate income tax %
I Income derived by licensed banks from banking business	10
II Income derived by licensed banks from the investment of their reserves and regulatory capital	2
III Income derived from the post importation retailing or wholesaling of goods in the Island by branches and subsidiaries of non-resident companies	10
IV Income from land and property in the Isle of Man	10
V All other forms of income not taxable under Schedules 1 – IV	0
VI Income of companies that elect to pay tax at a higher rate than the standard rate	10
VII Understatement of company profits	20

Full particulars of the basis of identifying the profits that are taxable under each of these schedules will be disclosed in the Taxation Strategy Consultative Document to be issued shortly.

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3 Basis of Assessment

The new regime will move companies from the present basis of assessment, which is concessionally based on the profits of their accounting period ending in the preceding tax year, to an accounting period basis of assessment.

The accounting period basis of assessment was proposed by the original Corporate Tax Working Party because it is a tried and tested method operated by a number of other jurisdictions, and the Division feels that it continues to be an appropriate way to simplify the assessment of companies, particularly in relation to commencement and cessation.

3.1 Chargeable Accounting Periods

The maximum length of a chargeable accounting period for corporate income tax purposes will be 12 months.

If a period of account is prepared for more than 12 months, say on incorporation or change of accounting date, the income and expenditure in the accounts will be time apportioned into two assessable accounting periods, one of 12 months and one of X months. This is similar to the UK corporate tax system apportionment for long periods of account.

3.1.1 General Rules for Accounting Periods

A tax assessment basis period of a company will end on the first occurrence of any of the following:-

- the expiration of 12 months from the beginning of the basis period
- an accounting date of the company or, if there is a period for which the company does not make up accounts, the end of that period
- the company beginning or ceasing to trade or to be, in respect of the trade, or (if more than one) of all the trades carried on by it, within the charge to income tax
- the company beginning to be or ceasing to be resident in the Isle of Man
- the company ceasing to be within the charge to income tax.

Notwithstanding the rules specified above, where a company is wound up, a basis period shall end and new one shall begin with the commencement of the winding up, and thereafter a basis period shall not end otherwise than by the expiration of 12 months from its beginning or by the completion of the winding up.

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For the purposes of this provision a company resident in the Isle of Man, if not otherwise within the charge to Corporate Tax, is to be treated as coming within the charge to Corporate Tax at the time when it commences to carry on business.

If a company carrying on more than one trade makes up accounts of any of them on different dates, and does not make up general accounts for the whole of the company's activities, then the rule which relates to the accounting date of the company shall apply with reference to the accounting date of such one of the company's trades as the Assessor may determine.

Where it appears to the Assessor that the beginning or end of any accounting period of a company is uncertain he may make an assessment on the company for such period, not exceeding twelve months, as appears to him appropriate. That period shall be treated for all purposes as an accounting period of the company unless either the Assessor, on further facts coming to his knowledge, sees fit to revise it.

4 Corporate Income Tax Returns

Within the current income tax regime there is no requirement for the Assessor to issue a tax return. Rather, taxpayers, including companies, are required to make a return of income to the Assessor within particular time limits (Sections 62 and 66 Income Tax Act 1970).

It is proposed that this requirement will continue within the new regime but that the time limits will change.

There is an opportunity under the new regime to require a company to inform the Assessor when it commences to trade. This is something that is not within our current legislation but which may be appropriate to include.

Views are sought as to whether there is a need to introduce a requirement for a company to notify the Assessor when it commences to trade.

4.1 Filing Date

The filing date for the tax return of a company will be **9 months and 1 day** from the end of the accounting period to which it relates.

For a period of account exceeding 12 months, a return form will be required for each tax basis period.

This was the filing date suggested by the original Corporate Tax Working Party in 1994 and was the time limit proposed in the consultation document in February 2001.

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4.2 Flat-rate penalties for late submission

Flat-rate penalties for the late submission of tax returns were introduced for non-corporates in the Income Tax (Amendment) Act 2004, and a comparable regime is proposed for companies.

However, slightly different rules and amounts will have to apply if the regime for companies is to deter non-compliance in the commercial sector.

The mitigation of the penalty to nil if the resulting tax liability is nil will not be appropriate with a mainstream 0% tax rate, so the following is proposed:

- A flat-rate penalty of £250 charged if the return is submitted after the due date (i.e. 9 months and 1 day after the end of the relevant accounting period);
- A further flat-rate penalty of £500 charged in addition to the £250 if the return is submitted more than 6 months after the due date (i.e. 15 months after the end of the relevant accounting period.)

This proposal uses the same 6 months time limit for the second penalty as that currently in operation for non-corporates.

S111J of the Income Tax (Amendment) Act 2004 introduced a criminal penalty for non-corporates when a tax return is not submitted within 24 months of the end of the tax year to which it relates. It is proposed that where a company return is more than 24 months late the company and its officers would be subject to a criminal offence.

4.2.1 Habitual Late Submission

We also propose an increased flat rate penalty of £1000 for persistent late submissions, from the third year of late submission onwards.

Our non-corporate regime does not have a similar provision for persistent late submission but we see it as a viable option for companies, particularly in a mainstream zero rate regime.

