



MOVING TO THE ISLE OF MAN – UK TAX ISSUES

People move to the Isle of Man (IOM) for a variety of reasons, which are not necessarily tax driven.

Some people assume that by moving from the UK to the IOM they are then outside the scope of UK taxes. Unfortunately this is not always the case and this short article provides some guidance on when a UK tax liability can still arise.

First of all it is important to ascertain your domicile and residence status, as these in the main determine the tax consequences.

DOMICILE

This is a general law concept. Broadly speaking an individual is domiciled in the country which he regards as his permanent home.

Domicile is distinct from nationality or residence, and you can only have one domicile at any given time.

There are three forms of domicile:

- Domicile of Origin – At birth you acquire your father’s domicile. This is not necessarily the domicile of the country where you or he was born. A domicile of origin is retained until you acquire a different domicile – of choice or of dependency.
- Domicile of Dependency – Until you have legal capacity to change your domicile, your domicile will follow that of the person on whom you are legally dependent, i.e. generally your father. If your father’s domicile changes during your minority you automatically acquire the same domicile as him, in place of your domicile of origin.
- Domicile of Choice – A domicile of choice replaces a domicile of origin. In order to acquire a domicile of choice you must sever your ties with your country of domicile of origin and settle in another country with the clear intention of making your permanent home there. Living in a country for a long time, although important, is not enough in itself to prove you have acquired a new domicile.

UK Inheritance Tax

UK Inheritance Tax (IHT) will apply to your worldwide estate if you retain your UK domicile of origin.

A non-UK domiciled person is not subject to UK IHT on foreign assets, which are considered to be excluded property for IHT purposes. However, UK located assets held personally are subject to IHT, although the usual exemptions, e.g. spouse transfers, apply.



For UK inheritance tax purposes only, a UK domiciled individual will be deemed UK domiciled for three complete tax years after leaving the UK and taking-up a domicile of choice elsewhere. Therefore worldwide assets will continue to be within a charge to UK IHT for 3 tax years after a permanent move to live in the IOM.

RESIDENCE

If you have been continuously resident in the UK, in order to become not UK-resident you need to leave the UK for at least a complete tax year and ensure such absence constitutes more than “temporary” absence.

Once you have become non-UK resident you must ensure that the time you spend in the UK each tax year does not exceed 91 days per tax year, averaged over a 4 year period. Ideally close family and business should also be relocated, and business ties with the UK severed. Please see our note headed “Proposed changes to Determining UK Residence”.

UK Income Tax

UK Income Tax will apply to your worldwide income if you are UK resident and domiciled.

As a non-UK resident individual you will continue to be liable to UK income tax on your UK source income, but you will still be entitled to claim your UK personal allowance to be set against this income. UK pensions can be paid without a UK tax deduction, and a claim to effect this should be made. In most cases the only UK source income liable to UK tax on Isle of Man residents will be UK rental income, and Double Tax Relief will be given in the Isle of Man.

Manx Income Tax

As an IOM resident individual you will be liable to Manx Income Tax on your worldwide income on an arising basis. There is, however, double tax relief (DTR) on most income already taxed in another jurisdiction. The exception is UK dividends; the net dividend received is liable to Manx tax with no DTR.

UK Capital Gains Tax

UK Capital Gains Tax (CGT) will apply to your worldwide gains if you are UK resident and domiciled.

From 6 April after your move to the IOM you will, in general, not be liable to UK CGT. However if you return to the UK within a 5 year period, any gains you make in the interim on assets held at the date you left the UK will become chargeable, as if they arose in the year of your return.



There are no capital taxes in the IOM, thus there is no CGT or IHT.

This is just a brief summary of the position. Please ask us for advice specific to your own circumstances.

If you would like to know more then please contact

**Evelyn Corrin : evelyn.corrin@crowecw.im , John Cowan : john.cowan@crowecw.im
or Elaine Rudge : elaine.rudge@crowecw.im**

**Crowe Clark Whitehill LLC, 6th Floor, Victory House, Prospect Hill, Douglas IM1 1EQ
Tel: 01624 627335; Fax: 01624 677225; Web: www.crowecw.im**

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