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PRACTICE NOTE

PN 111/05

Date: 15th February 2005

BUDGET 2005 – INCOME TAX PROPOSALS

In today's Budget speech, the Minister for the Treasury, the Hon A R Bell MHK, announced various financial measures.

This Practice Note contains details relating to the following:-

1. Income tax allowances and rates of tax
2. Class 4 National Insurance – change to limits
3. Nursing Expenses – increase to prescribed limit of relief
4. Benefits in Kind – car benefits and fuel cash equivalent tables
5. Deeds of Covenant – educational
6. Exempt Companies – increased fees
7. Limited Liability Companies – increased fees
8. International Limited Partnerships – increased fees
9. International Companies – increased minimum tax charge
10. Other measures
 - * Extension of 0% Rate for Certain Companies
 - * High Net Worth Individuals
 - * Regional Development Incentives
 - * Personal Allowance Credits

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Assessor of Income Tax

This practice note is intended only as a general guide and must be read in conjunction with the appropriate legislation. It does not have any binding force and does not affect a person's right of appeal on points concerning their own liability to income tax.

Comments and suggestions for improvements of issued Practice Notes and suggestions for future Practice Notes are always welcome.

1. INCOME TAX RATES AND ALLOWANCES

The Minister for the Treasury announced the following changes to apply with effect from the 2005/2006 year of assessment commencing 6th April 2005. Bracketed figures are those applicable for 2004/2005 and changes are shown in bold -

Personal Allowances	£	£
Single person	8,500	(8,225)
Married couple (combined)	17,000	(16,450)
Single parent addition	5,800	(5,630)
Blind person	2,610	(2,530)
Disabled person	2,610	(2,530)
Co-habiting couples maximum addition	5,800	(5,630)

Personal Allowance Credits

Lower income point	6,000	(6,000)
Upper income point	8,500	(8,225)
Maximum credit	250.00	(222.50)

Income tax rates

	%	%
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Individuals

* Resident		
Standard rate on first £10,300	10	(10)
Standard rate on first £20,600 (married couple)	10	(10)
Higher rate on balance	18	(18)
* Non-resident		
Non-resident rate on all income	18	(18)

Companies

* Resident company – trading income		
Lower rate on first £100,000,000	10	(10)
Standard rate on balance	15	(15)
* Resident Company – other income		
Higher rate on all income	18	(18)
* Non Resident Company – trading income	10	(10)
* Non Resident Company – other income		
Higher rate on all income	18	(18)

All other taxable entities (except those at 0%)	18	(18)
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Tax thresholds	£	£
Single person	10,300	(10,000)
Married couple	20,600	(20,000)
Lower rate band for resident companies	100,000,000	(100,000,000)

2. CLASS 4 NATIONAL INSURANCE CONTRIBUTIONS

The annual limits of profits between which Class 4 contributions are paid will be changed to -
(previous limits shown in brackets):-

Lower limit	£4,895	(£4,745)
Upper limit	£32,760	(£31,720)

3. NURSING EXPENSES

Since the announcement made by the Minister for the Treasury in 1999, the maximum deduction for relief in respect of nursing expenses has been increased in line with the single person's allowance. The Income Tax (Nursing Expenses) (Amendment) Order 2005 S.D.31/05 increases the limit from £8,225 to £8,500 for the year of assessment commencing 6th April 2005.

4. BENEFITS IN KIND

Car Fuel

The cash equivalent of fuel provided by reason of a person's employment for a car made available for private use has been increased. The new rates, which take effect from 6th April 2005 and are applicable for the 2005/2006 year of assessment, are set out in the Income Tax (Car Fuel Benefits) Order 2005 S.D.22/05. The changes are shown in bold and are as follows:-

Table A

Cars with an original market value **up to** £19,250 and an internal combustion engine with one or more reciprocating pistons with a cylinder capacity calculated as for the purposes of the Licensing and Registration of Vehicles Act 1985.

