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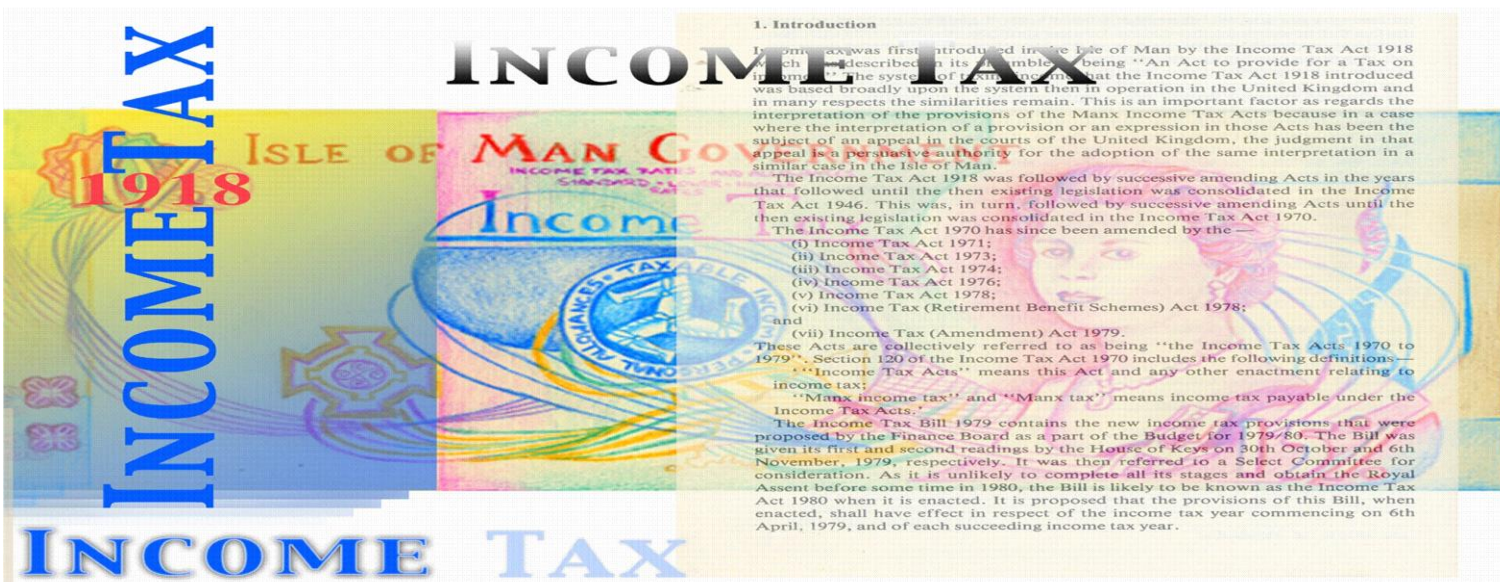

Attribution Regime For Individuals

Guidance Note
GN 41

The Treasury - Yn Tashtey
ITD
Income Tax Division

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This Guidance 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.

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1 Introduction

This guide contains information on all aspects of the Attribution Regime for Individuals (ARI).

For ease of reading this guide will refer to “company” throughout in place of “corporate taxpayer”.

The ARI will apply to all individuals resident in the Island with an interest in a relevant company (see section 4 below for definition) for accounting periods commencing on or after 6 April 2008.

2 Legislation

The Income Tax (Attributed Profits) Temporary Taxation Order 2007 (Statutory Document 928/07) was approved by Tynwald in December 2007. This introduces the necessary legislation for the new regime.

The Temporary Taxation Order for the ARI is also supported by a number of regulations and orders which were approved by Tynwald in May 2008. A summary of these is contained in Appendix B.

3 Scope of the new charge

The ARI applies to all resident individuals with an interest in a relevant company.
This is a new charging provision and will include individuals in their capacity as trustees for certain trusts resident in the Island.

Resident individuals with an interest in a relevant company will be charged to income tax on their share of the attributed profits from that company. This will, in essence, remove the corporate veil for income tax purposes as individuals will be taxed directly as if they had received the income attributable to their share of the annual profits of a relevant company. This is known as the attributed income.

When dividends are paid from those annual profits which have been subject to ARI, they will be free of tax.

4 Relevant company

A company that is:-

- resident for income tax purposes in the Island;
- incorporated, established or constituted under the law of the Island; or
- registered under Part XI of the Companies Act 1931,

is a relevant company for the purposes of the ARI unless it falls within one or more of the categories detailed in the Income Tax (Attributable Profits) (Relevant Company) Order 2008, (Statutory Document 240/08) for the whole of the accounting period. These categories are:-

(a) a company the whole of whose income is exempt under section 15 of the 1970 Act, (being a company established for charitable purposes only or to repair any college, church, chapel or any building used solely for the purpose of public worship, or receiving income from any property of Her Majesty in whatever name or names the same may vest or stand) or a company wholly owned by such a company;

(b) an "agricultural society", being a society or institution established for the purposes of promoting the interests of agriculture, horticulture, livestock breeding or forestry;

(c) the Isle of Man Agricultural Marketing Society;

(d) a friendly society whose income would be exempt from income tax under Section 18 of the 1970 Act;

(e) a public Board or authority constituted under any enactment or under any order approved by Tynwald under any enactment, and of any local authority;

(f) a pension scheme approved under section 49 of the 1970 Act, the Income Tax (Retirement Benefit Schemes) Act 1978 or section 2 of the Income Tax Act 1989;

(g) a company that is licensed by the Financial Supervision Commission under the Banking Act 1998;

(h) a company that is registered under the Industrial and Building Societies Act 1892 or authorised under the Building Societies Act 1986.

(i) a company that is a company limited by guarantee and where the members of that company cannot benefit from any distribution made by the company at any time;

(j) a members' club or association where the members of the club or association cannot at any time benefit from a distribution;

(k) a company that pays Isle of Man income tax at more than the standard rate on the whole of its profits under the Income Tax (Rates of Income Tax) (Resident and Non Resident Corporate Taxpayers) Order 2006 (Statutory Document 224/06); or

(l) a company that is listed on a recognised stock exchange shown in Appendix A.

4.1 Non-trading and trading companies

In order to reduce complexity for the purposes of the ARI, relevant companies will be classed as either trading or non-trading. This classification considers all of the income that company has received from any source. When determining whether a company is a trading company, the classification is based on the percentage of turnover or gross income that the company derives from trade, compared to what it receives from non-trade sources.

A company which derives more than 50% of its turnover or total gross income (as appropriate) from a trading source will be treated as a trading company.

Example 1

Company A has a turnover of £100,000 from its trade and holds an instant access investment account generating £24,000 interest per year.

As the interest is less than 50% of the total income of the company it is treated as a trading company for the purposes of the ARI.

The 50/50 'split' must be calculated in order to establish if the company is trading or non-trading due to the different way in which attribution applies to each type.

For the purposes of ARI, when calculating the turnover/gross income split, rental income is treated as non-trading income

Example 2

Turnover	£5,000
Rental income	£7,500
Total turnover/gross income	£12,500

As the non-trading income is greater than 50% of the total turnover/gross income figure the company is classed as non-trading. For further examples, please refer to Appendix E.

4.2 Non-trading company

Where an individual holds shares in a non-trading company that is a relevant company, there will be full attribution to the resident members of their proportion of the distributable profit.

There is no concession in relation to accounting profit for non-trading companies. All non-trading companies are relevant and the distributable profit will be attributed to resident members. See section 5.2 for calculation of the distributable profit.

4.3 Trading company

A trading company means a company whose business consists wholly or mainly of the carrying on of a trade or trades, the turnover or gross income (as appropriate) from which is more than 50% of the total turnover or gross income (as appropriate) of the company.

Where within 12 months of the end of an accounting period, a trading company distributes at least 55% of its distributable profits for that accounting period, the company will not be treated as a relevant company.

By concession, the Assessor will also consider a trading company not to be a relevant company, providing that it distributes at least 55% of the proportion of the distributable profit which relates to resident members to those members.

Where a trading company's distributable profit (see section 5 below) for a 12 month accounting period is less than £500 the company will not be treated as a relevant company for that accounting period. The £500 limit will be pro-rated for accounting periods of less than 12 months.

4.4 Election to be taxed at 10%

A trading company may make an election to pay tax at 10% on its distributable profits. An election to pay 10% tax will mean that the company will not be treated as a relevant company.

4.5 Proportion of distributable profits – averaging

As explained in section 4.3 above, in normal circumstances a *trading* company must distribute at least 55% of its distributable profits for an accounting period within 12 months of the end of that accounting period if it is to avoid being a relevant company for that period. However, it will nevertheless be treated as having distributed 55% if a claim is made to the Assessor that it has distributed by the same date at least 55% of the total distributable profits for-

(i) that accounting period and the immediately preceding accounting period of the company; or

(ii) that accounting period and the two immediately preceding accounting periods of the company.

The percentage of the total distributable profits for the two or three accounting periods will be the total distributions made by the company out of its distributable profits for those accounting periods divided by the company's total distributable profit for those accounting periods multiplied by 100.

A claim to the Assessor for averaging to apply must be made in writing within 12 months of the end of the accounting period. If the return form is submitted after the due date, any claim for averaging will not be accepted.

Example 3

A trading company has the following results for a three year period:

Year	**Distributable Profit £**	**Distribution £**	**% Distributed**	**Average distribution**	**ARI applicable to year**
1	100,000	75,000	75%	75%	No
2	1,500	1,000	67%	74.9%	No
3	90,000	45,000	50%	63.2%	No – after averaging
Total	**191,500**	**121,000**			

In year 3 the actual distribution is only 50% of that year's distributable profits so the annual 55% test has not been satisfied.

However, the average distribution over the three year period is 63.2%. If a claim was made for averaging for year 3, the company would not be a relevant company for that year and it would not be necessary to attribute the company's year 3 distributable profits to its members under the ARI.

The averaging system cannot be used to change the status determined on an earlier year. It can only be used to determine status on the current year.

Example 4

The same trading company has the following results for year 4:

Year	Distributable Profit £	Distribution £	% Distributed	Average Distribution	ARI applicable to year
2	1,500	1,000	67%		No
3	90,000	45,000	50%		No – already averaged
4	20,000	7,000	35%	47.5%	Yes – after averaging
Total	**111,500**	**53,000**			

The average distribution over this three year period is 47.5%, so the company is a relevant company for the purposes of the ARI for year 4. The company is therefore required to attribute its year 4 distributable profits to its members.

The dividend that is actually received from the company by those members from the year 4 distributable profit will not be chargeable to income tax. In addition, there will be no income tax on any later dividends paid by the company to those members out of the profits of that accounting period.

