

Zero Rate of Corporate Income Tax in the Isle of Man



The Isle of Man is now in its 25th year of unbroken growth and has been able to maintain its coveted AAA credit rating from both Standard and Poor's and Moody's credit rating agencies since the year 2000 which strengthens the Isle of Man's reputation as a well regulated jurisdiction for international business.

In response to OECD and EU initiatives, the 2006 Isle of Man budget saw the implementation of the Isle of Man tax strategy which had been the subject of much planning, fine tuning and consultation over the previous 5 years. The result is an innovative and proactive corporate income tax strategy which has strengthened the Island's competitive position internationally.

With effect from 6th April 2006, the general rate of corporate income tax in the Isle of Man has been 0%.

A higher 10% rate of corporate income tax applies to the following sources of income only:

- income arising from banking business carried on by banks licensed under the Isle of Man Financial Services Act 2008. Income arising from sources which do not constitute banking business is chargeable at the general 0% rate; and
- income derived from land and property in the Isle of Man. This includes both rental income and profits derived from dealing in or developing land in the Isle of Man.

The result of taxing these income sources at a rate of

10% means that some companies may have profits split between the two rates of tax. There is no capital gains tax in the Isle of Man and no stamp duty or taxes on wealth.

Repeal of Income Tax Exempt Company Status and Other "Exempt" Regimes

Up until April 2007 it had been possible for Isle of Man companies to apply to the Isle of Man Assessor of Income Tax for income tax exempt status if certain criteria were satisfied, for example, if the company did not derive income receipts from persons in the Isle of Man, no person in the Isle of Man had an interest in the ownership of the company and the company did not engage in any one or more prescribed trades or businesses. Upon payment of an annual fee such companies were exempt from Isle of Man income tax.

To address the international concerns regarding all offshore "exempt" regimes, Isle of Man legislation allowing for income tax exempt companies and companies with non-resident tax status has now been repealed. Such companies have been migrated into the Isle of Man domestic tax system and will be treated as Isle of Man resident for tax purposes and subject to the zero rate regime described above.

Audit Exempt Status

Regulations made pursuant to the Isle of Man Companies Acts 1931-2004 enable private companies incorporated under those Acts which qualify as "audit exempt companies" to elect to dispense with compliance with the requirements of the Companies

Acts 1931-2004 which relate to the audit of the accounts of companies. Any such election must be passed by 100% of the members of the company. The Companies (Audit Exemption) Regulations 2007 (the **2007 Regulations**) came into force on 6th April 2007. Subject to certain transitional provisions, the 2007 regulations revoke all of the existing audit exemption regulations. Under the 2007 Regulations, a company will qualify as an “audit exempt company” in any financial year if: EITHER:

- a) at least two of the following conditions are met:
- its turnover in that year does not exceed £5.6 million;
 - its balance sheet total does not exceed £2.8 million at any time during that year; or
 - it employs no more than 50 persons at any time during that year;

OR:

- b) throughout that year all its members are directors and it exists wholly for the purpose of holding shares, securities, other investments or land.

A private company incorporated under the Companies Acts 1931-2004 which is a member of a group of companies which is required to prepare consolidated accounts under the Isle of Man Companies Act 1982 (or would be so required save for any applicable exemption) can only elect to become audit exempt if the group in aggregate satisfies the criteria for qualifying as an audit exempt company.

Attribution Regime for Individuals - Relevant to Companies with Isle of Man Resident Owners

The Attribution Regime for Individuals (the **ARI**) was introduced on 6th April 2008 and applies only to individuals resident in the Isle of Man with an interest in a relevant company for accounting periods commencing on or after 6th April 2008. Such resident individuals will be charged to income tax on their share of the attributed profits from that company. A “relevant company” includes a

company that is resident for income tax purposes in the Isle of Man or is incorporated, established or constituted under the law of the Isle of Man or is registered as a foreign company in the Isle of Man. The ARI does not apply to individuals who are not resident in the Isle of Man and does not apply to certain listed companies.

The Corporate Charge

The corporate charge was initially introduced in the 2006 budget. The charge was set at £250 and was payable by each corporate taxpayer (except those that had been specifically exempted). The rationale behind the corporate charge was to offset the loss of fee revenue to the Isle of Man Government from the elimination of the income tax exempt regimes pursuant to which companies were required to pay annual fees of £475 or £1,000 to the Isle of Man Government.

As a result of the 2007 budget, since 6th April 2007 collection of the corporate charge has been transferred from the Isle of Man Income Tax Division to the Isle of Man Financial Supervision Commission Companies Registry. The £250 charge is now collected as part of a company’s annual return filing fee.

Should you have any questions or require further information please contact:

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