

**AGREEMENT BETWEEN
THE UNITED STATES AND THE UNITED KINGDOM
ON BEHALF OF THE ISLE OF MAN
REGARDING THE INTERNATIONAL OPERATION OF SHIPS**

EXCHANGE OF NOTES

Department of State Washington

August 1, 1989

Excellency:

I have the honor to propose that the Government of the United States of America and the Government of the United Kingdom of Great Britain and Northern Ireland (on behalf of the Isle of Man) conclude an agreement to exempt from income tax, on a reciprocal basis, income derived by residents of the Isle of Man and the United States from the international operation of ships. The terms of the agreement are as follows:

1 The Government of the United States of America, in accordance with sections 872(b)(1) and 883(a)(1) of the Internal Revenue Code, agrees to exempt from tax gross income derived from the international operation of ships by Isle of Man residents and corporations organized in the Isle of Man. This exemption is granted on the basis of equivalent exemptions granted by the Isle of Man to United States residents and to corporations organized in the United States.

2 In the case of a corporation, the exemption shall apply only if the corporation meets either of the following conditions:

(a) the corporation's stock is primarily and regularly traded on a established securities market in the Isle of Man, another country which grants an equivalent exemption to U.S. corporations, or the United States; or

(b) more than 50% of the value of the corporation's stock is owned, directly or indirectly, by individuals who are residents of the Isle of Man or of a country which grants an equivalent exemption to U.S. corporations, or by a corporation organized in a country which grants an equivalent exemption to U.S. corporations and whose stock is primarily and regularly traded on a established securities market in that country, another country which grants an equivalent exemption to U.S. corporations, or the United States.

3 For purposes of subparagraph (b) of paragraph 2, the Government of the Isle of Man shall be treated as an individual resident of the Isle of Man. For purposes of the exemption from United States tax, subparagraph (b) of paragraph 2 shall be considered to be satisfied if the corporation is a "controlled foreign corporation" under the Internal Revenue Code.

4 Gross income includes all income derived from the international operation or chartering of ships, including income from the rental of ships on a full (time or voyage) basis and income from the rental of containers and related equipment which is incidental to the international operation of ships. It also includes income from the rental on a bareboat basis of ships used for international transport and income from the disposition of ships which is incidental to income from the international operation of ships.

5 If the proposals set out above are acceptable to the Government of the United Kingdom, I have the honor to propose that the present Note together with your reply shall constitute an agreement between our two Governments which shall enter into force on the date of your reply, and shall have effect with respect to taxable years beginning on or after January 1, 1987.

6 Either Government may terminate this Agreement by giving written notice of termination through Diplomatic channels.

Accept, Excellency, the renewed assurances of my highest consideration.

For the Secretary of State:
McAllister