The determined status for year 3 is not affected by the averaging calculation for year 4.

4.6 Collective investment schemes

Any company that is an "authorised" or an "international" collective investment scheme within the meaning of the Financial Supervision Act 1988 throughout its accounting period will not be treated as a relevant company for that accounting period provided either of the following conditions are met:-

(i) the scheme does not permit contributions from participants resident in the Isle of Man; or

(ii) if the scheme does receive contributions from an Isle of Man resident person it must report distributions from the fund to resident members to the Assessor on an annual basis. The name and address of each person, the amount of any payment made from the scheme to them and the date of the payment are required.

5 Calculation of distributable profit

Distributable profit for the purposes of the ARI is calculated in exactly the same way as it was for the Distributable Profits Charge. To determine the amount of distributable profit, the profits of a company may be reduced by:-

1. any relief or allowance permitted under Section 27A Income Tax Act 1970 – relief and allowance for trading losses and capital expenditure;
2. any relief permitted under Section 29 Income Tax Act 1970 – relief for capital expenditure;
3. group relief received;
4. income liable to Isle of Man income tax at 10%;
5. income subject to foreign tax at a rate of 18% or higher; and
6. the amount of foreign tax paid at a rate of less than 18%.

Below is a model distributable profit computation that can be used to calculate the distributable profit of a relevant company with a range of income types.

Income			X
Less:	Capital allowances	(X)	
	Loss relief	(X)	
	Group relief	(X)	
			(X)
Total Income			**X**
Less:	Income subject to Manx tax at 10%	(X)	
	Income subject to foreign tax at 18% or more	(X)	
	Foreign tax paid at less than 18%	(X)	
			(X)
Distributable Profit			**X**

See section 5.5 below for further details on the double taxation relief aspects included in the model computation.

The distributable profit would then be apportioned depending on the shareholding in the relevant company and attributed to those members who are Manx resident individuals.

Example 5

Company Z is a trading company and its distributable profit for its accounting period ending 31 December 2010 is £10,000. It has 100 members who each have an equal share in the company. Only two of Company Z's members are individuals who are resident in the Isle of Man.

Strictly, Company Z will be a relevant company unless it distributes at least £5,500 (55% of £10,000) to its members by 31 December 2011. If it does not make such a distribution, the two resident members will be liable to income tax on their share of the profit (£100 each) i.e. their share of Company Z's distributable profit will be attributed to them. However, in practice, provided the Manx resident individual members receive a distribution of at least 55% of their share of the distributable profit (£55 each in this example) within the relevant time limit, the Assessor will accept that the company is not a relevant company for that accounting period and will therefore not attribute any income to the Manx resident individual members under the ARI. Those members will be taxed on the actual distribution they receive.

5.1 Calculation of distributable profit – trading companies

The following examples illustrate how the attribution is calculated for individuals with an interest in a trading company. In each case the dividends are paid out of the distributable profits of the accounting period being considered.

Later sections of this guide show how the calculation will operate for individuals with an interest in a non-trading company.

Example 6

	£	
Gross trading profit	39,000	
Trading expenses	(19,000)	
Less capital allowances	(200)	
Less losses b/f	(300)	
Distributable profit	**19,500**	
Dividends paid	15,000	77% of distributable profit

As the dividends paid out exceed 55% of the distributable profit, provided they are paid within 12 months of the end of the relevant accounting period, the company will not be a relevant company and there will therefore be no profit attributed to the individual members. The dividends received from the company will be charged to income tax on the members in the usual manner.

Example 7

	£	
Gross trading profit	39,000	
Trading expenses	(19,000)	
Less capital allowances	(200)	
Less losses b/f	(300)	
Distributable profit	**19,500**	
Dividends paid	5,000	26% of distributable profit

As the dividend paid is less than 55% of the distributable profit in this example, there will be an attribution to the resident individual members of their share of the distributable profit. The dividend that is actually received from the company by those members will not be chargeable to income tax. In addition, there will be no income tax on any later dividends paid by the company to those members out of the profits of that accounting period.

5.2 Calculation of distributable profit – non-trading companies

A company is either a trading company or a non-trading company (see sections 4.1 and 5.3). Where an individual holds shares in a non-trading company that is a relevant company, there will be full attribution to the resident members of their proportion of the distributable profit.

The amount of an individual's attribution will be calculated in a similar manner to that for a trading company. However, deductions will be restricted to only those incurred specifically in generating the investment income, and the method for computing taxable profits for investment holding companies set out in Practice Note 68/97 and Practice Note 74/99 issued by the Division, will continue to apply.

Example 8

The following examples illustrate how the attribution is calculated when shares are held in a relevant company whose only income is from non-trading sources.

	£
Investment income	20,000
Allowable expenses	(2,000)
Distributable profits	**18,000**
Dividends paid	10,000

The distributable profit of the relevant company of £18,000 will be attributed in full to the resident members. The dividend that is actually received from the company will not be chargeable to income tax. In addition, there will be no income tax on any later dividends paid by the company out of the profits of that accounting period.

Example 9

	£
Untaxed investment income	20,000
Allowable expenses	(2,000)
Distributable profits	**18,000**
Dividends paid	18,000

In this example, even though the relevant company has paid all of the profits as a dividend, the whole of the distributable profit will still be attributed to the individual resident members. The dividend that is actually received from the company will not be chargeable to income tax.

In practice, the attributed income and the dividend actually received by the members should generally be the same amount providing the full distributable profit is distributed.

5.3 Mixed income companies

As stated in section 4.1, there will be no different treatment for trading or investment income within a company where it received both. A company will either be trading or non-trading for the purposes of the ARI. A company which derives more than 50% of its total turnover or gross income (as appropriate) from trade will be treated as a trading company.

For examples, please refer to Appendix E.

5.4 Companies with rental income and investment income

Where a company receives only Manx rental income it is not a relevant company for the ARI. However, if the company also receives more than £1,000 of investment income it will be a relevant company for the purposes of the ARI.

If a company received less than £1,000 of investment income in addition to Manx rental income, the investment income would be treated as part of the income taxable at 10% and the individual members would therefore not be subject to attribution. When dividends are paid relating to this income there will be a 10% refundable tax credit attached.

Example 10

A company receives £25,000 rental income and £500 bank interest for an accounting period.

As there is less than £1,000 of investment income, the £25,500 will be taxable on the company at 10%.

When a dividend is paid to the members in respect of this income it will carry a 10% refundable tax credit.

If the amount of investment income received is more than the £1,000 de minimis limit, the whole of the distributable profit of the company will be attributed to the resident members.

Example 11

A company receives £25,000 rental income and £5,000 bank interest for an accounting period.

As the investment income received exceeds the de minimis limit of £1,000, the members are subject to attribution.

The distributable profit for the company is calculated as follows:

			£
Manx rents			25,000
Less:	Capital Allowances	-	
	Loss Relief	-	
Bank Interest			5,000
			30,000

Less:	Income subject to Manx tax at 10% (Manx rents)	(25,000)	
			(25,000)
Distributable Profit			**5,000**

£5,000 is attributed to the resident members.
For further examples, please refer to Appendix E.

5.5 Relief for double taxation

As detailed in section 5 above, the calculation of distributable profit does not include:-

1. income subject to foreign tax at a rate of 18% or higher; or
2. any amount of foreign tax paid at a rate of less than 18%.

For the purposes of the ARI, the amount of "income subject to foreign tax" will be the amount net of standard expenses and the relevant proportion of general expenses.

Under the ARI, income of a company that has already suffered foreign tax at a rate of 18% or more can continue to be extracted from a company as a "capital distribution". This "capital distribution" will not require the approval of the Assessor prior to payment and the income can be disregarded when calculating the distributable profit.

Example 12

This example uses the model distributable profit income computation suggested in section 5.

			£
Manx rents			12,000
Less:	Capital Allowances	(4,000)	
			(4,000)
Untaxed Manx dividends			25,000
UK taxed rents (30%)			75,000
Taxed foreign dividends (8%)			20,000
Total Income			**128,000**
Less:	Income subject to Manx tax at 10% (Manx rents)	(8,000)	
	Income subject to foreign tax at 18% or more (UK rents)	(75,000)	
	Foreign tax paid at less than 18% (8% on foreign dividends)	(1,600)	
			(84,600)
Distributable profit			**43,400**

6 Attribution - trading company

The members of a trading company which does not distribute 55% of the distributable profits within 12 months of the end of an accounting period will be subject to attribution.

Example 13

XYZ Limited is a relevant company for the purposes of the ARI and has an accounting period ending on 30 June 2009. All the members are Manx resident. XYZ Limited has a distributable profit of £250,000.

XYZ Limited has until 30 June 2010 to distribute £137,500 (55%) of its distributable profit to its members to avoid being a relevant company for the purposes of the ARI.

If the company does not distribute 55% of the distributable profit of £250,000 by 30 June 2010, this will be attributed to the resident members on that date. The company must issue a certificate of attributed profits to its members by 30 June 2010. The members will then be liable to income tax on this amount in the 2010/11 tax year.

Any dividend that is actually received from the company by those members from this distributable profit will not be chargeable to income tax. In addition, there will be no income tax on any later dividends paid by the company to those members out of the profits of that accounting period.

6.1 Attribution – non trading company

The full distributable profits of a non-trading company will be attributed to its members 12 months after the end of the accounting period irrespective of any dividends paid during the accounting period.

Example 14

ABC Limited is a non-trading company and has an accounting period ending on 31 July 2009. All the members are Manx resident. ABC Limited has a distributable profit of £50,000.

On 31 July 2010 the full £50,000 will be attributed to the members of ABC Limited. They will be liable to income tax on this amount in the 2010/11 tax year.

Any dividend that is actually received from the company by those members from this distributable profit will not be chargeable to income tax. In addition, there will be no income tax on any later dividends paid by the company to those members out of the profits of that accounting period.

6.2 Calculation of the distributable profit per share

In order to calculate the correct amount of profit to be attributed to each member, a relevant company must calculate the distributable profit per share (assuming that the company only has one class of share). This is done by the following formula:

$$\frac{\mathbf{A}}{\mathbf{B}} = \mathbf{F}$$

where –

A is the distributable profit of the company for the accounting period; and
B is the number of shares comprising the issued share capital of the company throughout the accounting period; and
F is the amount of distributable profit per share.

Once the distributable profit per share is known the amount to be attributed to each resident member is calculated by the following formula:

$$\frac{\mathbf{C}}{\mathbf{D}} \times \mathbf{E} \times \mathbf{F}$$

where –

C is the number of days in the accounting period on which the resident member owned the share or shares in the company;
D is the number of days in the accounting period; and
E is the number of shares comprised in the issued share capital of the company owned by the resident member.

