



## Guide to Isle of Man Taxation

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## **Taxation in the Isle of Man**

The area of International Taxation continues to be the topic of much debate as global economies seek to both maximise their income during the economic down turn and try to promote their jurisdiction as an attractive and well regulated place to do business.

Although the Isle of Man has enjoyed a period of unbroken economic growth for the last 26 years, it is not immune to the effects of the global recession and continues to diversify and act pro-actively to maintain its position as an international finance centre of the highest standards.

### **Background**

The Isle of Man is situated at the heart of the United Kingdom but is neither a part of the United Kingdom nor the European Union. The Island is a self-governing Crown Dependency having Her Majesty the Queen as its head of state, the Lord of Mann, but is responsible for its own legislation and setting its own taxes.

Although not part of the European Union the Island does enjoy free movement of trade in respect of agricultural and manufactured products by virtue of Protocol 3 of the Act of Accession as annexed to the Treaty of Accession 1972.

The Isle of Man's parliament, Tynwald, is the longest continuous parliament in the world which can trace its origins over a thousand years back to Viking times. The Island has its own unique culture and a strong sense of independence including its own Manx Gaelic language which is currently undergoing a major resurgence which is hoped to be maintained for generations to come.

### **Manx Budget**

Whilst the Island remains a desirable place to live, do business and for recreation having a high standard of living, low crime rate, low unemployment and beautiful scenery, as a small country with a population of around 80,000 it must fight hard to retain its place on the international stage.

The Manx government operates by a system of consensus rather than party politics and there have always been close links and open communication between government and local business allowing the community to grow and progress together in a unified manner so far as possible.

The Island does not operate in a vacuum and cannot be completely isolated from economic events worldwide and this is reflected both in the recent budget of 16 February 2010 and current consultation by government regarding the future of business taxation.

That said, the Island remains a favourable jurisdiction in terms of both personal life and business and continues to diversify and strive to maintain its ability to react quickly to change where necessary in comparison to other larger jurisdictions.

### **Personal Taxation**

The standard rate of resident income tax on the first £10,500 of taxable income in the tax year 2010/11 remains at 10%.

In a move which is said to raise an additional £9.4 million in revenue, the higher rate of income tax on the balance of income over £10,500 has increased from 18% to 20%. The non-resident income tax rate has also increased to 20%.

Personal allowances have also increased with a single person allowance of £9,300 (compared to an unchanged level of £6,475 for those aged under 65 in the UK for 2010/11) and a married couple combined allowance of £18,600. An additional age allowance for those aged over 65 at the start of the tax year of £2,020 is also available.

Despite the increase income tax rates remain far more favourable than the rates of 20% and 40% in the UK. From 6 April 2010 in the UK the top rate of income tax on income over £150,000 has increased to 50% as confirmed in the Budget 2010 on 24 March.

Regardless of the outcome of the up coming General Election it is not clear for how long the 50% rate will remain in force and it remains a strong incentive for many individuals seeking to lose their UK residence.

The more stringent and often complex rules including the remittance basis introduced by the UK Government in respect of non UK domiciled individuals is also often quoted as the stimulus for leaving the UK by many seeking to relocate to the Isle and other jurisdictions.

The Isle of Man also operates a tax cap on an individual's income tax liability of £115,000 for the tax year commencing 6 April 2010 which will be doubled for a married couple who are jointly assessed. This is often an attractive provision for high net worth individuals looking to relocate.

The rate of employee's National Insurance Contribution (NIC) payable on earnings above the Earnings Threshold is set to increase by 1% from 6 April 2010. Employees will now pay NICs on earnings above the Upper Earnings Level (UEL) at 1%. The UEL is set to remain at £730 per week. This increase in NIC payments is expected to raise an additional £7 million in revenue.

## **Mortgage and Loan Interest**

Personal tax relief is granted pound for pound on interest paid to Manx resident lenders up to a maximum amount of £10,000 for the tax year 2010/11. This limit is doubled for a jointly assessed married couple. This limit does not affect business expenses and the taxation of income and expenditure in respect, for example, of property rental.

## **Inheritance Tax**

There is no charge to inheritance tax in the Isle of Man in comparison with the United Kingdom where currently the threshold over which inheritance tax is payable is £325,000 above which inheritance tax is payable at 40% (subject to exemptions and reliefs).

The UK Budget 2010 has also confirmed that the current inheritance tax threshold is to remain in place until 2014/15.

## **Capital Gains Tax**

There is no charge to capital gains tax in the Isle of Man. Currently UK gains on chargeable assets are charged at the rate of 18% with an annual exemption of £10,100 (again unchanged from 2009/10).

## **VAT and Stamp Duties**

The Isle of Man operates the same rate of VAT as the UK currently 17.5%.

There are no stamp duties payable in the Isle of Man but a fee is paid upon the registration of title to land purchased calculated at the rate of £4.50 per thousand pounds of the property purchase price, i.e. a property purchased for £500,000 would incur a fee of £2,250.

This fee is still favourable in comparison to stamp duty land tax (“SDLT”) payable in the UK based on consideration of 1% on residential property from £125,000 - £250,000 (£150,000 - £250,000 in disadvantaged areas), 3% on all property over £250,000 up to £500,000 and 4% on all property over £500,000.

An SDLT free window has been introduced in the UK Budget 2010 for first time buyers purchasing a property as their main home under £250,000 between 25 March 2010 and 25 March 2012.

A future increase in SDLT was also announced from 4% to 5% on residential property purchased in excess of £1,000,000 on or after 6 April 2011.

