FOREWORD

A country’s tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions.

As you will appreciate, the production of the WWTG is a huge team effort and we would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country’s taxes that forms the heart of this publication.

The PKF Worldwide Tax Guide 2016/17 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world’s most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 30 April 2016, while also noting imminent changes where necessary.

On a country-by-country basis, each summary such as this one, addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country’s personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

Services provided by member firms include:

- Assurance & Advisory;
- Financial Planning / Wealth Management;
- Corporate Finance;
- Management Consultancy;
- IT Consultancy;
- Insolvency - Corporate and Personal;
- Taxation;
- Forensic Accounting; and,
- Hotel Consultancy.

In addition to the printed version of the WWTG, individual country taxation guides such as this are available in PDF format which can be downloaded from the PKF website at www.pkf.com
STRUCTURE OF COUNTRY DESCRIPTIONS

A. TAXES PAYABLE

COMPANY TAX
CAPITAL GAINS TAX
BRANCH PROFITS TAX
VALUE ADDED TAX (VAT)
FRINGE BENEFITS TAX
FATCA
LOCAL TAXES
OTHER TAXES
FOUNDATIONS

B. DETERMINATION OF TAXABLE INCOME

CAPITAL ALLOWANCES
CAPITAL GAINS AND LOSSES
DIVIDENDS
INTEREST DEDUCTIONS
LOSSES
FOREIGN SOURCE INCOME

C. FOREIGN TAX RELIEF

D. CORPORATE GROUPS

E. RELATED PARTY TRANSACTIONS

F. WITHHOLDING TAX

G. EXCHANGE CONTROL

H. PERSONAL TAX

BENEFITS
TAXATION OF NON-RESIDENT INDIVIDUALS

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES
MEMBER FIRM

For further advice or information please contact Philip Bond, PKFI on +44 203 691 2511 or email philip.bond@pkf.com

BASIC FACTS

Full name: Isle of Man
Capital: Douglas
Main languages: English
Population: 86,000 (July 2013 est. index mundi)
Major religion: Christianity
Monetary unit: British Pound (GBP)
Internet domain: .im
Int. dialling code: +44

KEY TAX POINTS

• Companies resident in the Isle of Man (IoM) are subject to corporate income tax (CIT) on their worldwide income.
• There is no capital gains tax in the IoM and furthermore, gains are not included in ordinary taxable income.
• The VAT rules in the Isle of Man (IoM) are nearly identical to those applying in the UK. The standard VAT rate is 20% (with the exception of hotel accommodation and certain building works which are taxed at 5%).
• Double tax relief is available for foreign tax paid.
• There are no specific transfer pricing rules.
• Income tax is payable by IoM resident individuals on their worldwide income. A non-resident is generally taxed on their IoM sourced income.
• There are no death duties, estate duties or taxes on gifts.

A. TAXES PAYABLE

COMPANY TAX

CIT is payable by Isle of Man (IoM) resident companies on worldwide income. Non-resident companies are required to pay tax on IoM-sourced income only. A company incorporated in the IoM is automatically resident in the IoM. A company that is incorporated outside of the IoM but that is ‘managed and controlled’ in the IoM will also be considered IoM resident.

There are three CIT rates in the IoM. A 10% rate applies to banking businesses and companies that derive in excess of £500,000 income from retail activities. A 20% rate applies to companies which derive income from IoM situs land and property. A 0% corporate income tax rate applies to all other income. Company tax returns are due one year and one day after the end of the accounting period and any tax liability is due by the same date.

CAPITAL GAINS TAX

There is no tax on capital gains in the IoM and gains are not included in ordinary taxable income.

BRANCH PROFITS TAX

IoM companies with foreign branches remain taxable on their worldwide income although relief for foreign tax paid may be available. IoM branches of foreign companies will be subject to IoM income tax on profits attributable to the branch. The rates of tax above apply to all companies, including branches
of foreign companies.

**VALUE ADDED TAX (VAT)**

Value Added Tax is imposed at a standard rate of 20% (with the exception of hotel accommodation and certain building works which are taxed at 5%). The VAT rules are nearly identical to those applying in the UK. Both the UK and IoM form a common area for the purposes of VAT and Customs Duties.

**FRINGE BENEFITS TAX**

Fringe benefits tax may be payable in certain circumstances.