Example 15

Company XYZ is a relevant company and has a distributable profit of £100,000 for the accounting period ending on 31 May 2009. It has 100 issued shares which are held by five members each holding 20 shares. One member is not resident for Manx income tax purposes but the other four are resident in the Island.

The company must first calculate the profit to be distributed per share as follows:

$$\frac{\mathbf{A}}{\mathbf{B}} = \mathbf{F} \quad \frac{100{,}000}{100} = \mathbf{1{,}000}$$

The distributable profit for each share is £1,000.
The next stage is to calculate the amount of the distributable profit that needs to be attributed to each Manx resident member.

$$\frac{\mathbf{C}}{\mathbf{D}} \times \mathbf{E} \times \mathbf{F} \qquad \frac{365}{365} \times 20 \times 1{,}000 = \mathbf{20{,}000}$$

£20,000 would be attributed to each Manx resident member on 31 May 2010.

This amount would be charged to income tax in the member's 2010/11 assessment.

6.3 Calculation of the distributable profit per share where there are different classes of share

If a company has different classes of share, the calculation must be adjusted to reflect that position.

Example 16

Company E has a distributable profit of £100,000 for the accounting period ending 30 June 2009. It has 60 'A' class shares and 40 'B' class shares.

The 'A' class shares are entitled to 75% of the profit.
The 'B' class shares are entitled to 25% of the profit.

There are five Manx resident members whose shareholdings are as follows:

Member	One	holds 40 "A" shares
	Two	holds 20 "B" shares
	Three	holds 10 "A" shares and 10 "B" shares
	Four	holds 5 "A" shares
	Five	holds 5 "A" shares and 10 "B" shares

The company must first calculate the distributable profit to be attributed per share for each class as follows:

'A' class Shares

75% of £100,000 = £75,000

$\frac{A}{B} = F \qquad \frac{75{,}000}{60} = \mathbf{1{,}250}$

'B' class shares

25% of £100,000 = £25,000

$\frac{A}{B} = F \qquad \frac{25{,}000}{40} = \mathbf{625}$

The next stage is to calculate the amount of the distributable profit that needs to be attributed to each Manx resident member.

Member One - holds 40 "A" shares

$\frac{C}{D} \times E \times F \qquad \frac{365}{365} \times 40 \times 1{,}250 = \mathbf{£50{,}000}$

Member Two - holds 20 "B" shares

$\frac{C}{D} \times E \times F \qquad \frac{365}{365} \times 20 \times 625 = \mathbf{£12{,}500}$

Member Three - holds 10 "A" shares and 10 "B" shares

$\frac{C}{D} \times E \times F \qquad \frac{365}{365} \times 10 \times 1{,}250 = \mathbf{£12{,}500}$

$\frac{\mathbf{C}}{\mathbf{D}}$ **x E** **x F** $\frac{365}{365}$ x 10 x 625 = **£6,250**

Member Four - holds 5 "A" shares

$\frac{\mathbf{C}}{\mathbf{D}}$ **x E** **x F** $\frac{365}{365}$ x 5 x 1,250 = **£6,250**

Member Five - holds 5 "A" shares and 10 "B" shares

$\frac{\mathbf{C}}{\mathbf{D}}$ **x E** **x F** $\frac{365}{365}$ x 5 x 1,250 = **£6,250**

$\frac{\mathbf{C}}{\mathbf{D}}$ **x E** **x F** $\frac{365}{365}$ x 10 x 625 = **£6,250**

The income would be attributed to each Manx resident member on 30 June 2010. These amounts would be charged to income tax in the individuals' 2010/11 assessments.

For further examples, please refer to Appendix E.

6.4 Calculation of the distributable profit per share where there is a change in the share capital during the accounting period

If a company changes its share capital during the year, the ARI calculation will be affected. In this case, the distributable profit must be apportioned between the shares over the separate periods.

Example 17

A relevant company has an accounting period ending on 31 July 2010. It has a distributable profit of £150,000. No distributions were made by 31 July 2011. The company commenced the accounting period with a share capital of 200 shares. Member One and Member Two owned 100 each. Two hundred additional shares were subsequently issued on 1 January 2010. These were issued to Member Three.

The calculation for ARI is as follows:

Apply the calculation for the first period to obtain the distributable profit per share (1 August 2009 to 31 December 2009):

$$\frac{A}{B} = F \qquad \frac{150{,}000}{200} = \mathbf{750}$$

<u>Member One</u> – holds 100 shares

$$\frac{C}{D} \times E \times F \qquad \frac{153}{365} \times 100 \times 750 = \mathbf{£31{,}438}$$

<u>Member Two</u> – holds 100 shares

$$\frac{C}{D} \times E \times F \qquad \frac{153}{365} \times 100 \times 750 = \mathbf{£31{,}438}$$

Apply the ARI calculation for the second period to obtain the distributable profit per share (1 January 2010 to 31 July 2010):

$$\frac{A}{B} = F \qquad \frac{87{,}123}{400} = \mathbf{375}$$

<u>Member One</u> – holds 100 shares

$$\frac{C}{D} \times E \times F \qquad \frac{212}{365} \times 100 \times 375 = \mathbf{£21{,}781}$$

<u>Member Two</u> – holds 100 shares

$$\frac{C}{D} \times E \times F \qquad \frac{212}{365} \times 100 \times 375 = \mathbf{£21{,}781}$$

<u>Member Three</u> – holds 200 shares

$$\frac{C}{D} \times E \times F \qquad \frac{212}{365} \times 200 \times 375 = \mathbf{£43{,}562}$$

Summary

The amounts to be attributed to each member are as follows:

Member One	**£53,219**
Member Two	**£53,219**
Member Three	**£43,562**

These amounts would be attributed to each Manx resident member on 31 July 2011 and would be charged to income tax in the individuals' 2011/12 assessments.

For further examples, please refer to Appendix E.

7 Groups

For the purposes of the ARI, 'group' means a group of companies that would qualify for 'group relief' in accordance with Schedule 2 to the Income Tax Act 1980.

If the group member is wholly owned by the parent company, then only the parent company will be required to complete the ARI section of the income tax return form in full and submit Certificates of Attributed Profits to members and the Income Tax Division if relevant.

The other wholly owned group members will be required to fully complete the rest of their income tax return and, in the ARI section, state that they qualify as a non-relevant company due to being a group member and specify the parent company on the return.

The regime will apply as if the profits of the whole group are those of the holding company.

Groups will be classed as either trading or non-trading. This classification considers all of the income that the group has received from any source. When determining whether a group is a trading group, the classification is based on the percentage of turnover or gross income that the group as a whole derives from trade, compared to what it receives from non-trade sources.

A group which derives more than 50% of its turnover or total gross income (as appropriate) from a trading source will be treated as a trading group.

7.1 Trading group

Where a trading group distributes a minimum of 55% of the group's distributable profit to the beneficial owners of the ultimate parent company there will be no attribution to the resident individual members of the group.

7.2 Non-trading group

As with non-trading companies, the proportion of the distributable profit of a non-trading group which relates to the resident members of the ultimate parent company will be attributed to those members.

7.3 Calculation of distributable profit

Distributable profit for each group member is calculated in the same way as for any other company, so income subject to foreign tax at 18% or more and income subject to Manx income tax at 10% is excluded, and the amount of foreign tax paid at less than 18% is deducted from the distributable profit.

Where a qualifying group member has a trading loss, group relief may be claimed and losses surrendered to nominated claimant companies under the group relief provisions.

Example 18

Company	**Distributable Profit**	**Group Distributable Profit**
Company G Loss surrendered by H	30,000 (30,000)	
	0	**0**
Company H Surrendered to G & I	(40,000) 40,000	
	0	**0**
Company I Loss surrendered by H	100,000 (10,000)	
	90,000	**90,000**

Company I is the holding company of this trading group and distributes £90,000 outside the group, so making the group a distributing group.

For further examples, please refer to Appendix E.

7.4 ARI calculation for a group

In order to calculate the attributable profits for a group, all the profits are aggregated and then the distributable profit is calculated in the same way as for any other company. Income subject to foreign tax at 18% or more and income subject to Manx income tax at 10% is excluded, and the amount of foreign tax paid at less than 18% is deducted from the distributable profit.

Where a qualifying group member has a trading loss, normal group relief provisions apply.

Example 19

Company A is the parent/holding company of companies B, C and D which are wholly owned subsidiary companies. The owners of company A have the following shareholdings:

Member One	5 ordinary shares
Member Two	5 ordinary shares
Member Three	10 ordinary shares

Company A	Investment income	40,000 (excludes 50,000 from B, C and D)
	Distributable profit	40,000
	Dividend paid	65,000 to Members One, Two and Three
Company B	Trade turnover	70,000
	Distributable profit	50,000
Company C	Trade turnover	40,000
	Distributable profit	20,000
Company D	Investment income	50,000
	Distributable profit	50,000

Step 1

Calculate the 50/50 split of turnover/gross income to establish if the group is trading or non-trading.

Trading income	£110,000	Investment income	£90,000

Trading income of £110,000 is greater than 50% of total turnover of £200,000; therefore the group is a trading group.

Step 2

Has the holding company distributed more than 55% of its distributable profit?

Total distributable profit	£160,000
Required distribution (55%)	£88,000
Dividend paid	£65,000

As this is less than 55% the group is a relevant group for the purposes of the ARI.

Step 3

As the group is a relevant group for ARI, the distributable profit of the group, (£160,000), will be attributed to the members.

The calculation of distributable profit for each share is as follows:-

$$\frac{\mathbf{A}}{\mathbf{B}} = \mathbf{F} \qquad \frac{160{,}000}{20} = \mathbf{8{,}000}$$

The attribution for each member is calculated as follows:-

Member One – holds 5 shares

$$\frac{\mathbf{C}}{\mathbf{D}} \; \mathbf{x\,E} \; \mathbf{x\,F} \qquad \frac{365}{365} \; \text{x } 5 \; \text{x } 8{,}000 \; = \; \mathbf{£40{,}000}$$

Member Two – holds 5 shares

$$\frac{\mathbf{C}}{\mathbf{D}} \; \mathbf{x\,E} \; \mathbf{x\,F} \qquad \frac{365}{365} \; \text{x } 5 \; \text{x } 8{,}000 \; = \; \mathbf{£40{,}000}$$

Member Three – holds 10 shares

$$\frac{\mathbf{C}}{\mathbf{D}} \; \mathbf{x\,E} \; \mathbf{x\,F} \qquad \frac{365}{365} \; \text{x } 10 \; \text{x } 8{,}000 \; = \; \mathbf{£80{,}000}$$

For further examples, please refer to Appendix E.

