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## **PRACTICE NOTE**

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**PN 95/03**

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### **BUDGET 2003 – 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 threshold increased - Companies
2. Class 4 National Insurance – change to rate and limits
3. Benefits in Kind – car benefits and fuel cash equivalent tables unchanged
4. Personal Allowance Credit
5. Other measures
  - ?? Fund Managers and Administrators
  - ?? Operation of aircraft to and from the Island
  - ?? Key Employees
  - ?? Permanent Health Insurance
  - ?? Short Term Residence Concession

Appendix A : Income Tax Bill proposals

**I Q Kelly**  
**Assessor of Income Tax**

This Practice Note is intended only as a general guide and must be read in conjunction with the appropriate legislation, some of which has still to be formally approved. 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 2003/2004 year of assessment commencing 6<sup>th</sup> April 2003 (bracketed figures are those applicable for 2002/2003).

<b>Personal Allowances</b>	<b>£</b>	<b>£</b>
Single person	8,000	(8,000)
Married couple (combined)	16,000	(16,000)
Single parent addition	5,475	(5,475)
Blind person	2,460	(2,460)
Disabled person	2,460	(2,460)
Co-habiting couples maximum addition	5,475	(5,475)
<b>Income tax rates</b>	<b>%</b>	<b>%</b>
Individuals		
?? Resident		
Standard rate on first £10,000	10	(10)
Standard rate on first £20,000 (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		
Non-resident rate on all income	18	(18)
All other taxable entities (except those at 0%)	18	(18)
<b>Tax thresholds</b>	<b>£</b>	<b>£</b>
Single person	10,000	(10,000)
Married couple	20,000	(20,000)
Lower rate band for resident companies	100,000,000	(500,000)

As the standard rate for resident individuals remains unchanged, no replacement standard rate tables will be issued to employers.

**NB: This reflects the changes announced in the budget and will apply from 6<sup>th</sup> April, 2003 when all legislative changes have been implemented.**

## 2. CLASS 4 NATIONAL INSURANCE CONTRIBUTIONS

The rate of Class 4 National Insurance Contributions has been increased by 1% to 8% for the year 2003/2004.

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

Lower limit	£4,615	(£4,615)
Upper limit	£30,940	(£30,420)

## 3. BENEFITS IN KIND

### Car Fuel

The cash equivalent table rates for car benefits and fuel provided by virtue of employment remain unchanged.

**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 05.04.2004		
	UNDER 4 YEARS	4 YEARS OR MORE	
1400 or less	£1,070	£710	£970
1401 - 2000	£1,980	£1,320	£1,230
More than 2000	£3,140	£2,100	£1,815

**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 05.04.2004		
	UNDER 4 YEARS	4 YEARS OR MORE	
Less than £6,000	£1,070	£710	£1,815
£6,000 - £8,499	£1,980	£1,320	£1,815
£8,500 - £19,250	£3,140	£2,100	£1,815

**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 05.04.2004		
	UNDER 4 YEARS	4 YEARS OR MORE	
£19,251 - £29,000	£4,120	£2,760	
More than £29,000	£6,560	£4,360	

#### **4. PERSONAL ALLOWANCE CREDIT**

An Income Tax Bill has been published (see Appendix A) containing measures which will introduce from 6 April 2003 a "personal allowance credit". Subject to legislative approval, it is to be an annual payment made through the income tax system to Manx resident individuals aged 18 years and over who have been resident in the Island for the whole of the income tax year to which the claim relates. There will be special provisions for married couples.

It is proposed that a maximum payment of £200 will be paid to an individual whose gross income for the purposes of calculating the credit is £6,000 or less. A reducing amount will be paid where the individual's gross income is between £6,000 and £8,000. These limits are tied into the current personal allowance.

All income receipts whether currently taxable or not, barring a few exceptions such as attendance allowance and disability living allowance, will be taken into account in calculating gross income. This will avoid any distortion with the social security system and will target the credit at those in most need.

When it was referred to in last year's Budget some concern was expressed that payment of the credit would not begin until at least 12 months after its introduction. Account has been taken of those concerns and by linking the payment to the previous years income the credit will now be payable within the year.

A simplified procedure will enable the payment to be made automatically to approximately 3,500 individuals and families known to have low income. Treasury will authorise payment to be made as soon as the legislation has completed its passage. For others, claims will be required in an approved format and timescale. There will be an appeals mechanism for any disputes.

