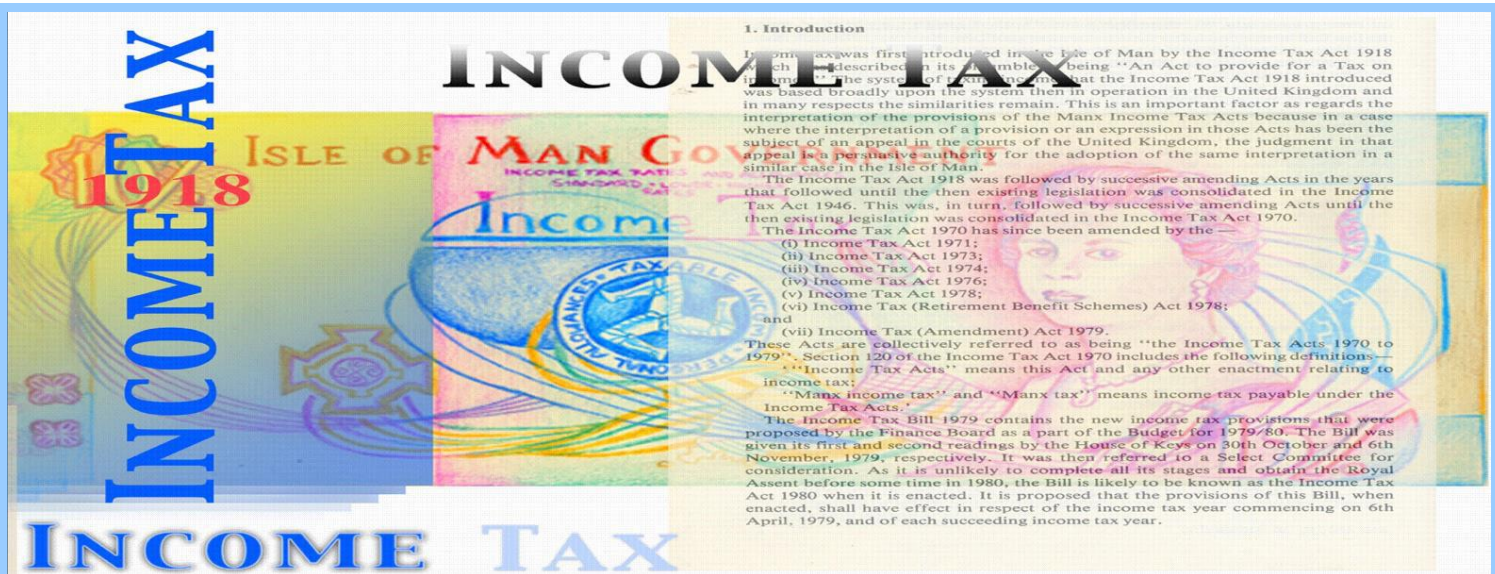




# Isle of Man Government

Reiltys Ellan Vannin



# Partnership and Limited Liability Company Return Form Guide 2022/23 Guidance Note – GN 61



Issued by the Income Tax Division  
6 April 2023

**PLEASE NOTE:**

This guidance does not affect your right of appeal on points concerning your liability to tax.

This does not constitute guidance issued by the Assessor for the purposes of section 80M Income Tax Act 1970

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## Introduction

Partnerships and Limited Liability Companies ("LLCs") are required to complete and submit income tax returns in accordance with either Section 63 or 63A of the Income Tax Act 1970. The relevant returns are R1P (Partnership Income Tax Return) and R7 (LLC Income Tax Return).

For more detailed information on the taxation of partnerships and LLCs, please see [Guidance Note GN59 – Application of the Income Tax Acts to Partnerships and Limited Liability Companies](#).

This Guidance Note ("GN") contains information regarding the completion of each section of the return forms for the year ended 5 April 2023.

For ease of reference, the numbering of the following sections of the GN correspond with the sections on the return.

Each section of the return should be fully completed with the following information accompanying the return when relevant:

- Financial statements, including a detailed profit and loss account.
- Detailed tax computation including any adjustments to the accounting profit.
- Capital allowance computations and schedule of assets included in any claim.
- Loss memorandum for trading losses.
- Excess expenditure claims in respect of income from land and property.
- Other supporting schedules (i.e. exchange rates used, details of payments made that are subject to Isle of Man income tax).

Further sections of this guide include details of the additional information which is relevant to that section.

If there is not enough space on a particular section of the return to disclose the information required, then please provide the additional information either on a separate sheet or in Section 11 '*Any Other Information*'.

**Please note that it is not acceptable to state "*see attached*", a full disclosure must be made on the return form itself.**

If the fully completed return is not submitted by the due date shown on the return, penalties for late filing will be charged. Please refer to section 5 of GN59 referred to above for further details.

