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PRACTICE NOTE

PN 139/06

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CORPORATE INCOME TAX REGIME

THE NEW BASIS OF ASSESSMENT

Introduction

This Practice Note sets out the transitional arrangements for corporate taxpayers moving onto the new accounting period basis of assessment commencing from 6 April 2007.

The accounting period basis introduces a “pay and file” regime, where the tax return and payment of computed tax liability and/or distributable profits charge (“DPC”) are due on the same date.

The majority of corporate taxpayers are companies so the word “companies” is used in this document, but the term “corporate taxpayers” includes more than just companies. A full definition can be found in section 120 (e) Income Tax Act 1970.

There are a number of different tax treatments for companies in operation at present and these will continue until 5 April 2007. The transitional arrangements are slightly different depending on the treatment of the company up to 5 April 2007.

This Practice Note includes detailed guidance on the following topics:

1 Accounting period end dates

- 1.1 Companies where the accounting period date is already known
- 1.2 Companies where the accounting period date is not known
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TRANSITION

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3 Companies on a current year basis of assessment for 2006/2007

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1 Accounting period end dates

The new corporate income tax “pay and file” regime uses the accounting period end date to determine the due date for payment of income tax and distributable profits charge and the due date for filing the income tax return.

The due date for both will be 12 months and one day after the end of each accounting period.

As part of the transition to the new accounting period basis, an accounting period end date will be needed to trigger the issue of the first income tax return form and set the due and payable date.

The paragraphs below explain the treatment that will be applied for the first year.

1.1 Companies where the accounting period date is already known

Where a company has been submitting accounts annually, or has provided an accounting period date in another way, the Assessor will assume that the first set of accounts ending after 6 April 2007 will be prepared to the same annual date.

This date will be used as the end of the first accounting period for the pay and file regime.

1.2 Companies where the accounting period date is not known

If a company has not been required to submit accounts annually, or has not provided an accounting period date in another way, the Assessor will use a default date. This default date will be determined according to the type of company.

Companies that held a special tax status until 5 April 2007 will become resident on 6 April 2007 and, in the absence of an actual accounting period date, a default date of 5 April 2008 will be used. This is 12 months from both the company coming within the mainstream income tax system and the commencement of the pay and file regime.

For companies incorporated after 6 April 2006, a default date of 12 months from the date of incorporation will be used, in the absence of an actual accounting period date.

In any other case where the actual accounting period date is not known, a default date of 5 April 2008 will be used. This is 12 months from the commencement of the pay and file regime and also 12 months from the issue of the last “old style” income tax return to 5 April 2007.

1.3 Notification of accounting period end date

If you have not already notified the Division of your company’s annual accounting date, or if your company is preparing accounts to a different date than usual, it is important that you notify the Assessor of the actual date, in writing, as soon as possible.

Late notification of an accounting period end date may result in late return form penalties being charged and, if there is a tax liability or DPC charge to pay for the accounting period, the charging of interest from the due and payable date.

TRANSITION

2 Companies on a preceding year basis of assessment for 2006/2007

These companies will receive an income tax return for the year to 5 April 2007, which should be completed in respect of the accounting period ending in the year to 5 April 2007.

This return will be the basis of a preceding year ("PY") income tax assessment and, if applicable, a DPC for the 2007/2008 year of assessment.

The filing date for that return will be 6 October 2007, and the date for payment of any tax and/or DPC will be 1 January 2008, or 30 days after the issue of the assessment notice if later.

The accounting period ending after 6 April 2007 will be the first that will be assessed on the new basis.

The first "pay and file" basis return will cover the 12 month accounting period ending after 6 April 2007, and the due date for filing will be 12 months and one day after that.

Example

2007/2008 Year of Assessment

Company A makes up accounts to 30 September 2006, which form the basis of the 2007/2008 PY assessment.

The tax return to 5 April 2007 is filed on 30 September 2007 and the assessment/DPC is issued on 17 October 2007. The date for payment of any tax and/or DPC will be 1 January 2008.

Pay and File Basis

Company A's accounts to 30 September 2007 will be the first pay and file basis accounting period.

The tax return will cover the period 1 October 2006 to 30 September 2007 and will be issued to the company shortly after this date. The due date for filing the return will be 1 October 2008.

