

June 2005

Told You So – the Mid-Year Update

At this, the middle of 2005, the main agenda for VAT and related yachting matters is unfolding largely as charted at the beginning. Stamped progress in some. Glacial, even stalled, reform elsewhere. But the overall atmosphere tells of things labouring to be born.



Isle of Man 0% Corporate Tax, Etc.

Take the Isle of Man 0% rate of tax for companies. After a raft of seminars and continuing public consultation processes, the Isle of Man Treasury has confirmed that the 0% rate of tax for corporate taxpayers will indeed come into effect from 6 April 2006. Existing Exempt Companies, Non-Resident Duty Companies, International Limited Liability Companies and exempt managed banks will be expected to switch over to the 0% tax regime as from 6 April 2007. By then the Treasury will also have put in place a unifying corporate tax act that is likely to introduce a new annual Corporate Charge for all companies without exception, thus achieving a 'level playing field' for all corporate taxpayers in the Isle of Man.

One intractable issue in all this is proving to be how to deal with Manx resident beneficial owners of companies who might be tempted to roll up profits in 0% rate companies. Some form of Distributable Profits Charge (DPC) is envisaged that would tax these rolled up profits. But the exact interaction between this anti-avoidance DPC and the overall 0% tax system is still to be clarified.

Meanwhile, the Isle of Man government, along with professionals in the finance industry, are working on a "New Corporate Product" that is set to revamp Isle of Man corporate law so as to increase its flexibility and appeal. One casualty in this stampede of activity is likely to be the EU-inspired Retention Tax (Savings Directive), whose implementation, initially envisaged for 1 July 2005, will no doubt be deferred.

Jersey's Sales Tax

Jersey is to introduce a Goods and Service Tax (GST) in 2008. There are increasingly stronger hints that domestic and exported financial services and life

assurance will not be subject to the tax, nor will exports or the construction and letting of residential properties. The devil though is bound to be in the definitions of these "exempt supplies" and in the overall detail of the charge to the tax and its administration and accounting. These are expected in the next few months.

EU's One-Stop Shop & POTS Reform

The infectious stalemate currently ruling EU affairs has not spared these pet VAT projects. On 31 May 2005 the European Commission met with over 200 business representatives, tax advisors, academics and officials from the Member States' tax authorities to discuss its "one-stop shop" scheme. The primary purpose of the scheme is to allow taxpayers to comply with EU-wide VAT obligations through the Member State in which they are established, rather than facing compliance burdens in each country. Business representatives universally supported the proposals, but the German Federal Finance Ministry opposed them. Opposition from any Member State is likely to delay implementation of the proposals.

Unsurprisingly, Place of Taxation of Services (POTS) reform too is labouring through the EU's many chambers while the Commission seeks consensus. Implementation is expected to be no earlier than 2008.

VAT Invoices in Foreign Currency

Customs are reminding all businesses that when issuing an invoice in a foreign currency which includes UK-Isle of Man VAT, the VAT amount must always be expressed as Sterling equivalent. This is a legal requirement and penalties may be levied on any businesses that fail to comply.

Any trader who receives a purchase invoice where UK-Isle of Man VAT is charged but does not record the Sterling equivalent is advised to contact their supplier as a matter of urgency and request a valid VAT invoice. Input tax claims may be denied if not supported by the proper evidence.

Madeira's VAT Rate Rise

A VAT rate rise in Madeira from 13% to 15% now looks inevitable, following confirmation by the Portuguese authorities that the rate in mainland Portugal will increase from 19% to 21% with effect from 1 July 2005. Madeira's VAT rate always rises in line and proportion with Portugal.

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