**FATCA**

The IoM signed an agreement with the United States in December 2013 to implement the Foreign Account Tax Compliance Act (FATCA). Information started to be exchanged in 2015. The IoM signed an agreement with the United Kingdom in October 2013 which implements similar reporting requirements as required by the FATCA regulations. Information under this agreement will begin to be exchanged later in 2016. The IoM signed an agreement in October 2014 in Berlin committing to implementing the Common Reporting Standard (“CRS”).

**LOCAL TAXES**

Local rates are imposed on properties. Local authorities determine the rate.

**OTHER TAXES**

The IoM government also imposes customs and excise duties. For these purposes, the IoM is regarded as being part of the European Union. The UK and the IoM form a common area for customs duties purposes. National Insurance contributions (“NIC”) are payable by employers in the IoM. NIC rates are similar to those that apply in the UK.

**FOUNDATIONS**

Foundation legislation has been introduced to create a new separate legal entity which has the power to manage its own assets, arrange its own funding and can operate and be taxed in a fashion similar to a local company, incurring 0% IoM tax on all sources other than profits derived from IoM situs real estate.

**B. DETERMINATION OF TAXABLE INCOME**

The taxable income of a company is calculated by aggregating its taxable income and subtracting allowable expenses. Generally, to be deductible for tax purposes, expenses must be wholly and exclusively incurred for the purpose of a company’s trade. Some expenses are specifically not deductible for tax purposes, e.g. depreciation.

**CAPITAL ALLOWANCES**

Tax relief is given for the cost of plant and machinery acquired for the purposes of a business in the form of capital allowances. Capital allowances are also available for certain industrial and agricultural buildings and tourist premises. A 100% allowance is available in the first year in which the expenditure is incurred (restricted for some motor vehicles).
CAPITAL GAINS AND LOSSES

There is no capital gains tax in the IoM.

DIVIDENDS

Dividends received by IoM resident companies are generally taxable at the 0% rate.

INTEREST DEDUCTIONS

Interest paid by IoM resident companies to IoM lenders is tax deductible. Interest paid to non-IoM lenders is tax deductible if incurred wholly and exclusively for the purposes of the company's trade. There are no thin capitalisation rules in the IoM. The IoM has anti-avoidance provisions which may be in point where interest is incurred purely to mitigate IoM tax.

LOSSES

Trading losses can be carried forward indefinitely provided a continuity of business test is satisfied. There are also provisions for loss relief within groups of companies (see below).

FOREIGN SOURCE INCOME

The IoM does not have CFC legislation. The IoM does however have general anti-avoidance legislation which may be enacted, generally, if it is deemed that the main purpose of contrived arrangements is to avoid IoM taxation.

C. FOREIGN TAX RELIEF

Double tax relief is available for foreign tax paid. A company may offset any foreign tax paid against IoM tax payable to avoid double taxation. Where the income is received from the UK, relief may be available under the UK-IoM Double Tax agreement. In addition to the Double Tax Agreement with the UK, the IoM has full Double Tax Agreements with Bahrain, Qatar, Malta, Estonia, Seychelles and Singapore and limited Agreements covering aspects of the avoidance of double taxation for individuals with the following countries:

- Australia, Denmark, Faroe Islands
- Finland, Greenland, Iceland
- Ireland, New Zealand, Norway
- Poland, Slovenia, Sweden

The IoM also has Tax Information Exchange Agreements (TIEAs) currently in force with the following countries:

- Argentina, Australia, Canada
- China, Czech Republic, Denmark
- Faroe Islands, Finland, France
- Germany, Greenland, Iceland
- India, Ireland, Japan
- Mexico, Netherlands, New Zealand
- Norway, Poland, Portugal
- Slovenia, Sweden, United Kingdom
- United States of America

D. CORPORATE GROUPS

Trading losses in one IoM resident company may be surrendered to another IoM company within the
same group. Two companies are members of a group if one is at least a 75% subsidiary of the other or both are at least 75% subsidiaries of a third company. Consolidated tax returns cannot be submitted.

E. RELATED PARTY TRANSACTIONS

The IoM does not have any specific transfer pricing rules. However, as noted above, where expenditure has not been incurred wholly and exclusively for the purposes of a company’s trade, a tax deduction may not be available.

