

An Isle of Man Exempt Fund - What, How and Why?

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By **Paul Harvey**, 22nd March 2021

Exempt Funds are an often-overlooked vehicle that could provide a client with a cost effective, tailored solution for meeting their long-term financial objectives.

Under an Isle of Man Exempt Fund regulatory requirements need to be met, however 'Functionaries' (such as the managers and/or administrators), have a lot of flexibility and freedom to achieve the fund's purpose.

As a Functionary, Dixcart can assist professional service providers such as Financial Advisers, Solicitors, Accountants etc. in establishing Exempt Funds domiciled in the Isle of Man.

In this article, we will cover the following topics to provide a quick overview:

- [How is an Isle of Man Exempt Fund defined?](#)
- [Why establish an Exempt Fund on the Isle of Man](#)
- [What holding structures are appropriate for establishing the Exempt Fund?](#)
- [A working example of an Isle of Man Exempt Fund](#)

How is an Isle of Man Exempt Fund Defined?

As the name might suggest, an Isle of Man Exempt Fund is established in the Isle of Man; therefore, Manx law and regulation apply.

All Isle of Man funds, including Exempt Funds, must conform to the meanings defined within the [Collective Investment Scheme Act 2008 \(CISA 2008\)](#) and regulated under the Financial Services Act 2008.

Under Schedule 3 of CISA, an Exempt Fund must meet the following criteria:

1. The Exempt Fund to have no more than 49 participants; and
2. The fund is not to be publicly promoted; and
3. The scheme must be (a) a Unit Trust governed by laws of the Isle of Man, (b) an Open Ended Investment Company (OEIC) formed or incorporated under the Isle of Man Companies Acts 1931-2004 or Companies Act 2006, or (c) a Limited Partnership that complies with Part II of the Partnership Act 1909, or (d) such other description of a scheme as is prescribed.

The limitations on what is not considered a Collective Investment Scheme are contained within [CISA \(Definition\) Order 2017](#), and these apply to an Exempt Fund. Modifications to the rules outlined within CISA 2008 are allowable, but only on application and approval from the Isle of Man Financial Services Authority (FSA).

Appointing an Administrator of an Isle of Man Exempt Fund

A Functionary of an Exempt Fund, such as Dixcart, must also hold the appropriate license with the FSA. Management and administration of Exempt Funds fall under Class 3(11) and 3(12) of the Financial Services Act 2008's [Regulated Activities Order 2011](#).

The Exempt Fund must meet the compliance requirements of the Isle of Man (e.g. AML/CFT). As an acting Functionary, Dixcart is well placed to guide and assist on all applicable regulatory matters.

Available Asset Classes for an Isle of Man Exempt Fund

Once established, there are no restrictions on the asset classes, trading strategy or leverage of the Exempt Fund – providing a large degree of freedom for achieving the client’s desired objectives.

An Exempt Scheme is not required to appoint a custodian or have its financial statements audited. The fund is free to implement whatever arrangements are appropriate for holding its assets, whether through the use of a third party, direct ownership or via special purpose vehicles to segregate separate asset classes.

Why Establish an Exempt Fund on the Isle of Man?

The Isle of Man is a self-governing Crown Dependency with a Moody’s Aa3 Stable rating. The Manx Government boasts strong relationships with the OECD, IMF and FATF; working together with the local Financial Services Authority (FSA) and service providers to ensure a global and modern approach to compliance.

The business friendly Government, beneficial tax regime and ‘whitelist’ status make the Island a leading international financial centre with a lot to offer inbound investors.

Headline applicable rates of tax include:

- 0% Corporate Tax

- 0% Capital Gains Tax

- 0% Inheritance Tax

- 0% Withholding Tax on Dividends

What Holding Structures are Appropriate for Establishing an Isle of Man Exempt Fund?

Whilst CISA 2008 provides a list of applicable structures, ‘Open Ended Investment Companies’ (OEICs), and ‘Limited Partnerships’ are the most commonly used.

The use of a company, or a Limited Partnership offers a number of distinctive features, with only the general characteristics being presented below. For more information,

relevant to your client's specific circumstances, please get in touch.

Using an OEIC Structure for an Isle of Man Exempt Fund

An Isle of Man company benefits from a 0% tax rate on trading and investment income. They are also able to register for VAT, and businesses in the Isle of Man fall under the UK's VAT regime.

There are no prescriptive requirements regarding the composition of a board of directors or the Exempt Fund documentation. It is however advisable, for the benefit of the investor, to include as much detail regarding the purpose and objectives of the Fund, in so far as a reasonable person might expect, to make a well-informed decision.

