

UNITED STATES  
OF AMERICA



Treaty Series No. 54 (1989)

## Exchange of Notes

between the Government of the  
United Kingdom of Great Britain and Northern Ireland  
and the Government of the United States of America

exempting from Income Tax, on a reciprocal basis,  
Income derived by residents of the Isle of Man  
and the United States for the international  
operation of ships

Washington, 1 and 15 August 1989

[The Agreement entered into force on 15 August 1989]

*Presented to Parliament  
by the Secretary of State for Foreign and Commonwealth Affairs  
by Command of Her Majesty  
December 1989*

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**EXCHANGE OF NOTES  
BETWEEN THE GOVERNMENT OF THE  
UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND  
AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA  
EXEMPTING FROM INCOME TAX, ON A RECIPROCAL BASIS, INCOME  
DERIVED BY RESIDENTS OF THE ISLE OF MAN AND THE UNITED STATES  
FOR THE INTERNATIONAL OPERATION OF SHIPS**

No. 1

*The Secretary of State for the United States of America to  
Her Majesty's Ambassador at Washington*

*Department of State  
Washington  
1 August 1989*

Excellency,

I have the honor to propose that the Government of the United States of America and the Government of the United Kingdom of Great Britain and Northern Ireland (on behalf of the Isle of Man) conclude an agreement to exempt from income tax, on a reciprocal basis, income derived by residents of the Isle of Man and the United States from the international operation of ships. The terms of the agreement are as follows:

1. The Government of the United States of America, in accordance with sections 872(b)(1) and 883(a)(1) of the Internal Revenue Code, agrees to exempt from tax gross income derived from the international operation of ships by Isle of Man residents and corporations organized in the Isle of Man. This exemption is granted on the basis of equivalent exemptions granted by the Isle of Man to United States residents and to corporations organized in the United States.

2. In the case of a corporation, the exemption shall apply only if the corporation meets either of the following conditions:

(a) the corporation's stock is primarily and regularly traded on a established securities market in the Isle of Man, another country which grants an equivalent exemption to U.S. corporations, or the United States; or

(b) more than 50 per cent of the value of the corporation's stock is owned, directly or indirectly, by individuals who are residents of the Isle of Man or a country which grants an equivalent exemption to U.S. corporations, or by a corporation organized in a country which grants an equivalent exemption to U.S. corporations and whose stock is primarily and regularly traded on a established securities market in that country, another country which grants an equivalent exemption to U.S. corporations, or the United States.

3. For purposes of subparagraph (b) of paragraph 2, the Government of the Isle of Man shall be treated as an individual resident of the Isle of Man. For purposes of the exemption from United States tax, subparagraph (b) of paragraph 2 shall be considered to be satisfied if the corporation is a "controlled foreign corporation" under the Internal Revenue Code.

4. Gross income includes all income derived from the international operation or chartering of ships, including income from the rental of ships on a full (time or voyage) basis and income from the rental of containers and related equipment which is incidental to the international operation of ships. It also includes income from the rental on a bareboat basis of ships used for international transport and income from the disposition of ships which is incidental to income from the international operation of ships.

5. Either Government may terminate this Agreement by giving written notice of termination through Diplomatic channels.

6. If the proposals set out above are acceptable to the Government of the United Kingdom, I have the honor to propose that the present Note together with your reply shall constitute an agreement between our two governments which shall enter into force on the date of your reply, and shall have effect with respect to taxable years beginning on or after January 1, 1987.

Accept, Excellency, the renewed assurances of my highest consideration.

For the Secretary of State:  
EUGENE J. McALLISTER

No. 2

*Her Majesty's Ambassador at Washington to the Secretary of State for the  
United States of America*

*British Embassy  
Washington  
15 August 1989*

Sir,

I have the honour to acknowledge your Note of 1 August 1989 which reads as follows:

{As in No. 1}

I have the honour to inform you that the foregoing proposals are acceptable to the Government of the United Kingdom of Great Britain and Northern Ireland, who therefore agree that your Note, together with the present reply, shall constitute an agreement between our two Governments in this matter which shall enter into force on the date of this present reply.

I avail myself of this opportunity to renew to you the assurance of my highest consideration.

For the Ambassador:

**CHRISTOPHER MEYER**