It is expected to place an additional £2m in the hands of those on low income and its effectiveness will be monitored. Further details will be published when the legislation has been formally approved

#### **5. OTHER MEASURES**

##### **Fund Managers and Administrators**

To assist existing businesses and attract new business, the zero rate of income tax currently enjoyed by fund managers will be extended to include managers of Experienced

Investor Funds (EIF's) and Professional Investor Funds (PIF's). This will help to clarify an area of uncertainty.

In addition, one further step will be taken towards the delivery of the taxation strategy. The current zero rate of income tax will be further widened to include fund administrators. Both measures will become effective from 6 April 2003.

Other announcements made relevant to the fund industry included –

- an Order will be made that will ensure that VAT treatment of management charges in respect of EIF's and PIF's will be the same as for other qualifying international schemes;
- an Order that will enable the removal from direct regulation of certain overseas funds that are administered or managed on the Island where the administrator or manager on the Island is subject to the licensing regime and ongoing supervision of the Financial Supervision Commission.
- measures to make it easier for investment funds to re-domicile to the Island;
- measures that will make Isle of Man Limited Partnerships a more attractive vehicle for international fund offerings.

### **Operation of Aircraft**

The zero rate of tax charged on the trading profits of resident shipping companies is to be extended to companies operating aircraft to and from the Island. It will apply to income from such trading activities falling to be assessed in the 2003/2004 income tax year and subsequent years. This will achieve consistency of treatment for all passenger transport companies and should assist the smaller companies to consolidate their position. Initially this will be achieved by way of an extra statutory concession but appropriate measures will be included in a forthcoming Taxes Bill.

### **Key Employees**

To complement the low tax package, Treasury intends to advance the initiative relating to Key Employees, which is scheduled for introduction with the proposed corporate tax regime. "Key Employees" is a concept that has its roots in the Company Tax Working Party Report of 1994 and has subsequently been adopted into the Taxation Strategy.

A package of measures will be introduced to assist where individuals are required by contractual obligation to take up residence in the Island to facilitate the process of starting up a new business or the diversification or expansion of an existing one. For the approved individual it will ensure that for the first three years of residence a liability to income tax will only arise on Manx source income of the individual and a jointly assessed spouse. For the company, financial assistance will be given for any reasonable re-location package that has to be incurred for that new business.

The incentive will be effective from the 6th April 2003 and will apply to any approved trading activity and will require an appropriate business case to be put forward for ultimate approval by Treasury. The scheme for assistance in relocation and associated costs will be progressed with the Department of Trade and Industry and will be funded out of the Taxation Strategy Reserve. Appropriate measures will be included in a forthcoming Taxes Bill but initially it will be achieved by way of an extra statutory concession.

## **Permanent Health Insurance and Income Protection Plans**

The existing practice whereby an individual is not charged to Manx income tax in respect of payments received from Permanent Health Insurance and Income Protection Plans for the first twelve months of payment is to be amended.

It is intended that any qualifying payments received by an individual during periods of sickness, disability or a deterioration of an existing medical condition will be exempt from a charge to Manx income tax.

This will apply for the year of assessment commencing 6<sup>th</sup> April 2003 and subsequent years and will initially be achieved by way of an amendment to the existing extra statutory concession but appropriate measures will be included in a forthcoming Taxes Bill.

## **Short Term Residence Concession**

As announced in last year's Budget, the Short Term Residence Extra Statutory Concession (G.C. 166/85) is being modified from 6 April 2003. In future an individual coming within the concession will be liable to Isle of Man income tax on local source income in the same manner as a person who is not resident. Income arising outside the Isle of Man will not be affected and the same exemptions as currently apply to a non resident will also apply for the purposes of the concession.

The modification will apply to income falling to be assessed in the 2003/2004 income tax year and will ensure that local source of income, such as rents and dividends, will attract the same taxation liability as it would if paid to a non-resident individual.

The option is always open for any individual to step outside the extra statutory concession and be taxed in the same manner as a resident individual if that were to give rise to a lower taxation charge because of the availability of personal allowances and lower rates of income tax.

## APPENDIX A

### INCOME TAX BILL 2003 - OUTLINE OF PROPOSALS

The Income Tax Bill is divided into four Parts.

Part 1: introduces a new Personal Allowance Credit.

Part 2: provides for the protection of information relating to taxpayers and for the use and disclosure of that information.

Part 3: provides for international agreements for the exchange of information.