7.5 Interest incurred to finance purchase of subsidiary

Where a group parent company whose only income is intra-group dividends from subsidiaries incurs debt to fund the purchase of a subsidiary company, there is no income to offset any interest payment against, and the resulting negative figure is not strictly a “loss” for the parent company under the loss regulations.

In previous years the interest payment was relieved against the dividends received and reduced the amount of income tax payable by the group parent.

To maintain the position now, the interest paid can be relieved against the group distributable profit when calculating the consolidated group distributable profit.

This will reduce the amount required to be distributed for the group to qualify as a non-relevant group.

This treatment will also apply where the interest is paid by an existing subsidiary member that uses its assets as security for an external loan which is made available to the parent to fund the purchase of another subsidiary.

7.6 Groups and minority shareholdings

A company which is not wholly owned by the group parent company will be required to complete an income tax return form in full, including the ARI section. However, Certificates of Attributed Profits need only be produced for the minority non-corporate shareholders. The parent company is required to submit attribution schedules for the group.

Where a member company of a group has a minority shareholding (e.g. 20% of the company is owned by non-group members) the company’s gross income/turnover should be considered first to establish if the company is trading or non-trading. The distributable profit should then be apportioned *pro rata* according to the minority/group shareholdings. Then, depending on whether the company is relevant or not relevant, an attribution calculation may be carried out.

Example 20

Parent/holding company of the group is Company A. All the companies are 100% controlled by the parent except Company C, in which the holding company has 8 out of the 10 shares issued.

Company A

	£
Manx rental income	10,000
Trade turnover	30,000
Trading profit	20,000
Dividend paid	15,000

Company B

Trade turnover	60,000
Trading profit	40,000

Company C

Investment income	30,000

Company D

Manx rental income	10,000
Investment income	30,000

The distributable profits of Company C will be apportioned - 80% (8 shares) will be dealt with as part of the group calculation whilst 20% (2 shares) will be treated independently for attribution.

Shareholding

Member One	3 ordinary shares in company A
Member Two	2 ordinary shares in company A
Member Three	3 ordinary shares in company A
Member Four	2 ordinary shares in company C

Distributable profit of the group

		£
Company A	Trading profit	20,000
Company B	Trading profit	40,000
Company D	Investment income	30,000

Distributable profit of A, B and D 90,000

Company C Investment income 30,000 x 8/10 = £24,000

The group is classed as a trading group because the income derived from trade is greater than 50% of the gross income.

Total distributable profit for the group = £114,000

If Company A distributes more than £62,700 then the company will be non-relevant for the purposes of the ARI and the members will not be subject to attribution.

Minority shareholding calculation

Company C is a relevant company and has a minority shareholding. Member Four has two shares of the 10 issued. Therefore, 20% of the distributable profit will be attributed to the members of Company C for the purposes of ARI whilst the remaining 80% will be treated as part of the distributable profit of the group parent company (Company A).

Distributable profit of Company C 30,000 x 2/10 = £6,000

Therefore, £6,000 will be attributed to Member Four in respect of Company C.

7.7 Company joining or leaving a group during an accounting period

Where a company joins or leaves a group during an accounting period it will be treated as part of the group only for the period that it is a group member for the purposes of ARI. The joining or leaving company would have to apply the ARI rules independently for any periods that it is not a group member.

For the periods when a company is not a member of a group it will be treated as a single company and attribution may apply to those periods.

Example 21

Company A is a trading company. It joins a trading group on 30 June 2009. The group has an accounting period end date of 31 December.

Company A also has an accounting period end date of 31 December.

The group is outside the scope of ARI as it distributes 80% of its distributable profit. However, only 50% of Company A's profits were distributed.

The members of Company A between 1 January and 29 June 2009 will be subject to attribution on an apportionment of the distributable profit up to 29 June 2009. The date of attribution will be 31 December 2010.

8 Corporate Shareholders - less than 75% of issued share capital

Where a company holds more than 75% of the share capital in another company they are treated as a group and the combined distributable profits, activities and distributions of both are considered when determining if the group is relevant or not. (See section 7 for full details.)

This combined treatment cannot apply where the corporate shareholding is less than 75%, and so each company must be considered independently of the other. As the attribution regime is for individuals only, the legislation supporting the attribution regime does not allow for the attribution of profits from one company to another.

This means that there is potential for a significant delay between the profits being generated by a relevant company and their distribution to the company holding the shares, and then the onward distribution to the resident members of that company.

The legislation does, however, include provision for the Assessor to trace through any number of companies and other entities in order to determine an interest in a relevant company. This provision will only be used in cases where the Assessor believes that a structure has been set up to avoid or defer a liability to resident income tax, or a voluntary election is made for this treatment .

Therefore, where a company owns less than 75% of the issued share capital of another company the usual treatment will be not to trace the interest through the company.

The following sections explain how each of the above treatments will operate in practice.

8.1 Do not trace interest and only consider distributions when actually paid to Shareholding Company

In a structure like the example below, the shareholders have no involvement or control in the running of the relevant company and will not be aware of the profits of that company. The Assessor will therefore not usually seek to look through the company in cases such as this.

Example 22

Company A is owned as follows:

60% - Mr A (IOM Resident)
40% - Company B (IOM Resident)

Company A is a trading company with £100,000 distributable profit for year to 30 June 2009. No dividends are paid within the allowed time limit for ARI, so company A is a relevant company. Company B is owned by Mr and Mrs B in equal proportions.

- £60,000 (60%) of Company A profits will be attributed to Mr A on 30 June 2010
- The remaining £40,000 (40%) cannot be attributed to Company B
- Subsequent dividends paid to Company B will be included in the distributable profits of Company B when paid, and (if appropriate) attributed to Company B’s shareholders 12 months from the AP date in which the dividends were received.

8.1.1 Practical Application

The relevant company should compute its distributable profits and profit that would be attributed to each member in the normal way.

Example 23

- Company D is relevant and has distributable profit of £100,000

- Company D is owned as follows:

    - 10% Resident A
    - 25% Resident B
    - 65% Company E

- Company E is owned as follows:

    - 25 residents, each own 4% of the issued share capital
    - Directors are Resident S and Resident T
    - Directors have no connection to the members of Company E, or the directors or members of Company D

35% of Company D’s profits (£35,000) will be attributed to Resident A and Resident B. The remaining £65,000 will not be attributed and will be considered when any distributions are paid to Company E.

It should be made clear on the computation how much of the profit is being attributed to resident individual members and how much is not being attributed to the company shareholder.

The certificates of attributed profits for the resident individual members should be attached as normal.

8.1.2 Attributed and Unattributed Profits

As a proportion of the relevant company's profits will not be attributed, the company will have two reserves for the accounting period – attributed profits that can be paid to the individual members in future with no tax implications, and unattributed profits that will be income in the hands of the recipient when distributed.

Both of these reserves will need to be recorded in order to track future distributions to ensure they are treated correctly in the hands of the recipients.

Subsequent distributions to resident individuals (except those made to satisfy the distribution requirement for a trading company) will be taken to be from attributed profit reserves first and will not be subject to further income tax. Distributions to the shareholding company should be taken from unattributed profit.

Where shareholdings change and an individual takes ownership of the shares previously held by a company, any distributions in respect of that shareholding (except those made to satisfy the distribution requirement for a trading company) will be taken to be from the reserve of unattributed profit first.

However, a company may also specify a different method for how distributions from these reserves should be offset between the shareholders receiving them. The arrangements for this are a matter for the company to agree with each shareholder at the time the distribution is paid.

8.1.3 Subsequent distributions to Shareholding Company

When the relevant company subsequently distributes part of the unattributed profit to the shareholding company, that distribution will be considered to be part of the shareholding company's distributable profit for the accounting period in which it is received.

This amount should be included in the company's taxable/distributable profit in the tax computation for the period.

8.1.4 Loans to Participators

When the whole of the distributable profit is attributed and loans have been advanced, because income tax has been paid on those attributed profits the loans to participators' provisions do not need to be considered.

When only part of the profit is attributed, only loans up to that amount are "exempt" from the loans to participators' charge. Any proportion of loan advanced that exceeds the profits attributed will be subject to the normal charging provisions.

These details will need to be recorded to ensure accurate tracking of future repayments to allow the company to reclaim the charge, or to establish that no charge is due.

Example 24

Distributable Profit £200,000
Attributed profit £110,000, unattributed profit £90,000
Loan advanced to resident individual £150,000

As £110,000 of the profit has been attributed, only the excess amount of £40,000 will be subject to the loans to participators' charging provisions.

Future repayments will be offset against the charged amount first.

The treatment outlined above will apply whether the loan has been advanced to a shareholder, or any other participator or associate as defined in sections F108 and G108 of the Income Tax Act 1970.

8.2 Trace an interest and look through to the individual members of Shareholding Company

Where the Assessor considers that a structure is being used to avoid or defer a charge to resident income tax he will look through the shareholding company to its resident individual members.

This treatment will ensure that profits are attributed 12 months from the end of the accounting period in which they were generated.

8.2.1 Voluntary election to apply "look through" treatment

As the usual treatment requires the tracking of attributed and unattributed profits for future distributions and has complexities around loans to participators, all of which will add to the administrative burden for the company, the Assessor is also willing to accept voluntary elections for the look through treatment to apply.

Before a voluntary election is made it is important that the resident individual members of the company understand that it will lead to direct attribution to them of the profits of the relevant company. The Assessor does not require proof that the company's members have been advised and will consider elections on the assumption that the directors have advised the members.

A voluntary election for the look through treatment may be appropriate for a structure like the one outlined below:

Example 25

- Company J is relevant and has distributable profit of £100,000

- Company J is owned as follows:

  - 10% Mrs A (also director)
  - 25% Mrs B (also director)
  - 65% Company K

- Company K is owned as follows:

  - 30% Mrs A
  - 30% Mrs B
  - 20% Mr A
  - 20% Mr B
  - Directors are Mrs A and Mrs B

£35,000 of Company J's profits (35%) will be attributed to Mrs A and Mrs B directly. Under the voluntary election the remaining £65,000 (65%) will be attributed to the members of Company K in the relevant proportions (30:30:20:20)

Voluntary election for the look through treatment to apply should be included with the computation for the relevant company.

8.2.2 Practical Application

Where a resident individual member's interest in the relevant company is held via a number of companies or other entities, the Assessor will consider the shareholdings/interests in all of the entities to establish the resident member's entitlement to the profits of the relevant company.

If the Assessor considers that a structure is being used to avoid or defer a charge to resident income tax he will advise the resident members of the shareholding company of that fact and issue instructions relating to the attribution of the profits.