## Section 1: Overview

This section outlines the requirements of the income tax return.

The income tax return is for the tax year (6<sup>th</sup> April to 5<sup>th</sup> April) however, the partnership or LLC financial statements may be prepared to different dates.

The chosen start date and end date of the financial statements included with the return should be entered in the corresponding fields on the return, e.g. if the financial statements are for the year ended 31<sup>st</sup> December, the start date is 1<sup>st</sup> January and the end date is 31<sup>st</sup> December.

If the partnership or LLC has prepared two sets of financial statements ending in the tax year, please complete the start date of the first period and the end date of the second, and provide both sets of financial statements with the return.

## **Section 2: Agent Authority**

If you wish to appoint an agent to deal with the partnership's or LLC's tax affairs, you should enter their name, their full address, their contact telephone number and, if known, their client reference number in the corresponding fields.

The Division's records will be updated accordingly and we will deal directly with your nominated tax agent until we receive notice otherwise. Income tax returns and correspondence will be sent to them and we will contact them in the first instance if we have any queries.

Please remember, the obligation to file income tax returns remains the legal responsibility of:

- In the case of a partnership – the partners; or
- In the case of an LLC – the registered agent, as defined by the Limited Liability Companies Act 1996.

## **Section 3: Designated Person**

Changes to the designated person must be notified to the Assessor. Changes can be notified in writing at the time of the change, alternatively, they can be detailed on the return for the tax year in which the change took place.

If there has not been a change to the designated person since the submission of the return for the prior tax year this section can be left blank or can be answered with 'N/A'.

Furthermore, this section does not need to be completed by limited partnerships or LLCs that have been established in the Isle of Man.

## **Section 4: Income and Accounts**

If the financial statements have not been prepared in GBP, the exchange rate used to convert the figures for the return form declarations should be provided in a supporting schedule.

### **Isle of Man Income**

#### ***Trading Profit***

A partnership's or LLC's trade is conducted in the Isle of Man if there is a place in the Island from which personnel undertake the trading activity. A trade or profession conducted in a location outside the Isle of Man should be declared in the '*Overseas Income*' section.

The following documents should be attached to the return if the partnership or LLC has income from a trade conducted in the Isle of Man:

- Financial statements, including a detailed profit and loss account.
- Detailed tax computation including any adjustments to the accounting profit to arrive at the taxable profit.
- Capital allowance computation and schedule of assets included in any claim.

Adjustments for income tax purposes include:

- Adding back expenditure which has not been incurred wholly and exclusively in acquiring the income.
- Deducting receipts which are not taxable income (e.g. capital proceeds), or which are taxable income but are not profits of the trade.
- Capital allowances for qualifying capital expenditure.
- Relief for trading losses.

The exact nature of the trading activity should be entered under the '*Nature of Trade or Business*' heading. A detailed list of trade descriptors is included in Appendix 1 of the Division's published Guidance Note: [GN58 – Company Income Tax Return: How to Complete Returns for Accounting Periods ending on or after 31 December 2019](#).

The taxable profit or loss amount should be entered in the relevant box.

### ***Other Income***

This includes income from other sources in the Isle of Man including but not limited to rental income, bank and building society interest, dividends, and loan interest.

With the exception of rental income, expenses will not be permitted as a deduction in calculating the taxable income from other sources of income.

#### *Rental Income*

For more information about the reliefs and allowances that can be claimed against income from land and property in the Isle of Man, please refer to the Division's published [Practice Note PN 51/94](#).

If income is received from more than one property this can be declared as one total amount but where possible you should provide a schedule of the income and expenses relating to each separate property.

The following documents should be attached to the return if the partnership or LLC has income from the letting of land or property in the Isle of Man:

- Financial statements, including a detailed profit and loss account.
- Detailed tax computation including any adjustments to the accounting profit and details of any pooled property income.
- A schedule detailing the addresses of properties owned and the income and expenses per property.
- Capital allowance computation and schedule of assets included in any claim.

Rental income from land and property situated outside the Isle of Man and other income arising from sources outside the Isle of Man should be declared in the '*Overseas Income*' section.

### **Overseas Income**

#### ***Trading Profit***

If the partnership or LLC conducts a trade or profession in a location outside the Isle of Man, this should be declared as income from an overseas trade or profession.

A copy of the partnership's or LLC's financial statements and a detailed tax computation should be submitted with the return where overseas trading income has been declared and tax has been paid in another jurisdiction.

Enter the amount of tax that has been suffered in the source country under the '*Tax Paid*' heading. This must also be expressed in GBP and should not include notional taxes. You should provide evidence of the overseas tax suffered by including a copy of the overseas return and corresponding tax assessment.

Enter the source country of the overseas income received under the '*Country*' heading.

### ***Other Income***

This includes income from land and property situated overseas, bank and building society interest earned on accounts held in a branch in another jurisdiction, and dividends paid by a company which is resident outside of the Isle of Man.