4.3 Tax Based Penalties for Late Submission

Any tax-based penalty system will be rendered redundant by the introduction of the 0% rate of tax.

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Tax-based penalties could be charged in relation to any DPC that a company pays, but would be easily avoided by the company making a distribution sufficient for it to be classified as a distributing company, taking it outside the scope of DPC.

A radical alternative would be to have a rate of tax applicable to the company's profits chargeable to income tax where a company return is more than 12 months late.

Views are sought in relation to what is considered to be the most appropriate replacement for tax based penalties in a mainstream 0% tax rate regime for companies.

4.4 Investigations and Enquiries

Compliance within the 0% rate regime needs to consider both the omission of profits and the impact on the DPC computation. The proposal is that the following process should be adopted:

- The omitted or understated profits should be subject to an "investigation" rate of tax. The rate can be prescribed in accordance with the provisions contained in Part 5 of the Income Tax (Amendment) (No2) Bill 2005. In line with the provisions contained in s.111(3), the Assessor's power to mitigate some or all of the charge should be retained.
- The omitted or understated profits should be added to the taxable profit for the purpose of computing (or adjusting) the DPC. The additional DPC would be treated in line with the existing DPC amount, that is to say the additional DPC will frank any real distribution made in respect of the company profit and would be available for refund if the recipients assessment was in credit.

5 "Pay and File" Regime

5.1 Introduction

The due and payable date for the tax liability will also be 9 months and 1 day from the end of the accounting period to which it relates.

The tax payment date and return form filing date will now be on the same day, which will create a "pay and file" mechanism whereby the company files its tax return and pays its tax liability at the same time.

An assessment will no longer be required to prompt payment of the income tax liability.

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In the “pay and file” regime it is proposed that assessments are no longer issued in respect of every company income tax return that is submitted to the Division.

Assessments will however be issued in specific circumstances, which are detailed in 5.4 Amendments to the Return below.

5.2 Payment of Income Tax

As stated in the introduction above, the due and payable date for income tax in the Corporate Income Tax regime will be 9 months and one day from the end of the accounting period to which it relates.

The income tax liability of the majority of companies will be £ Nil as a result of the mainstream 0% rate of tax.

5.2.1 Interest

Interest will be charged on a company's outstanding liability at the same rate, and calculated in the same manner as for non-corporates, i.e. from the due date of payment until the actual date of payment.

5.2.2 Repayment Supplement

Repayment supplement will be payable on overpayments at the same rate, and calculated in the same manner as for non-corporates, i.e. from the date of actual payment until the date of refund.

5.3 12 month return review period

It is essential in a regime of “pay and file” to have a review period after the return has been submitted.

During this period the company will have a right to amend the return, and the Assessor will also have the right to review the case.

It is proposed that this review period be set at 12 months from the due date of the return, or from the date of submission if later.

At the end of the 12 month review period the return can only be re-examined in certain circumstances. (See 5.5 Assessments below)

5.4 Amendments to the Return**5.4.1 By ITD**

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The Assessor may raise an assessment on a company return revising the original payment if notice is given to the company within the time allowed.

The time allowed will be as follows:

- If the return was delivered on or before the filing date, 12 months from the filing date.
- If the return was delivered after the filing date, 12 months after the date the return was submitted.

The relevant UK Pay and File legislation is contained within schedule 18 of the Finance Act 1998. It is based around an enquiry regime and it is not proposed to introduce such a system on the Isle of Man.

We propose to use our existing legislation (within Sections 84(1), 84(2), 84A and 101 of the Income Tax Act 1970), but to introduce or adjust the time limits.

5.4.2 By the Company

It is proposed that Section 107 Income Tax Act 1970 is maintained, but that the time limit is reduced from 6 years to 4 years.

This will ensure that the company can continue to request a reduction in their payment where they can prove to the satisfaction of the Assessor that the amount paid is in excess of the amount properly chargeable.

Views are sought in relation to the proposed reduction in the 6 year time limit.

5.5 Assessments

It is also proposed that time limits for the raising of an assessment under Section 84A Income Tax Act 1970 will be reduced from 6 years to 4 years, therefore reducing the number of open years.

Assessments raised under this section will only occur where a “discovery” has taken place and therefore additional information must have come to light.

It is proposed to restrict the time limits for raising assessments in cases of fraud or neglect to 12 years.

Views are sought in relation to the reduction in the S84 and S107 time limits from 6 to 4 years, and also in the restriction in the fraud or neglect time limit to 12 years.

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5.6 Final and Conclusive Assessments

It is proposed that, if an assessment is raised, the existing final and conclusive 30 days from issue time limit remains.

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5.7 Default Assessments

The provisions of the existing S86 Income Tax Act 1970 in relation to default assessments will continue to apply. This will be necessary in particular for those companies chargeable to a positive rate of tax.

However, for companies chargeable to income tax at a rate of 0%, a default tax assessment will be unnecessary.

Companies that fall within the DPC regime will instead receive a default DPC raised under the provision of S13B (3) of the Income Tax (Amendment) (No.2) Bill 2005.

5.8 Appeals

It is proposed that the appeals system within the “pay and file” regime will remain as close as possible to current arrangements although some amendments will be required to allow for an appeal where an assessment has not been raised.