Where a voluntary election is made, the directors of the relevant company will be aware of the details of the resident individual members of the shareholding company and so they should issue a certificate of attributed profits directly to those members within 12 months of the end of the accounting period.

8.2.3 Attributed and Unattributed Profits

All of the company's distributable profits will be attributed to resident individual members, so there is no need to maintain records of two reserves for future distributions.

8.2.4 Subsequent distributions to Shareholding Company

When the relevant company subsequently distributes part of the attributed profit to the shareholding company, that distribution will not be considered to be part of the shareholding company's distributable profit for the accounting period in which it is received.

This amount should be deducted from the company's taxable/distributable profit in the tax computation for the accounting period.

8.2.5 Loans to Participators

The whole of the distributable profit is attributed and so any loans advanced will not be subject to the loans to participators' charging provisions.

9 Dissolution and liquidation of companies

If a company is dissolved prior to the date of attribution of the distributable profits from the final period, there is no effect on this attribution. Therefore, the members will be liable to tax on attributed income even if the company has been dissolved.

Where a relevant company has entered into liquidation, the final date of attribution is 12 months from the date of the accounts presented at the final meeting. As with dissolutions, it could be possible for a member to receive attributed income after the company has been liquidated.

10 Financial Supervision Commission licence holders

The Assessor does not wish the application of the provisions of the ARI to conflict with regulatory requirements imposed by the Financial Supervision Commission on its licence holders.

Where a company can provide evidence that by distributing the required 55% of distributable profits it would breach the regulatory requirements of its licence, the Assessor will be prepared, subject to the conditions below, to treat the company as a non-relevant company for the duration of the regulatory requirement restricting the distribution of profits.

If the regulatory requirement does not permit any distribution, the Assessor will not expect any distribution to be made.

If the regulatory requirement permits some distribution but less than the required 55%, the Assessor will treat the company as a non-relevant company on the condition that the maximum amount permitted to be distributed is actually distributed.
The expected form of evidence would be a copy of correspondence from the Financial Supervision Commission directing the company not to distribute, or restricting the percentage to be distributed.

In the absence of a letter from the Financial Supervision Commission the company will be required to state which regulation would be breached by distributing 55% or more, then demonstrate how this applies to the company and what percentage, if any, can be and has been distributed.

11 Return form requirements – company

A company must submit a return to the Income Tax Division no later than 12 months and one day from the end of its accounting period. The return must include a calculation of the distributable profit and ARI calculations if applicable. For distributions made to members, a composite distribution voucher may be issued in order that the member is aware of the type of distribution they have received. An example of a composite voucher is included at Appendix D.

11.1 ARI certificate

When the profits of a company are attributed to the members, the company must provide a Certificate of Attributed Profit to the member. The certificate must contain the following information:-

a. the name, registered office and tax reference number of the company;

b. the full name and address of the member;

c. date of the attribution;

d. the year of assessment in respect of which the attributed income is to be assessed;

e. the tax reference number of the member, if known;

f. the amount of the distributable profits attributable to the member;

g. the accounting period of the company for which the attribution is made; and

h. the name and office of the person completing the voucher on behalf of the company.

The certificate must be issued within 12 months of the end of the accounting period. As well as providing a copy to the member, one copy must be submitted to the Assessor and a further copy retained by the company. The composite voucher at Appendix D can be used as a Certificate of Attribution.

12 Power to call for documents

It is important that the correct information is supplied to the Assessor to enable resident members to be correctly charged to income tax on attributed profits at the right time.

The Assessor has the powers to call for documents in cases of doubt or non-compliance.

12.1 Power to call for documents: beneficial ownership

Where there is doubt over the beneficial ownership of a company the Assessor has powers to make enquiries into the identity of members of a company to ensure the proper determination and assessment of attributed income.

It is an offence for companies or individuals to intentionally falsify, conceal or destroy documents relevant to the ARI.

13 Manx resident member

Only an individual who is resident for tax purposes in the Island will be subject to the ARI in respect of their share in a relevant company's profits.

An individual will be treated as having an interest in a company if there is any legal, equitable or contractual interest in the company or in any share or stock of the company.

The Assessor will normally not seek to trace Isle of Man ownership through other entities outside the Isle of Man but reserves the right to do so where it is suspected that they are being used to reduce a liability to Manx income tax.

13.1 Payment on Account

A Payment on Account (POA) notice may be issued in order to collect the income tax due in the year in which the date of attribution falls.

POA notices are generally calculated based on the previous year's tax liability. However, the Assessor has the power to adjust the POA amount to also take into account the attributed income which will be subject to tax in that year.

Whilst the statute permits the Assessor to adjust any POA to include income that will be attributed, this will not be done in cases where the attributed income level is not significant and so not everyone who may have profits attributed will receive a POA notice including those profits.

Before issuing a POA notice including income to be attributed, the officer managing the member's file will write to inform them.

If a resident member does not receive a POA notice including tax expected on attributed income, they should still make provision for settling the resulting liability when the assessment including the attributed income and the POA for the following year are issued.

Once attributed income has been included in an assessment, the POA notice for the following year will automatically include those attributed profits.

14 De minimis limits

The ARI will be subject to a de minimis limit of £25 per shareholding. Where a resident member is liable to attribution of an amount less than this, the amount can be ignored for ARI purposes. This will help to simplify the overall system by excluding a number of the smaller members within the new regime.

In cases of joint shareholdings, the de minimis limit of £25 will also apply.

15 Individuals ceasing Manx residence

Non-resident individuals do not fall within the scope of the ARI. Where an individual ceases Manx residence but is Manx resident for part of the accounting period for which an amount of attributed income is due, the date of attribution is brought forward to the date of cessation of residence. In such circumstances, the individual will be liable to Manx income tax on the company's distributable profits apportioned on a daily basis up to the date of cessation of residence.

The Assessor will consider any request from an individual ceasing residence to finalise an attributed income liability in an alternative manner in order to permit their Manx tax affairs to be concluded.

Example 26

Mr Smith ceases Manx residence on 30 June 2009. He is a member of ABC Limited that draws up its accounts to 31 July. Consequently, Mr Smith's assessment for the period 6 April 2009 to 30 June 2009 will include an estimate of attributed income which will be an apportionment of the estimated distributable profits for the period that he was resident.

The actual attribution amount will not be known until the company return form with the attribution schedule is submitted. This may not be submitted until 1 August 2010, being 12 months after the end of the accounting period. Mr Smith is therefore likely to receive a revised assessment to include the correct amount of attributed income.

16 Death of a member

If a Manx resident member dies, an estimate of any attributed income up to the date of death will be included in the assessment. The date of attribution, as in the case of cessation of residence, will be brought forward to the date of death. The actual attributed amount will normally not be known until the company return form with the attribution schedule is submitted or certificates of attribution are issued to members. Therefore, the final period of assessment for the deceased member cannot be definitively assessed until that time.

Example 27

DEF Ltd is an Isle of Man incorporated investment holding company and is therefore relevant for ARI purposes.

It had £100,000 of distributable profit for the accounting period 1 July 2007 – 30 June 2008 and has issued 100 ordinary shares. The distributable profit per share is £1,000.

Mr E owns 50 shares but dies on 30 September 2008.

Mr E's executor is issued with a part-year tax return for the period 6 April 2008 – 30 September 2008.

The estimate that should be included on the part-year return is calculated as follows:

92/365 (no. of days as member/no. of days in accounting period) x 50 x £1,000

= £12,603

It may be necessary to include more than one estimated amount of attribution income on the part-year return. This situation will occur if the resident member dies before the date of attribution relating to the previous accounting period.

Example 28

GHI Ltd is an Isle of Man incorporated investment holding company and is therefore relevant for ARI purposes.

It had £100,000 distributable profit for the accounting period 6 April 2007 – 5 April 2008.

Ms F owns 50% of the shares but dies on 30 September 2009.

The company return for 6 April 2008 – 5 April 2009 has not yet been submitted to the Income Tax Division. The normal date of attribution from this period would have been 5 April 2010 but it is also now brought forward to the date of death.

Ms F's executor is issued with a part-year tax return for the period 6 April 2009 – 30 September 2009, which must include the estimated attributed income for the full accounting period which commenced on 6 April 2008 and the part-year attributed income for the accounting period which commenced on 6 April 2009.

Ms F's executor should contact GHI Ltd for an estimate of the distributable profit for the accounting period 6 April 2008 – 5 April 2009 and use this estimate to calculate the two attributed income amounts.

The Income Tax Division encourages those settling the affairs of deceased people to include an estimate of attribution on part-year tax return forms. This will form part of the assessment and will, therefore, affect the amount of any tax due. If it is not possible to estimate attribution for a part-year return, please note the reason for this on the return and the Income Tax Division will include an estimate.

The estimate will be replaced in a final assessment issued when the certificate of attributed profit is issued by the company. The certificate will detail the actual amount attributed to the member and should be forwarded to the Income Tax Division when received so that the assessment can be finalised as soon as possible.

If any shares are held by the estate for a significant period prior to the transfer to the beneficiaries, it may be necessary to raise an assessment, including attributed income, on the estate. The Division may adopt a 'look through' policy and assess attributed income arising after the date of death on the beneficiaries. This will only apply where confirmation of the beneficiaries and their share entitlement is received from the executor. The executor should also advise the beneficiaries that they will be assessed on the attributed income.

17 Distributions from reserves

Please refer to GN 38 Pay & File Income Tax System for Companies for details on the treatment and taxation of distributions from reserves.

18 Interaction with personal allowance credits

Attributed income is income for personal allowance credit purposes in the tax year that attribution takes place. It is recognised that due to timing differences an individual may not receive a dividend in a given year but may not be entitled to a tax credit because of the attributed income. This is balanced however, when a dividend relating to the particular accounting period is subsequently paid out as the dividend will not be charged to income tax and will not be included in the personal allowance credit calculation for that year.

19 Trustees in the Isle of Man holding shares in a relevant company

Where a trust in the Isle of Man holds shares in a relevant company the trustees will not be subject to attribution provided that the trust has no Isle of Man resident beneficiaries.

A trust will be regarded as having a Manx resident beneficiary if a person in the Isle of Man is identified in the trust deed either specifically by name or generally by virtue of being a member of a class of beneficiaries. Please refer to Practice Notes 141/07 and 160/09 for further information on the taxation of trusts in the Isle of Man.

An attribution charge can only arise where there is a resident beneficiary of the trust. Strictly, the resident beneficiary of the trust is liable to attribution but the Treasury intends to introduce regulations that will enable the attribution to be assessed on the trustees where appropriate.

