



## Distribution to Shareholders of Accumulated Reserves – Manx Companies with Manx Resident Shareholders

The Manx Income Tax Division issued a Practice Note (PN156/09) on the treatment of distributions by a company from its accumulated reserves.

The Practice Note introduces some important changes that need to be considered by the company's directors and shareholders when distributions/dividends are being declared each year. This applies to trading companies and companies which are paying 10% Manx tax.

### **Distributions made in accounting periods ending after 5 April 2009**

In an accounting period ended after 5/4/09, only distributions made by a company to its shareholders in excess of 100% of the taxable profits can have the following treatment:

- (i) If out of capital gains in the reserves this would be tax-free; or
- (ii) If out of the profit and loss reserves up to and including profits assessed in 2005/2006 (i.e. accounting periods ending on or before 5/4/2006), this would be tax-free; or
- (iii) If out of the profit and loss reserves arising in accounting periods ending after 6/4/2006 (i.e. assessed from 2006/07 onwards), grossing-up would only be required for companies which paid Manx income tax or the Distributable Profits Charge on their taxable profits. The tax credit is refundable in the hands of Manx resident shareholders where appropriate.

***NB - 100% of the taxable profits for the period MUST be distributed FIRST before the allocation of excess distributions to the accumulated reserves. This is the new treatment even if a trading company has met its 55% distribution requirement!***

### **Example 1 – Manx trading company subject to 0% income tax**

For the year ended 30 June 2010 the company has taxable profits of £200,000 and makes a distribution to the shareholders of £150,000. This covers the 55% distribution requirement for the Attribution Regime for Individuals (ARI). However the extra £40,000 will also relate to the taxable profits for the year ended 30 June 2010 and will be fully taxable on the shareholders. In order for a distribution to be tax-free (see options (i) or (ii) above) a distribution has to exceed the year's distributable profits.

### **Example 2 – Manx company subject to 10% income tax**

For the year ended 30 June 2010 the company has taxable profits of £200,000 and makes a distribution to the shareholders of £100,000. Irrespective of when the distribution is made, it would come with a 10% tax credit, i.e. the income dividend would be grossed up at 10%, and the Manx resident shareholders will be liable to a further 10% income tax. In order for the company to make a tax-free distribution (see options (i) or (ii) above) it would need to be make total distributions in excess of the year's distributable profits.

**All distributions should be minuted at the time of voting or payment.**

If you would like to know more then please contact  
Evelyn Corrin : [evelyn.corrin@crowecw.im](mailto:evelyn.corrin@crowecw.im) , John Cowan : [john.cowan@crowecw.im](mailto:john.cowan@crowecw.im)  
or Elaine Rudge : [elaine.rudge@crowecw.im](mailto:elaine.rudge@crowecw.im)

Crowe Clark Whitehill LLC, 6<sup>th</sup> Floor, Victory House, Prospect Hill, Douglas IM1 1EQ  
Tel: 01624 627335; Fax: 01624 677225; Web: [www.crowecw.im](http://www.crowecw.im)

Crowe Clark Whitehill LLC does not accept any liability for any action taken or not taken on the basis of this Note. Crowe Clark Whitehill is a registered Business Name of Crowe Clark Whitehill LLC. Crowe Clark Whitehill LLC is a Limited Liability Company registered in the Isle of Man No. 719L.