

## 1. **The Business Environment**

### **GENERAL INFORMATION**

#### **Advantages of Establishing in the Isle of Man**

The key advantages of establishing a business on the Isle of Man can be summarized as follows:

- Political and economic stability;
- Highest regulatory standards;
- English language;
- Political and economic stability;
- Favourable time zone;
- Cost-effective business environment, including low rates of tax;
- Excellent external communications;
- Broadly based and skilled professional support;
- Modern IT infrastructure
- Government policy conducive to economic growth;
- Attractive quality of life; and
- Legal system based on English common law.

#### **Geography and Climate**

The Isle of Man is located in the middle of the Irish Sea, 83 miles from Liverpool and 90 miles from Belfast and is approximately 221 miles or 572 kilometres square, being 32.5 miles (50 kilometres) long from north to south and 13.5 miles (20 kilometres) wide from east to west. Scenically it has a little of everything that is attractive about the British Isles - a central mountain, Snaefell (2,036 feet or 620 metres), surrounded by hills that lead down to seventeen national Glens, fertile farmland and a varied coastline.

The largest town and capital is Douglas, situated on the east coast. The other main towns are Ramsey to the north, Port Erin and Port St. Mary to the south and Peel to the west.

The Island typically enjoys 'British' weather tempered by the effects of the Gulf Stream that runs through the surrounding Irish Sea. Exposure to sea breezes keeps average summer temperatures in the early to mid twenties centigrade, while winters tend to hover around 9 degrees and snow sometimes strikes in late

February/ early March. The thick sea fog that occasionally smothers the island's lowland areas is known locally as Manannan's Cloak, a reference to the Island's ancient Sea God swathing his kingdom in mist to protect it from unwanted visitors.

## **History and Government**

The Island was claimed by Norway following successive Viking raids in the eight century. The Vikings settled on the Island, and controlled the Island until circa 1400 when it came under the control of the British Crown. The Island was directly governed by England from 1400 to 1865, since then the Island has gradually loosened its ties with the British Crown.

The Isle of Man is not part of the United Kingdom, as might be suggested by its location, although it is part of the British Isles and the Queen is the sovereign.

The Manx Parliament, Tynwald is responsible for the Island's domestic affairs and has the power to legislate on all subjects, but it has left responsibility for the Island's defence, civil aviation and international relationships with the United Kingdom government.

Tynwald is composed of two houses, the lower house called the House of Keys is a 24 member elected body. The members are elected for five year terms.

The upper house of Tynwald, the Legislative Council, comprises eight politicians elected from the House of Keys, together with two ex-officio members, the Lord Bishop and the island's Attorney General.

The House of Keys and the Legislative Council have equal authority. The Legislative Council revises bills already passed by the House of Keys, and any amendments suggested by the Legislative Council are referred back to the House of Keys for review. The power to initiate legislation is vested mainly in the House of Keys. The Legislative Council can initiate legislation, but this is rarely done.

Day-to-day executive government is administered by a number of departments of Tynwald, each composed of a minister and one or more other members of Tynwald. There is a cabinet of nine ministers, chaired by the Chief Minister, who is regarded as the nearest equivalent to a prime minister.

## **Population and Language**

The Island's resident population numbered 79,805 in April 2006, which is approximately 360 people per square mile. Roughly half the inhabitants are Manx born and the rest largely British, although an increasingly varied mix of nationalities are moving here to work in the financial and service industries.

English is the first language of modern Manx people but the 'old' language is Manx Gaelic. There are no longer any native Manx speakers but a growing number of enthusiasts have kept it alive and it is a learning option for all schoolchildren over the age of 7. Government departments use English and Manx titles on all official documents, correspondence and vehicles and Manx is also used on town and road signs and increasingly by commercial businesses.

## **Currency**

The unit of currency in the Island is the pound sterling (£) which is divided into 100 pence (p).

## **Economy**

The Manx economy has been steadily expanding since the 1970's, mainly due to Government promotion of the island as an international offshore financial centre, with low tax rates, financial incentives for manufacturing and light industry and an absence of death, wealth or capital gains duties. Unemployment is around 1½ percent of the economically active population and inflation is between 2 and 3 percent at July 2006.

## **International Time**

Time in the Isle of Man is the same as in the UK which is Greenwich Mean Time (GMT) during the winter, and British summer time (one hour ahead of GMT) during the summer (end-March to end-October). GMT is five hours ahead of US Eastern Standard Time (EST).

## Weights and Measures

The Isle of Man currently uses both imperial and metric systems: both business and domestic activities are increasingly being conducted in metric terms. The imperial unit of weight is the pound (lb) subdivided into 16 ounces (oz).

1 oz	=	2.35 g
1 lb	=	0.454 kg
1 ton	=	1.016 tonnes

The imperial unit of measurement is the foot, subdivided into 12 inches, Three feet make a yard and 1,760 yards are a mile.

1 in	=	2.54 cm
1 ft	=	0.305 m
1 yd	=	0.915 m
1 mile	=	1.609 km

The imperial unit of surface area is the acre, equivalent to 4,840 square yards.

1 acre	=	0.407 hectares
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The imperial unit of volume is the pint, subdivided into 20 fluid ounces, Eight pints make a gallon.

1 fl.oz	=	28.413 cm <sup>3</sup>
1 pt	=	0.568 litre
1 gal	=	0.546 litre

Temperature is expressed in fahrenheit as well as centigrade. Water freezes at 32F and boils at 212F. To convert F into C subtract 32, divide by 9 and multiply by 5. Thus 100F is  $5 \frac{100-32}{9} = 37.8C$ .

## Travel

Travel to and from the Island is either by air or sea. A number of airlines serve the Isle of Man and a full list of flights can be found at the Isle of Man airport website. Shortest flying time is Dublin 30 minutes with London the longest at an hour. Sea travel is either by private vessel or with passenger/freight ships and 'fastcraft' belonging to the Isle of Man Steam Packet company. Average journey time across the Irish Sea is 2 ½ hours by fastcraft and 4 by conventional ferry.

Further information regarding crossings can be found at the Steam Packet website. If travelling to and from UK destinations a passport or visa is not required.

## **BUSINESS ENTITIES**

### **Forms of Business Enterprise**

The principal forms of business organisation are:-

- companies, including branches of foreign corporations; and
- partnerships and sole proprietors.

### **Isle of Man Companies**

Companies have historically been formed by incorporation and registration under the Companies Acts 1931 to 1986. Each company has a memorandum and articles of association (incorporation) which sets out its constitution and rules for its management and administration. Types include public companies, which must file accounts, private companies, which cannot offer shares to the public; companies limited by shares, companies limited by guarantee; and unlimited companies.

Commercial companies are usually limited liability companies having a share capital. They are termed 'companies limited by shares'. Companies may be limited by guarantee of the members rather than by shares. Such companies are rarely found in business, but are more commonly used as the vehicle for a 'not for profit' organisation, such as a charity.

Unlimited companies, whose members have unlimited liability for the company's obligations, do exist but are not generally used for commercial ventures.

### **The New Manx Vehicle – Companies Act 2006**

On 1<sup>st</sup> November 2006, the Isle of Man Companies Act 2006 became law, marking the biggest change in Isle of Man Company Law for seventy-five years. The Act updates and modernizes the Island's Company Law, by introducing a new simplified corporate vehicle into Isle of Man Law. It is a development of the International Business Company (IBC) model, available in a number of other international business centres.

The 2006 Act sweeps away a number of the traditional company law formalities, including the concept of authorized share capital, the requirement to hold an Annual General Meeting, the requirement to maintain capital (subject to solvency), the requirement to have a company secretary, the prohibition on financial assistance and the number of compulsory registry filings.

Every Company incorporated under the Companies Act 2006 must have a registered agent in the Isle of Man. Only persons holding an appropriate licence issued by the Isle of Man Financial Supervision Commission can act as a registered agent. This requirement ensures that there is a licensed professional on the Isle of Man overseeing the administration of the company.

The Companies Act 2006 is a stand-alone piece of legislation. Companies incorporated under the Companies Act 2006 are governed solely by its provisions and (save in relation to liquidation and receivership) are not subject to the provisions of the existing Isle of Man Companies Acts 1931-2004. Equally, present and future companies incorporated under the Isle of Man Companies Acts 1931-2004 are not subject to, or affected by, the terms of the Companies Act 2006. However there are relatively simple procedures to enable a company incorporated under the Companies Acts 1931-2004 to re-register as a company under the Companies Act 2006.

