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PRACTICE NOTE

PN 143/07

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COMPANY INCOME TAX RETURN FORM REQUIREMENT FOR ACCOUNTING PERIODS ENDING ON OR AFTER 6 APRIL 2007

This Practice Note is supplementary to PN 135/06 "Repeal of Special Company Income Tax Regimes from 6 April 2007", which promised a simplified tax return for companies, and confirms the income tax return form requirements for all companies for accounting periods ending on or after 6 April 2007.

Background

Following the publication of PN 135/06, the Assessor consulted with a number of professional associations representing the local business community on the income tax return form requirements for companies for accounting periods ending on or after 6 April 2007, following the commencement of the "Pay & File" regime.

The responses received have been taken into account when finalising the requirement.

The Income Tax Return Form Requirement for Companies

For accounting periods ending on or after 6 April 2007, resident and non-resident companies will complete the same company income tax return form.

All companies will be required to complete and submit income tax returns. The level of information and supporting documentation required both on the return itself and for submission with the return will depend on the location and type of activities undertaken and on whether there was any Manx resident interest in the company during the accounting period covered by the return.

It is important that any changes in a company's circumstances which impact on its return position be notified to the Assessor as soon as possible.

The completion of the company tax return form is explained in detail later in this Practice Note but, as a general guide, the following table summarises two levels of information required:

Level	Applicable To	What information is required	Return Sections to Complete
Simple	<ul style="list-style-type: none"> • Companies wholly owned by non-residents with no income subject to Manx income tax at the 10% rate • Dormant companies (i.e. companies with no assets or liabilities) and other companies with no income at all for the accounting period 	<ul style="list-style-type: none"> • Completed return showing the accounting profit for each income source • No tax computation • No accounts 	1, 8-11
	<p>Applicable to:</p> <ul style="list-style-type: none"> • Non-trading companies prescribed as distributing companies in regulation 7 of SD 218/06 with no income subject to Manx income tax at the 10% rate • Non-trading companies with Manx resident ownership and no income subject to Manx income tax at the 10% rate 	<p>Or:</p> <ul style="list-style-type: none"> • Completed return showing taxable/distributable profit for each income source • No tax computation • No accounts 	1-7, 9-11
Full	<ul style="list-style-type: none"> • Any other company, particularly: <ul style="list-style-type: none"> ○ Any company with income subject to Manx income tax at the 10% rate (even if the liability is NIL) ○ Any company with Manx resident ownership with income from a trade or profession in the Isle of Man 	<ul style="list-style-type: none"> • Completed return showing taxable profit/income figure for each source of income. • Tax computation (and distributable profits charge computation if applicable) • Accounts 	1-7, 9-11

Groups of Companies

If one member of a group of companies is required to provide the full return, all member companies will be required to provide the full return.

The Income Tax Return Form

All companies will receive the same return form; however, the sections which require completion and the information required will be dependent on the ownership and activities of the company.

A detailed guidance note, GN 39 - Company Return Form Guide, to assist with the return completion will accompany each return when issued. This guidance note will also be published on the Division's website at www.gov.im/incometax.

An online income tax return form is soon to be introduced for accounting periods ending on or after 6 April 2007. This return will require the same level of information as the paper return.

A sample of the new Company Income Tax Return (form R1C) is attached as an appendix to this Practice Note.

The form has the following 11 sections, some or all of which will need to be completed depending on the company ownership and activities.

1. Ownership and Rates of Tax

All companies will be required to complete this section and the answers provided will determine which other sections of the return need to be completed.

2. Income and Activities for the Period

Companies with Manx resident ownership and/or income subject to Manx income tax at 10% are directed to complete this section.

Companies with no income for the accounting period will be required to specify the reason (e.g. nominee company or trustee company).

3. Income Tax Computation

Companies with Manx resident ownership and/or income subject to Manx income tax at 10% will be required to complete this income tax computation.

Detailed income tax computations can be provided as attachments in support of figures when completing this section.

Supporting accounts will be required from:

- all companies with income subject to Manx income tax at 10%, even if the taxable income figure is NIL, and
- all companies with Manx resident ownership carrying on a trade or profession in the Isle of Man, even if the taxable income figure is NIL.

4. Dividends and Distributions Paid

Companies with Manx resident ownership and/or income subject to Manx income tax at 10% will be required to complete this section with the total amount of dividends and distributions from reserves paid during the accounting period.