6 Computation of Profits

The computation of profit for companies subject to income tax will not change from the current treatment, i.e. expenses wholly and exclusively incurred in generating the income will be deducted and there will be relief for capital expenditure, losses incurred and losses within certain group arrangements.

Distributions will no longer be deductible in a company’s tax computation. The amount of distribution paid will be included in the profits charged to income tax at the relevant rate, and will have a corresponding tax credit attached to be relieved in the hands of the recipient. (See 8.2.2. Distribution Credits below).

As stated in paragraph 2.2, rates of income tax will be charged in relation to fiscal years so, in the event of change in rate, the profits for the accounting period straddling the fiscal years will be time apportioned and the relevant rates applied to each portion.

7 Transition

This is without doubt the most difficult aspect of a move to an accounting period basis of assessment for companies.

There are two categories of company to be considered in relation to the transition. Firstly, and also the most numerous, are those companies that have been assessed

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using the PY accounts basis on an ongoing basis at the start of the new corporate income tax regime.

Secondly are those companies that are in their opening years, and are being assessed under the commencement provisions in the year of assessment prior to the start of the new corporate income tax regime.

Our proposals for transitional treatment for these two categories of company are covered in more detail below.

The main issue for transition is the acceleration of payment dates from 6 January in the year of assessment (which could be up to 21 months from the accounting period end on the PY accounts basis) to 9 months and one day from the end of the accounting period in the new corporate income tax regime.

This is not as big an issue now as it was in 2001 because of the introduction of the mainstream 0% rate of tax, but it is still an issue for those companies that will be liable to pay tax at a positive rate. It is also an issue to those companies that will be liable to DPC because the due and payable date for DPC is the same as the tax due and payable date.

7.1 Companies already on the concessional PY Accounts basis

7.1.1 Original Proposal

The original Corporate Tax Working Party proposed a transitional period of up to 4 years, whereby the due and payable date was advanced in stages depending on the accounting period end date of the company.

A transitional matrix was published in the consultation document issued in February 2001, and this matrix (updated to show current years) is shown at 11.1 of this document.

Whilst this method is reasonably straightforward, and treats all companies with the same accounting date in the same manner, there will be some instances where companies make two payments in the same year.

The original proposal also intended to include a discount based on commercial rates where the due and payable date was advanced.

This proposal leaves no profits out of charge, so will continue Treasury cash flow from companies. However, from an administration point of view it would be 5 years before all companies were operating on the new accounting period basis.

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It is proposed that if a company changes its accounting date to take advantage of the maximum transitional period, it would “fall out” of the transitional regime and immediately onto the 9 months due and payable date.

7.1.2 New Proposal

As an alternative to the original staged four year transitional proposal, we have recently formulated a simpler method to effect the transition onto the new payment date.

A matrix illustrating this new proposal for transition is shown at 11.2 of this document.

The new proposal for transition moves companies to new payment dates within a year of the new basis being introduced. In this way all companies will be on the new basis and have new payment dates within the 2008 year.

Although the payment dates are accelerated for most companies there is a system of taper relief which grants relief for a proportion of profits depending on the number of months since the last payment.

However, the problem of more than one payment in a year for some companies is not overcome.

This new proposal may be more acceptable than the original proposal because some profits will be left out of charge due to taper relief.

Views are sought in relation to which of the proposed transitional methods is the most appropriate, but suggestions for alternative transitional arrangements will also be welcomed.

7.2 Commencements from 6 April 2004

Companies that commenced on or after 6 April 2004 will still be in their opening years when the new corporate income tax regime commences, and will be being assessed using the commencement provisions for the years of assessment 2004/2005, 2005/2006, 2006/2007, and 2007/2008.

These companies will not have been enjoying the extended payment dates associated with consecutive PY accounts basis assessments, so do not need to fall into the transitional regime for advancing payment dates.

Depending on the date of commencement, some of these companies will also not yet have been assessed on a PY accounts basis, which means that they will only have been assessed for the total number of months that their business has existed, so will not require any taper relief.

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The companies can be divided into three categories -

1. Companies commencing between 6 April 2004 and 5 April 2005
2. Companies commencing between 6 April 2005 and 5 April 2006
3. Companies Commencing after 6 April 2006

The Division has considered a number of ways to move these companies onto the new accounting period basis of assessment, the effects of which could be different depending on when the company commenced activity, and what date the accounts are made up to.

The aim of transition for commencements is to ensure that the company is only assessed to tax for the total number of months it has been active, and of the methods we considered, the fairest way to achieve this is a method similar to the recently introduced non-corporate accounts basis of assessment for new business.

The following tables summarise the treatment for companies commencing between 6 April 2004 and the start of the new corporate income tax regime, and specific examples of how the method will be applied can be found in the appendices.