A company can be incorporated or continued under the Companies Act 2006 as a company limited by shares, by guarantee or by shares and by guarantee or may be unlimited with shares or unlimited without shares.

### **Public and Private Companies**

Under the Companies Acts 1931-2004 a company may be either a public or private company. Only a public company may offer shares or debentures to the public, although these need not necessarily be quoted or dealt in on a stock exchange. A private company must have a statement to that fact in its articles of association and its articles of association must prohibit the company from inviting the public to subscribe for its shares. The name of a public company must end with the words “plc” or “public limited company”. The main advantage of a private company over a public company is that a private company is not required to file accounts with its annual return.

The Companies Act 2006 does not distinguish between public and private companies. All types of company incorporated under this legislation can offer their shares or securities to the public, whether the names of the companies end with the words “Limited” or public limited company”.

## **Subsidiaries of Foreign Corporations**

Overseas concern which operate in the Isle of Man through a subsidiary invariably do so by means of a private company. Under the Companies Acts 1931-2004, although there must be at least two registered shareholders, it is still possible for the beneficial ownership of all the shares to be vested in the overseas parent through the device of having at least one share held by a director or other nominee of the overseas concern. Under the Companies Act 2006 there only need be one member.

## **Branches of Foreign Corporations**

An alternative approach is for the foreign concern to open a branch operation rather than set up a Manx subsidiary. In such cases, however, the 'foreign company provisions of the Companies Act 1931 come into play.

Overseas company's which operate in the Isle of Man through a branch must, within one month of establishment of a place of business in the Island, submit to the General Registry a certified copy of the memorandum and articles of association, a list of directors and the names of one or more Manx residents representing the company in the Island.

## **Capital Structure**

Under the Companies Acts 1931-2004 a company's authorised share capital and the division of that capital into shares should be set out in the company's memorandum of association (articles of incorporation). Shares of no par value are not permitted. Shares may be of different classes having different voting, dividend and other rights. Ordinary shares (common stock) usually have voting rights with no restriction on dividend rights. Preference shares (preferred stock) usually have the right to a fixed preferential dividend, with no voting rights unless dividends are in arrears or other specified circumstances exist. A company may also issue redeemable shares of any class. There are, however, many variations from this normal pattern, including additional classes of shares with special rights.

The liability of each shareholder of a company limited by shares is limited to the amount unpaid on the shares held by him. Partly paid shares are unusual. In practice, shareholders of most limited companies, having once paid for their shares, have no further liability. Both public and private companies must have at least two members (shareholders).

As the Companies Act 2006 does not recognize the concept of authorised share capital and replaces the traditional capital maintenance requirements with a new solvency test there is no requirement for details of a company's share capital to be included in its memorandum of association.

### **Debentures**

The expression 'debentures' when used in the Companies Acts includes debenture stock, bonds and other securities of a company, whether constituting a charge on the assets of the company or not. In practice, a debenture is normally issued as security for a loan and is a instrument executed under the seal of a company, charging the whole or part of its undertaking or specific property in favour of the holder, to secure the sum loaned and to provide for the payment of interest at a specified rate until the principal has been repaid. Debentures containing a charge must be registered with the General Registry. Debentures are usually redeemable at a specified date, and may entitle the holder to convert them into ordinary shares at specified times and upon specified terms. Debentures are normally fully transferable and, if issued by a public company, may be quoted on The Stock Exchange.

### **Foreign Ownership of Capital**

There is no requirement that some part of the share capital or debentures must be held by Isle of Man nationals rather than foreigners.

### **Limited Liability Companies (LLCs)**

LLCs were introduced in the Isle of Man by the Limited Liability Companies Act 1996. The concept of the LLC originated in Wyoming USA, and the Isle of Man legislation follows the main principles contained in the Wyoming Limited Liability Company Act 1977. Its main purpose was for tax reasons, as it has limited liability and corporate personality but is taxed as if it were a partnership, however it has also become popular as a simple form of business vehicle as the

members can also manage them, and so there is no separation of ownership and management as with other forms of company.

The main characteristics of the LLC is that Liability is limited to the amount of capital contribution made by the members, therefore there is no share capital as such. Members have the right to manage the LLC in relation to how much their capital contribution is, or they can appoint a manager, however the manager can only exercise powers delegated to him by the members. There are no Directors, as with a partnership and members pay income tax on their share of the profits, however if the LLC is owned by non-resident members and has no Manx-sourced income then it may be exempt from all Manx taxation. LLCs may exist for an unlimited period but will automatically be wound up on the death, resignation or disqualification of a member. However, if there are two or more members remaining then they can resolve to continue and buy out the outgoing member.

### **Protected Cell Companies (PCCs)**

PCCs were introduced in the Isle of Man by the Protected Cell Companies Act 2004 (the 'PCC Act'). A PCC is basically a standard company limited by shares but which has been separated into legally distinct 'cells'. Each cell has its own proportion of the overall share capital of the PCC, and each cell's assets, liabilities and tax liabilities are kept separate from each other cell. Shareholders can own an entire cell but at the same time only own a small proportion of the PCC as a whole. At present the use of PCCs is restricted to companies carrying on either insurance business or are collective investment schemes.

Under the provisions of the PCC Act, the Companies Acts 1931 – 2004 shall apply in respect of a company that is a PCC as they apply in respect of any other company. A company may be converted into a PCC but only if it is permitted in that company's articles. Also, a company can be incorporated as or converted into a PCC only if it is a company limited by shares.

The PCC is a separate legal entity. The separate cells created by the PCC do not become legal entities separate from the PCC itself. Cells are created by the PCC for the purpose of protecting 'cellular' assets using the provisions contained in the PCC Act. Cellular assets are the assets represented by the proceeds of cell share capital, and all other assets attributable to the cell.

The initial use of PCCs was in captive insurance, however the regulations were extended to provide for funds structured as International Schemes in the Isle of Man, including Experienced

Investor Funds and Professional Investor Funds but excluding Exempt International Schemes, to incorporate as, or convert into, PCCs. There are obvious benefits in using PCCs for collective investment schemes, especially under the Isle of Man's Professional Investor Fund and Experienced Investor Fund regulations. PCC structures can be particularly useful in allowing ring fencing of individual client or intermediary assets as this provides a layer of risk management not afforded to these schemes previously, and this could prove to be attractive to high net worth clients.

## **Partnerships**

Almost any form of business may be carried out in the Isle of Man by a partnership. A partnership may not generally consist of more than 20 persons, but exceptions are made in the Isle of Man for the purpose of carrying on the practice of lawyers or accountants or business as members of a recognised stock exchange, and for any other purpose specified by the Department of Industry. There is no requirement that all or any of the partners should be Manx resident and a body corporate may be a partner. In general, the partners are not only jointly liable to the creditors for the debts and obligations of the partnership firm, but each partner is also personally liable for all the debts of the firm not satisfied by the partnership assets. Their rights and obligations are governed by a partnership agreement and by the Partnership Act 1909. In general, Manx partnership law is similar to UK partnership law.

Partnerships generally are not subject to the same degree of statutory control over their constitution and administration as are companies, nor to the same level of public disclosure. For example, there is no public filing of their accounts.

### **International**

### **Limited**

### **Partnerships**

The International Business Act 1994 introduced the International Limited Partnership. This expands and extends the range of features of Isle of Man partnership that derive from the Partnership Act 1909. The advantages of these types of partnerships are that they can be permitted to have more than twenty partners; they are tax neutral; and some or all of the partners can be companies.

International Limited partnerships may be formed by limited partners who are either non resident individuals or companies. Alternatively they may be formed by a combination of the above. The general partner must be a Manx resident company having a resident director and a resident

qualified or approved company secretary.

Generally, all receipts and income must arise outside the Isle of Man and originate from persons not resident in the Island. All invited partners of the International Partnership must be resident outside the Isle of Man.

### **Joint Ventures**

Joint ventures are not regarded as separate entities. In the Isle of Man a joint undertaking is usually organised as a partnership or through a jointly owned company.

## **LABOUR LEGISLATION AND RELATIONSHIPS**

### **Employee/Employer Relations Legislation**

Manx labour law has the Contracts of Employment Act 1981 as its foundation which requires employers to provide each employee with a written statement detailing the conditions of employment.

