



PRACTICE NOTE

PN 68/97

Date:

Investment Holding Companies Allowable Expenses

This practice note is amended by [PN 74/99](#) dated 9th April 1999.

Introduction

Whilst there is no statutory basis for the deduction of expenses from income derived from investments, this view having been upheld by the Income Tax Commissioners, the Assessor does by concession allow reasonable expenditure to be claimed. This concessional treatment arises out of discussions held at Tax Liaison Committee and recognises for example that in order to comply with the Companies Acts a company must incur expenses on an annual basis, namely the expense of maintaining the corporate entity. Whilst a reasonable level of other expenses is allowed, the range of these and the levels claimed vary significantly. In order to ensure consistency of treatment in this area, the Division will apply the following standard approach when dealing with the accounts of investment holding companies. This will apply to all accounts assessable 97/98 and to any cases where the 96/97 year is under enquiry due to the level of expenses claimed.

Permitted Expenses

Expenditure will be viewed in two distinct parts

1. Standard Expenses

These are intended to encompass those expenses incurred in maintaining the corporate entity and will be allowed in full. These will comprise;

Filing fees

Audit fees

Accounts preparation work

Registered office fees

Directors fees

Although these will be allowed in full they may be challenged if considered excessive in relation to taxable income.

2. Other Expenses

These are expenses other than standard expenses and non-allowable expenses directly attributable to capital transactions. Other expenses will therefore include;

"Other" accountancy fees

Administration fees

Book-keeping / secretarial fees

Investment management / advisory fees

Professional fees

Telephone

Journals

Stationery

Bank charges

Sundry

Where the company concerned is also in receipt of rental income, qualifying costs under Sections 58 and 59 of the Income Tax Act 1970 will be allowed in full. By concession, reasonable costs incurred by landlords personally collecting rents will also be allowed in full as management costs, as will costs of up to £300 for one visit to the Island, each year of assessment, made by a non-resident landlord.

Restriction Of 'Other' Expenses

Other expenses will be allowed, but restricted to the lower of

5% of the "gross" income, i.e. before expenses, but excluding income against which no expenditure will be concessionally allowed or income against which expenditure may already have been allowed, e.g. bank and loan interest, trust income and dividends from connected companies (connected companies for this purpose is as defined in Section 119C of the Income Tax Act 1970).

Or

the "other" expenses apportioned by :-	"gross" income
	"gross" income + capital gains / losses on investment

Capital gains and losses on realisations will be added together for the purposes of this calculation.

Capital gains or losses on currency conversions will be excluded from the calculation.

A comprehensive example is shown on page 4.

Summary

This approach of allowing the standard expenses in full and restricting all others, provides consistency of treatment for investment holding companies. It will therefore be of assistance if the expenses within the accounts were to be analysed in such a manner as to readily identify those falling into the two categories. This will not prevent any claim for expenses to be made in a different manner where the level allowed by concession is not accepted by the agent acting.

EXAMPLE

Income Investment Income 80,933

Bank Interest Received 5,790

Loan Interest 1,900

88,623

Expenses Directors Fees 3,500

Bank Charges 765

Investment Advisory Fees 2,865

Accountancy and Secretarial Fee 1,960

Audit Fee 750

Registered Office Fee 176

Sundries 345

(10,361)

Profit before tax 78,262

Profit on realisation 132,965

The expenses are split between standard (fully allowed) and other (apportioned)

Standard - Directors Fees 3,500

Audit Fee 750

Registered Office Fee 176

4,426

Other - Bank Charges 765

Investment advisory Fees 2,865

Accountancy and Secretarial Fee 1,960

Sundries 345

5,935

The other expenses will be allowed but restricted to the lower of :-

5% of the "gross" income i.e. $£80,933 \times 5\% = £ 4,047$

or

other expenses £5935 x	"gross" income £80933	= £ 2245
	"gross" income £80933 + capital gains / losses on investment realisations £132965	

The amount of expenses that will be allowed is £ 4,426 + £ 2,245 = £ 6,671

Note: Had there been no capital gains / losses on investment realisations in the year the amount of expenses which would have been allowed would have been $£4,426 + £4,047 = £8,473$.

If the profit on realisation of £132,965 in the example was "net" after deduction of a capital loss of £25,000 then the figure of capital gains / losses for the calculation would be $£132,965 + £25,000 + £25,000 = £182,965$.