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## PRACTICE NOTE

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PN 116/05

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### TREATMENT OF DIVIDENDS RECEIVED ON A CURRENT YEAR BASIS OF ASSESSMENT

#### 1 Introduction

The Income Tax (Amendment) Act 2004 introduced a current year basis of assessment for all income and deductions for non-corporate taxpayers. Whilst this achieved a major simplification of the income tax system, there have been a number of requests for clarification of the treatment of dividends assessable on non-corporate clients following the introduction of this legislation. This Practice Note therefore seeks to provide guidance in this regard.

#### 2 Transitional Year 2003/2004

The deemed cessation provisions which achieved the transition to a current year basis of assessment for sources of income received by non-corporate taxpayers apply to dividend income. Therefore, where dividends received during year ended 5 April 2003 have been subject to a preceding year basis of assessment, the dividends received during year ended 5 April 2004 will now be assessable 2003/2004 on a current year basis. **The date of receipt of the dividend is the date of payment.** This date is defined as being when the dividend is actually paid by the company or the date it is credited to a shareholder's loan account. The Assessor will reserve the right to examine dividend fluctuations in the transitional period and may make enquiries in certain cases.

#### 3 2004/2005 and subsequent years of assessment

With effect from the 2004/2005 year of assessment, dividends will be assessed on a current year receipts basis.

Section 25A of the Income Tax Act 1970 has not been repealed, but a timing difference should no longer exist between the relief being granted to a company and the assessment of tax from its shareholders.

## 4 Examples

### 4.1 Example One

Dividends are received from an Isle of Man company in the following years: -

2001/2002	£16,000
2002/2003	£18,000
2003/2004	£20,000
2004/2005	£22,000

In this example the dividends were assessed on a current year basis.

Assessments would be made as follows:-

2001/2002	£16,000 CY basis
2002/2003	£18,000 CY basis
2003/2004	£20,000 CY basis (deemed cessation for transition year)
2004/2005	£22,000 CY basis

As can be seen from this example, no income year is left out of assessment.

### 4.2 Example Two

Dividends received are as in example one but in this situation the preceding year basis of assessment has been applied to the dividend income

2002/2003	£16,000 PY basis
2003/2004	£20,000 CY basis (deemed cessation for transition year)
2004/2005	£22,000 CY basis

With the move onto current year basis the 2003/2004 assessment will now contain the actual dividend received in the year ended 5<sup>th</sup> April 2004.

## 5 Foreign Dividends

Foreign dividends shall be assessed for the 2003/2004 year of assessment and subsequent years in the same manner as if they were received from an Isle of Man company.

## 6 Intra-Group Dividends

Where a dividend is paid between group companies and the companies concerned are Manx resident, the Assessor will recognise any underlying trading income source and not seek to bring the income into charge as investment income in the hands of the other group member.

Therefore in such instances the rate of tax applicable to trading income will be applied when assessing this income.

## **7 Withholding tax rate 2004/2005**

The Treasury intends to bring forward an Extra Statutory Concession for the 2004/2005 year in order that a withholding tax rate of 10% will be applied in respect of dividends paid on or after 6<sup>th</sup> April 2004 by a Manx resident trading company to non-resident shareholders.

This measure will ensure parity between the rate of income tax for non resident trading companies and the rate of withholding tax or tax charged in respect of dividends paid by a Manx resident trading company to non-resident shareholders.

It is proposed that this measure will be extended for the 2005/2006 year by way of an Order to be made under Part 6 of the Income Tax (Amendment) (No 2) Bill 2005 when it receives Royal Assent.

In any instance where a withholding tax rate in excess of 10% has been deducted and remitted to the Division you should contact the Division in order to make a claim for any repayment.

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

Comments and suggestions for improvements of issued Practice Notes and suggestions for future Practice Notes are always welcome.