A schedule of all dividends or distributions paid to Manx residents will also be required. The schedule should detail the recipient's name and address, amount of dividend/distribution, the date of payment, the accounting period profits from which it was paid and the amount of distributable profits charge (DPC) or other tax credit.

The date of the accounting period profits from which the dividend/distribution is paid is required in order for the Assessor to correctly verify the value of any tax or DPC credit attached to the dividend/distribution.

5. Distributable Profits Charge

Companies with Manx resident shareholders are required to complete this section in order to allow the Assessor to determine their distributing status for the purposes of the DPC.

6. Loans to Manx Resident Participators

Companies with Manx resident shareholders are required to complete this section and attach a schedule of loan account movements to allow the Assessor to determine whether or not a charge is required.

7. Particulars of Other Payments Made by the Company

Companies with Manx resident ownership and/or income subject to Manx income tax at 10% will be required to complete this section and provide a schedule of payments made.

8. Income Details

This is the simplified income declaration and is only for companies with no Manx resident ownership and no income subject to Manx income tax at 10%.

The income figure required here is the accounting profit for the period and no tax computation or accounts are required from companies directed to complete this section of the return.

9. Accounting Period

This section enables a company to provide details of changes in accounting periods so that the Assessor can ensure tax returns are issued for the correct periods.

10. Additional Information

This section enables companies to confirm whether they were members of a group for the accounting period, which will allow the Assessor to ensure the tax returns of the group companies are reviewed together.

11. Declaration

All companies are required to complete this section, which **must** be signed by a director or secretary of the company.

Income Sources

To assist with the compilation of National Income Statistics, companies are required to select a "Trade Classification Number" (TCN) for each source of income declared and guidance note GN 39 includes information to assist with the selection.

Companies that have distinct sources of income, for example income from a Manx trade and taxed income from a UK trade, or income from a Manx trade and a large amount of investment income that is not related to the trade, will be required to state the income from each source separately.

Where a company has investment income that is incidental to its main activity, such as bank interest from working capital, this income can be included in the income source for the main activity.

Where the income or profits arise wholly from outside the Isle of Man, the income should be declared using a UK or overseas profit TCN as appropriate, not a TCN for trading profit generated in the Isle of Man.

Payments to Non-Residents

Where payments are made to non-residents and the payments are liable to withholding tax the company will continue to be required to withhold non-resident income tax at the relevant rate.

Submission of Accounts

All companies with income subject to Manx income tax at 10%, and those with Manx resident ownership carrying on a trade or profession in the Isle of Man, will be required to submit accounts with their income tax return form.

The Assessor will also welcome the submission of accounts on a voluntary basis.

All accounts submitted should be signed. The accounts should also be audited if the company is incorporated or registered under the Companies Act 1931 and is not audit exempt.

The Assessor has the power to request submission of the accounts from any company that is not required to submit accounts with its income tax return form (e.g. a non-trading company with Manx resident ownership) where it is considered to be necessary.

Incomplete Income Tax Return Forms

A company will be required to complete all sections of the income tax return form relevant to the ownership and level of information required; any return that does not have all relevant sections completed will not be accepted.

Returns that are not accepted will be sent back to the company for completion and, if they are not resubmitted by the due date, late return penalties will apply.

All "YES/NO" questions must be answered and any supporting documentation must be provided with the return.

Where supporting documentation (e.g. schedules of recipients of payments or supplementary information) is not attached, the return form will be accepted and the missing information will be requested separately.

The Future

The Assessor will keep the company tax return system under review going forward and will seek to introduce further simplification where possible.

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.

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Tax Reference No:

Issue Date:

Due Date:

ACCOUNTING PERIOD dd/mm/yyyy to dd/mm/yyyy

IMPORTANT INFORMATION

- The company is required to make a return of income for the accounting period above.
- The due date for submission of this return is shown above. If the return is not filed by that date, the company will be subject to late return penalties and possible legal action.
- Payment of any income tax liability or distributable profits charge for the accounting period should also be made by the due date shown above. If the required payment is not made in full, interest charges will apply from that date.

Please refer to GN 39 "Company Income Tax Return Completion Guide" for help with completing this return.

PAYMENTS TO NON-RESIDENTS

Where payments of rent in respect of Manx land or property are made to a person not resident in the Isle of Man the company is required to account for Manx income tax on such payments. If the payment is to a company, the rate to be applied is 10%, for payments to all other persons the rate is 18%.

