

## Formation of Companies in the Isle of Man - Companies Act 2006

By **Paul Harvey**, 18th December 2019

### **Why Use the Isle of Man?**

Isle of Man companies benefit from a zero rate of tax on trading and investment income. They are also able to register for VAT, and businesses in the Isle of Man are treated by the rest of the EU for VAT purposes as if they are in the UK.

Isle of Man companies are therefore particularly useful for:

- Holding investment portfolios and participations in other companies. This is due to the zero rate of tax on such activities and the lack of withholding taxes on dividend income from such companies.
- Moody's Investment - London 16 November 2019 - the Isle of Man's credit rating is Aa2 negative, the same as the United Kingdom. The negative outlook on the IoM's ratings reflects Moody's view that the UK's sovereign credit trend continues to have a significant impact on the IoM's credit profile, due to the close and material institutional, economic and financial linkages between the two jurisdictions. Moody's noted the IoM's credit strength is the island's very strong public finances. Very high wealth levels provide a significant buffer against shocks, and the IoM has a long track record of strong GDP growth, with very low volatility. Fiscal policies are forward-looking and prudent, exemplified by the large fiscal buffers accumulated over many years.
- Trading within the EU. Due to the zero rate of tax on trading income and the ability to quote an EU accepted VAT number.
- Holding UK commercial property. For VAT purposes the UK and the Isle of Man are treated in the same manner.
- Isle of Man companies wishing to borrow money from banks benefit from being in a well-regulated jurisdiction with a public register of mortgages and other charges.
- The Isle of Man is a signatory to the Paris Convention on Patents and Trademarks, and therefore many intellectual property companies base

themselves in the Isle of Man.

The key points above outline some of the most frequent reasons for the use of Isle of Man companies. Please note it is not a definitive list of reasons for using such companies.

### **Formation of Companies in the Isle of Man**

Isle of Man companies can currently be formed and regulated under two separate Acts.

This Jurisdiction Note outlines the formation and regulation of companies as embodied in the Isle of Man Companies Act of 2006 ("**the Act**"). A second Jurisdiction Note is available which details companies governed by the Isle of Man Companies Act of 1931 (as amended). Please request this second note if you wish to consider both types of Isle of Man company.

#### **1. Incorporation**

Standard incorporation of a Company occurs within 48 hours of receipt of the relevant documents to the Isle of Man Registry, however for an additional fee companies can be incorporated in 2 hours or "while you wait".

#### **2. Company Name**

The proposed name must be approved by the Companies Registry. The Company can have its name ending in any of the following:

- Corporation
- Corp
- Incorporated
- Inc
- Limited
- Ltd
- Public Limited Company
- PLC

#### **3. Capitalisation**

A company may be incorporated with a single share, which can have a par value of zero. Therefore no thin capitalisation applies.

#### **4. Shareholders**

Companies can be incorporated with only one shareholder. Shareholders need to be recorded at the registered agent of the company.

#### **5. Nominee Shareholders**

These are permitted and can be provided by Dixcart.

#### **6. Minimum Number of Directors**

The minimum number of directors is one. Directors do not need to be resident in the Isle of Man. Corporate Directors are permitted. In addition a single natural person can act as a Director of a 2006 company.

#### **7. Secretary**

There is no requirement for a company secretary.

#### **8. Registered Agent**

A registered agent is required and can be an Isle of Man licensed corporate service provider.

#### **9. Annual Return**

There is a requirement to file an annual return.

#### **10. Annual General Meeting**

There is no requirement to hold an annual general meeting.

#### **11. Accounts**

There is a requirement to "keep reliable accounting records" which:

- correctly explain the transactions of the company; and
- enable the financial position of the company to be determined with reasonable accuracy at any time; and
- allow financial statements to be prepared.

The accounting records are to be kept at the office of the registered agent of the company or at such other place as the directors of the company think fit. Where records are not kept at the office of the registered agent, the company must provide the registered agent with a written record of the physical address of the place where the records are kept and copies of the records at intervals not exceeding 12 months.

There is no requirement to prepare financial statements however any member or director of the company may at any time demand that financial statements be prepared where the company has not prepared statements for a continuous period of 18 months. Any such statements prepared, should relate to the period following the end of the financial period to which the preceding financial statements relate, or if no such previous financial statements exist, since the incorporation of the company. Originals of statements prepared must be kept at the office of the registered agent of the company.

#### **12. Audit**

A company is free to appoint an auditor however where the company's securities are listed or admitted to trade on a securities market or exchange, the company must appoint an auditor. Any auditor appointed must be appropriately qualified in accordance with the Act.

### **13. Taxation**

A tax return must be prepared and filed at the Isle of Man Treasury.

All Isle of Man companies are now treated as resident companies. Resident companies are taxed at a rate of 0% on their trading and investment income. Income derived from land and property situated in the Isle of Man is taxed at a rate of 10% and banks are taxed on their banking business at a rate of 10%.

### **14. VAT**

The Isle of Man has a Customs and Excise agreement with the UK. This means that for VAT, Customs, and most Excise duties, the two territories are treated as one.

For VAT purposes, trading within the EU will be subject to the same rates as the UK.

### **15. Beneficial Ownership Register and Nominated Officer**

The Isle of Man operates a non-public Beneficial Ownership Register and a nominated officer is required for each entity, a service which can be provided by Dixcart. The register is only accessible by Isle of Man regulatory bodies and/or law enforcement agencies for a permitted purpose. It is not available to the public.

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