The Island has its own Employment Tribunal, claims to which must be presented within strict time limits. Initial enquiries can be made to the Manx Industrial Relations Service.

The Employment Act provides for protection against dismissal on the grounds of sex, race or religion for people who have the required period of service.

### **Trade Unions**

A relatively low percentage of employees belong to trade unions, although this percentage has increased over recent years, particularly in the membership of the Transport and General Workers Union.

### **Employee Participation**

As the Island has only associate membership of the E.E.C. there is no legal requirement for

- employees to be represented on the board of directors of companies;
- profit sharing;
- work councils, in the Continental European sense.

### **Work Permits and Residence**

Entry requirements to the Isle of Man are identical to those of the United Kingdom, and a person who is entitled to be a resident of the United Kingdom is automatically entitled to take up residence in the Isle of Man.

Manx Government policy on the employment of non-Manx workers is operated through a system of work permits. The status of an 'Isle of Man worker' is defined in the Government's Control of Employment Acts.

In general a person qualifies as an Isle of Man worker if he or she was born on the Island or has at least one parent who was born on the Island and spent their first five years there or is married to a person already qualified as an Isle of Man worker or has been ordinarily resident on the Island for at least five consecutive years or has received full-time education during ordinary residence.

With few exceptions, anyone else who intends to take up full-time permanent employment on the Island needs a work permit for which the proposed employer should apply.

## **EMPLOYMENT TERMS AND CONDITIONS**

### **Remuneration and Hours Worked**

The Rate of remuneration and the method of payment must be specified in the contract of employment. There is no maximum legal working week. However, the hours of work for employees must be specified in the contract of employment.

There is minimum wage legislation. The minimum wage for an adult (18 years or above) was £5.40 per hour as at October 2006.

Fringe benefits in respect of use of cars, meals and so on are deemed under Income tax rules, part of the remuneration and so should be declared for tax purposes.

### **Paid Vacations and Statutory Leave**

There is no legal requirement (apart from statutory public holidays, which employers in the Isle of Man recognise up to 10 such holidays each year) to grant a period of paid leave. However, four week's paid holiday is usually the norm in most industries.

There is no obligation for an employer to make payments to an employee who is off work for reasons of maternity. Some employers agree through the contract of employment to make payments. Employees who are eligible may receive a maternity allowance from the Department of Health & Social Security for up to 18 weeks while they are absent from work. Enquiries

### **Termination of employment**

The minimum notice required by the employer and the employee to terminate employment must be stated in the contract of employment. There is no legal requirement for an employer to pay a redundancy payment in excess of any stipulated figure in an employee's employment contract.

### **Social Security and Pensions**

The Isle of Man social security system, which is identical to that of the United Kingdom, provides for various services including healthcare, sick pay and a basic pension on retirement. Contributions are related to earnings and are deducted at source from workers salaries, along with income tax, according to a "Pay As You Earn (PAYE) regime.

The pension paid under the current programme consists of a basic pension, payable regardless of the level of earnings, and an earnings related pension, which varies according to the actual amount earned. Workers can additionally contribute tax-free to personal pension schemes according to certain limits. Some employers will also contribute towards these payments or may run their own company pension scheme to which they and/or the employee make contributions.

## **2. Finance and Investment**

### **REGULATION OF BUSINESSES**

## **Regulatory Agencies**

The government departments responsible for the regulation of trade and industry are the Department of the Treasury and the Department of Industry.

The financial sector is regulated by the Financial Supervision Commission (FSC) and the Insurance and Pensions Authority (IPA). The Banking Sector is also under the supervision of the FSC, the main administrative role is fulfilled by the Banking Supervisor, who is a member of the FSC.

The Insurance Supervisor is charged with the supervision of the insurance industry. The main duties of the banking and insurance supervisors is to ensure that banking and insurance companies act prudently and have adequate financial resources available to them.

## **Import and Export Controls**

The Isle of Man, participates in the European Community's free flow of goods, through its special relationship with the Community.

## **Exchange Controls**

There are no exchange controls in the Isle of Man.

## **Patents, Trademarks and Copyrights**

The Isle of Man is treated as part of the UK for patents, trademarks and copyrights. There is no Manx Registry and patents and trademarks registered in the UK automatically cover the Isle of Man. Patents granted under the UK Patents Act 1949 provide protection for an original period of 16 years. However, applications could be refused or, if granted be invalidated by evidence of prior publication or use. With the enactment of the Patents Acts 1977, the original period was increased to 20 years, but grounds for refusal were extended to cover the absence of any 'inventive' step. The Isle of Man is treated as part of the UK and as such is a member of the European Patent Convention and is a signatory of the Patent Co-operation Treaty.

Trademarks are issued for an original period of seven years but are subsequently renewable at 14-year intervals indefinitely. Trademarks may be registered only in respect of manufactured goods. They should not contain words in everyday use and should not be descriptive of the goods to which they relate.

Copyright exists without the necessity of application or registration in respect of original literary, dramatic or musical work. It also exists in artistic work, sound recordings, cinematographic films, television and sound broadcasts and computer programs. In general, protection is provided for the life of the author (if appropriate) plus 50 years. A design right has been introduced to allow the owner exclusive rights to reproduce the design for commercial purposes. This will generally last for no more than 15 years.

## **BANKING AND LOCAL FINANCE**

### **Banking System**

Banking services on the island are extensive. Most banks permit customers to maintain current and deposit accounts in any major currency and offer competitive rates on money market deposit accounts.

The banking sector has grown substantially in recent years. The island now has 54 licensed banks, 53 non-deposit-taking financial institutions and 7 UK building societies with Isle of Man licences. The annual growth rate of the deposit base exceeds 14%. All the major UK and Irish clearing banks are represented.

### **Stock Exchange**

The Isle of Man does not have its own stock exchange. Shares from a number of Manx public companies are traded under Rule 535.2 of the London Stock Exchange, where shares are traded on a matched bargain basis. It is possible, however, to have a full listing on the London Stock Exchange allowing unrestricted purchase and sale of shares.

### **Insurance Exchange**

The Insurance Act 1986 provides a framework for the possible establishment of a Manx insurance exchange that would be structured like the Lloyds Insurance Market in London, except that the syndicates would be corporate entities with liability limited to the amount of their capitalisation.

## **ACCOUNTS AND AUDIT REQUIREMENTS**

### **Statutory Requirements**

Partnerships and sole traders are under no statutory obligation to prepare annual accounts or have them audited (although some form of accounts are usually required for fiscal purposes). Companies incorporated under the Companies Acts are, however, subject to statutory requirements, which are described below.

### **Accounts and Directors' Reports**

The directors must prepare accounts and, lay them before the shareholders in general meeting. The first accounting date must be within eighteen months of the date of incorporation of the company. There after the accounts must be presented annually and within fifteen months of the previous annual general meeting. Debenture holders should also be sent a copy of the accounts, but have no statutory rights to attend the meeting.

The accounts must comprise:-

- a profit and loss account (income statement) covering the financial year;
- a balance sheet as at the end of the financial year; and
- notes giving certain supplementary information and disclosures.

The accounts must give a true and fair view of the company's affairs and be accompanied by the auditors' report. The audited accounts, and a directors' report dealing in general terms with the company's state of affairs and making a number of statutory disclosures, must be sent to shareholders and debenture holders at least 21 days before the meeting.

In addition to accounts showing the company's position as a separate entity, a company with subsidiaries must normally submit group accounts dealing with the company and its subsidiaries. For this purpose the subsidiaries must, as far as possible, draw up accounts for the same period as

those of the holding company. The group accounts are usually in the form of consolidated accounts.

### **Books and Records**

Companies incorporated under the Companies Acts are required to keep proper accounting records. These must contain the information necessary to disclose with reasonable accuracy, at any time, the company's financial position at that time, and to enable the directors to prepare accounts in compliance with the requirements of the Companies Act 1982. The accounting records must be preserved for three years by private companies and six years by public companies. Other enactments, such as the tax status and the Statute of Limitations, however, lead to certain records being kept for six years as a matter of prudence, even by private companies. The accounting records must record:

- all sums of money received and expended, and the matters in respect of which receipts and expenditure take place;
- the assets and liabilities
- if the company's business involves dealing in goods:
- statements of all goods sold and purchased, showing the goods and identifying the buyers and sellers except in the case of goods sold in the retail trade.

