

International Tax Isle of Man Highlights 2017



Investment basics:

Currency – British Pound (GBP)

Foreign exchange control – No

Accounting principles/financial statements –

Financial statements must provide a true and fair view with regard to IFRS, UK GAAP or, in certain circumstances, US GAAP. Generally, financial statements are prepared for a maximum period of 18 months. However, some companies are required only to maintain sufficient accounting records to be able to prepare accounts if their members request them. There is no filing requirement for financial statements, but companies must file an annual return with the Companies Registry.

Principal business entities – These are the public and private company (limited by shares, limited by guarantee or unlimited) or protected cell company. Other entity types are the partnership, limited partnership, trust, limited liability company and foundation.

Corporate taxation:

Residence – A company is resident in the Isle of Man if it is incorporated in the Isle of Man or if the central management and control of the company takes place in the Isle of Man. Subject to certain conditions and with the approval of the Assessor of Income Tax, a company incorporated in the Isle of Man but managed and controlled elsewhere may be regarded as nonresident.

Basis – Resident companies pay tax on their worldwide income; nonresident companies are taxed only on Isle of Man-source income.

Taxable income – Income tax is imposed on a company's taxable profits. Normal revenue business expenses may be deducted in computing taxable income.

Taxation of dividends – Dividends generally are taxable at 0%. Dividends paid out of income taxed at the 10% rate are subject to tax at 10%; however, there is a tax credit system in place that effectively eliminates the double taxation.

Capital gains – Capital gains are not subject to tax.

Losses – Losses may be carried back for one year or carried forward indefinitely.

Rate – The standard rate of income tax for resident and nonresident companies is 0%. This rate is applicable to all types of income received by companies, except income received by licensed banks from a deposit-taking business and Isle of Man (Manx) retail profits when the annual taxable profit exceeds GBP 500,000, which are taxed at a rate of 10%. Additionally, income from land and property in the Isle of Man is taxed at a rate of 20%.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – Double taxation is relieved through the availability of a credit for foreign tax paid, up to the Manx tax payable on the same income.

Participation exemption – See under "Taxation of dividends."

Holding company regime – No

Incentives – Incentives include a 0% tax rate for the majority of companies and, for new business, the key employee concession and government grants. The New Employer National Insurance Holiday Scheme began on 6 April 2015 and will apply until 5 April 2017 for employers in respect of new recruits, subject to certain conditions.

A land development tax holiday also has been introduced for qualifying land developments that are carried out in

the interests of the economy on the island. The holiday provides an exemption from income tax for any relevant income or profits of a company for up to five years, subject to certain qualifying conditions.

Withholding tax:

Dividends – There is a 0% withholding tax rate on dividends.

Interest – Loan interest paid by a company is usually subject to a 0% withholding tax rate. A 20% rate applies where the interest payment is made to an individual out of income derived from Manx land and property.

Royalties – There is a 0% withholding tax rate on royalties, except to the extent that royalties represent payments of “Manx income” to an individual, in which case a 20% withholding tax rate applies.

Technical service fees – There is a 0% withholding tax rate, except to the extent that the fees represent payments of “Manx income” to an individual, in which case a 20% withholding rate applies.

Branch remittance tax – No

Other – A 20% withholding tax is levied on rents paid (on Manx property) to a nonresident company. The rate is 20% for rents paid on Manx property to an individual. A 0% withholding tax generally is levied on director’s fees, although a 20% rate applies in certain cases where directors’ duties are carried out in the Isle of Man.

Other taxes on corporations:

Capital duty – Capital duty is payable up to a maximum of GBP 5,000 on the creation of new share capital in a company incorporated under the 1931 Companies Act.

Payroll tax – No

Real property tax – Local taxes (recordal fees) are imposed on the ownership and occupation of real estate, based on the value.

Social security – An employer is required to make earnings-related social security contributions. The general rate is 12.8% on weekly earnings in excess of GBP 118.

Stamp duty – No

Transfer tax – No

Anti-avoidance rules:

Transfer pricing – No

Thin capitalization – No

Controlled foreign companies – No

Disclosure requirements – No

Other – The tax authorities reserve the right to make an adjustment to income if they determine that tax has been

avoided. There also are specific anti-avoidance rules in respect of personal service companies.

Compliance for corporations:

Tax year – The tax year is 12 months or the period for which financial statements are prepared (if shorter).

Consolidated returns – All companies file separate tax returns, but the surrender of losses is possible within 75%-owned groups.