Whether the profits are being attributed directly to the beneficiaries or to the trustees of the trust, a deduction for "trust management expenses" may be allowed against the attributed profits.

19.1 Life interest or interest in possession trusts

The beneficiaries of a life interest or interest in possession trust are specified, as are their entitlements to benefit and also the powers that the trustees have to distribute the income of the trust to them.

Where a resident beneficiary is entitled to the income of the trust and the trust has an interest in a relevant company then a look-through approach will be applied. The resident beneficiary will therefore be the member of the company for ARI purposes.

Example 29

CD Trust is an interest in possession trust that owns 100% of the shares in B Limited.

B Limited is a relevant trading company that has a distributable profit of £100,000. It has made a distribution of £20,000 to CD Trust within 12 months of the end of the accounting period. CD Trust has an Isle of Man resident beneficiary.

As B Limited has not distributed sufficient distributable profits the look-through approach will apply and there will be an attribution of £100,000 to the resident beneficiary. Any future dividends paid by the company from the distributable profits of the relevant accounting period will not be chargeable to income tax in the beneficiary's hands.

19.2 Discretionary trusts

Discretionary trusts do not specify entitlement to benefit, beneficiaries are usually identified by a class (e.g. settlor's children) and it is at the discretion of the trustees to decide how income and capital of the trust assets is applied for the benefit of the beneficiaries.

Where a relevant company is owned by a discretionary trust a number of factors need to be taken into account such as the residence of the settlor, specific exclusion of classes of beneficiary and the residence of potential beneficiaries.

Closed class of beneficiaries – no Manx residents

No attribution because there is no Isle of Man resident beneficiary.

Wide class of beneficiaries – Manx residents excluded

No attribution because there is no Isle of Man resident beneficiary.

Wide class of beneficiaries – Manx residents not excluded

Trustees can declare annually that no current Manx resident can benefit from that year's distributable profit. Where the trustees do declare this, there will be no attribution for the year because there is no Manx resident beneficiary.

Manx resident beneficiaries in any class

The distributable profit of a relevant company will be attributed to the trust in full and will be chargeable to tax on the trustees or the resident beneficiary.

Where a trust only owns part of a relevant company, the distributable profit will be apportioned as necessary, determined in accordance with the above.

Existing look-through principles in relation to distributions from companies owned by trusts with non-resident beneficiaries will continue.

20 Definitions

'Attributed Profit' means the distributable profit of a corporate taxpayer which is a relevant company that would have been payable to an individual member if the corporate taxpayer had distributed them. This is the amount on which the individual will be liable to income tax.

'Distributable Profit' means the profit of a corporate taxpayer which is liable under the 1970 Act to be assessed to income tax in respect of an accounting period.

'Members' includes a shareholder, stockholder, member or associate and a person shall be treated is to be treated as member of a corporate taxpayer if that person has any legal, equitable or contractual interest in the corporate taxpayer or in any share or stock of the corporate taxpayer.

'Interest' includes an interest that arises under a trust, or may in future arise under a trust as a result of – a) the exercise of discretion by the trustees or other persons in accordance with the terms of the trust; or b) the passage of time; or c) a change of residence.

'Contractual Interest' should be interpreted in general terms. A contractual interest will exist where a member is entitled or permitted to vote in respect of any share or stock; or the exercise of rights of other persons interested in the company or its shares or stock requires the first member's consent; or where other persons interested in the company can be required or are accustomed to exercise their rights in accordance with the first member's instructions.

'Relevant Company' means a corporate taxpayer unless the corporate taxpayer is prescribed by order of the Treasury as not being a relevant company.

21 CONTACT INFORMATION

Further information:

If you require any further information about anything contained in these guidance notes please contact:

The Treasury
Income Tax Division
Second Floor
Government Office
Buck's Road
Douglas
Isle of Man
IM1 3TX

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Website:	www.gov.im/incometax

Opening hours:

Monday to Thursday	9.15am – 5.00pm
Friday	9.15am – 4.30pm

22 Appendix A: Recognised Stock Exchanges

The Athens Stock Exchange
The Australian Stock Exchange and any of its stock exchange subsidiaries
The Bermuda Stock Exchange
The Cayman Islands Stock Exchange
The Colombo Stock Exchange
The Copenhagen Stock Exchange
The Helsinki Stock Exchange
The Iceland Stock Exchange
The Johannesburg Stock Exchange
The Korea Stock Exchange
The Kuala Lumpur Stock Exchange
The London Stock Exchange
The Malta Stock Exchange
The Mexico Stock Exchange
The New Zealand Stock Exchange
The Rio De Janeiro Stock Exchange
The Sao Paulo Stock Exchange
The Singapore Stock Exchange
The Stockholm Stock Exchange
The Stock Exchange of Thailand
The Swiss Stock Exchange
United Kingdom (Including the Alternative Investment Market (AIM) and the PLUS Market)
USA - Any exchange registered with the Securities and Exchange Commission of the United States as a national securities exchange

Any stock exchange in the following countries which is a stock exchange within the meaning of the law of the particular country relating to stock exchanges (as specified below).
Austria
Belgium
Canada
France
Germany
Guernsey

Hong Kong
Italy
Ireland (Republic of)
Japan
Luxembourg
Netherlands
Norway
Portugal
Spain

The term ‘recognised stock exchange' is for income tax purposes only and confers no other status on the exchange concerned: it does not constitute any form of recognition or approval for regulatory or other purposes nor does it provide any form of approval or recommendation of any of the investments which are listed or traded on that exchange.

The Division will consider recognition on receipt of a request made by an overseas stock exchange so, the fact that a particular exchange is not recognised may simply mean that recognition has not been requested.

23 Appendix B: Summary of the ARI Regulations and Orders

Income Tax (Attributed Profits) (Temporary Taxation) Order 2007 - Statutory Document 928/07

This temporary taxation order introduced the ARI into Manx law. It will be confirmed and inserted into primary legislation by an Income Tax Amendment Act.

Income Tax (Calculation of Attributed Profits) Regulations 2008 – Statutory Document 236/08

These regulations prescribe the calculation of the amount of distributable profit to be attributed to each individual member. The regulations also cover the calculations for instances where a company has different classes of shares.

Income Tax (Distributable Profits) (Prescribed Deductions) Order 2008 - Statutory Document 237/08

The main computation is included in the temporary taxation order; however, adjustment will be necessary where a company is liable to Manx tax at a rate of 10% on some of its profits or where the company receives income that has been taxed at source in another jurisdiction. This order directs that Manx income charged at 10% and overseas income charged at a rate that is equal to or greater than 18% shall be disregarded from the computation. Overseas income that is charged at a rate that is less than 18% will be included in the computation, but the amount of the overseas tax will be allowed to be deducted.

The reason for this order is to prevent double taxation occurring where a source of income is already subject to income tax (at a rate greater than zero).

Income Tax (Attributed Profits) (Certificate) Order 2008 - Statutory Document 238/08

Within the attribution regime information is required by the Assessor to ensure that individuals pay the correct amount of income tax on attributed profits.

This order is required to prescribe the information required by the Assessor on a Certificate of Attributed Profits which will be issued by the company to the member.

Income Tax (Attributed Profits) (Groups) Regulations 2008 - Statutory Document 239/08

These regulations provide the criteria for determining how a group of companies will be treated within the Attribution Regime for Individuals.
A composite approach to groups will be taken when determining whether profits will need to be attributed to members who have an interest within the group. In effect, a group of companies will be treated as one company and the holding company will provide the Certificate of Attributed Profits to the relevant member in respect of the whole of the group.

Where more than 50% of the turnover or gross profit (as appropriate) of the group is derived from a trade the group will be treated as a trading group and will be treated in the same way as a trading company.

Income Tax (Attributable Profits) (Relevant Company) Order 2008 - Statutory Document 240/08

This order provides the criteria for determining which companies are not relevant for the purposes of the ARI.

A company will not be relevant unless it is resident in the Island for income tax purposes or is incorporated, established or constituted under the law of the Island; or registered under Part XI of the Companies Act 1931.

Other companies that will not be relevant include, for example, a trading company that distributed more than 55% of its distributable profit, a company that is a charity, a public board or authority or a company listed on a recognised Stock Exchange.

Income Tax (Attributed Profits) (De Minimis Limit) Regulations 2008 - Statutory Document 241/08

These regulations introduce a de minimis limit of £25. This will reduce the amount of administration required by the company to comply with the requirements of the ARI.

24 Appendix C : Comparison Table of DPC and ARI

	DPC	**ARI**
Calculation of Distributable Profit	Taxable profit, less: • Income subject to Manx tax at 10% • Income subject to foreign tax at 18% or higher • Foreign tax paid if less then 18%	Same as for DPC
Time limits for distribution	12 months from end of accounting period	Same as for DPC
Mixed Income Companies with separate tests for trade and non-trade	Yes	No
55% distribution to resident members concession	No	Yes
Distribution of accounting profit concession for investment holding companies	Yes	No – the distributable profit is the amount to be attributed
Groups	Any company can elect to account for DPC for a non-distributing group	Holding company **must** file certificate of attributable profit for a relevant group
Loan to Participators	Charge on any loan advances made	No charge on advances made during an accounting period, to the extent of the distributable profit, where the company is relevant and the profit is attributed
Dividends paid by non-distributing or relevant companies	Carry DPC credits when made to resident members	Not subject to tax providing profits they are from are attributed

25 Appendix D : Composite Distribution Voucher

COMPOSITE COMPANY DISTRIBUTION VOUCHER AND/OR CERTIFICATE OF ATTRIBUTED PROFIT

Company Name		Tax reference number	
Registered Office			
Shareholder's Full Name		Manx Tax Reference Number (if known)	
Shareholder's Address			
Accounting period			

Type of Payment	Amount	Credit Value	Rate	Date of Payment	Accounting Period paid from (if different to above)
	Amount	**Date of Attribution**	**Tax Year Attributed Income to be Assessed**		
Attributed Income					

Signature of Company Representative		Date	
Full Name and Office Held			

PLEASE COMPLETE 3 COPIES OF THIS VOUCHER - SEND ONE COPY TO THE RECIPIENT, ONE COPY TO THE INCOME TAX DIVISION, AND RETAIN A COPY FOR COMPANY RECORDS.

The Information to be recorded on this composite voucher and certificate depends on the nature of the payments being made:

1. **Dividend with DPC credit**

   Include the gross amount of the distribution, the amount of DPC credit and the rate used in the DPC calculation (P x R x A), the date paid and the accounting period the distribution is from. (P = The portion of profits that are subject to the DPC, R = The rate of the DPC to be charged, the rate has been set at 18% in all cases and A = The gross amount of the distribution.)