Part 4: contains a number of miscellaneous amendments.

#### **Part 1 – Personal Allowance Credit**

This Part will fulfil the promise made in last years Budget by seeking to introduce a payment to individuals with low income based on the amount of unused personal allowances where the income of the individual is less than the amount of personal allowances available under the Income Tax Acts.

1. The payment of a Personal Allowance Credit will be effective for the 2003/2004 income tax year to individuals who qualify on the basis of their level of income for the tax year 2002/2003. It is to be an annual payment made through the income tax system to certain Manx residents with low incomes. Special measures exist for the year in which an individual dies.
2. To be eligible for a credit the individual must have been resident in the Island for the whole of the year of assessment in respect of which a claim is made and at the commencement of that year of assessment must have been aged at least 18.
3. Special provisions apply to married couples depending upon whether independent taxation has been claimed. Similarly, there are measures for the year of marriage and of separation.
4. The calculation for the credit will be based on a maximum payment of £200 to an individual whose gross income for the purposes of calculating the credit is £6,000 or less. A reducing amount will be paid where the individual's gross income is between £6,000 and £8,000.
5. A simplified procedure will be proposed for certain cases enabling the payment to be made automatically. In other cases claims will be required in an approved format and timescale. Liaison with DHSS will be permitted and measures are proposed to enable payments to be amended. There will be an appeals mechanism for any disputes.
6. For non-automatic cases, payment of the Personal Allowance Credit will be made as soon as practicable after the issue of a Credit Notice. If the payment is delayed beyond 12 months following the year of assessment to which the credit relates, the payment will be subject to a supplement at the same percentage rate as repayment supplement.
7. A Personal Allowance Credit payment will not be taken into account in calculating the income or assets of the beneficiary for any other statutory purpose relating to income tax or otherwise.
8. Any payment of Personal Allowance Credit that would otherwise be due may be set off against any outstanding debts which the beneficiary has in respect of earlier income tax or Class 4 contribution liabilities.
9. The Treasury will be able to bring in regulations for the more efficient administration of the Personal Allowance Credit.

## **Part 2 – Protection of Information**

The provisions will incorporate a comprehensive overhaul of the rules relating to the confidentiality of information, the disclosure of information by the Assessor to other parties and the gathering of information by the Assessor from other parties. It will involve the replacement of existing provisions with a new more comprehensive provision. The existing disclosure of information between the Assessor and the Collector of Customs and Excise and disclosure of information by the DHSS will remain unchanged.

New provisions will be brought into effect providing for gateways with other authorities such as the Financial Supervision Commission and the Insurance and Pensions Authority. Any prohibitions under the Data Protection provisions will be provided for.

## **Part 3 – Information: International Obligations**

Subject to the approval of Tynwald, the Council of Ministers will be able by Order to declare that applicable arrangements have been made with the Government of a mutual assistance country with a view to the exchange of information. This will enable the Treasury and the Assessor to meet international obligations. Provisions will be introduced to safeguard further disclosure and use.

## **Part 4 – Miscellaneous Amendments and General**

There are a number of self-contained topics:

**Trading Profits** : this confirms the terms of the Income Tax (Temporary Taxation) (Standard Rate of Tax) (Companies) Order 2001 [S.D. 152/02] introduced in the last Budget and will make further amendments to the provisions relating to rates of income tax.

**Benefits In Kind: Valuation** : this relates to the transfer of an asset for the benefit of a taxpayer and ensures that where the valuation of the asset is equal to or more than the original cost of acquiring or producing the asset the assessable benefit will be the greater of the market value of the asset at the time of the transfer or the original cost to the provider.

**Husband and Wife: Assessment and Allowances** : introduces changes to the treatment of a husband and wife in the year in which they are married or in the year of separation. This is required to enable the efficient introduction of the Personal Allowance Credit for married couples

**Unlawful Assumption of Character of Officer, etc** : defines the offence and sets out the penalties in any case of unlawful assumption of the character of the Assessor or one of his authorised officers.

**Bribery and Collusion** : defines the offence of bribery and collusion and sets out the penalties. It covers any member of Treasury or officer who seeks or takes a bribe or enters into any agreement to the detriment of the Crown or the general revenue. The offence also applies to the payer of the bribe or seeker of the agreement.

**Power to Pay Rewards** : the Treasury will be empowered, at its discretion, to pay rewards for information if it is satisfied that a reward is appropriate.