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7.2.1 Companies commencing between 6 April 2004 and 5 April 2005

Short First Period of Account ending before 5 April 2005

Year	Basis Period		Asst. Year	Basis	Due & Payable	Return Due
1	Commencement	End of short period of account	04/05	CY Accounts	30 days from issue of assessment	6/10/05
2	12 month accounts ending in year 2		05/06	CY Accounts	30 days from issue of assessment	6/10/06
3	12 month accounts ending in year 3	If on or before 31/03/2007	06/07	CY Accounts	30 days from issue of assessment	6/10/07
3	12 month accounts ending in year 3	If after 31/03/2007	N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable
4 onwards	12 month period of account		N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable

Short First Period of Account ending after 5 April 2005

Year	Basis Period		Asst. Year	Basis	Due & Payable	Return Due
1	No accounts ending in year		04/05		N/A	N/A
2	short first period of account ending in year 2		05/06	CY Accounts	30 days from issue of assessment	6/10/06
3	12 month accounts ending in year 3	If on or before 31/03/2007	06/07	CY Accounts	30 days from issue of assessment	6/10/07
3	12 month accounts ending in year 3	If after 31/03/2007	N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable
4 Onwards	12 month period of account		N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable

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Long First Period of Account ending between 6 April 2005 and 5 April 2006

Year	Basis Period		Asst. Year	Basis	Due & Payable	Return Due
1	No accounts ending in year		04/05		N/A	N/A
2	accounts ending in year 2		05/06	CY Accounts	30 days from issue of assessment	6/10/06
3	12 month accounts ending in year 3	If on or before 31/03/2007	06/07	CY Accounts	30 days from issue of assessment	6/10/07
3	12 month accounts ending in year 3	If after 31/03/2007	N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable
4 Onwards	12 month period of account		N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable

Examples of how this method will apply to companies with a range of accounting dates can be found at 11.3 of this document.

7.2.2 Companies Commencing between 6 April 2005 and 5 April 2006

Short First Period of Account ending before 5 April 2006

Year	Basis Period		Asst. Year	Basis	Due & Payable	Return Due
1	Commencement	End of short period of account	05/06	CY Accounts	30 days from issue of assessment	6/10/06
2	12 month accounts ending in year 2	If on or before 31/03/2007	06/07	CY Accounts	30 days from issue of assessment	6/10/07
2	12 month accounts ending in year 2	If after 31/03/2007	N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable
3onwards	12 month period of account		N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable

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Short First Period of Account ending after 5 April 2006

Year	Basis Period		Asst. Year	Basis	Due & Payable	Return Due
1	No accounts ending in year		05/06		N/A	N/A
2	accounts ending in year 2	If on or before 31/03/2007	06/07	CY Accounts	30 days from issue of assessment	6/10/07
2	accounts ending in year 2	If after 31/03/2007	N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable
3 Onwards	12 month period of account		N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable

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Long First Period of Account ending between 6 April 2006 and 5 April 2007

Year	Basis Period		Asst. Year	Basis	Due & Payable	Return Due
1	No accounts ending in year		05/06		N/A	N/A
2	accounts ending in year 2	If on or before 31/03/2007	06/07	CY Accounts	30 days from issue of assessment	6/10/07
3 Onwards	12 month period of account		N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable
2*	<i>12 month accounts apportioned to anniversary of commencement</i>	<i>after 31/03/2007</i>	N/A	<i>MCT Accounts</i>	<i>9 months from end of 12 month accounting period</i>	<i>Same as due and payable</i>
3*	<i>Balance of long accounting period</i>		N/A	<i>MCT Accounts</i>	<i>9 months from end of accounting period</i>	<i>Same as due and payable</i>
4 onwards	<i>12 month period of account</i>		N/A	<i>MCT Accounts</i>	<i>9 months from end of 12 month accounting period</i>	<i>Same as due and payable</i>

*The maximum chargeable accounting period for the new corporate income tax regime is 12 months, so if the long period of account ends after 31 March 2007 it must be apportioned into 2 separate basis periods.

The apportionment will be made on the anniversary of commencement which, if before 31 March 2007 will be assessed under the current income tax rules and the balance will be assessed in the new corporate income tax regime.

If the anniversary of commencement is after 31 March 2007, both the 12 month period, and the balancing period will be assessed in the new corporate income tax regime.

Examples of how this method will apply to companies with a range of accounting dates can be found at 11.4 of this document

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7.2.3 Companies Commencing after 6 April 2006

Short First Period of Account ending before 31 March 2007

Year	Basis Period	Asst. Year	Basis	Due & Payable	Return Due
1	Short Period of account	06/07	CY Accounts	30 days from issue of assessment	6/10/07
2 Onwards	12 month period of account	N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable

Short First Period of Account ending after 31 March 2007

Year	Basis Period	Asst. Year	Basis	Due & Payable	Return Due
1	Short Period of account	N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable
2 Onwards	12 month period of account	N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable

Long First Period of Account ending after 31 March 2007

Year	Basis Period	Asst. Year	Basis	Due & Payable	Return Due
1	Accounting apportioned to anniversary of commencement	N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable
2	Balance of long period of account	N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable
3	12 month period of account	N/A	MCT Accounts	9 months from end of 12 month accounting period	Same as due and payable

Long first periods of account will be apportioned to the **anniversary of commencement**, which will form the basis for the first chargeable accounting period under the new corporate income tax regime. The balance will form the basis for the second chargeable accounting period.

Examples of how this method will apply to companies with a range of accounting dates can be found at 11.5 of this document.

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Views are sought in relation to the proposed method to move companies in their opening years into the new corporate income tax regime.

7.3 Cessations

The cessation provisions contained within Section 4 Income Tax Act 1970 will not apply in the new corporate income tax regime.