The following documents should be attached to the return if the partnership or LLC has income from the letting of land or property outside of the Isle of Man:

- A schedule detailing the addresses of properties owned and the income and expenses per property.
- A copy of the overseas tax assessment(s).

Enter the amount of tax that has been suffered in the source country under the '*Tax Paid*' heading. This must also be expressed in GBP and should not include notional taxes. You should provide evidence of the overseas tax suffered by including a copy of the overseas return and corresponding tax assessment.

Enter the source country of the overseas income received under the '*Country*' heading.

If any overseas tax has been paid within a country that has a Double Taxation Agreement with the Isle of Man you should consider whether the tax has been correctly paid overseas or if this can be reclaimed.

Please note that double taxation relief can only be allowed if all steps are taken to minimise the amount of overseas tax paid in line with the relevant law and Double Tax Agreements in place. Please see [Guidance Note GN5 – Double Taxation Relief](#) for further information.

## **Section 5: Return of the Partners' or Members' Share of Profits**

The profits or losses of a partnership or an LLC are allocated to their partners or members in line with the respective agreements, whether these are written or verbal agreements.

The amount of the profit or loss in the accounting period which has been allocated to each partner or member should be entered under the '*Amount*' heading. Any losses should be entered in brackets, e.g. (12,345). This must be expressed in GBP.

The percentage of the total profit or loss for the accounting period that this allocated share represents should be entered under the '*% Share*' heading. The percentages should be in line with the ratios outlined in the respective agreements.

If there were no profits or losses to be allocated to the partners or members during the accounting period, you should mark the section as 'N/A'.

Once allocated, the profit share must be declared on the partnership or LLC return and the amount will be brought to charge in the income tax assessment of the partner or member.

*Profit Share Example*

Adam, Bernadette and Charlie are in partnership, sharing profits in the ratio 35:25:40. Based on taxable profits of £190,000 for the year to 31 March 2023, their share of profit will be as follows:

Y/E 31 March 2023	Total	Adam	Bernadette	Charlie
	£	£	£	£
Taxable profit	190,000			
Profit share 35:25:40	(190,000)	66,500	47,500	76,000

**Limited Partnerships**

Under the 'Type' heading, you should also state whether each partner is a limited partner or a general partner. These terms are discussed in Section 2.1.2 of the Division's published [Guidance Note GN59 – Application of the Income Tax Acts to Partnerships and Limited Liability Companies](#).

**Section 6: Payments made which are liable to Isle of Man Income Tax**

If the partnership or LLC made taxable payments to any third parties during the accounting period, details must be provided in this section. These may include rent, consultancy fees, commissions, and interest other than interest paid to institutions licenced by the Financial Services Authority in the Isle of Man.

For limited partnerships, any payments made to the general partner should also be included here in addition to specifying the general partner's profit share in the previous section.

If no payments were made to third parties during the accounting period, you should mark the section 'N/A'.

**Section 7: Economic Substance**

The Substance Requirements in Part 6A of the Income Tax Act 1970 that apply to companies have been extended to partnerships and LLCs for accounting periods commencing on or after 1<sup>st</sup> July 2021.

For further information explaining how the economic substance requirements apply to partnerships and LLCs please refer to the:

- [Joint Guidance on the Application of the Economic Substance Rules to Partnerships](#); and
- [Economic Substance - Joint Guidance Guernsey, Isle of Man and Jersey](#).

**Exemption**

For information on the exemptions please refer to Section 5 of [Joint Guidance on the Application of the Economic Substance Rules to Partnerships](#).

An exemption should only be claimed if one of the exemption criteria apply to the partnership or LLC.

If you wish to claim one of these exemptions, you should tick the corresponding box on the return.



## Controlling Partner

A *'controlling partner'* is a person or partnership that is entitled to 50% or more of the income or property of that partnership or LLC.

If there is no controlling partner (i.e. all of the partners or members are entitled to less than 50% of the profits or losses in line with the respective agreements), select *'No'*.

If there is a controlling partner, select *'Yes'* and enter their full name, full address, tax reference number/tax identification number ("TIN"), and the jurisdiction in which they are tax resident in the table provided.

## Section 8: Economic Substance – Relevant Sectors

Section 8 of the income tax return should be completed by all partnerships and LLCs that are in receipt of income from a relevant sector and have not claimed one of the exemptions.

Please refer to the [Economic Substance - Joint Guidance Guernsey, Isle of Man and Jersey](#) for more information on the Economic Substance Requirements and also to the legislation contained within part 6A Income Tax Act 1970 before completing this section of the return.

If the partnership or LLC did not hold IP assets during the accounting period, select *'No'* to Question 1 and move onto Questions 2 and 3. If it did, select *'Yes'*.