F. WITHHOLDING TAX

A company may, in certain circumstances, be required to withhold tax from payments it makes to non-resident companies or individuals. An IoM company is generally not required to withhold tax on amounts paid to non-resident companies or individuals. The exceptions to this are where the income payable to a non-resident company or individual represents rent from IoM property, in which case 20% withholding tax is deducted, or if the income relates to certain types of IoM sourced income payable to a non-resident individual, in which case 20% withholding tax is deducted.

G. EXCHANGE CONTROL

There are no exchange control rules in the IoM.

H. PERSONAL TAX

IoM resident individuals are subject to income tax on their worldwide income. Non-resident individuals are taxed on their IoM-sourced income, excluding income from approved financial institutions and most sources of income from IoM companies. Generally speaking, an individual is regarded as a resident in the IoM if he spends an aggregate of six months in any tax year in the IoM. In addition, an individual who visits the IoM over four or more consecutive years for an average of three months in each year will also be considered an IoM resident.

Income tax is assessable on income less any allowable deductions. The rules for allowable deductions in respect to individuals engaged in a trade are similar to those for companies. An individual may claim tax deductions for certain expenditure subject to relevant caps and tax rate restrictions. Examples include contributions to approved pension schemes, interest paid to an IoM lender, nursing expenses and private medical insurance payments (made by taxpayers aged over 60).

Income tax and NIC are normally deducted at source by an individual’s employer under the Income Tax Instalment Payments (ITIP). All individuals are required to complete an income tax return. The tax year for income tax purposes runs from 6 April – 5 April. Any outstanding income tax liability must be settled by 6 January following the end of the tax year. A payment on account may also need to be settled on this date in respect to the following years anticipated tax liability. This might be the case if the majority of an individual’s tax liability is not collected under the ITIP system for example if an individual was self-employed.

Spouses are taxed as separate individuals, unless the couple elect to be assessed jointly. If a joint assessment is made then a couple will be assessed on their combined taxable income. Where, immediately prior to 6 April 2006, a couple were jointly assessed, they will be deemed to have made the election to continue to be jointly assessed.

The tax rates are as follows:

<table>
<thead>
<tr>
<th>Taxable Income (£)</th>
<th>Rate (%)</th>
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<tr>
<td>0–10,500 (£21,000 for jointly assessed couples)</td>
<td>10% (standard rate). [A consultation is considering the impact of abolishing the 10% rate. This rate is correct at the time of writing.]</td>
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<td>Above 10,500 (£21,000 for</td>
<td>20% (higher rate)</td>
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Isle of Man

<table>
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<tr>
<th>Taxable Income (£)</th>
<th>Rate (%)</th>
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<td>jointly assessed coupes)</td>
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IoM resident individuals are entitled to a personal allowance. The current personal allowance amount is [if the 10% rate was abolished as a result of the above mentioned consultation then it is likely that the personal allowance amount will be increased. The personal allowance rates below are correct at the time of writing]:
- Single person: £ 9,500
- Married couple, jointly elected: £19,000;

An IoM resident individual is able to make a five year irrevocable election in order to take advantage of the IoM 'tax cap'. If an election is made then an individual's income tax liability will be capped at £125,000. This cap is doubled if a couple is jointly assessed. There is no tax in the IoM on gifts and no inheritance tax liability for the estates of IoM resident individuals.

**BENEFITS**

Exempt benefits include:
- General benefits which do not exceed £400.
- Approved Profit Sharing or Savings Related Share Options Schemes.
- Car Parking space at or near place of work.
- Medical/dental insurance.
- Christmas party expenses up to £100 per head.
- Provision of a personal computer for use at home up to benefit value of £1,000.
- Nursery or crèche facility expenses necessary for employees to attend work.

**TAXATION OF NON-RESIDENT INDIVIDUALS**

Non-residents are subject to IoM income tax on IoM sourced income. Non-residents are not entitled to a personal allowance.

**I. TREATY AND NON-TREATY WITHHOLDING TAX RATES**

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<thead>
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<th></th>
<th>Dividends (%)</th>
<th>Interest (%)</th>
<th>Royalties (%)</th>
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<td>(a) Companies:</td>
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<td>UK</td>
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<td>Non-Treaty</td>
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<td>(b) Individuals:</td>
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<tr>
<td>Bahrain</td>
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