The company should deduct the amount of tax from the payment and give a Certificate of Deduction (N13) to the recipient. Certificates of Deduction are available from the Income Tax Division. The recipient will normally be required to make their own return of income.

1 OWNERSHIP AND RATES OF TAX See Part 1 of Guide

1.1 Was the company wholly owned by non-resident members for the whole of the accounting period?

If NO, what percentage of the company's share capital was owned by Manx residents during the period?

1.2 Is the whole of the company's income subject to Manx income tax at 0%?

If you have answered YES to question 1.1 and YES or NO INCOME to question 1.2 above, please go to SECTION 8 on the back page.

If you have answered NO to question 1.1 or 1.2, please complete SECTION 2 below.

2 INCOME AND ACTIVITIES FOR THE PERIOD See Part 2 of Guide

2.1 If the answer to question 1.2. above is NO INCOME, please specify the reason by ticking one of the boxes below:

Asset Holding Company Nominee Company Other (please specify) _____

2.2 If the company has income, was the income from a trade or profession?

If the company has income from a trade or profession or income subject to Manx income tax at 10%, you must submit accounts with this return.

4 DIVIDENDS AND DISTRIBUTIONS PAID See Part 4 of Guide

Please state the total amount of any dividends paid and any distributions from reserves made by the company during the accounting period.

Dividends

£

Distribution from reserves

£

A separate schedule must be provided showing the following details in respect of each payment made to Manx residents:

- Recipient's name and address
- Amount of dividend/distribution and date of payment
- Accounting period profit from which the distribution was made
- Amount of distributable profits charge (DPC) or other tax credit

If distributions are made from profits that have been subject to DPC, the company must provide each resident member with a DPC credit voucher. Please see Guidance Note "GN 36 Distributable Profits Charge" for more information.

5 DISTRIBUTABLE PROFITS CHARGE See Part 5 of Guide

5.1 Is all of the company's income subject to Manx income tax at 10%?

YES / NO

5.2 Has the company distributed sufficient distributable profit to qualify as a distributing company?

YES / NO

5.3 If NO, does the company qualify as a distributing company by other means?

YES / NO

If YES, please specify _____

If the company has answered NO to questions 5.1 to 5.3 above, it is a non-distributing company and is required to complete a separate DPC computation.

A DPC computation form can be downloaded from the Income Tax Division website at www.gov.im/incometax or from the General Enquiries counters in the Division's office.

Please see Guidance Note GN36 for further information on DPC.

6 LOANS TO MANX RESIDENT PARTICIPATORS See Part 6 of Guide

6.1 Have any advances, repayments or write offs of any amount occurred in the accounting period?

YES / NO

For further information please see Practice Note 106/04 or contact the Income Tax Division.

A separate schedule must be provided detailing all loan transactions made by the company during this accounting period.

7 PARTICULARS OF OTHER PAYMENTS MADE BY THE COMPANY See Part 7 of Guide

7.1 Has the company paid any rent, interest or commissions during the accounting period?

YES / NO

A separate schedule must be provided detailing the nature, amount and recipient of all payments made by the company during this accounting period.

8 INCOME DETAILS See Part 8 of Guide

**Only complete this section if you have been directed here from Section 1.
Other companies should provide their income details in Section 4.**

Tick this box to confirm that the company did not receive any income during the accounting period.

Income Source	Trade Classification Number	Amount
		£
		£
		£

9 ACCOUNTING PERIOD See Part 9 of Guide

9.1 If the details declared on this return are not for the accounting period stated on the front of this form, what period are they for?

From To

9.2 On what date will the next accounting period end?

10 ADDITIONAL INFORMATION See Part 10 of Guide

10.1 Was the company a member of a group during the accounting period? YES / NO

If YES, please state the name of the immediate group parent and, if it is a Manx company, the Manx tax reference number

Name

Tax reference number

11 DECLARATION See Part 11 of Guide

I (name in full) Secretary / Director

declare that the particulars shown on this return are, to the best of my knowledge and belief, true and correct in every detail.

The computed amount of income tax payable by the company for this accounting period is £

Signature Date / /

Contact telephone number

12 FURTHER INFORMATION

Further information is available from the Income Tax Division. Our opening hours are Monday – Thursday 9.15 am – 5.00 pm, Friday 9.15 am – 4.30 pm. If you write, telephone or visit our office, please quote the tax reference number shown on the front of this return form.