The accounting records must be kept at the company's registered office (which must be located in the Isle of Man) or at such other place as the directors think fit. If the accounting records are not kept in the Isle of Man, the company must maintain in the Isle of Man accounts and returns which disclose the financial position of the business and which must be sufficiently detailed to allow a proper balance sheet and profit and loss account (income statement) to be drawn up. These records must be updated at least every six months, and must be kept in a place which gives access to the directors at all reasonable times.

The only general law regarding the form in which accounting records are kept is that, if not kept in a legible form, they must be capable of being reproduced in a legible form. Computer records are therefore acceptable, provided that the company has the ability to print them out in hard copy form.

### **Annual Return**

At least once in every calendar year, a company must file an annual return with the Registrar of Companies. It must contain a list of shareholders, particulars of the directors and secretary, the amount of the company's total indebtedness in respect of mortgages and charges, and certain other statutory information.

### **Auditors and Audit Requirements**

The criteria for audit exemption are similar to those used in the United Kingdom. A company can be an audit exempt company if it meets two of the following criteria:

- its annual turnover is £5.6million or less;
- its balance sheet total is £28million or less;
- its average number of employees is 50 or fewer.

In order to be qualified for appointment as auditor, a person must be a member of a recognised body of accountants (see accounting profession below).

The following may not be appointed auditor:

- an officer or servant of the company;
- any person who is a partner of, or in the employment of, an officer or servant of the company; and
- a body corporate.

Most companies appoint practising accountants or firms of accountants as auditors and, in addition, frequently look to them for other services, including advice on taxation and other financial matters.

The auditors are required to make a report to the shareholders on the accounts examined by them and on every balance sheet, profit and loss account (income statement) and all group accounts laid before the company in general meeting. The auditors' report must state whether the accounts are properly prepared in accordance with the Companies Acts 1931-2004 and whether they show a true and fair view:

- in the case of the balance sheet, of the state of the company's affairs as at the end of the financial year;
- in the case of the profit and loss account, of the profit or loss for the

financial year; and

- in the case of group accounts, of the state of affairs and profit or loss of the group dealt with by the accounts, so far as concerns members of the company.

### **Accounting Profession**

The bodies of accountants whose members are engaged in public practice in the Isle of Man and are recognised by the Department of Industry as qualified for appointment as auditors under the Companies Acts are:-

- the Institute of Chartered Accountants in England and Wales;
- the Institute of Chartered Accountants in Scotland;
- The Institute of Chartered Accountants in Ireland.
- the Chartered Association of Certified Accountants; and
- the Chartered Institute of Public Finance and Accountancy.

In addition the Financial Supervision commission may authorise a person to act as an auditor of a private company. All five bodies of accountants are members of the Consultative Committee of Accounting Bodies (CCAB), which has formed special committees to promote accounting standards (Accounting Standards Committee - ASC) and auditing practices (Auditing Practices Committee - APC).

### **Auditing Standards**

The audit requirement has been part of company law for many years, and the techniques of auditing are well established. The APC has codified these techniques. The Committee issues auditing standards, which prescribe basic principles and practices which members of the CCAB bodies are expected to follow in the conduct of an audit. The APC has also issued auditing guidelines which give guidance on such topics as planning, controlling and recording an audit, accounting systems, audit evidence, internal controls, the review of accounts, and examples of audit reports.

### **Accounting Practice**

There is an over-riding requirement that the financial statements of an entity prepared by CCAB bodies should be prepared in accordance with the Isle of Man Companies Acts 1931 to 2004 or

with the company or other laws of the territory in which the concern is incorporated, registered or established.

The financial statements of Isle of Man established entities should normally be drawn up in such a manner so as to comply with:

- Financial Reporting Standards, Urgent Issue Task Force pronouncements, Statements of Standard Accounting Practice, Statements of Recommended Practice (“SORPS”), and any other statements of accounting practice issued by the relevant accountancy bodies in the United Kingdom (“UK Accounting Standards”); or
- International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations Committee pronouncements and any other statements of accounting practice issued by the International Accounting Standards Board (“International Accounting Standards”).

If financial statements are drawn up in accordance with other standards then this should be for valid reasons, and they should be applied consistently and in totality to the financial statements. The accounting and auditing standards adopted should be disclosed in the financial statements.

For the purposes of definitions and exemptions, where UK Accounting Standards are adopted and they incorporate references to UK company law, then the relevant parts of the UK company law should be considered in the application of the appropriate standards, where not contrary to other applicable legislation.

Where UK Accounting Standards or International Accounting Standards grant exemptions to subsidiaries of companies incorporated in the European Union, these exemptions may be applied to countries outside the European Union, provided the same conditions are met.

Financial statements of entities established in jurisdictions other than the Isle of Man should be drawn up to comply with the Accounting Standards of that jurisdiction, or as otherwise disclosed. Significant departures from applicable Accounting Standards should be explained and disclosed in the financial statements. The financial effects should be quantified and disclosed unless this would be impractical or misleading in the context or giving a true and fair view. If the financial effect of departures from the relevant standard are not disclosed, the reasons should be stated.

## **Form and Content of Financial Statements**

In general, the disclosure requirements for financial statements are set out in the Companies Act 1982. Certain additional disclosures are required by accounting standards and in the case of USM and listed companies, by the rules of the Stock Exchange.

## **Valuation of Assets**

The bases of valuation of fixed assets, investments and inventories have to be disclosed. Valuation will normally be in line with applicable accounting standards (see Accounting Practice above).

## **Foot Notes**

The following information would usually be shown as part of the foot notes to the accounts:-

- Accounting policies adopted
- Depreciation rates and basis of charge
- Particulars of directors loans
- Particulars of charges, security given for loans
- Tax status of company and basis of calculation of tax charge.

## **FOREIGN INVESTMENT**

### **Government Attitude to Foreign Investment**

There are no restrictions imposed by the Isle of Man Government on foreign investments. The Government actively encourages direct investment, by foreign individuals and companies in the Manx economy, through its policy of investment incentives and its liberal supervision of industry.

The taxation system, including the lack of any capital taxes, the recently introduced zero rate of tax for many companies and the personal tax cap for individuals, is a significant general incentive to any company wishing to do business on the Island (see below). In addition there are various initiatives in terms of enabling legislation and incentives targeted at specific industries/sectors.

## **MAJOR INDUSTRY SECTORS AND INCENTIVES**

## **Banking and Insurance**

The island's banking industry is dominated by subsidiaries or branches of the main UK clearing banks, although there are many other UK and foreign banks and also branches and subsidiaries of major UK building societies. Whilst the island's currency is sterling, deposits are accepted in all major currencies of the world. The banking system is similar to that in the UK. Current accounts, deposit accounts and all other services offered by UK and international banks are also offered from the Isle of Man. Interest rates are comparable to those prevailing in the London Money Market. Competitive returns are available in all currencies.

Operating within a statutory framework laid down under the Banking Acts, most banks offer a full range of services, including treasury, investment management and trust administration. The Isle of Man also operates a Deposit Protection Scheme. The growing reputation and credibility of the Isle of Man as a financial centre has led many individuals, companies and trusts to look to the island for their investment and other financial needs.

Many wish to conduct their business within a sterling area, but outside the UK itself. Such people are turning more and more to professional advisers to manage their investments and to conserve their assets. Tailor-made portfolios are available for those simply requiring their investment to generate a living income through to those seeking capital appreciation. Non-residents of the UK, as well as many former UK taxpayers, including expatriates working abroad and those who have retired to the island or elsewhere choose to protect the value of their savings by utilising the wide range of investment opportunities provided by the Isle of Man offices of some of the world's leading investment organisations.

The island is ideally suited as a location for the establishment of trusts, with discretionary and non-discretionary private trusts being commonly used vehicles for tax planning and asset protection. Manx trust law is set out in a Trustee Act of 1961 and is based very closely on UK trust law. Key features of all trusts are security, confidentiality and continuity. The island is a most favourable jurisdiction for trust administration, a fact borne out by an increasing volume of business in this area. Recent developments include the Trusts Act 1995 which provides for certainty in trusts formed for forced heirship planning purposes and the Purpose Trusts Act 1996 which introduces Purpose Trusts provisions into Manx law.