   This information is required by tax statute in order for the credit to be claimed.

2. **Dividend with Tax Credit**

   Include the gross amount of the distribution, the rate of tax charged on the profits, the amount of tax credit (G x R), the date paid and the accounting period the distribution is from. (G = Gross amount of distribution, R = Rate of Tax charged on the profit)

   This information is required by tax statute in order for the credit to be claimed.

3. **Gross Dividend**

   Include the gross amount of the distribution, the date paid and the accounting period the distribution is from. Each dividend payment should be recorded separately. Any distributions from reserves taxed at 0% (i.e. the company was not subject to DPC or ARI) should be included under this heading.

4. **Distributions from Reserves**

   Include any distributions from profits assessed prior to 2006/2007 (See GN38 Glossary for definition) and any distribution from previously attributed profits. Include the gross amount of the distribution, the date of payment and the accounting period the distribution is from.

5. **Attributed Income**

   The amount of attribution, the date of attribution and the tax year that the attributed income will be assessed (e.g. Date of attribution of 30/06/2009 will be assessed in 2009/2010). Attributed Income calculation A/B = F and then C/D x E x F (A = Distributable profit for the period, B = Number of shares comprising the share capital, F = Amount of Distributable profit per share, C = Number of days the shareholder held the shares in the accounting period, D = Number of days in the accounting period, E = Number of shares held by the share holder)

   This information is required by tax statute and the company may be prosecuted if it is not provided.

For further information and examples on the calculations for any of the above please see the following guidance notes:-

GN 36 Distributable Profits Charge	-	For DPC credit examples
GN 38 The Pay & File Income Tax System for Companies	-	For tax credit examples
GN 41 Attribution Regime for Individuals	-	For attributed income examples

Please complete three copies of this voucher – send one copy to the recipient, one copy to the Income Tax Division and retain a copy for company records

26 Appendix E: Examples for Calculating Attributed Profit in a Range of Scenarios

The examples in this appendix provide an illustration of how the various ARI calculations should be applied in a range of scenarios.

The scenarios include:

- Minority resident shareholdings within a resident owned group
- Minority resident shareholdings within a non-resident owned group
- ARI calculations for mixed classes of shares
- ARI calculations for mixed classes of shares including preference shares
- ARI calculations for mixed classes of shares including cumulative preference shares
- Determining the correct treatment for companies with rental income and investment income
- Increases and decreases in share capital

Minority Resident Shareholdings within a Resident Owned Group with

Parent Company of the group is BOTB Limited which is owned by two resident shareholders - shareholder A and shareholder B. BOTB Limited owns 100% of the subsidiary companies with the exception of PCS Limited and IGSM Limited. It owns 90% of PCS and 75% of IGSM Limited.

BOTB Limited (Parent)

Trading turnover	£400,000	
Trading profit		£350,000

YBF Limited (100% Subsidiary)

Trading Turnover	£25,000	
Trading profit		£20,000

NBF Limited (100% Subsidiary)

Trading Turnover	£40,000	
Trading profit		£30,000

PCS Limited (90% subsidiary)

Trading turnover	£40,000	
Trading profit		£30,000

Dividend paid	£2,000 (to Shareholder C and D equally)

IGSM Limited (75% Subsidiary)

Investment Income	£700,000

The group is treated as a relevant group because the income derived from trade is less than 50% of the gross income.

Trading Turnover	£505,000
Investment Income	£700,000
Gross Income	**£1,205,000**

The distributable profits of PCS Limited and IGSM Limited will be apportioned as follows: -

PCS Limited

- 10% to the minority shareholders - £3,000
- 90% to the group - £27,000

IGSM Limited

- 25% to the minority shareholders - £175,000
- 75% to the group - £525,000

Individual Shareholdings

Shareholder A	4 shares in BOTB Limited
Shareholder B	4 shares in BOTB Limited
Shareholder C	2 shares in IGSM Limited (25% of the shares) 2 shares in PCS Limited (5% of the shares)
Shareholder D	2 shares in PCS Limited (5% of the shares)

Distributable profit for the group

BOTB Limited	Trading profit	£350,000
YBF Limited	Trading profit	£20,000
NBF Limited	Trading profit	£30,000

Total Distributable profit of the 100% subsidiaries				£400,000
PCS Limited	Trading Turnover	£30,000 x 90%	£27,000	
IGSM Limited	Investment Income	£700,000 x 75%	£525,000	
Total distributable profit of the group is			**£952,000**	

Minority shareholding calculation

IGSM Limited is a relevant company and has a minority shareholding of 25% because Shareholder C holds two shares.

25% of the distributable profit will be attributed to Shareholder C whilst the remaining 75% will be treated as part of the distributable profit of the group parent company, BOTB Limited.

Distributable profit of IGSM Limited = £700,000 x 25% = £175,000 will be attributed to Shareholder C 12 months from the accounting end date of IGSM Limited

PCS Limited is trading company with a minority shareholding of 10% because Shareholder C and Shareholder D own 4 of the shares issued.

Distributable profit of PCS Limited owned by shareholders C and D - £30,000 x 10% = £3,000

PCS Limited is a trading company in its own right and, as it has distributed £2,000 (66%) of the distributable profit that belongs to the minority shareholders, the company has met the 55% distribution requirement and is not relevant for the purposes of the attribution regime.

The two £1,000 dividends distributed to shareholders C and D will be taxed as gross dividends on their individual files and taxed in the year in which the dividend is paid to them.

The remaining 90% of the distributable profit will be treated as part of the distributable profit of the group parent company, BOTB Limited.

Minority resident shareholding within a Non Resident owned Group

Parent company of the group is OBF Limited which is owned by one non-resident shareholder. OBF Limited owns 100% of the subsidiary companies with the exception of BM Limited and BTBMB Limited. It owns 80% of BM Ltd and 90% of BTBMB Ltd.

The minority shareholders in BTBMB Limited and BM Limited are all Isle of Man residents

OBF Limited (parent)

Trading turnover	£250,000
Trading profit	£150,000

TAALS Limited (100% Subsidiary)

Investment income	£100,000

BM Limited (80% Subsidiary)

Trading turnover	£20,000
Trading profit	£10,000
Dividend Paid	£1,500

BTBMB Limited (90% Subsidiary)

Investment income	£50,000

The group is classed as a trading group because the income derived from trade is greater than 50% of the gross income.

Trading Turnover	£270,000
Investment Income	£150,000
Gross Income	**£420,000**

The distributable profits of BM Limited and BTBMB Limited will be apportioned as follows.

BM Limited

- 80% (20 shares) will be apportioned to the group £8,000
- 20% (5 shares) will be apportioned to Shareholder 2 £2,000

BTBMB Limited

- 90% (90 shares) will be apportioned to the group £45,000
- 10% (10 shares) will be apportioned to Shareholder 3 £5,000

Individual Shareholding

Shareholder 1 (non-res)	2 shares in OBF Limited
Shareholder 2 (resident)	5 shares in BM Limited
Shareholder 3 (resident)	10 shares in BTBMB Limited

Distributable profit of the group

OBF Limited	Trading profit		£150,000
TAALS Limited	Investment income		£100,000
BM Limited	Trading profit	10,000 x 80%	£8,000
BTBMB Limited	Investment income	50,000 x 90%	£ 45,000

Total distributable profit of the group £303,000

OBF Limited is wholly owned by a non resident and is therefore outside the scope of the attribution regime.

BM and BTBMB have resident members and are inside the scope of the attribution regime.

Minority shareholding calculation

BTBMB Limited is a relevant company for the purposes of attribution and has a minority shareholding of 10% because Shareholder 3 holds 10 shares.

10% of the distributable profit will be attributed to shareholder C while the remaining 90% will be treated as part of the distributable profit of the group parent company (OBF Limited)

Distributable profit of BTBMB Limited - 50,000 x 10/100 = £5,000 will be attributed to shareholder 3.

BM Limited is a trading company which has a minority shareholding of 20% because Shareholder 2 holds 5 shares.

20% of the distributable profit will be apportioned to shareholder 2 whilst the remaining 80% will be apportioned to group parent company (OBF Limited).

Distributable profit of BM Limited - 10,000 x 5/25 = £2,000.

BM Limited is a trading company in its own right and, as it has distributed £1,500 (75%) of the distributable profit that belongs to the minority shareholders, the company has met the 55% distribution requirement and is not relevant for the purposes of the attribution regime.

The £1,500 dividend distributed to Shareholder 2 will be taxed as a gross dividend on their individual file and taxed in the year in which the dividend is paid to them.

Mixed Share Classes

Mixed Class including preference shares

Company TC Limited has three classes of shares each with a different dividend entitlement and voting rights.

- Class A has the right to receive any dividends and has voting rights
- Class B preference shares are entitled to 10% of the profit split between them but hold no voting rights
- Class C has no right to dividends but has voting rights

The company has issued 20 Class A shares, 100 Class B shares and 100 Class C shares

Shareholder A holds 10 class A shares
Shareholder B holds 10 Class A shares and 10 Class B Preference shares
Shareholder C Holds 50 Class B Preference shares
Shareholder D Holds 10 Class A shares, 40 Class B Preference shares and 100 Class C shares

TC Limited has a distributable profit of £150,000 for the period ended 30 June 2009 and does not make any distributions in the permitted time.

Distributable Profit per Share Type

Class A shares	Distributable profit £135,000
Class B preference shares	Distributable profit £15,000 (10% of £150,000)
Class C shares	No entitlement

Distributable Profit per share of each type

Class A	£135,000/20	=	£6,750
Class B	£15,000/100	=	£150

Attributed Profit Shareholder A

Class A Shares

$$\frac{365}{365} \quad X \quad 10 \quad X \quad £6,750 \quad = \quad £67,500$$

Attributed Profit Shareholder B

Class A Shares

$$\frac{365}{365} \quad X \quad 10 \quad X \quad £6,750 \quad = \quad £67,500$$

Class B Preference Shares

$$\frac{365}{365} \quad X \quad 10 \quad X \quad £150 \quad = \quad £1,500$$

Attributed Profit Shareholder C

Class B Preference Shares

$$\frac{365}{365} \quad X \quad 50 \quad X \quad £150 \quad = \quad £7,500$$

Attributed Profit Shareholder D

Class A Shares

$$\frac{365}{365} \quad X \quad 10 \quad X \quad £6,750 \quad = \quad £67,500$$

Class B Preference Shares

$$\frac{365}{365} \quad X \quad 40 \quad X \quad £150 \quad = \quad £6,000$$

Mixed class including cumulative preference shares

A trading company called NAS Limited has two share classes - Ordinary and cumulative preference (CP) shares.