Question 1.1 relates to whether the partnership or LLC is a high risk IP entity, as defined within Section 80B of the Income Tax Act 1970. For further information in relation to high risk IP please refer to section 4.10 of the [Economic Substance - Joint Guidance Guernsey, Isle of Man and Jersey](#).

Select *'Yes'* if the partnership or LLC did acquire any of its IP assets from its group or through the funding of overseas research and development **and** it licensed them to its group or monetised them through activities performed overseas by a member of the group.

If these circumstances do not apply, select *'No'*.

For Question 1.2, tick the box next to each type of IP asset held by the partnership or LLC.

Please note that the gross income from IP assets should be entered onto the appropriate Form R250.

Question 2 asks whether the partnership or LLC was a pure equity holding entity during the accounting period.

If the partnership or LLC was a pure equity holding entity then enter the gross income from this activity into the box at 2.1.

Question 3 asks whether the partnership or LLC received gross income from activity in any of the other relevant sectors during the accounting period.

If gross income was not received from activity in any of the other relevant sectors, select *'No'* and the question is complete. If gross income was received, select *'Yes'*.

The relevant sector should then be entered in the *'Relevant sector'* field and the gross income should be entered in the adjacent *'Gross income'* field. This must be expressed in GBP.

If the partnership or LLC had income from activities in any of the relevant sectors during the accounting period and the specific exemptions do not apply, the appropriate Form R250 must be completed and submitted with the return.

These forms can be downloaded from the [Forms](#) page on our website.

## Section 9: No Income Reasons

If the partnership or LLC did not receive any income from the Isle of Man or overseas during the accounting period you should confirm the reason for this.

Please remember that income in this context means the highest level of income before the deduction of expenses.

If the partnership or LLC did receive income during the accounting period, you do not need to complete this section of the income tax return.

The most common reasons for a partnership or a LLC to have received no income and when these should be used are detailed below:

- Nominee / trustee
- Dormant
- Non-income producing asset holding
- Other

A partnership or LLC is dormant for an accounting period if, and only if, it has not yet undertaken any accounting transactions (i.e. it has not acquired any assets or incurred any liabilities).

If the partnership or LLC has assets and / or liabilities for an accounting period but has no income, it is not dormant. Select '*Non-income producing asset holding*' as the reason instead.

If none of the options provided are relevant for the circumstances of the partnership or LLC but it still has not received any income during the accounting period, select '*Other*'.

If the no income reason is '*Other*', you need to provide details of why no income was received during the accounting period in the field below.

## Section 10: Attachments

The following is a list of documents that the Assessor would generally expect to accompany a partnership or LLC return:

- Financial statements, including a detailed profit and loss account.
- Detailed tax computation including any adjustments to the accounting profit.
- Capital allowance computations and schedule of assets included in any claim.
- Loss memorandum for trading losses.
- Excess expenditure claims in respect of income from land and property.
- Economic substance supporting information and sector specific inserts.
- Schedule of payments to third parties.
- Other supporting schedules (i.e. exchanges rates used, details of payments made that are subject to Isle of Man income tax).

You must confirm the types of document attached to the return by ticking the relevant attachment type boxes. The attached documents must be securely enclosed with the return form when you send it to the Division.

If there are no documents to attach to the income tax return, please leave the boxes blank.

### **Section 11: Any Other Information**

If there is any other information that is relevant to the partnership's or LLC's tax affairs during the accounting period that is not covered by any of the existing sections or if any of your answers require further elaboration, you can use the free format text box in this section to provide more detail.

This section can be left blank if you have no additional information to add.

### **Section 12: Declaration and Signature**

Following the completion of all the required questions, the authorised person should enter their full name in the relevant field, before signing and dating the return.

The authorised person in the case of a partnership is a partner.

The authorised person in the case of an LLC is:

- The registered agent, as defined by the Limited Liability Companies Act 1996; or
- A member – if there is no registered agent.

Please ensure that you have attached all the required documents, schedules and inserts to the form before you submit it to the Division.

### **Complaints**

The Division operates in accordance with the Isle of Man Government's standardised procedure when dealing with complaints of maladministration. If you wish to make a complaint, you should write to the Division's Complaints Officer who will deal promptly with the matter.

The procedure does not apply where a person is aggrieved by an assessment - for example, where there has been an error in the computation or where a decision has been made which results in a claim for an allowance, deduction, or relief being refused. Such issues are dealt with under the appeals procedure.

## Contact Information

If you require any further information, please do not hesitate to get in touch:

Address	The Treasury Income Tax Division Second Floor Government Office Buck's Road Douglas Isle of Man IM1 3TX
Telephone	(01624) 685400
E-mail	<a href="mailto:incometax@gov.im">incometax@gov.im</a>
Website	<a href="http://www.gov.im/incometax">www.gov.im/incometax</a>