Filing requirements – A corporate tax return must be filed by 12 months and one day after the close of the period to which the return relates. Payment of tax is due at the time the return is filed.

Penalties – Interest is charged on the late payment of tax, and a late return penalty of GBP 250 is imposed if a return is not filed by the due date. If the return is not filed six months after the original due date, a further GBP 500 fine will be imposed.

Rulings – No

Personal taxation:

Basis – Resident individuals are taxed on worldwide income; nonresident individuals are taxed only on Isle of Man-source income.

Residence – Residence is not defined in the tax legislation, but an individual who intends to establish residence in the Isle of Man or is present on the island for 183 days or more in a tax year, or an average of 91 days or more over any four consecutive tax years, will be regarded as resident.

Filing status – Individuals file tax returns separately. A married couple who both are resident in the Isle of Man will be taxed separately, unless they apply for joint assessment.

Taxable income – Taxable income comprises employment income, investment income and general income.

Capital gains – No

Deductions and allowances – Deductions are available for items such as: (1) interest paid on a mortgage or loan issued by a Manx lender up to a maximum of GBP 7,500 at the basic rate of tax; (2) pension premium payments; and (3) charitable contributions up to GBP 7,000 at the basic rate of tax.

Rates – Residents are taxed at a rate of 20% on taxable income exceeding GBP 8,500 and at 10% on income below that level, after deduction of personal allowances. Nonresidents are taxed at 20% on Isle of Man income, excluding Manx bank and building society interest and dividends from Isle of Man resident companies. An

individual's income tax liability can be capped at GBP 125,000 per year; an election is required for the tax cap to apply. If approved by the assessor, the election applies for five consecutive years at the amount applicable for the first year of the election.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – Local taxes (recordal fees) are imposed on the ownership and occupation of real estate, based on the value.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – Social security (National Insurance) contributions are payable in the Isle of Man. The system is broadly in line with the UK system, but the rate is 1% lower than in the UK (11% for employed and 8% self-employed individuals on earnings/profits between the earnings/profits threshold and upper earnings/profits limit, and 1% on all earnings/profits in excess of the upper earnings/profits limit).

Compliance for individuals:

Tax year – The assessment year runs to 5 April.

Filing and payment – Individual tax returns are due by 6 October following the end of the tax year. A payment on account, based on 105% of the prior year's assessed liability, is due by 6 January during the tax year in certain circumstances, with a balancing payment due by 6 January following the year of assessment.

Penalties – A GBP 100 penalty is imposed if a tax return is not submitted by 6 October following the end of the tax year. A second penalty of GBP 200 will be charged if the return is still outstanding six months after the due date.

Value added tax:

Taxable transactions – VAT applies to most sales of goods and the provision of services.

Rates – The standard VAT rate is 20%, with a reduced rate of 5% for certain items, including (but not limited to) the supply of fuel and power for domestic use and the installation of certain energy-saving materials. Provided

the relevant criteria are met, zero-rating can apply to the export of goods, certain cold food, water, the majority of books and newspapers, the construction of new dwellings and certain supplies of passenger transport. VAT exemptions include (but are not limited to) certain land transactions, some financial or insurance services and education provided by certain eligible bodies.

Registration – VAT registration is mandatory for businesses whose taxable supplies exceed GBP 82,000 per annum (although there are different "tests"); voluntary registration is possible below that threshold provided taxable supplies are made. It also is possible to register as an intending trader in certain circumstances. In addition, group registrations are allowed, subject to certain conditions.

Filing and payment – VAT returns generally must be filed and any outstanding liability paid on a quarterly basis (annual filing is possible for corporations with annual turnover below GBP 1.35 million, but with monthly payments on account, if they so elect). Large corporations may be required to make monthly payments on account. There can be significant penalties for businesses that fail to register for VAT, or to file returns and make payments of VAT on time.

Source of tax law: Isle of Man legislation, EU directives, UK legislation and common law, EU and UK case law.

Tax treaties: The Isle of Man has double taxation agreements in force with Bahrain, Estonia, Guernsey, Jersey, Luxembourg, Malta, Qatar, Seychelles, Singapore and the UK. A double taxation agreement with Belgium is awaiting ratification. Double tax agreements covering individuals are in force with Australia, Ireland, New Zealand, Poland, Slovenia and the seven members of the Nordic Council (Denmark, Faroe Islands, Finland, Greenland, Iceland, Norway and Sweden). There are limited agreements with various other jurisdictions.

Tax authorities: The Income Tax Division (direct taxation) and the Customs & Excise Division (indirect taxation), both divisions of the Treasury Department

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