2.1 Transitional payment arrangements for income tax and DPC

Transitional payment arrangements have been introduced in recognition of the fact that, depending on the accounting period end date, the first payment date for income tax and DPC under "pay and file" may be less than 12 months after the payment date related to the preceding basis period.

The transitional payment arrangements will allow a company to pay a proportion of both tax and DPC due on the new due and payable date and an extension until 1 January 2009 for the balance to be paid.

These transitional arrangements apply to the first accounting period ending after 6 April 2007 only and the affected accounting period end dates are those between 6 April 2007 and 30 November 2007. (Appendix 1 is a table showing the transitional payment proportions for the affected accounting period end dates.)

Example

Company B has an annual accounting date of 31 May.

Accounts to	Old Due and Payable Date	New Due and Payable Date	Transitional Payment (due 1 June 2008)	Balance (due 1 Jan 2009)
31 May 2006	1 January 2008	N/A	N/A	N/A
31 May 2007	N/A	1 June 2008	5/12	7/12

Companies that are entitled to transitional payment arrangements will not have to make a claim; the Division will automatically postpone collection of the relevant proportion of tax and/or DPC until 1 January 2009.

However, if the balance of tax and/or DPC is not paid in full by 1 January 2009, the late payment will be subject to interest charges that will be calculated from the new statutory due and payable date, not 1 January 2009.

The Assessor reserves the right to withdraw these transitional payment arrangements in cases where it is believed that the accounting period date has been changed to take advantage of the extended payment time.

3 Companies on a current year basis of assessment for 2006/2007

These companies will receive an income tax return for the year to 5 April 2007, which should be completed in respect of the accounts ending in the year to 5 April 2007.

This return will be the basis of a current year ("CY") income tax assessment and, if applicable, a DPC for the 2006/2007 year of assessment.

The filing date for that return will be 6 October 2007 and the date for payment of any tax and/or DPC will be 30 days after the issue of the assessment notice.

The accounting period ending after 6 April 2007 will be the first that will be assessed on the new basis.

The first "pay and file" basis return will cover the accounting period ending after 6 April 2007, and the due date for filing will be 12 months and one day after that.

Example

2006/2007 Year of Assessment

Company C makes up accounts to 30 June 2006, which form the basis of the 2006/2007 CY assessment.

The tax return to 5 April 2007 is filed on 30 September 2007, and the assessment/DPC is issued on 17 October 2007. The date for payment of any tax and/or DPC will be 17 November 2007.

Pay and File Basis

Company C's accounts to 30 June 2007 will be the first pay and file basis accounting period.

The tax return will cover the period 1 July 2006 to 30 June 2007 and will be issued to the company shortly after this date. The due date for filing the return will be 1 July 2008.

Transitional payment arrangements are not available to companies that are on a CY basis of assessment immediately preceding the introduction of the “pay and file” regime.

The reasoning behind this is that these companies are in their opening years and, to assist in smooth transition, have been assessed on a concessional CY accounts basis, so have not been subject to the income tax commencement provisions and the associated overlap of profits charged in the first years of assessment on a statutory basis.

4 Companies commencing after 6 April 2006

For the majority of companies commencing after 6 April 2006, the first tax return due will be for the 12 month accounting period ending after 6 April 2007.

An accounting period cannot exceed 12 months so, if the first accounts are made up for a period of longer than 12 months, they will be divided into two separate accounting periods; one for the first 12 months, and one for the remainder. A tax return will be required for each period.

Example

Company D commences trading on 1 June 2006 and makes up a 16 month set of accounts to 30 September 2007.

The first accounting period will be 12 months, from 1 June 2006 and 31 May 2007. The due date for filing the return and the payment of any tax and/or DPC will be 1 June 2008.

The second accounting period will be 4 months, from 1 June 2007 to 30 September 2007. The due date for filing the return and the payment of any tax and/or DPC will be 1 October 2008.

If the final figures have not been determined by the due date for filing the return for the first 12 month period, the return can be completed and submitted using provisional figures. There is a 12 month period during which the return can be amended to show the final figures which, in practice, will most likely be at the time the return for the remaining short period is submitted.

If a company commencing after 6 April 2006 makes up a short set of accounts to a date before 6 April 2007 these accounts will form the basis of a CY basis assessment for 2006/2007, and the company's subsequent set of accounts will be the first on the pay and file basis.

