
SECTION 5

TAXATION

5.1 INTRODUCTION

Individuals and companies who are resident in the Isle of Man for income tax purposes enjoy complete independence from the United Kingdom on matters of direct taxation. The Island's taxation system is quite separate from that of its neighbour. There are no death or estate duties, capital transfer or gifts taxes, capital gains or wealth tax.

5.2 PERSONAL TAX

The Isle of Man is a low tax area with a personal standard rate of income tax of 12% and a higher rate of 18%. The higher rate of 18% is also levied on all taxable income arising in the Isle of Man to a non-resident person, but bank and building society interest as well as dividends from certain companies (including open-ended investment companies which constitute collective investment schemes) may be paid without deduction of tax, by virtue of various Income Tax Extra-Statutory Concessions granted by the Isle of Man Treasury. However, before any bank, building society or collective investment scheme may pay interest or dividends without deduction of tax to non-resident persons, it must first have made a successful application to the Isle of Man Treasury to be included in the relevant list maintained for the purposes of the Income Tax Extra-Statutory Concessions.

5.3 CORPORATE TAX

Generally, companies are liable to tax at 18% on the whole of their taxable income. If the activity is being carried on outside the Island and the shares are beneficially owned by non-residents there are currently two special categories of resident companies which are also assessable.

The exempt company, which instead of paying income tax on its profits, pays an annual fee of £400.

The international company, which provides for a flexible rate of tax between 1% and 35% on the whole or part of its income. The nature and circumstances of the company's activities are factors which are considered in determining these aspects.

It should be noted that it is not permissible for banks, building societies, fund managers or other investment businesses incorporated in the Isle of Man which are licensed or authorised by the Commission to be "exempt", "international" or "non-resident" companies. However, in certain circumstances, it may be possible for collective investment schemes to qualify for such treatment.

5.4 TAXATION OF FUND MANAGERS

Managers of Isle of Man authorised and international collective investment schemes are required to be Isle of Man incorporated entities with a place of business in the Island. Normally, they would be subject to the standard rate of income tax of 18%. However, with effect from 5th April 1992, the Isle of Man Treasury introduced an effective 5% concessionary rate of tax for managers of authorised and international collective investment schemes (including professional investor funds and experienced investor funds). The effective 5% concessionary rate of tax applies in respect of profits arising in connection with management of authorised and international collective investment schemes but does not apply in respect of profits arising from other activities. The Isle of Man Treasury intend that the concessionary rate of tax will apply, initially, until 2005. Further information regarding the operation of the concessionary rate of tax for fund managers may be obtained by writing to the Assessor of Income Tax, Isle of Man Treasury, Government Offices, Douglas, Isle of Man.

5.5 TAXATION OF COLLECTIVE INVESTMENT SCHEMES

Collective investment schemes constituted as open-ended investment companies may apply for "exempt" company status under the Income Tax (Exempt Companies) Act 1984. Schemes which obtain "exempt" status do not pay Isle of Man tax on any profits arising, whether or not these profits are retained or distributed. As such they may be utilised for "roll-up" schemes. It is important to note that it is not permissible for an Isle of Man resident to have any interest in a scheme which has obtained exemption from income tax. Collective investment schemes constituted as open-ended investment companies that do not qualify or apply for "exempt" status will be required to pay Isle of Man tax at 20% on any retained profits. They will not be liable to pay Isle of Man tax on any distributed profits, provided that the scheme has been included in the list maintained by the Treasury for the purpose of the Income Tax Extra-Statutory Concession (Dividends paid to non-residents). A copy of the criteria for inclusion in the list may be obtained from the Financial Supervision Commission.

Collective investment schemes which are constituted as unit trusts will not have any liability to Isle of Man tax provided that all income arises outside the Island and no Isle of Man resident has any interest in the scheme.

Collective investment schemes structured as limited partnerships may apply for International Limited Partnership status. A Manx resident interest in such a partnership is not permitted other than where that interest is that of an International Company, an exempt company or where it is held through a public or quoted company. The general partner must be a Manx resident company with a place of business in the Isle of Man and have a resident director and resident qualified or approved company secretary. The general partner may itself be an exempt or International Company. The annual fee payable by an International Limited partnership is £400. The limited partners have no liability to Manx income tax and any share of profit or other distribution is not subject to non-resident tax/withholding tax.

5.6 INDIRECT TAXES

Customs and Excise duties, value added tax and import and export controls on certain goods apply in the Isle of Man, but there are no Customs barriers between the UK and the Island. The Isle of Man has the statutory authority to levy its own rates of duty and tax, but an agreement exists between the

Governments of the UK and Isle of Man whereby the Isle of Man keeps its indirect taxation, with some exceptions, notably a reduced rate of VAT of 5% on hotel accommodation and the non-imposition of Insurance Premium Tax and Landfill Tax, in line with that levied in the UK. There is provision for further variations, with the concurrence of the UK Government, and the agreement may be terminated by either party on 6 months' notice. The managers of authorised and international collective investment schemes in the Isle of Man (but with the exception of professional investor funds, experienced investor funds and exempt international collective investment Schemes) are exempted from the requirement to charge VAT on management fees.

The Isle of Man has its own Customs and Excise administration, which is completely independent of the UK Customs and Excise service, and collects the duties and taxes arising in the Island and applies the same import and export controls as those in the UK.

NOTE: The taxation section of this publication is intended as a general guide. It should not be relied upon when considering individual cases, and circumstances and tax practice may change. Before proceeding, the advice of a qualified tax adviser or Isle of Man Customs and Excise should be sought.