The island's insurance sector consists of two main segments, captive insurance and international life assurance. Captive insurance companies, which are usually managed under contract by one of the insurance managers on the island, are set up to underwrite all or part of the insurance risks of a parent company, group or trade association. Under new legislative provisions introduced in 1995, captives may also redomicile in the Isle of Man from other jurisdictions. They represent an area of significant growth for the island. By the creation of its own captive, the principal company/group can achieve substantial savings by accommodating its own risks, eliminating brokerage commission and timing its own cash flows on premium income, reinsurance and claims payment.

The taxation options for insurance companies vary from paying tax at 20% to seeking under the Exempt Insurance Companies Act of 1981 exemption in whole or in part from local taxation on both underwriting profits and investment income. Under a further option, insurance companies may register under the International Business Act 1994, paying local taxes thereby complying with Controlled Foreign Company legislation.

Availability of cover on some risks not provided by the ordinary insurance market and the provision of effective tax planning initiatives (facilitating the establishment more quickly with reserves against long-term and catastrophe exposures) are other reasons the Manx captive insurance market has grown and prospered. With proven service and resources to welcome many more captives, the future of this sector is bright.

The international life assurance market is world-wide and principally directed at expatriates whose contracts typify high income, low out-goings and end of contract bonuses. Such clients are anxious to find efficient ways of investing their savings. They are being attracted to the Isle of Man by a life sector which continues to expand by offering innovative product solutions and expertise and which is one of the largest of any of the world's offshore centres. Establishing viable distribution channels continues to be the challenge and is one to which local companies are responding vigorously and so enhancing the island's reputation as a major centre for expatriate life assurance. These companies are subject to strict actuarial supervision. In addition, in 1988 the UK awarded the Isle of Man Designated Territory Status. This is a seal of approval to the island's insurance regulatory system.

The Life Assurance (Compensation of Policyholders) Regulations 1991 ensure that, in the unlikely event of one of the island's life insurers being unable to meet its liabilities to its policyholders, up to 90% of the liability to the protected policyholder will be met. Unlike other schemes, the island's system operates globally, covering policyholders no matter where they reside.

The island is well represented by a number of stockbroking firms. All are Members of the London Stock Exchange and have access to the London Market via the Automated Quotations System, which is open during virtually all possible trading time

### **Investment and Fund Management**

The first mutual funds were established in the Island in the mid-1960s and were mainly used by British expatriates. New legislative initiatives in the early 1980s created opportunities for growth and gave rise to a rapid expansion of the Island's fund management industry. The Isle of Man became the first offshore jurisdiction to be granted 'designated territory status' by the UK in 1986, thus enabling Isle of Man funds to apply for SIB recognition in the UK.

Confirmation of the Island's OECD membership in 1990 subsequently led to Isle of Man funds being approved by the Japanese Securities Dealers' Association.

Mutual funds can take the form of companies (open or close-ended), trusts, limited partnerships or pure contractual arrangements.

As in other offshore jurisdictions, managers in the Isle of Man are more focused on administration than asset allocation. Where a manager chooses not to establish a real presence in the Island, it is a requirement that its business must be administered by a licensed third party fund administrator.

A key area of the industry's growth has been in the number of Experienced Investor Schemes. By mid-2006, out of 184 investment funds domiciled in the Isle of Man, with total capitalisation of US\$30bn, 135 were Experienced Investor Funds.

The Experienced Investor Fund is subject to a form of regulation that is aimed at the 'Experienced Investor'. Such schemes are exempted from certain of the legal and regulatory requirements that are generally applicable to International Schemes through the Financial Supervision (Experienced Investor Fund) (Exemption) Order 1999.

In April, 2006 the Manx Financial Supervision Commission revised its policy on the activities that a fund administrator or fund manager can undertake for a foreign Collective Investment Scheme. Under the revised policy, Isle of Man licenceholders will be able to provide broader administration services to operators of foreign schemes provided these are carried out under an outsourcing

contract, and the appropriate licence extension is obtained from the Commission. Previously, outsourced services could only be provided in relation to one of the 'core' activities of fund administration.

## **Freeport**

Europe's first and only offshore Freeport has been established on a 20 acre green field site adjacent to the main airport at Ronaldsway.

A Freeport is an enclosed, secure area where manufacturers can build, create and store commodities and components free from normal customs and excise charges under certain conditions. The Isle of Man Freeport has easy access to European markets and there is the extra financial advantage of location in an established offshore centre.

As normal customs controls are waived in the zone within the perimeter fencing, operators can bring in raw materials or unfinished products, process them to completed value added items, then export. The import/export process attracts no taxation, other than duty if goods are exported to the European Union, since the Freeport is regarded as being outside the home territory.

A wide range of activities can take place, including public warehousing, loading, unloading and trans-shipment, storage, sampling, packing, labelling and other forms of minor handling for market preparation. Most goods from outside the European Union can be exported back to similar areas, whilst goods of Union origin can be processed without restriction. Movement of goods from the Freeport to EU countries is guaranteed and no duties are payable until the goods enter the country of final destination. Traders may also store goods indefinitely until their respective market trading conditions are most favourable.

## **Industry**

Some two hundred firms are engaged in the sector, varying from small family concerns to major employers, all of which are eligible for support from the Government under a discretionary financial incentive scheme designed to encourage the growth and development of exports and to increase the range of employment opportunities available to the island's people.

This same package of grants and loans is offered to companies wishing to locate to the island, provided that they can satisfy the commercial and environmental criteria laid down by the

Department of Trade and Industry, which administers the scheme. To qualify for such assistance, operators must demonstrate their activities will create a high added-value per employee, and project a good level of profitability and return on capital investment.

Above all, their factory or enterprise must not diminish the existing amenities of the island and its scenic environment. Environmental considerations are high on the Government's list of priorities, with preference being given to small non-polluting operations. Industrial concerns, ranging from small cottage industries to large factories producing 10% of the island's national income and providing jobs for around 4,000 men and women, are operating successfully and profitably, exporting their products to the UK, continental Europe and beyond.

The island has its own Customs and Excise Service and an agreement with the UK ensures that goods can move between the two countries without delay or documentation, aided by the island's excellent communications and transportation services.

Provided they can meet the conditions as laid down by the Manx Government, companies can apply for capital grants of up to 40% towards the cost of new buildings, extensions to buildings plant and machinery. Grants of up to 40% are also offered towards non-recurring first year expenses such as professional fees, plant installation and key employee transfer costs.

Marketing ventures, energy conservation measures and consultancy costs associated with achieving a recognised quality standard are other areas where similar generous levels of assistance can be offered, whilst training expenses can attract up to 50% grant support for approved costs. To further assist industrial development 100% first year capital allowances are available on new buildings, extensions and plant and machinery, which can be off-set against the company's liability to Income Tax. In addition, such allowances are calculated gross, and no account is taken of any grant, which may be received under Government's Aids and Incentives Scheme. Loans of up to half a company's projected working capital requirement, at modest interest rates and with capital repayment deferred for two years, may be offered in addition to the grants.

As an alternative to a company with an approved project building its own factory with Grant Aid, a 40% Rent Grant may be applied for to reduce the rent costs during the early years of the project. As an alternative to this entire package of grants and loans, a company can apply for a tax holiday. During these tax-free periods of up to five years in duration, the whole or part of its profits may be exempted from income tax.

The Government's Department of Trade and Industry decides the level of assistance to be offered and pursues a policy of encouraging a wide range of businesses which are diverse in terms of both size and type of activity pursued. Thus Manx industry ranges from more traditional manufacturing right through to the latest technologies such as laser optics and micro-processor electronics design and assembly. New companies are in particular are being sought which operate in specialist markets involving new technologies and which will not place undue strain on the island's labour resources. Precision engineering has proved the major area of growth in recent years, producing components for the aerospace, automotive, mining, oil and petro-chemical industries. Existing operations include electronics, plastics, cast acrylic sheeting, medical diagnostic equipment, printing and publishing and, of course, the thriving food processing sector such as bakeries, dairy products and fish processing.

Of additional note are the island's attractions for authors, publishers and artists in terms of the quality of the scenic environment and supporting business infrastructure. These attractions were reinforced in 1991 with the introduction of Copyright and Design Right Acts in the Isle of Man.

### **Shipping and Commercial Yachts**

Ships have been registered in the Isle of Man for over two hundred years. Since the Marine Administration was established in 1984, following which major international conventions were extended to the Isle of Man. The Isle of Man Shipping register has evolved as an independent quality international British Register which maintains the highest possible standards. It is progressive in outlook and recognises the financial objectives of ship owners and operators and is able to provide the necessary services at highly competitive costs in order that ship owners can achieve these objectives.