CYLINDER CAPACITY (CC)	CAR RATE		FUEL RATE
	AGE OF CAR AT 05.04.2006		
	UNDER 4 YEARS	4 YEARS OR MORE	
1400 or less	£1,070	£710	£990
1401 - 2000	£1,980	£1,320	£1,255
More than 2000	£3,140	£2,100	£1,850

Table B

Cars with an original market value of **up to** £19,250 and not having a cylinder capacity

ORIGINAL MARKET VALUE	CAR RATE		FUEL RATE
	AGE OF CAR AT 05.04.2006		
	UNDER 4 YEARS	4 YEARS OR MORE	
Less than £6,000	£1,070	£710	£1,850
£6,000 - £8,499	£1,980	£1,320	£1,850
£8,500 - £19,250	£3,140	£2,100	£1,850

Table C

Cars with an original market value of **more than** £19,250

ORIGINAL MARKET VALUE	CAR RATE		FUEL RATE If car has a cylinder capacity use appropriate fuel rate at Table A above; for all other cars use fuel rate at Table B.
	AGE OF CAR AT 05.04.2006		
	UNDER 4 YEARS	4 YEARS OR MORE	
£19,251 - £29,000	£4,120	£2,760	
More than £29,000	£6,560	£4,360	

5. DEEDS OF COVENANT - Educational

The Income Tax (Deductions) (Prescribed Cases) (Amendment) Order 2005 S.D.30/05 provides for relief in respect of educational covenants paid to an individual aged 16 years or over but below the age of 18 where the course fees are being met by the Department of Education and all existing required criteria for relief are met. The new provision is effective from the year of assessment commencing 6th April 2005 and subsequent years.

6. EXEMPT COMPANIES

The Income Tax (Exempt Companies) (Fees) (Amendment) Regulations 2005 S.D.26/05 increase the fees applicable to Exempt Companies from £450 to £475 in respect of timely applications and from £1,200 to £1,260 in respect of late applications. The increased fees apply in respect of the tax year commencing 6th April 2005 and subsequent years.

7. LIMITED LIABILITY COMPANIES

The Limited Liability Companies (Income Tax) (Fee) (Amendment) Regulations 2005 S.D.27/05 increase the fees applicable to Limited Liability Companies from £450 to £475 in respect of the tax year commencing 6th April 2005 and subsequent years.

8. INTERNATIONAL LIMITED PARTNERSHIPS

The International Business (International Limited Partnerships) (Fees) (Amendment) Regulations 2005 S.D.28/05 increase the fees applicable to International Limited Partnerships from £450 to £475 in respect of the tax year commencing 6th April 2005 and subsequent years.

9. INTERNATIONAL COMPANIES

The International Business (Minimum Tax Charge) (Amendment) Regulations 2005 S.D.29/05 increase the minimum tax charge from £1,200, £2,400 and £3,600 to £1,260, £2,520 and £3,780 respectively. The increases apply in respect of the tax year commencing 6th April 2005 and subsequent years.

10. OTHER MEASURES

Extension of the Zero Rate for Companies

In keeping with the Taxation Strategy and the Island's international commitments, the zero rate of tax for companies is extended to the following trading activities;

- Agricultural activities – G.C.1/05
- Film and TV Production – G.C.4/05
- Fishing activities – G.C.2/05
- Manufacturing – G.C.3/05
- E-Gaming – G.C.7/05
- Provision of Tourist Accommodation – G.C.5/05

A 0% rate of tax will be introduced from 6th April 2005 by way of extra-statutory concession on the taxable income of companies having trading activities in the sectors mentioned. Legislation supporting introduction of the general 0% rate for most companies will be in place before 6th April 2006. Copies of the extra-statutory concessions will be available shortly.

High Net Worth Individuals

The Assessor will shortly commence a consultation exercise with interested parties with a view to introduce a cap on individual personal tax liabilities and will report the results to Treasury at the earliest opportunity.

Regional Development Incentives

The Income Tax (Capital Relief) (Commercial Buildings Allowance) (Ramsey) (Amendment) Order 2005 S.D.25/05, the Income Tax (Capital Relief) (Commercial Buildings Allowance) (Peel) (Amendment) Order 2005 S.D.23/05 and the Income Tax (Capital Relief) (Commercial Buildings Allowance) (Port St Mary) (Amendment) Order 2005 S.D.24/05 extend the appropriate time limits by 1 year. This extension will enable a cross-departmental review to be undertaken with the aim of agreeing a combined strategy to achieve the desired regional regeneration.

Personal Allowance Credits

Subsequent to the completion of the Personal Allowance Credit review undertaken during 2004 and taking into account comments received during the period of consultation, changes, in addition to those increases confirmed in part 1 Income tax rates and allowances (see above), are to be made to the computation of the credit payable. The computation will take Personal Pension Premiums and Retirement Annuity Premiums into account for the purpose of determining Gross Income, bringing the computation in line with those making contributions into superannuation schemes. These changes are introduced by the Income Tax (Personal Allowance Credit) (Amendment) Regulations 2005 S.D.32/05 and will apply in respect of payments made after 5th April 2005 in respect of the tax year commencing 6th April 2004 and subsequent years.