An OEIC can be established by the incorporation of a company under either the Companies Acts 1931, or the Companies Act 2006; the outcome of either vehicle will be comparable, but in some areas the legal form and constitution are quite distinct. Dixcart can assist with the effective establishment and administration of an OEIC holding structure for an Exempt Fund domiciled in the Isle of Man.

Using a Limited Partnership for an Isle of Man Exempt Fund

The Limited Partnership entity is a category of 'Closed-ended Collective Investment Scheme'. The Limited Partnership will be registered under the Partnership Act 1909, which provides the legal framework and requirements of the vehicle, such as:

- Must have one or more General Partners, who are liable for all debts and obligations of the firm.; and

- One or more persons called Limited Partners, who shall not be liable beyond the amount contributed.

- Every limited partnership must be registered in accordance with the 1909 Act;

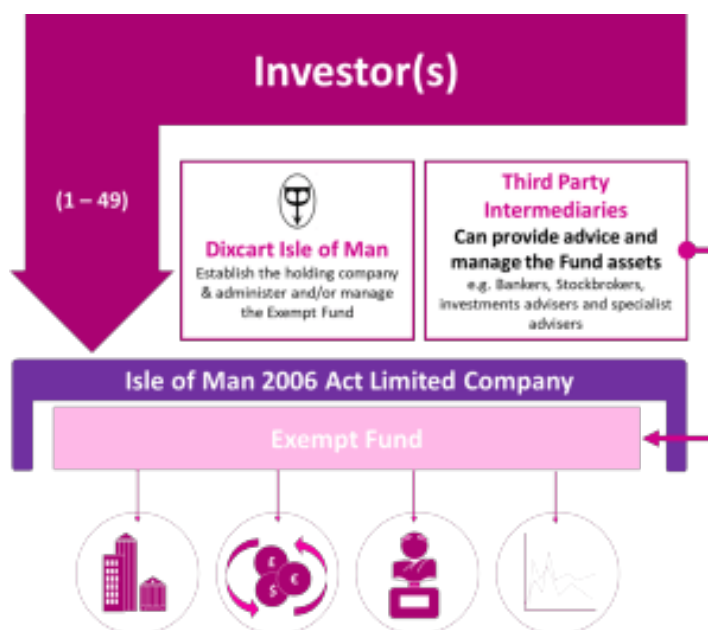
- Every limited partnership shall maintain a place of business in the Isle of Man;
- Every limited partnership shall appoint one or more persons resident in the Isle of Man, authorised to accept service of any process or documents on behalf of the partnership.

Many of the services required for the establishment of a Limited Partnership on the Isle of Man can be provided by Dixcart. These include those relating to; General Partners, the registered place of business and the administration of the Limited Partnership.

The General Partner must be responsible for the day-to-day decision-making and management of the Partnership. However, the Partnership can engage third party intermediaries for advice and management services with respect to the assets.

Investment is typically made by way of an interest-free loan that is repaid on maturity, along with any remaining balance by way of growth, to the Limited Partners. The exact form that this takes will be determined by the terms of the Partnership and the personal tax circumstances of each specific Limited Partner. Limited Partners will be subject to the tax regime in which they are resident.

A Working Example of a Isle of Man Exempt Fund



Key Benefits of an Isle of Man Exempt Scheme Summarised

- Simplicity of ownership – consolidates assets of any class into one vehicle with reduced administration for the Client.

- Flexibility of asset class and investment strategy.

- Cost efficiency.

- The Client can retain a degree of control and can be appointed as a fund adviser.

- Privacy and confidentiality.

- The Fund administrator/manager is responsible for compliance and to meet the regulatory obligations.

- The Isle of Man holds an Aa3 Stable Moody's rating, has strong international relationships and is highly regarded as a jurisdiction.

Get in Touch

Exempt Funds are outside the scope of normal fund regulation in the Isle of Man, and with the variety of holding structures available, this category of Fund is particularly suited for private investment.

Dixcart provide a single point of contact for the setup and management of Exempt Funds and Fund vehicle; establishing the fund and organising the formation and management of the underlying holding companies.

If you require further information regarding Isle of Man Exempt Funds or any of the vehicles discussed, please feel free to get in touch with Paul Harvey, at Dixcart Isle of Man, to see how they can be used to meet your objectives: advice.iom@dixcart.com

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*****This information is provided as guidance as at 01/03/21 and should not be considered advice. The most appropriate vehicle is determined by individual client needs and specific advice should be sought.**