As the Manx Shipping Register is a British Register, ships registered in the Isle of Man are British Ships. It is however, a requirement that certain functions of ship management are carried out by a ship management company resident in the island. Although Manx ships come under the separate jurisdiction of the Isle of Man Marine Administration, as British vessels, they are entitled to fly the Red Ensign.

Whilst many surveys and certifications are delegated to major approved classification societies, and with whom a vessel should be classed, every ship coming onto the Manx Register is visited by one of the team of Marine Surveyors all of whom have professional backgrounds. They include

master mariners, naval architects and marine engineers and they will travel worldwide, when necessary, to ensure that standards on Manx ships are maintained.

The Merchant Shipping Registration Act 1991, made provision for the bareboat chartering of vessels to or from the Isle of Man register. Shipowners taking advantage of this will be able to separate their financial and operational jurisdictions. Vessels registered in this manner in the Isle of Man will be required to comply with all regulations (other than ownership) as if they were Isle of Man vessels. Regulations in general reflect international requirements.

The Isle of Man Administration is small enough to be able to take an individual interest in the vessels on the register and a flexible approach to proposals made by, and of assistance to, shipowners. The Isle of Man Government gives positive support to the shipping register and to the establishment of ship management companies in the island. The only fees charged by the Marine Administration are those relating to registration, survey and certification of ships, and these are all set at levels intended only to recover the administrative costs involved. There is no additional registration tax or tonnage fee levied on Manx-registered shipping.

The development of the island's shipping register has encouraged the establishment of Manx based international ship management and ship owning companies. These have been supported by numerous shipping related service providers, whereby the island is able to offer comprehensive Ship Owning and Ship Management Companies incorporated on the island.

The Isle of Man also operates a Double Taxation Agreement with the USA. This is a limited arrangement concluded with the USA in 1989. Under the arrangements, the US Government 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. The exemption is granted on the basis that equivalent exemptions are granted by the Isle of Man to US residents and corporations organised in the US.

Any Commercial Yacht proposed for registry must be of 24 metres in length or more and must be classed with one of the Classification Societies recognised by the Isle of Man. Vessels must also comply with the UK Mega Yacht Code. Commercial Yachts are registered in exactly the same manner and are subject to the same conditions as Merchant Ships. Each vessel must be seen by an Isle of Man surveyor prior to registry. Vessels are registered if the surveyor is satisfied that the vessel complies with the Code and is a suitable for registry in the Isle of Man. In exactly the same way as with Merchant Ships, the owner must be a "qualified owner", with a Representative Person present in the Isle of Man.

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## **Film Industry**

Through the offices of the Department of Trade & Industry, the Isle of Man Film Commission has established the Isle of Man Film & Television Fund which makes available equity investment to film and television productions shooting entirely or partly on the island. Additionally, film and television projects can apply for Production Credits (replacing transferable tax credits) where the project is being funded wholly or in part by a recognised broadcaster.

## **E - Business and Online Gaming**

The Isle of Man offers secure servers with industry standard telecommunications access to the internet. Comprehensive support services include complete website design, software and hardware suppliers, E-Business solutions providers and internet payment gateway facilities along with international tax and legal advice and company administration services.

Critically, the Isle of Man offers the space for businesses to set up their own operations on a small or large scale. The Island has an excellent education system that is preparing pupils for technology intensive businesses and has, as a result, very high numbers of computers in every school supported by a teaching staff that are computer literate.

Legislation in the form of the Electronic Transaction Act 2000 and the online Gambling Regulation Act have provided the necessary legal framework for e-commerce to grow.

## **Aircraft Register**

The Isle of Man Government is currently in the process of establishing an aircraft register for high quality private and corporate aircraft. The register will be administered by a dedicated team of professional and supportive staff and it is aiming for the same worldwide reputation as that enjoyed by the Isle of Man Ship Registry.

The necessary legislation is currently being drafted for the Air Navigation (Isle of Man) Order 2007. It is expected that following the legal process and the completion of all the technical procedures required, there will be an operational aircraft register by spring 2007.

### **Space and Satellite**

The Isle of Man is fast becoming recognised as a centre of excellence for the provision of specialised financial, legal and regulatory services to the global space and satellite industry.

## **3. The Tax System**

### **THE TAX STRUCTURE**

#### **The Taxing Authority**

Taxes are levied by the Isle of Man Government, through the Island's Assessor of Income tax and the Island branch of Customs and Excise.

#### **Principle Taxes**

##### Direct taxes

- Income tax - Resident individuals and companies are subject to Manx income tax on their worldwide income.

##### Indirect taxes

- Value added tax
- Customs and Excise duties

##### Taxes on property

- General rates

##### Other

- National insurance contribution

As can be seen the Isle of Man does not levy:

- Corporation tax or advance corporation tax
- Capital gains tax
- Capital transfer or gift taxes

- Wealth taxes
- Stamp duties
- Death, estate or inheritance tax

### **International Aspects**

Non resident individuals or branches of foreign companies trading on the Island are liable to income tax on their Manx source income.

## **ADMINISTRATION**

### **Corporate and Individual Tax Payers**

The Assessor of Income Tax is responsible for the administration of the income tax system which includes the assessment of, and collection of, income tax. The formulation of income tax policies is the responsibility of the Treasury.

As income tax is levied on resident individuals and companies, the following is a summary of the procedures for compliance, assessment, appeals and payment of income tax applying to both.

### **Compliance**

The income tax year commences on 6th April and ends on the following 5th April. Income Tax returns have to be submitted by 6<sup>th</sup> October in the year of assessment to which they relate. The basis of assessment is income from the preceding fiscal year; however, income from employment and income from the opening and closing years of assessment for other sources of income are taxed in the fiscal year in which they arise.

From the 6<sup>th</sup> April 2007 a new corporate income tax “pay and file” regime will use the accounting period end date to determine the due date for payment of income tax and any distributable profits

charge (see below) and the date for filing the income tax return. The due date will be the 12 months and one day after the end of the accounting period.

### **Assessment**

An individual's employment income is subject to income tax in the year of assessment in which it arises. A company is generally liable to income tax on its income for the preceding tax year, although there are special rules for the commencement and cessation of trades. As noted above however the system for companies is moving to one based on the accounting period.

### **Appeals**

To contest an assessment, the taxpayer or the taxpayer's agent should give notice in writing to the Assessor of Income Tax, specifying the grounds of objection, within 30 days of the date of the assessment.

The assessor is entitled to adjust an assessment by agreement with the taxpayer, without the necessity of a formal appeal. Under formal appeal the assessment is determined by the Income Tax Commissioners.

### **Payment**

Income tax is due and payable on or before 1st January each year for the year of assessment ending on the following 5th April. When assessments are issued after this date, the income tax due is payable within seven days of the date of the assessment. Under the new corporate income tax regime the due date for payment will be twelve months and one day from the accounting period end date.

### **Penalties**

An interest charge is imposed on tax not paid within 31 days of the date on which the tax becomes due and payable.

### **Statute of Limitations**

Income tax records are retained for six years immediately preceding the current year and can be revised as necessary with the agreement of the Assessor of Income Tax.

#### 4. **Taxes on Business**

##### **CORPORATE TAX SYSTEM**

###### **Resident Companies**

From 6<sup>th</sup> April 2006 a standard rate of income tax for companies in the Isle of Man of 0% was introduced. This rate is applicable to all forms of income received by all companies with the two exceptions set out below.

Licensed banks are taxed at a rate of 10% on income from their banking business. Income received by banks that is not derived from banking is taxed at the standard rate.

Income received by companies that is derived from land and property in the Isle of Man will be taxed at a rate of 10%. This income arises from rental, mineral extraction and property development activities.

Resident companies pay an annual corporate charge, which has been set at a rate of £250 for 2006/07, and is due on 1<sup>st</sup> January.

###### **Distributable Profits Charge**

From 5 April 2006 a Distributable Profits Charge was introduced. The DPC is not a corporate income tax, rather it is a charge on Manx resident members of companies; accounted for by the company on their behalf, and creditable against their personal income tax liability when distributions are eventually made.

No DPC will be due where the company qualifies as a distributing company. In general terms a company is a distributing company where:

- it distributes the required amount of its profits;
- it already pays tax at 10% on all of its profits;
- it elects to pay Manx income tax at 10%;
- it holds a banking licence;
- the members cannot benefit from distributions;
- it is exempt from income tax on its profits;
- it is listed on a recognized stock exchange.

