

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 apply, e.g. spouse transfers where both are non UK domiciled, or both are UK domiciled.

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.

From 6 April 2017 UK residential property will be subject to IHT no matter how it is held, please see our note entitled 'Inheritance Tax on UK located residential property'.

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. See our note entitled "Statutory Residence Test" for further guidance on how to lose your UK residence status.

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 be entitled to claim your UK personal allowance to be set against such 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. There may be circumstances whereby you will be liable to UK income tax on worldwide income during a period of non-residence if you return to the UK within a 5 year period. As mentioned above please see our note entitled "Statutory Residence Test" under heading "other points to note" for further information.

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 leave the UK will become chargeable, as if they arose in the year of your return.

Disposal of UK residential property by a non-resident is subject to non-resident UK capital gains tax on the gain in value since 6 April 2015. Please see our note entitled 'Capital Gains Tax on UK Residential Property'.

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.



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