## **Business Taxation**

For the tax year 2010/11 business taxation in the Isle of Man remains as per the previous year so that the general rate of corporate income tax is 0%.

A higher rate of 10% is charged on income received in respect of both banking business and that derived from land and property situated in the Isle of Man.

The rate applicable to other non-corporate entities for example trusts has increased from 18% to 20%, whereas in the UK discretionary trusts are taxed at 50%.

Manx resident individual partners in a Manx Partnership and resident sole traders are taxed on an individual basis, the income tax legislation does not treat these forms of business as distinct entities.

The attribution regime for individuals remains so that Isle of Man resident individuals having an interest in a “relevant company” will be liable to Manx income tax on their share of attributed profits from that company.

Again businesses as for individuals find themselves in a positive place in contrast to UK corporation taxes of 21% on annual profits up to £300,000 (to increase to 22% in the tax year 2011/12) and 28% on profits of over £1,500,001 with marginal relief being applied to profits in the mid range.

## **Pensions**

Following a period of consultation pension legislation in the Isle of Man was reviewed and updated by the Income Tax (Pensions) Act 2008 with effect from the 6 April 2008.

The old percentage based contribution limits were abolished and replaced by the “annual allowance”. During the tax years 2008/09 and 2009/10 a maximum of £300,000 can be contributed.

Tax relief on contributions is available up to 100% of an individual’s net relevant earnings subject to the £300,000 cap.

Individuals with no income may also now obtain tax relief upon contributions made up to £3,600.

The UK will be introducing changes so that high earners with incomes of between £150,000 and £180,000 will have restricted relief on their pension contributions.

In contrast to the UK the Isle of Man has not introduced a lifetime allowance (£1,800,000 for the tax year 2010/11) and therefore the total contributions made are not capped.

It is now also possible to contribute to more than one pension scheme at a time allowing contributions to both a personal and an occupational scheme subject to the overall contribution limit.

Up to 30% of the fund value can be taken as a lump sum and there is no cap on this amount. The tax free lump sum can be taken without the necessity to begin income withdrawal, however, income must be withdrawn at age 75.

There is no requirement to purchase an annuity and income can be drawn down between 0% to 120% before age 75.

Unlike the UK, income draw down can continue after age 75 and at this age it is still not necessary to purchase an annuity. The legislation also allows for investment flexibility so that, in contrast to the UK, investment in residential property is possible for example, buy-to-let property (as long as there is no element of personal use).

Isle of Man resident individuals after reaching their normal retirement age may now continue to work with their employer and at the same time take their pension benefits. As the trend continues for the period of our working lives to extend and as average life expectancy increases it is expected that this will be a useful and widely utilised option.

The recent Budget increased the trivial commutation limit for pension funds to align with that of the UK to £18,000 for years of assessment commencing on or after 6 April 2010.

### **Qualifying Recognised Overseas Pensions Schemes (QROPS)**

Since “A-day” in the UK in April 2006 it has been possible to transfer funds out of a UK pension scheme into an overseas pension scheme qualifying as a QROPS.

A QROPS must act as if it were a UK scheme for the first 5 years after a member of that scheme leaves the UK and comply with HMRC reporting requirements. However, after those 5 years the scheme becomes subject to local legislation and will benefit from all of the advantages of Isle of Man schemes noted above.

It is extremely important for any individual to take UK tax advice prior to making any transfer out of their UK pension scheme. Any such transfer will be viewed in the UK as a Benefit Crystallisation Event and potentially result in a tax charge.

There are over 100 Isle of Man QROPS listed on HMRC’s approved list and the benefits of the changes to Manx pension schemes should continue to be attractive to employers and individuals wishing to become resident in the Isle of Man and who may now transfer their UK pension.

## **International Agreements**

The Isle of Man remains a jurisdiction committed to maintaining the highest of standards in terms of regulation and has led the way in respect of the conclusion of Tax Information Exchange Agreements (“TIEAs”).

The Island also currently has three full double taxation agreements, based upon the Organisation for Economic Co-operation and Development (“OECD”) model, in force with Malta, Estonia and Belgium and is actively negotiating additional agreements with other countries.

In addition the Isle of Man has signed 15 TIEAs and was automatically placed on the OECD’s so called ‘white list’ of compliant and co-operative jurisdictions published in April 2009 alongside the UK.

The Foot review of British Offshore Financial Centres commissioned by the UK Government last year contained much positive feedback on the Isle of Man in terms of regulation, governance and compliance and acknowledging the hugely important role the Island has in providing billions of dollars worth of investment to the City of London. The International Monetary Fund has also praised the Island’s robust anti money laundering regulation and both Standard & Poor’s and Moody’s have confirmed its ‘AAA’ credit rating.

As a further commitment to the strengthening of its international relations and maintaining the highest of regulatory standards in terms of taxation the Isle of Man has announced that it will move to the automatic exchange of information within the European Union from the 1st July 2011 in its application of the European Union Savings Directive.

This move has been widely commended by other jurisdictions and has resulted in a call for other international finance centres to follow the Island’s lead.

## **Future**

The Isle of Man retains its great entrepreneurial spirit and works to increase its global presence not only in the area of international finance but also e-business, e-gaming, ship and aircraft registration, film production and space commerce, bringing substantial success for a small Island of approximately 33 miles in length and 13 miles wide.

The challenge will be to continue to adapt and grow whilst upholding the uppermost standards. The Island will have to continue to fight hard for a level playing field in the regulation of jurisdictions globally and to remain resilient against pressure from larger economies finding themselves under immense financial strain.

For more specific advice on Taxation in Isle of Man, we invite you to contact one of the following:

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