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PRACTICE NOTE

PN 127/06

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TAXATION OF COMPANIES IN THE ISLE OF MAN FROM 6 APRIL 2006

Resident companies

From 6 April 2006, the standard rate of income tax for companies in the Isle of Man will be 0% ("the standard rate"). The standard rate will be generally applicable to all forms of income received by all companies with the two exceptions below.

Licensed banks will be taxed at a rate of 10% on income from their banking business (for more information see PN 124/06). Income received by banks that is not derived from their banking business will be taxed at the standard rate.

Income received by companies that is derived from land and property in the Isle of Man will be taxed at a rate of 10%. This income arises from rental, mineral extraction and property development activities. Further guidance in this area will be issued in due course.

Resident companies will pay an annual corporate charge from 6 April 2006. The charge has been set at £250 for the 2006/07 tax year.

Non-resident companies

The taxation of non-resident companies will follow that of resident companies from 6 April 2006. The income of those companies registered under Part XI of the Companies Act 1931 (often known as 'F Register' companies) as being incorporated outside the Isle of Man, but having a place of business here, will be taxed on their Manx-source income at the standard rate or at 10% depending on the type of income that they receive. Companies incorporated outside the Isle of Man but having their management and control in the Island are normally tax resident here, and so their worldwide income will be taxed at the standard rate or at 10% depending on its nature.

Companies registered under Part XI of the Companies Act 1931 and companies incorporated outside the Isle of Man but having their management and control in the Island, will pay the corporate charge mentioned above.

Special regimes

Provisions contained in the Income Tax (Corporate Taxpayers) Bill 2006 (“the 2006 Bill”), which has recently started its passage through the legislative process will, amongst other things, repeal the tax legislation relating to Non-resident Company Duty, Exempt Companies, Exempt Insurance Companies, Exempt Managed Banks, International Business Companies and other international regimes. Our intention is that these repeals will have effect from 6 April 2007. Following the repeals, companies in each of the special regimes will be resident companies subject to the rules covered above.

New entrant applications for any of the special regimes will not be accepted from 6 April 2006.

Withholding taxes

Dividends

At present, companies may deduct dividends paid when computing their taxable income. Dividends paid carry no tax credit. This system is being changed by further provisions contained in the 2006 Bill. It is expected that the provisions of the Bill, once it has become law, will have effect from 6 April 2007. From that date, companies will no longer deduct dividends when computing their taxable income.

In the tax year 2006/07 only, the following regime will apply and, as will be realised, will be applicable only to those companies having income taxed at a rate of 10%. Dividends paid from income subject to tax at 10% will suffer a 10% withholding tax when the recipient is a non-resident company or individual.

From 6 April 2007, dividends paid from income subject to tax at 10% will carry a 10% tax credit. This tax credit will not be refundable where the recipient is a non-resident company or individual. However, no withholding taxes will apply to any dividends from the same date.

Other payments

Except for dividends in the single tax year 2006/07 and the other examples immediately below, the Isle of Man will not charge withholding taxes on payments made by companies to non-residents from 6 April 2006.

Rents paid by a company to a non-resident company will suffer a withholding tax of 10%.

Rents and other taxable payments (such as remuneration) paid by a company to a non-resident individual will suffer a withholding tax of 18%.

The Distributable Profits Charge (DPC)

From 6 April 2006, companies having Manx members may, in certain circumstances, be required to pay a DPC on behalf of those members. As we have made clear, the DPC has been put in place to deter tax deferral or avoidance by Manx-resident individuals through the use of companies subject to the standard rate. Detailed guidance in respect of the DPC system has been published by the Income Tax Division in Guidance Note GN 36.

Taxation basis period

The 2006 Bill will also introduce, from 6 April 2007, a current year accounting period basis of assessment for companies to replace the existing preceding year basis. This change to our system has been the subject of extensive consultation and we recently issued a Corporate Income Tax Regime Consultation Response Document summarising Treasury's response to the consultation.

Prior to the 2006 Bill becoming law, we will, by concession, allow companies commencing business activities after 5 April 2004 to be assessed on a current year accounting period basis, as set out in the Response Document.

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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.