Cessation of trade, or commencement of winding up of any kind, will trigger the end of a basis period (See 3.1.2 above) and the company will be required to submit a tax return and payment of liability within 9 months and 1 day of this date.

8 Other Issues**8.1 Interaction with the Distributable Profits Charge (DPC)**

DPC is only applicable to companies that are classified as “non-distributing” by S12(9) of the Income Tax (Amendment) (No 2) Bill 2005, full details of which will shortly be made available in a separate DPC consultation response.

From 6 April 2006 DPC will be calculated and charged using the same basis as the income tax regime for companies (i.e. PY accounting period basis, or actual fiscal basis in cases of commencement or cessation) and the information relating to DPC will be declared on the company’s income tax return to 5 April 2006 to be filed by 6 October 2006.

It is proposed that from the start of the new corporate income tax regime, to simplify administration, DPC will also move onto an accounting period basis of assessment and pay and file regime, and the information will continue to be declared on the company’s tax return, which will then be due to be filed 9 months and 1 day after the end of the accounting period end date.

As stated earlier in this document, the issue regarding advanced payment dates for income tax also applies in relation to the payment of DPC because its payment date is linked to the payment date for income tax.

Accordingly, the chosen transitional proposal for advancement of payment dates will apply to DPC payments in the same way as it will for income tax payments.

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8.1.1 Relief for DPC Credits

If the chosen transitional method is taper relief as outlined in 7.1.2, because a portion of profits will not be charged, it follows that only the amount actually paid by the company can be carried with future distributions to be relieved in the shareholder's assessment.

Accordingly, the effective rate of the credit against the total distribution will be less than the 9.9% or 18% that would result if the taper relief were not applied.

For example:

A trading company with a 12 month account period ending 31 August 2007

Distributable profit		£120,000	
Amount chargeable after transitional taper relief:	(5/12)	£50,000	
DPC Payable	(£50,000 X 55% X 18%)	£4,950	(Effective rate 9.9%)
<i>Reserves available for distribution:</i>		<i>£120,000</i>	
<i>Amount of refundable DPC credit</i>		<i>£4,950</i>	<i>(Effective rate 4.13%)</i>

A non-trading company with a 12 month account period ending 31 August 2007

Distributable profit		£120,000	
Amount chargeable after transitional taper relief:	(5/12)	£50,000	
DPC Payable	(£50,000 X 18%)	£9,000	(Effective rate 18%)
<i>Reserves available for distribution:</i>		<i>£120,000</i>	
<i>Amount of refundable DPC credit</i>		<i>£9,000</i>	<i>(Effective rate 7.5%)</i>

8.2 Relief for Foreign Tax Suffered and Distribution Credits**8.2.1 Foreign Tax**

The relief for foreign tax paid by a company will be restricted to the rate of income tax payable by the company, which will be either 0% or 10%.

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Where the rate of foreign tax suffered on a source of income exceeds 18%, that income, when distributed, will be treated as a capital distribution in the hands of the resident shareholder.

Where the rate of tax suffered on the source of income is less than 18%, the relief will be limited to that given to the company.

If the company is subject to a distributable profits charge (DPC) there will be some form of relief for foreign tax paid, which is detailed in 8.2.3 below.

8.2.2 Distribution Credits

A company that is liable to Manx corporate income tax at 10% will be classified as a "distributing company" so will not be subject to DPC.

Distributions from profits taxed at 10% will be accompanied by a non-refundable tax credit attached to ensure that the income is not taxed again in the recipient's hands.

8.2.3 Relief for Foreign Tax and DPC

Where the rate of foreign tax suffered on a source of income exceeds 18%, that income will be excluded from the distributable profit for the purposes of calculating the DPC. (See 8.2.2. Distribution Credits for details of treatment in hands of shareholder)

Where the rate of foreign tax suffered by the company is less than 18%, the amount of tax paid will be deducted from the distributable profit before calculating the DPC payable.

Full details of how relief for DPC paid by the company is granted to the shareholders will be published shortly in a separate DPC consultation response.

8.3 Capital Allowances

Rates of allowances for capital expenditure are also subject to change between fiscal years, so a time apportioning method is also proposed to cater for such changes.

8.3.1 First Year Allowance (FYA)

FYA will be calculated using the rate applicable to the fiscal year during which the asset was acquired.

Where the profits for a 12 month period of account are apportioned, if an FYA of less than 100% is claimed in respect of the first portion, writing down allowance cannot be claimed in respect of the same asset for the second portion.

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8.3.2 Writing Down Allowance (WDA)

A time apportioning method will be required in relation to capital allowance claims for periods of account exceeding 12 months.

When a period of account exceeds 12 months, and so is divided into 2 separate chargeable accounting periods, a separate WDA computation will be required for each period.

WDA will be restricted in periods of less than 12 months so, for example, a 6 month chargeable accounting period will be restricted to 6/12 of the WDA.

8.4 Group and Loss Relief**8.4.1 Group Relief**

It is not proposed to change the current treatment for group relief, although the legislation may require some amendment to support the new accounting period basis of assessment.

8.4.2 Loss Relief

It is not proposed to change the current treatment for loss relief, although the regulations may require some amendment to support the new accounting period basis of assessment.

