



Thinking beyond borders: Management of extended business travelers - Isle of Man



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Contents

1	Key message	4
2	Income Tax	6
3	Social security	9
4	Compliance obligations	11
5	Immigration	14
6	Other issues	16

01

Key message

An individual's liability to income tax in the Isle of Man is determined by their residence status for taxation purposes and the source of income derived by the individual. Income tax is levied at progressive rates on an individual's taxable income for the year, which is calculated by subtracting allowable deductions from the total assessable income.

1 Key message

Extended business travellers (a phrase which is not formally recognized in Isle of Man legislation) are likely to be taxed on employment income relating to their Isle of Man workdays.

02

Income tax

2 Income Tax

2.1 Liability for income tax

The Isle of Man tax year runs from 6 April in each year to 5 April the following year. An individual's residence is not statutorily defined but is generally determined by reference to physical presence. Hence a resident individual would be someone who is:

- physically in the Isle of Man for an aggregate of 6 months in the tax year; or
- present on average for at least 3 months per year over a period of at least 4 tax years.

Domicile

A person's domicile is, broadly, the individual's permanent homeland. The majority of foreign nationals employed by foreign employers who are extended business travelers or working on secondment to the Isle of Man should not be regarded as domiciled in the Isle of Man.

Significance of residency

A non-Isle of Man resident is taxable in the Isle of Man only on Manx-sourced income.

Definition of source

Employment income is generally treated as Isle of Man-sourced compensation when the employee performs the services while physically located in the Isle of Man. Salary, for example, may be apportioned between Isle of Man and non-Isle of Man duties based on workdays.

2.2 Tax trigger points

Technically there is no threshold/minimum number of days that exempts the employee from the requirements to file tax returns and pay tax in the Isle of Man.

To the extent that the individual qualifies for relief under the employment income article of an applicable double tax treaty, there should be no Isle of Man tax liability. The treaty exemption will not apply if an Isle of Man entity is viewed as the individual's economic employer.

2.3 Types of taxable income

All earnings, whether in cash or in the form of a benefit in kind, provided by an employer to an employee are taxable unless specifically exempted. Typically, travel expenses to and from the Isle of Man (and accommodation on the Isle of Man) would not be taxable for an extended business traveller, provided the length of their stay does not, in itself, trigger residence. However, if the Isle of Man becomes a permanent workplace, travel expenses and accommodation costs will be treated as a taxable benefit in kind. As such, the facts of each case need to be examined in detail.

2.4 Tax rates

For the year ending 5 April 2024 a personal allowance of 14,500 Great British Pounds (GBP) is available for residents. Earnings are taxed at 10 percent on the first 6,500 GBP of taxable income and 20 percent on the remainder (22% from 6 April 2024). A Manx resident individual may enter into an irrevocable 5 year or 10 year election to have their annual tax liability capped. For elections commencing from 6 April 2023, the maximum liability for an individual is 200,000 GBP, and 400,000 GBP for a married couple.

Individuals with total income in excess of 100,000 GBP per tax year (200,000 GBP for a jointly assessed couple) will have their personal allowance reduced by 1 GBP for every 2 GBP their total income exceeds this threshold.

A non-Manx resident individual is not entitled to a personal allowance and all Manx source income is taxed at 20 percent (22% from 6 April 2024).

03

Social security

3 Social security

3.1 Liability for social security

Employers and employees who are liable for social security in the Isle of Man pay it with no upper limit. It is likely, however, that most extended business travellers would not be liable to pay Manx social security. This could be for a number of reasons, including:

- they remain in their home country/jurisdiction's social security system under the European Economic Area (EEA) rules; or
- they remain in their home country/jurisdiction's social security system under a reciprocal agreement with the Isle of Man; or
- they arrive from a non-agreement country/jurisdiction and are exempt from Manx social security for the first 52 weeks they are in the Isle of Man.

04

Compliance obligations

4 Compliance obligations

4.1 Employee compliance obligations

Annual personal tax returns are due by 6 October following the tax year-end of 5 April. If an individual leaves the Isle of Man part way through an income tax year, a return covering the period to the date of departure must be submitted within 6 months of leaving.

4.2 Employer reporting and withholding requirements

Employment income is subject to tax and social security withholding under the Income Tax Instalment Payments (“ITIP”) system. If an individual is taxable on employment income, the obligation to withhold rests with either the employer or, if the employer is not operating withholding, with the ‘host’ employer. Setting up a new payroll is not a complex undertaking, but it is recommended that employers seek advice as soon as they intend to send an employee to the Isle of Man on secondment.

4.3 Permanent establishment implications

There is the potential that a permanent establishment could be created as a result of extended business travel, but this would be dependent on the type of services performed and the level of authority the employee has.

4.4 Indirect taxes

The Isle of Man imposes value added tax (VAT), which is a tax on consumer expenditures. Businesses (where they are VAT registered and fully taxable) do not bear the final costs of VAT. They are able to charge VAT on the supplies that they make (output VAT) and recover VAT on purchases that they have made (input VAT). There are currently three rates of VAT: standard rate (20 percent, which is charged on the provision of most goods and services), zero rate (0 percent, which is charged on food, books, and children’s clothing), and reduced rate (5 percent, which is charged, for example, on domestic fuel). Attributable input VAT is recoverable on these supplies by businesses.

05

Immigration

5 Immigration

5.1 Work permit/visa requirements

Subject to the following, anyone who is not classed as an 'Isle of Man worker' requires a work permit to take up employment, (including self-employment), in the Island. There are exemptions for a number of occupations and employments, and for certain temporary employments.

Workers who hold an Immigration Status which is defined as an "Immigration Employment Document" do not require work permits. Following the United Kingdom's withdrawal from the European Union (commonly referred to as "Brexit"), EEA nationals who hold "Settled status" (whether issued in the Isle of Man, the United Kingdom, or the Channel Islands) will continue to work under the Isle of Man's work permit system in the usual way. Irish Nationals will also continue to work under the Isle of Man's Work Permit system in the usual way.

The following are, upon application, entitled to an automatic permit:

- the spouse, civil partner or cohabiting partner of a work permit holder or an exempt person, provided that the work permit holder or exempt person is engaged in permanent, regular full-time employment; ('the primary employment'); and
- the cohabiting partner of an Isle of Man worker.

Employers should check that employees are permitted to take on the type of employment that is being offered.

06

Other issues

6 Other issues

6.1 Double taxation treaties

In addition to the Isle of Man's domestic legislation that provides relief from international double taxation, the Isle of Man has entered into double taxation treaties with certain other countries/jurisdictions to prevent double taxation and allow cooperation between the Isle of Man and overseas tax authorities in enforcing their respective tax laws.

6.2 Transfer pricing

The Isle of Man has no transfer pricing regime.

6.3 Local data privacy requirements

The Isle of Man has data privacy laws. Organizations have a legal duty to keep data private and secure.

6.4 Exchange control

The Isle of Man does not restrict the flow of sterling or foreign currency into or out of the country/jurisdiction. Certain reporting obligations, however, are imposed to control tax evasion and money laundering. Organizations covered by the legislation have a number of obligations, including the requirement to establish the identity of individuals. A bank account cannot be opened in the Isle of Man without proof of identity.

6.5 Non-deductible costs for assignees

Non-deductible costs for assignees include alimony, tax return preparation fees, and relocation expenses.

Note that certain relocation expenses of up to GBP 20,000 met by an employer are exempt from a benefit in kind charge.

[Back to top](#)

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