5 Companies holding special tax status to 5 April 2007

All special company tax regimes cease on 5 April 2007 and the specific legislation is repealed with effect from 6 April 2007.

Practice Note PN 135/06 set out the details of how these companies will move from the special tax status into the pay and file regime from 6 April 2007.

5.1 International Companies assessed on a current year basis for 2006/2007

International Companies that have applied to be assessed on a CY basis for 2006/2007 will be required to provide an actual taxable profit figure to replace the provisional figure stated on the application form submitted.

The actual figure can be provided in a letter rather than on an application form. The letter should include all of the following information, and should be signed by a director of the company:

Permitted Manx Source Income	£	Tax Computation	
Other Manx Source Income	£	Taxable Income	£
Other Income	£	Other Deductions	£
Gross Income	£	Taxable Profit	£
Less: Expenses	£	Tax Rate Applicable	%
Profit Before Taxation	£	Tax Payable	£

The figure provided will be used to issue a revised assessment reflecting the actual taxable profit of the company for the 2006/2007 year of assessment.

Failure to provide the actual figure by 30 September 2007 will result in the provisional assessment being revised based on the actual taxable profit for the previous year.

6 Miscellaneous issues

6.1 Limited Liability Companies

The definition of “corporate taxpayers” in section 120 (e) Income Tax Act 1970 includes Limited Liability Companies (“LLCs”), but section 2M of the same Act states:

(1) Notwithstanding the provisions of the Income Tax Acts relating to the taxation of a body corporate, for the purposes of those Acts-

- (a) a limited liability company shall be treated in all respects as if it is a partnership; and
- (b) each member of a limited liability company shall be treated as a partner.

Accordingly, LLCs will not move into the “pay and file” regime for corporate taxpayers.

Their income tax returns will continue to be issued on a tax year basis, and will remain due for submission by 6 October, or six months after the date of issue if later.

The members of Manx LLCs will be subject to income tax on their share of profits in the same way as if they were partners in a Manx partnership.

All Manx registered LLCs holding International Limited Liability Company status up to 5 April 2007 will become resident for tax purposes on 6 April 2007.

M Couch **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.

Appendix 1

Transitional provisions for Corporate Clients on PY Basis of Assessment for 12 month Accounts ending between 1 April 2006 and 31 March 2007

Accounts ending after 31 March 2007 will fall into the corporate tax regime and will be assessed on an accounting period basis.

Blue shaded column represents the due and payable date for the final periods of account assessed on PY basis

Lilac shaded dates represent end of transition and commencement of strict 12 month due and payable date.

Dates in bold represent transitional "apportioned" payment dates, and the relevant fractions payable on that date are shown in italics below.

Company	Accounting period end	2006	2007		2008
K Ltd	31 January	1.1.07	1.1.08		1.02.09
L Ltd	28 or 29 February	1.1.07	1.1.08		1.03.09
A Ltd	31 March	1.1.07	1.1.08		1.4.09
B Ltd	30 April	1.1.08	1.5.08	1.1.09	1.5.09
			<i>4/12</i>	<i>8/12</i>	
C Ltd	31 May	1.1.08	1.6.08	1.1.09	1.6.09
			<i>5/12</i>	<i>7/12</i>	
D Ltd	30 June	1.1.08	1.7.08	1.1.09	1.7.09
			<i>6/12</i>	<i>6/12</i>	
E Ltd	31 July	1.1.08	1.8.08	1.1.09	1.8.09
			<i>7/12</i>	<i>5/12</i>	
F Ltd	31 August	1.1.08	1.9.08	1.1.09	1.9.09
			<i>8/12</i>	<i>4/12</i>	
G Ltd	30 September	1.1.08	1.10.08	1.1.09	1.10.09
			<i>9/12</i>	<i>3/12</i>	
H Ltd	31 October	1.1.08	1.11.08	1.1.09	1.11.09
			<i>10/12</i>	<i>2/12</i>	
I Ltd	30 November	1.1.08	1.12.08	1.1.09	1.12.09
			<i>11/12</i>	<i>1/12</i>	
J Ltd	31 December	1.1.08	1.1.09		1.1.10