9 Summary

Views are sought in relation to the following topics:

- Whether there is a need to introduce a legislative requirement for a company to notify the Assessor when it commences to trade.
- The most appropriate regime to replace tax based penalties in the mainstream 0% tax rate regime.
- The reduction in the time limits for changes to assessments from 6 years to 4 years, and to 12 years in cases of fraud or neglect.
- The transitional arrangements for companies that are already assessed on a concessional PY accounts basis of assessments.
- The transitional arrangements for companies that commenced activity between 6 April 2004 and 31 March 2007.

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10 Submissions

Anyone wishing to submit their views in relation to the topics in this document is invited to do so, in writing, to:

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Email: consultation@itd.treasury.gov.im

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11 Appendices

11.1 Original Proposal for Transition

Corporate Clients on PY Basis of Assessment for 12 month Accounts ending between 1 April 2006 and 31 March 2007

Accounts ending after 31 March 2007 will fall into the corporate tax regime and will be assessed on an accounting period basis.

Blue shaded column represents the due and payable date for the final periods of account assessed on PY basis

Lilac shaded dates represent end of transition and commencement of strict 9 month due and payable rules.

Dates in bold represent transitional extended payment dates

* *Dates in italics represent the 9 month return form filing date and strict statutory due and payable date*

Company	Accounting period end	2006	2007	2008	2009	2010	2011
K Ltd	31 January	1.1.07	1.1.08	1.12.08	1.11.09	1.11.10	1.11.11
				<i>1.11.08</i>	<i>1.11.09</i>	<i>1.11.10</i>	<i>1.11.11</i>
L Ltd	28 or 29 February	1.1.07	1.1.08	1.12.08	1.12.09	1.12.10	1.12.11
				<i>1.12.08</i>	<i>1.12.09</i>	<i>1.12.10</i>	<i>1.12.11</i>
A Ltd	31 March	1.1.07	1.1.08	1.1.09	1.1.10	1.1.11	1.1.12
				<i>1.1.09</i>	<i>1.1.10</i>	<i>1.1.11</i>	<i>1.1.12</i>
B Ltd	30 April	1.1.08	1.10.08	1.7.09	1.4.10	1.2.11	1.2.12
			<i>1.2.08</i>	<i>1.2.09</i>	<i>1.2.10</i>	<i>1.2.11</i>	<i>1.2.12</i>
C Ltd	31 May	1.1.08	1.10.08	1.7.09	1.5.10	1.3.11	1.3.12
			<i>1.3.08</i>	<i>1.3.09</i>	<i>1.3.10</i>	<i>1.3.11</i>	<i>1.3.12</i>
D Ltd	30 June	1.1.08	1.10.08	1.8.09	1.6.10	1.4.11	1.4.12
			<i>1.4.08</i>	<i>1.4.09</i>	<i>1.4.10</i>	<i>1.4.11</i>	<i>1.4.12</i>
E Ltd	31 July	1.1.08	1.11.08	1.9.09	1.7.10	1.5.11	1.5.12
			<i>1.5.08</i>	<i>1.5.09</i>	<i>1.5.10</i>	<i>1.5.11</i>	<i>1.5.12</i>
F Ltd	31 August	1.1.08	1.11.08	1.9.09	1.7.10	1.6.11	1.6.12
			<i>1.6.08</i>	<i>1.6.09</i>	<i>1.6.10</i>	<i>1.6.11</i>	<i>1.6.12</i>
G Ltd	30 September	1.1.08	1.11.08	1.9.09	1.7.10	1.7.11	1.7.12
			<i>1.7.08</i>	<i>1.7.09</i>	<i>1.7.10</i>	<i>1.7.11</i>	<i>1.7.12</i>
H Ltd	31 October	1.1.08	1.11.08	1.10.09	1.9.10	1.8.11	1.8.12
			<i>1.8.08</i>	<i>1.8.09</i>	<i>1.8.10</i>	<i>1.8.11</i>	<i>1.8.12</i>
I Ltd	30 November	1.1.08	1.12.08	1.11.09	1.10.10	1.9.11	1.9.12
			<i>1.9.08</i>	<i>1.9.09</i>	<i>1.9.10</i>	<i>1.9.11</i>	<i>1.9.12</i>
J Ltd	31 December	1.1.08	1.12.08	1.11.09	1.10.10	1.10.11	1.10.12
			<i>1.10.08</i>	<i>1.10.09</i>	<i>1.10.10</i>	<i>1.10.11</i>	<i>1.10.12</i>

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11.2 New Proposal for Transition

Corporate Clients on PY Basis of Assessment for 12 month Accounts ending between 1 April 2006 and 31 March 2007

Accounts ending after 31 March 2007 will fall into the corporate tax regime and will be assessed on an accounting period basis.

Blue shaded column represents the due and payable date for the final periods of account assessed on PY basis

Lilac shaded dates represent end of transition and commencement of strict 9 month due and payable rules.

