The Treasury
Yn Tashtey

Assessor
M Couch

INCOME TAX DIVISION
Government Office, Douglas
Isle of Man, British Isles
IM1 3TX

Telephone: (01624) 685400
Fax: (01624) 685351
E-mail: incometax@itd.treasury.gov.im
Website: www.gov.im/treasury/incometax

PRACTICE NOTE

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TAXATION OF NON-RESIDENT INDIVIDUALS

Introduction

This Practice Note explains the taxation of non-resident individuals from 6 April 2006.

Personal Allowances for Non-resident Individuals

From 6 April 2006, an individual receiving Manx income but who is not resident in the Isle of Man will be entitled to a personal allowance of £2,000. This allowance will be deducted from an individual's total income from all Manx sources when calculating their taxable income for a year of assessment.

Individuals who become resident or who cease residence in a year of assessment will have their resident and non-resident personal allowances apportioned appropriately.

Married couples who are resident in the Island have the option of joint or independent taxation; that option does not apply to married couples who are non-resident. If a non-resident married couple receive income jointly from a source in the Isle of Man, each is liable to tax on their share of the income and each is entitled to the non-resident personal allowance.

Limit on Income Tax Chargeable

Non-resident income tax is due only on Manx source income. Some types of income are subject to deduction of tax at source, whereas others are paid gross, without deduction of tax at source. For example: Manx rents are subject to withholding tax at 18%, whilst bank interest from approved institutions in the Isle of Man is paid gross without deduction of tax.

From the 2006/2007 year of assessment, tax charged on the Manx income of a non-resident individual will be subject to a limit. The limit is defined as the sum of (in both cases ignoring the personal allowance):

- the tax that would be due on Manx income reduced by any excluded income, and
- tax deducted at source from any excluded income.

A list of excluded income sources is shown below. Examples are provided at the end of this note to show how the limit operates.

The effect of applying this limit will be that a non-resident individual will pay no more income tax on excluded income sources than that deducted at source before the income is received. Taking dividends as an example, in 2006/2007 the amount of tax withheld by the paying company will correspond with the rate of tax charged on the company's profit. If the company pays tax at 10%, the tax withheld on the dividend will be 10% and, in applying the limit, the non-resident individual receiving the dividend will pay no more tax than the 10% already withheld. If the company is subject to the 0% rate of tax, then no tax will be withheld on payment of the dividend and the non-resident individual receiving the dividend will have no liability.

Excluded Income

Excluded income sources are as follows:-

- **Dividends –** paid by a company incorporated under the Companies Acts 1931 to 2004 or registered under Part XI of the Companies Act 1931.
- **Deposit interest-** paid by a banking institution within the meaning of the Banking Act 1998**.**
- **Interest or dividends paid by a building society-** authorised under section 2 or 4A of the Building Societies Act 1986**.**
- **Interest or dividends paid by the Isle of Man Government in respect of bonds –** issued under the Isle of Man Loans Act 1974**.**
- **Interest or dividends paid by a local authority –** in respect of securities issued under section 50 of the Local Government Act 1985**.**
- **Income from social security benefits –** that are chargeable to income tax under section 48**.**
- **National insurance retirement pension –** paid by the Department of Health and Social Security**.**
- **Other interest payments –** paid by a company incorporated under the Companies Acts 1931 to 2004 or registered under Part XI of the Companies Act 1931.
- **Other Remuneration** – paid by a company incorporated under the Isle of Man Companies Acts or registered under part XI of the Companies Act 1931, to a company director for services performed outside the Isle of Man, or in order to carry out statutory functions or attend board meetings within the Island shall be excluded for the purpose of section 11A (2) of the Act.
- **Income included in a Treasury order that is approved by Tynwald**.

European Union Savings Directive (EUSD)

On 1 July 2005 the Island introduced measures equivalent to those adopted by European Union Member States dealing with the Taxation of Savings Income. To support the adoption of equivalent measures the Assessor has issued a separate Practice Note**,** PN118/05, giving guidance on the application of the measures in the Isle of Man.

Whilst the income subject to the Savings Directive is Manx income, the way in which it is taxed in the Isle of Man does not affect the application of the Directive. Retention tax may be deducted from interest even where the recipient has no liability to income tax in the Isle of Man.

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Assessor of Income Tax

This Practice Note is intended only as a general guide and must be read in conjunction with the appropriate legislation. It does not have any binding force and does not affect a person's right of appeal on points concerning their own liability to income tax. Comments and suggestions for improvements of issued Practice Notes and suggestions for future Practice Notes are always welcome.

Worked Examples:

1) A single non-resident taxpayer has the following Manx income:-

	Income (£)	Tax deducted at source (£)	
Bank interest	1,500	nil	excluded income
Dividends	5,000	nil	excluded income
Rent	10,000	1,800	
Private pension	20,000	3,240	allowance given in ITIP code
Total	36,500	5,040	

Rents are shown net after deduction of allowable expenses.

To check whether the tax limit applies we need to:

1. Calculate non-resident tax as normal

Total income		36,500	
Less non-resident personal allowance		(2,000)	
Income taxable at 18%			34,500
Tax due	34,500 at 18%		6,210

2. Carry out the limit calculation

Total income reduced by excluded income	30,000
Tax at 18%	5,400
Tax deducted from excluded income is	nil
The sum of the two figures gives the limit of	5,400

In this illustration, therefore, non-resident income tax would be limited to £5,400, with additional tax due of £360.

2) A single non-resident taxpayer has the following Manx income:-

	Income (£)	Tax deducted at source (£)	
Bank interest	1,500	nil	excluded income
Dividends	5,000	500	excluded income
Rent	5,000	1,440	
Private pension	20,000	3,240	allowance given in ITIP code
Total	31,500	5,180	

Rents are shown net after deduction of allowable expenses.

To check whether the tax limit applies we need to:

1. Calculate non-resident tax as normal

Total income	31,500	
Less non-resident personal allowance	(2,000)	
Income taxable at 18%		29,500
Tax due 29,500 at 18%		5,310

2. Carry out the limit calculation

Total income reduced by excluded income	25,000
Tax at 18%	4500
Tax deducted from excluded income is	500
The sum of the two figures gives the limit of	5,000

In this illustration, therefore, non-resident income tax would be limited to £5,000

In this example the tax due is again based upon the limit calculation £5,000; resulting in a refund of £180 being due.