## **Non-Resident Companies**

From 6 April 2006, the income of those companies registered under Part Xi of the Companies Act 1931 (often known as “F Register” Companies) as being incorporated outside the Isle of Man, but having a place of business here, will be taxed on Manx source income at the standard rate or at 10% depending on the type of income that they receive. Companies incorporated outside the Isle of Man but having their management and control in the Island are normally tax resident here, and so their worldwide income will be taxed at the standard rate or 10% depending on its nature.

These types of companies will also be liable for the corporate charge mentioned above.

## **Accounting Period**

Profits subject to income tax are ascertained for accounting periods. A tax accounting period normally corresponds to the company's financial period of account (the closing date being selected by the taxpayer, generally with regard to commercial considerations). If the company's financial period of account covers more than 12 months, it must be subdivided for tax purposes, since a tax accounting period cannot exceed one year. From the 6th April 2007 corporate taxpayers will move to an accounting period basis of assessment rather than the financial period of account.

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There is no capital gains tax in the Isle of Man. Any gains made by a company are ignored for income tax purposes.

### **Dividends**

From 6 April 2007 dividends paid from income subject to tax at 10% will carry a 10% tax credit. This tax credit will not be refundable where the recipient is a non-resident company or individual. However no withholding taxes will apply to any dividends from the same date.

### **Management fees**

Management fees are taxable on a receivable basis and management fees charged between group companies should be commercially justifiable i.e. they should be commensurate with services rendered.

### **Depreciation**

The depreciation of capital assets charged in the accounts of a business is not an allowable deduction in calculating taxable profits, but is replaced by tax depreciation allowances (capital allowances) at rates fixed by law. These allowances are available in respect of capital expenditure on the following types of depreciating assets used in a trade:

- industrial buildings
- machinery and plant (equipment);
- hotels and tourist premises;
- ships;
- agricultural or forestry buildings and works; and
- industrial know-how and patents.

Allowances are not available for expenditure on goodwill, trademarks, or land and non-industrial buildings, such as offices, showrooms, retail shops and dwelling houses.

The general effect of the allowances is to permit capital expenditure, on qualifying assets used in a trade (less any amount received on sale, and so on) to be deducted from profits over a period varying with the category of asset.

### **Interest**

Interest and other finance charges are deductible expenses when they correspond to the financing of the company's activities or assets.

### **Losses**

Losses may be utilised for the actual tax year in which they arise or carried forward against taxable profits.

## **PARTNERSHIPS AND JOINT VENTURES**

### **Partnerships**

A partnership is not assessed to income tax on profits, however, the individual partners are assessed by reference to their share of the partnerships profit for the year of assessment in question.

### **Joint Ventures**

A joint venture is never a separate entity and as such is not subject to tax. The joint venturers are taxed on their respective profits as part of their income.

## **VALUE ADDED TAX (VAT)**

### **Definition**

VAT is a tax on consumer expenditure on goods and services and is chargeable on the majority of supplies of goods and services made in the Isle of Man. The tax is not levied only at the point of sale but at each stage of the production and distribution chain, on the basis of the 'value added' to

the goods or services at each stage. The taxpayer responsible at each stage of the chain is required to account for tax on all supplies ('outputs') made by him to customers but can deduct from that sum the tax already charged on the supplies ('inputs') made to him by his suppliers. This process of set-off applies at each stage in the production and distribution chain until the goods or services reach the final consumer, who must bear VAT on the price charged by his supplier.

VAT is in principle a comprehensive tax which is charged on all goods and services supplied in the Isle of Man in the course of any business. It is also charged on the import of goods (and sometimes services) into the Isle of Man. All persons (including individuals, partnerships and companies) carrying on a business in the Isle of Man which has a taxable turnover (including zero-rated supplies) over a certain limit are required to register for VAT with the Customs and Excise Department.

For each three-month VAT period, the taxable person must make a return to Customs and Excise and pay (or be paid) the difference between the output tax to and the input tax for the period.

#### **Relationships with the United Kingdom**

The Isle of Man and the UK form a common area for VAT. The Isle of Man imposes the UK rate and maintains a Customs and Excise service responsible for the administration of VAT.

#### **Rates of VAT**

Apart from the zero rate which applies to certain supplies, VAT at the current rate of 17.5% is charged at a uniform rate on the vast majority of non-exempt goods and services.

#### **Exemptions**

VAT applies to all goods and services supplied in the Isle of Man by a taxable person in the course of his business, unless there is specific exemption. The major items specifically exempt from VAT are:

- some property transactions;
- insurance;
- postal services;
- various financial services; and
- education and health services.

VAT is not charged on exempt supplies. Therefore, the VAT charged on the inputs of a person making exempt supplies cannot be reclaimed and represents a real business cost.

Supplies made outside the Isle of Man or made otherwise than in the course of a business are outside the scope of value added tax.

### **Property**

The VAT treatment of property transactions has been brought into line with EC requirements. Since the 1st August 1989 the vendor or lessor of commercial property can opt to apply VAT at the standard rate where it would otherwise be exempt. This is an extremely complicated area and specific advice should be sought well before the relevant transactions take place.

### **Zero-Rating**

Zero-rated supplies are technically taxable, but the rate of tax is nil. Persons who make zero-rated supplies do not therefore charge VAT to customers, however they are normally required to register and to make VAT returns and can claim repayment of the input tax charged to them. Where the taxpayer makes only zero-rated supplies, he may apply for exemption from registration but cannot then claim repayment of input tax.

### **Non-Residents**

Non residents are liable to register for VAT if they make taxable supplies of goods or services in the Isle of Man over a certain amount per year. It is important therefore to establish whether the supplies are made in the Isle of Man.

Where removal to or from the Isle of Man is not involved, goods are treated as supplied in the Isle of Man if they are in the Isle of Man and as supplied outside the Isle of Man if they are outside. If the supply of any goods involves their removal from the Isle of Man, those goods are treated as supplies in the Isle of

Man. If the supply involves removal of goods to the Isle of Man, they are treated as supplied outside the Isle of Man and VAT may be payable on their importation into the Island.

Services are treated as supplied in the place where the supplier belongs. The supplier belongs where he is resident or where his business establishment or principal place of business is situated. If the supplier belongs in the Isle of Man, any services supplied by him are treated as supplied in the Isle of Man. Certain services supplied to overseas traders are, however, zero-rated.

A non-resident carrying on business in the Isle of Man through a branch or agency is treated as having a business establishment in the Isle of Man. Where a person has more than one business establishment, the service is treated as being supplied by or to the business establishment most directly concerned with the particular supply.

Certain services supplied by a foreign national are deemed to be supplied in the UK by the recipient if they are received by a Isle of Man taxable person. These services are treated as taxable in the Isle of Man.

Royalties received by a non-resident in respect of licences granted under UK patents or copyrights are not liable to VAT, on the grounds that the grant of the licence is not a service supplied in the Isle of Man, unless the non-resident is carrying on a taxable business in the Isle of Man.

No VAT is payable on the provision of services by a company in the UK to its overseas branch, or by a Isle of Man branch of a foreign company to its overseas head office.

Where the Isle of Man branch of a non resident company supplies goods or services to its head office and makes taxable supplies in the Isle of Man, the transfer of goods or services to the head office is not a supply for VAT purposes. The branch may not be able to reclaim any VAT suffered, as technically the tax does not relate to the making of taxable supplies. However, to avoid double taxation, Customs may allow the recovery of VAT in these circumstances, depending on the particular facts of each case.

Many services supplied in the Isle of Man are zero-rated when supplied to non-EC persons and in, some cases, when supplied to EC persons for business purposes. These services are zero-rated if the recipient belongs abroad; thus, where a person has business establishments both in the Isle of Man and abroad, the rate of VAT depends on which establishment most directly uses the services. Also certain services performed for either Isle of Man or non-Isle of Man persons are zero-rated where the goods or property to which the services relate are situated outside the Isle of Man.

## **Overseas Business**

A person carrying on a business in the EC but not in the Isle of Man who is registered for VAT in his own country and who suffers Isle of Man VAT which would qualify as input tax if he were a Isle of Man trader may claim repayment of that tax directly from Isle of Man Customs and Excise, subject to regulations relating to minimum amounts and frequency of claims. In principle the same will apply to a trader who belongs in any other country.