Dates in bold represents transitional "apportioned" payment dates

* *Fraction in italics represent the proportion of the first 12 month accounting period charged to corporate tax*

Company	Accounting period end	2006	2007	2008	2009	2010	2011
K Ltd	31 January	1.1.07	1.1.08	1.11.08	1.11.09	1.11.10	1.11.11
				10/12 th			
L Ltd	28 or 29 February	1.1.07	1.1.08	1.12.08	1.12.09	1.12.10	1.12.11
				11/12 th			
A Ltd	31 March	1.1.07	1.1.08	1.1.09	1.1.10	1.1.11	1.1.12
B Ltd	30 April	1.1.08	1.2.08	1.2.09	1.2.10	1.2.11	1.2.12
			1/12 th				
C Ltd	31 May	1.1.08	1.3.08	1.3.09	1.3.10	1.3.11	1.3.12
			2/12 th				
D Ltd	30 June	1.1.08	1.4.08	1.4.09	1.4.10	1.4.11	1.4.12
			3/12 th				
E Ltd	31 July	1.1.08	1.5.08	1.5.09	1.5.10	1.5.11	1.5.12
			4/12 th				
F Ltd	31 August	1.1.08	1.6.08	1.6.09	1.6.10	1.6.11	1.6.12
			5/12 th				
G Ltd	30 September	1.1.08	1.7.08	1.7.09	1.7.10	1.7.11	1.7.12
			6/12 th				
H Ltd	31 October	1.1.08	1.8.08	1.8.09	1.8.10	1.8.11	1.8.12
			7/12th				
I Ltd	30 November	1.1.08	1.9.08	1.9.09	1.9.10	1.9.11	1.9.12
			8/12 th				
J Ltd	31 December	1.1.08	1.10.08	1.10.09	1.10.10	1.10.11	1.10.12
			9/12 th				

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11.3 Companies Commencing between 6 April 2004 and 5 April 2005**Short First Period of Account ending before 5 April 2005****Example 1**

Company A commences on 1 July 2004 and prepares accounts for the 9 month period to 31 March 2005, and annually to 31 March thereafter.

Company A's assessments for commencement would be as follows:

Year	Basis Period		Asst. Year	Asst. Basis	Due & Payable	Return Due date
	From	To				
1	1/7/2004	31/03/2005	04/05	CY Accounts	30 days from issue of assessment	6/10/05
2	1/4/2005	31/03/2006	05/06	CY Accounts	30 days from issue of assessment	6/10/06
3	1/4/2006	31/03/2007	06/07	CY Accounts	30 days from issue of assessment	6/10/07
4	1/4/2007	31/03/2008	N/A	MCT Accounts	1/1/2009	Same as due and payable

In this example the accounts for year 3 end on 31 March 2007, so do not fall into the new corporate income tax regime.

Example 2 shows the treatment for accounts for year 3 that end after 31 March 2007.

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Example 2

Company B commences on 6 July 2004 and prepares accounts for the 9 month period to 5 April 2005, and annually to 5 April thereafter.

Company B's assessments for commencement would be as follows:

Year	Basis Period		Asst. Year	Asst. Basis	Due & Payable	Return Due date
	From	To				
1	6/7/2004	05/04/2005	04/05	CY Accounts	30 days from issue of assessment	6/10/05
2	6/4/2005	05/04/2006	05/06	CY Accounts	30 days from issue of assessment	6/10/06
3	6/4/2006	05/04/2007	N/A	MCT Accounts	6/1/2008	Same as due and payable
4	6/4/2007	05/04/2008	N/A	MCT Accounts	6/1/2009	Same as due and payable

In this example the accounts for year 3 end after 31 March 2007, so fall into the new corporate income tax regime.

Short First Period of Account ending after 5 April 2005**Example 3**

Company C commences on 1 January 2005 and prepares accounts for the 9 month period ending on 30 September 2005, and annually to 30 September thereafter.

Company C's assessments for commencement would be as follows:

Year	Basis Period		Asst. Year	Asst. Basis	Due & Payable	Return Due date
	From	To				
1	N/A	No accounts end during the year	04/05			6/10/05
2	1/1/2005	30/09/2005	05/06	CY Accounts	30 days from issue of assessment	6/10/06
3	1/10/2005	30/09/2006	06/07	CY Accounts	30 days from issue of assessment	6/10/07
4	1/10/2006	30/09/2007	N/A	MCT Accounts	1/7/2008	Same as due and

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						payable
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Long First Period of Account ending between 6 April 2005 and 5 April 2006**Example 4**

Company D Commences on 1 October 2004 and prepares accounts for the 18 month period to 31 March 2006, and annually to 31 March thereafter.

Company D's assessments for commencement would be as follows:

Year	Basis Period		Asst. Year	Asst. Basis	Due & Payable	Return Due date
	From	To				
1	N/A	No accounts end during the year	04/05			6/10/05
2	1/10/2004	31/03/2006	05/06	CY Accounts	30 days from issue of assessment	6/10/06
3	1/4/2006	31/03/2007	06/07	CY Accounts	30 days from issue of assessment	6/10/07
4	1/4/2007	31/03/2008	N/A	MCT Accounts	1/1/2009	Same as due and payable

In this example the accounts for year 3 end on 31 March 2007, so do not fall into the new corporate income tax regime.

If the accounts ended after 31 March 2007 they would be assessed under the new corporate income tax regime in the same way as for year 3 in example 2.