Its distributable profit for the period ended 30th June 2009 was £150,000. It made no distributions during this period. This is insufficient and so the company is relevant for the year ended 30 June 2009.

The accounts for the period ended 30th June 2010 have a distributable profit of £100,000 and pays out £55,000 in dividends.

The cumulative preference shares are entitled to 6% of the company's profit each year. If no dividend is paid in one year the 6% entitlement is taken to be part of the next dividend paid.

- Shareholder A holds 50 Ord shares and 10 CP shares
- Shareholder B holds 20 CP Shares
- Shareholder C holds 50 Ord shares 10 CP shares

Period ended 30th June 2009

Apportion the Distributable profit between different share classes

Share Class	Distributable Profit		Per Share
Ord Class	141,000	141,000 / 100	1410
CP Class	9,000 (150,000 x 6%)	9,000 / 40	225

Shareholder A

Ordinary Shares

$$\frac{365}{365} \quad X \quad 50 \quad X \quad £1410 \quad = \quad £70,500$$

CP Shares

$$\frac{365}{365} \quad X \quad 10 \quad X \quad £225 \quad = \quad £2,250$$

Attributable profit figure £72,750 date of attribution 30th June 2010

Shareholder B

CP Shares

$$\frac{365}{365} \quad X \quad 20 \quad X \quad £225 \quad = \quad £4,500$$

Attributable profit figure £4,500 date of attribution 30th June 2010

Shareholder C

Ordinary Shares

$$\frac{365}{365} \quad X \quad 50 \quad X \quad £1410 \quad = \quad £70,500$$

CP Shares

$$\frac{365}{365} \quad X \quad 10 \quad X \quad £225 \quad = \quad £2,250$$

Attributable profit figure £72,750 date of attribution 30th June 2010

Period ended 30th June 2010

Distributable profit for the period ended 30th June 2010 was £100,000. The company has distributed £55,000 which, on the face of it appears to be the required amount to be distributed to avoid being a relevant company.

However out of the £55,000, £9,000 must be taken to be the 6% dividend from last year's profits per cumulative preference share.

As the profits for the year to 30 June 2009 have already been attributed, CP distribution relating to the previous year is treated as a distribution from reserves and is not taxable again in the shareholders' hands.

However, the company is required to distribute an additional £9,000 to meet the 55% distribution required, otherwise it will be treated a relevant company for the year.

Scenario 1

If no further distribution is made, the dividend will be treated as follows:

Distribution not taxable (Already attributed in the previous year)	£9,000
Distributions from a current period (will be attributed)	£46,000
Undistributed income from the current period (will be attributed)	£45,000

Total attribution for the period ended 30th June 2010 is that of £100,000.

Scenario 2

The company makes the additional distribution of £9,000 to meet the 55% requirement within 12 months of the company's accounting end date. The total distribution is £64,000 and will be treated as follows:

Distribution not taxable (already attributed in the previous year)	£9,000
Distribution from the current period (£46,000+£9,000) as a gross dividend of	£55,000.

As the company has distributed the required 55% there are no attribution implications.

Determining the status of Companies with both Rental Income and Investment Income

Company M

Rental income	£12,000
Bank interest	£654

Questions

1. What rate of tax will be applied to the income?
2. What will happen to any dividends paid to members?
3. Will there be any attribution?

Answers

1. All of the income will be subject to tax at 10%.
2. A 10% refundable tax credit will be attached to any dividend paid.
3. No. The company is not relevant for the purposes of ARI as all income is subject to tax at 10%.

Company N

Rental income	£20,000
Bank interest	£5,000

Questions

1. What rate of tax will be applied to the income?
2. What will happen to any dividends paid to members?
3. Will there be any attribution?

Answers

1. The £20,000 will be subject to tax at 10%. The £5,000 is subject to tax at 0% and is the company's distributable profit.
2. A 10% refundable tax credit will be attached to any dividend paid from the rental income. Any dividend paid from the investment income will not be taxable at the date paid as it will be attributed in full.
3. Yes. The attribution of the £5,000 investment income will be attributed 12 months from the end of the accounting period to the Isle of Man resident members in full.

Mixed share classes

Company AA has a distributable profit of £250,000 for the accounting period ending 31 October 2009. It has 70 'A' class shares and 30 'B' class shares.

The 'A' class shares are entitled to 60% of the profit.
The 'B' class shares are entitled to 40% of the profit.

There are three Isle of Man resident members whose shareholdings are as follows:

Member One holds 40 "A" shares
Two holds 10 "A" shares and 10 "B" shares
Three holds 20 "A" shares and 20 "B" shares

First calculate the distributable profit per share for each class:

"A" shares

£250,000 x 60% = £150,000

$\frac{£150,000}{70}$ = **£2,143**

"B" shares

£250,000 x 40% = £100,000

$\frac{£100,000}{30}$ = **£3,333**

Then calculate the distributable profit, attributable to each Isle of Man resident member.

Member one

$\frac{365}{365}$ x 40 x £2,143 = **£85,720**

Member two

$\frac{365}{365}$ x 10 x £2,143 = **£21,430**

$\frac{365}{365}$ x 10 x £3,333 = **£33,330**

Member three

$\frac{365}{365}$ x 20 x £2,143 = **£42,860**

$\frac{365}{365}$ x 20 x £3,333 = **£66,660**

Summary

Member one	£85,720
Member two	£54,760
Member three	£109,520

Total £250,000

Increase in Share capital

Company AE has a distributable profit of £600,000 for the period ending 30 November 2009. The company commenced the accounting period with an issue of 500 shares which were split into 300 class 'A' shares and 200 'B' shares allocated as follows:

Member one holds 150 "A" class shares
Member two holds 100 "A" class shares and 100 "B" class shares
Member three holds 50 "A" class shares and 100 "B" class shares

Each class of share is entitled to:

The 'A' class shares are entitled to 70% of the profit.
The 'B' class shares are entitled to 30% of the profit.

On 31 March 2009 a member four was introduced via a rights issue of 100 'C' class shares. Due to the introduction of new shares the entitlement changed to:

The 'A' class shares are entitled to 60% of the profit.
The 'B' class shares are entitled to 25% of the profit.
The 'C' class shares are entitled to 15% of the profit.

First calculate the distributable profit for each period:

First period

$\frac{120}{365} \times £600{,}000 = \mathbf{£197{,}260}$

Second period

$\frac{245}{365} \times £600{,}000 = \mathbf{£402{,}740}$

Then apportion each periods profit per the appropriate share class rate.

First period

£197,260 x 70% = £138,082 – A class
£197,260 x 30% = £59,178 – B class

Second period

£402,740 x 60% = £241,644 – A class
£402,740 x 25% = £100,685 – B class
£402,740 x 15% = £60,411 – C class

Calculate the distributable profit per class of share:

A class

First period

$\frac{\pounds 138{,}082}{300} = \mathbf{\pounds 460.27}$

Second period

$\frac{\pounds 241{,}644}{300} = \mathbf{\pounds 805.48}$

B class

First period

$\frac{\pounds 59{,}178}{200} = \mathbf{\pounds 295.89}$

Second period

$\frac{\pounds 100{,}685}{200} = \mathbf{\pounds 503.43}$

C class

Second period

$\frac{\pounds 60{,}411}{100} = \mathbf{\pounds 604.11}$

Attribution for Member one

150 x £460.27 = **£69,041**

150 x £805.48 = **£120,822**

Attribution for Member two

100 x £460.27 = **£46,027**

100 x £295.89 = **£29,589**

100 x £805.48 = **£80,548**

100 x £503.43 = **£50,343**

Attribution for Member three

50 x £460.27 = **£23,014**

100 x £295.89 = **£29,589**

50 x £805.48 = **£40,274**

100 x £503.43 = **£50,343**

Attribution for Member four

100 x £604.11 = **£60,411**

Summary of Attribution

Member one	£189,863
Member two	£206,507
Member three	£143,220
Member four	£60,411
Total	**£600,001**

Decrease in Share Capital

Company AF has a distributable profit of £450,000 for the period ending 28 February 2011. The company commenced the accounting period with an issue of 400 shares which were allocated as follows:

Member one holds	150 shares
Member two holds	150 shares
Member three holds	100 shares

On 1 November 2010 the company consolidates the shares so that each member now has 100 shares. Calculate the attribution for each member.

As per the increase examples calculate the distributable profit per share:

First period

$\frac{£450,000}{400}$ = **£1,125**

Second period

$\frac{£450,000}{300}$ = **£1,500**

Then calculate each member's attribution.

Note: 1/3/10 – 31/10/10 – 244 days
1/11/10 – 28/2/11– 121 days

Attribution for Member one

$\frac{244}{365}$ x 150 x £1,125 = **£112,808**

$\frac{121}{365}$ x 100 x £1,500 = **£49,726**

Member two

$\frac{244}{365}$ x 150 x £1,125 = **£112,808**

$\frac{121}{365}$ x 100 x £1,500 = **£49,726**

Member three

$$\frac{244}{365} \times 100 \times £1{,}125 = \mathbf{£75{,}205}$$

$$\frac{121}{365} \times 100 \times £1{,}500 = \mathbf{£49{,}726}$$

Summary of Attribution

Member one	£162,534
Member two	£162,534
Member three	£124,931
Total	**£449,999**

Decrease in Share Capital - Scenario 2

A member leaves and their shares are not replaced, or a consolidation of shares takes place where issued shares are reduced.

Company AF has a distributable profit of £450,000 for the period ending 28 February 2011. The company commenced the accounting period with an issue of 400 shares which were allocated as follows:

Member one holds 150 shares
Member two holds 150 shares
Member three holds 100 shares

On 1 November 2010 the company consolidates the shares so that each member now has 100 shares. Calculate the attribution for each member.

As per the increase examples calculate the distributable profit per share:

First period

$\frac{£450,000}{400}$ = **£1,125**

Second period

$\frac{£450,000}{300}$ = **£1,500**

Then calculate each member's attribution.

Note: 1/3/10 – 31/10/10 –244 days
1/11/10 –28/2/11– 121days

Attribution for Member one

$\frac{244}{365}$ x 150 x £1,125 = **£112,808**

$\frac{121}{365}$ x 100 x £1,500 = **£49,726**

Attribution for Member two

$\frac{244}{365}$ x 150 x £1,125 = **£112,808**

$\frac{121}{365}$ x 100 x £1,500 = **£49,726**

Attribution for Member three

$\frac{244}{365} \times 100 \times £1{,}125 = \mathbf{£75{,}205}$

$\frac{121}{365} \times 100 \times £1{,}500 = \mathbf{£49{,}726}$

Summary of Attribution

Member one	£162,534
Member two	£162,534
Member three	£124,931

Total £449,999