## **OTHER GENERAL BUSINESS TAXES**

### **Customs Duties**

Goods imported into the Isle of Man may be subject to customs duties; however one of the essential features of the EC is the Customs union with its common tariff and the absence of customs duties in trade between the member states. The EC also has agreements with various other trading blocs/countries which allow preferential tariff treatment for their goods.

### **Excise Duties**

Excise duties are imposed on certain imported goods (in addition to any customs and excise duties which may apply) and on such goods produced in the Isle of Man. The chargeable goods include: tobacco, hydro carbon oils, spirits, beer and wine.

### **Stamp Duties**

There are no stamp duties levied in the Isle of Man except for a nominal fee on the transfer of property.

### **Municipal Taxes**

Company's trading on the Island will be subject to local municipal taxes known as rates. Rates vary from town to town but in overall taxation terms are not material. In the Isle of Man, rates are the only taxes assessed and collected by municipal and other local authorities. Rates provide part of the funds required by these authorities for education, public health, fire and police services, road and street lighting. They are assessed on the occupiers of property at varying levels according to the rental value of the property. Agricultural properties are not exempt. Rates on properties occupied for the purposes of a trade, business, professional or vocation are an allowable expense for tax purposes.

5. **Taxes on individuals**

**INDIVIDUAL INCOME TAXES**

**Territoriality and Residence**

Resident Individuals are taxed on their worldwide income. An individual is considered to be resident in the Isle of Man if he is present in the Island for six months or more in a tax year (the Manx tax year runs from 6th April to 5th April) or for an average of more than 90 days per year over a four year period. It is also possible to qualify as an Isle of Man resident where an individual has spent less than six months in any tax year in the Island. In such cases factors such as the individual maintaining a place of abode on the Island and the history of residency are taken into consideration. It can also be possible to be considered resident on the Island even if an individual is resident elsewhere.

Persons taking up residence in the Isle of Man must notify the local tax authorities by completing a "Commencement of Residence" form Residents are required to file a return of their worldwide income for each tax year. Independent or joint taxation for married couples is possible.

In addition to generous personal tax allowances, tax relief is available for all mortgage and other interest paid to Isle of Man resident lenders. Relief for life insurance premiums is also available, and

### **Employment Income**

Income from employment is taxed on an actual basis of assessment. A system of collecting income tax at source is in operation called Income Tax Installment Payments (ITIP) which is equivalent to the UK PAYE system. Income taxed under this heading includes benefits in kind (fringe benefits), gifts or gratuities from employer, pensions, superannuation, deferred pay and compensation for loss of office given in respect of past services of the recipient.

### **Foreign Pensions**

Foreign source pensions received by persons resident in the Island are taxable.

The pensions are assessed on an actual basis.

### **Business Profits**

Individuals doing business in the Island (that is carrying on a trade, profession or vocation here) have their business profits taxed in a similar way to that of companies. Broadly the same deductions are available.

### **Unearned Income**

Isle of Man resident individuals are subject to tax on their unearned income, which includes interest, dividends, rents, royalties and annuities, on a current years basis. There is no deduction of income tax at source for bank interest, dividends, etc paid to Manx resident individuals.

## **DEDUCTIONS**

### **Business Related Deductions**

As an individual who is subject to Manx income tax, an employee can deduct from his taxable remuneration any necessary traveling expenses (excluding traveling between home and work) and other expenses wholly, exclusively and necessarily incurred in the performance of his duties. This rule is very rigid and excludes many expenses from relief.

Entertainment expenses are disallowable to the employee in the same circumstances as apply to a company or other trades. An employee is however, effectively not taxable in respect of specific business entertainment allowances from the employer.

Relocation expenses and payments made to employee to forego personal rights or advantages are not usually subject to income tax. Subscriptions to professional associations related to the particular employment are normally allowable.

### **Personal Allowances and Reliefs**

In addition to generous personal tax allowances (currently at £8,670 per person), tax relief is available for all mortgage and other interest paid to Isle of Man resident lenders. Relief for life insurance premiums is also available.

The Island has a limited double taxation agreement with the UK, but double tax relief is available in respect of certain taxed income from the UK and other jurisdictions.

## **Tax Rates and the Tax Cap**

Income tax is charged on an individual income less allowances reliefs and deductions at the following rates:-

First	£10,500	at 10%
Balance of income		at 18%

Married couples are entitled to £21,000 at 10%.

From 6 April 2006 a resident individual's income tax liability will be capped at £100,000.

## **NON-RESEIDENT INDIVIDUALS**

Non-residents are liable to income tax at 18% on their Manx source income. They receive an allowance of £2,000. By concession no action will be taken to pursue a liability to Manx income tax arising from interest paid or credited to a non-resident in respect of monies deposited with a financial institution included in the list maintained by the Treasury for this purpose.

If interest is paid to a non-resident individual who is a resident of an EU Member State then the EU Savings Directive is applicable and any interest payment is subject to an automatic retention of tax unless that individual has made an election for an automatic exchange of information.

Where an interest payment not covered by the terms of the concession is made to a non-resident within the scope of the directive there is the possibility that they would pay withholding tax at 18% and retention tax at 15%. In these circumstances, therefore, it has been agreed that the retention tax is met by the 18% withholding tax. In 2008 when the rate of retention tax payable under the Directive increases to 20%, payment of the retention tax will be accepted as meeting any liability to tax on the interest payment.

## **SOCIAL SECURITY**

### **Social Security System**

The Isle of Man is part of the UK for social security purposes. The social security system on the Island is operated by the Isle of Man Government. Through a system of contributions and credits, benefits are provided during periods of sickness, maternity, unemployment and invalidity. Certain other benefits are available without the need for contributions to have been paid. Retirement pensions based upon contributions and credits are also provided. State medical care is normally provided free of charge.

### **Contributions - Employees**

All persons in employment with earnings above a lower earnings limit pay contributions to the State social security scheme. These are known as National Insurance Contributions. Contributions are based upon a tapering percentage of the employee's earnings.

Individuals may also be entitled to contributions-based benefits by obtaining credits during periods when they are unable to work through, for example, unemployment, sickness and maternity.

Foreign nationals coming to the Isle of Man to take up employment with Isle of Man resident employers must contribute to the scheme on the same basis as Isle of Man nationals. Foreign workers seconded or assigned to the Isle of Man, but remaining employees of non-resident employers, may obtain certain exemptions from liability to Isle of Man contributions. In addition social security agreements exist between the Isle of Man and a number of countries. These agreements reduce the liability to pay contributions in two countries at the same time and aim to provide continuity of entitlement to benefits throughout and beyond the employee's working life. Workers w.4(i)4TJ22.5(4.5(rk-5.a)2r8.2(r) t)3.3(9)3.3(ou)l9

The self-employed are also covered by the State scheme. They are only entitled to the State basic pension and have restricted rights to other benefits, particularly in respect of unemployment and sickness. Contributions payable by self-employed persons are based upon a two-tiered system. First, a minimum weekly contribution made by purchasing credit stamps gives a restricted entitlement to certain benefits. Second, an additional contributions liability is assessed annually along with income tax liabilities. These contributions do not give any additional benefits to the taxpayer: they serve solely as an additional source of tax revenue.

### **Occupational Pensions**

Employers who are operating their own pensions schemes for employees may, subject to satisfying certain conditions, choose to withdraw from the State earnings-related scheme and thereby reduce both the employee's and employer's liability to National Insurance Contributions. In order to do this, employers must provide pension benefits similar to those obtainable from the State.

### **Personal Pensions**

An employee in a company which does not have a company pensions scheme may contribute to a personal pension. The employment may also contribute and the employee may choose to withdraw from the State earnings-related scheme by directing some of the employee's and employer's National Insurance contributions into the personal pension.

### **Benefits**

Overseas visitors to the Isle of Man are normally entitled to free medical treatment and, if citizens of a member state of the EC, may draw upon their entitlement to other benefits as defined in EC regulations. Other foreign workers coming to the Isle of Man, together with their families, may receive contributions based benefits on the same basis as Isle of Man nationals once a satisfactory Isle of Man contributions' history has been established. In addition certain social security agreements with other countries may give entitlement to benefits without the need for a contributions history in the Isle of Man.

Child benefit may be claimed by foreign workers who bring their children with them to the Isle of Man so long as they are not employees of overseas governments, armed forces or certain international organisations and thereby exempt from Isle of Man income tax.