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11.4 Companies Commencing between 6 April 2005 and 5 April 2006**Short First Period of Account ending before 5 April 2006****Example 5**

Company E Limited commences on 1 September 2005 and prepares accounts for the 4 month period to 31 December 2005, and annually to 31 December thereafter.

Company E's assessments for commencement would be as follows:

Year	Basis Period		Asst. Year	Asst. Basis	Due & Payable	Return Due date
	From	To				
1	1/9/2005	31/12/2005	05/06	CY Accounts	30 days from issue of assessment	6/10/06
2	1/1/2006	31/12/2006	06/07	CY Accounts	30 days from issue of assessment	6/10/07
3	1/1/2007	31/12/2007	N/A	MCT Accounts	1/10/2008	Same as due and payable
4	1/1/2008	31/12/2008	N/A	MCT Accounts	1/10/2009	Same as due and payable

In this example the accounts for year 2 end before 31 March 2007, so do not fall into the new corporate income tax regime.

Example 6 shows the treatment when the accounts for year 2 end after 31 March 2007.

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Example 6

Company F commences on 1 January 2006 and prepares accounts for the 4 months to 30 April 2006, and annually to 30 April thereafter.

Company F's assessments for commencement would be as follows:

Year	Basis Period		Asst. Year	Asst. Basis	Due & Payable	Return Due date
	From	To				
1	N/A	No accounts end during year	05/06			6/10/06
2	1/1/2006	30/04/2006	06/07	CY Accounts	30 days from issue of assessment	6/10/07
3	1/5/2006	30/04/2007	N/A	MCT Accounts	1/2/2008	Same as due and payable
4	1/5/2007	30/04/2008	N/A	MCT Accounts	1/2/2009	Same as due and payable

Long First Period of Account ending between 6 April 2006 and 5 April 2007**Example 7**

Company G commences on 1 May 2005 and prepares accounts for the 18 months to 31 October 2006, and annually to 31 October thereafter.

Company G's assessments for commencement would be as follows:

Year	Basis Period		Asst. Year	Basis	Due & Payable	Return Due
	From	To				
1	N/A	No accounts ending in year	05/06		N/A	6/10/2006
2	1/5/2005	31/10/2006	06/07	CY Accounts	30 days from issue of assessment	6/10/07
3	1/11/2006	31/10/2007	N/A	MCT Accounts	1/8/2008	Same as due and payable
4	1/11/2007	31/10/2008	N/A	MCT Accounts	1/8/2009	Same as due and payable

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Example 8

Company H commences on 6 January 2006 and prepares accounts for the 15 month period to 5 April 2007, and annually to 5 April thereafter.

Company H's assessments for commencement would be as follows:

Year	Basis Period		Asst. Year	Basis	Due & Payable	Return Due
1	N/A	No accounts ending in year	05/06		N/A	6/10/2006
2	6/1/2006	5/1/2007	06/07	CY Accounts	30 days from issue of assessment	6/10/07
3	6/1/2007	5/4/2007	N/A	MCT Accounts	6/1/2008	Same as due and payable
4	6/4/2007	5/4/2008	N/A	MCT Accounts	6/1/2009	Same as due and payable

In this example the long period of account has been apportioned to the anniversary of commencement in order to ensure that the first period of account charged under the new corporate income tax regime is no more than 12 months long.

11.5 Companies Commencing after 6 April 2006**Short First Period of Account ending before 31 March 2007****Example 9**

Company J commences on 1 July 2006 and prepares accounts for 6 months to 31 December 2006, and annually to 31 December thereafter.

Company J's assessments for commencement would be as follows:

Year	Basis Period		Asst. Year	Basis	Due & Payable	Return Due
1	1/7/2006	31/12/2006	06/07	CY Accounts	30 days from issue of assessment	6/10/07
2	1/1/2007	31/12/2007	N/A	MCT Accounts	1/10/2008	Same as due and payable
3	1/1/2008	31/12/2008	N/A	MCT Accounts	1/10/2009	Same as due and payable

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Short First Period of Account ending after 31 March 2007**Example 10**

Company K commences on 1 July 2006 and prepares accounts for 11 months to 31 May 2007, and annually to 31 May thereafter.

Company K's assessments for commencement would be as follows:

Year	Basis Period		Asst. Year	Basis	Due & Payable	Return Due
1	1/7/2006	31/05/2007	N/A	MCT Accounts	1/3/2008	Same as due and payable
2	1/6/2007	31/05/2008	N/A	MCT Accounts	1/3/2009	Same as due and payable
3	1/6/2008	31/05/2009	N/A	MCT Accounts	1/3/2010	Same as due and payable

Long Period of Account ending after 31 March 2007**Example 11**

Company L commences on 1 May 2006 and prepares accounts for the 16 month period to 31 August 2007, and annually to 31 August thereafter.

Year	Basis Period		Asst. Year	Basis	Due & Payable	Return Due
1	1/5/2006	30/04/2007	N/A	MCT Accounts	1/2/2008	Same as due and payable
2	1/5/2007	31/8/2007	N/A	MCT Accounts	1/6/2008	Same as due and payable
3	1/9/2007	31/8/2008	N/A	MCT Accounts	1/6/2009	Same as due and payable

In this example the accounts are apportioned on the anniversary of commencement, which is after 31 March 2007, so all accounting periods fall into the new corporate income tax regime.