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PRACTICE NOTE

PN 161/10 **Date: 16 February 2010**

BUDGET 2010 – INCOME TAX PROPOSALS

In his Budget speech today, the Minister for the Treasury, the Hon AR Bell MHK, announced various taxation measures.

This Practice Note contains further information regarding the changes.

1. INCOME TAX ALLOWANCES AND RATES OF TAX

The following rates and allowances will apply for the 2010/11 tax year commencing on 6 April 2010:-

Personal allowances	**2010/11 £**	(2009/10) £
Single person	**9,300**	(9,200)
Married couple (combined)	**18,600**	(18,400)
Additional Personal Allowance	**6,400**	(6,300)
Blind person	**2,900**	(2,850)
Disabled person	**2,900**	(2,850)
Co-habiting couple's maximum addition	**6,400**	(6,300)
Age	**2,020**	(2,000)

Income tax rates	**2010/11**	(2009/10)
Individuals	**%**	%
Resident		
Single: Standard rate on first £10,500	**10**	(10)
Married couple, jointly assessed:		
Standard rate on first £21,000	**10**	(10)
Higher rate on balance	**20**	(18)
Non-resident:		
Non-resident rate on all income	**20**	(18)
Companies		
Banking business	**10**	(10)
Land & property in the Isle of Man	**10**	(10)
All other income	**0**	(0)
Other non-corporates e.g. trusts	**20**	(18)

10% rate band for resident individuals	**£**	£
Single person	**10,500**	(10,500)
Married couple, jointly assessed	**21,000**	(21,000)

2. CLASS 4 NATIONAL INSURANCE CONTRIBUTIONS

The rate of Class 4 National Insurance Contributions remains at 8% and is charged on profits between the lower and upper limits. The limits will remain as follows (the previous limits are shown in brackets):-

	£	£
Lower limit	**5,715**	(5,715)
Upper limit	**37,960**	(37,960)

An additional Class 4 contribution of 1% charge on the profits or gains of self employed earners above the annual upper profits limit has been introduced with effect from 6 April 2010.

3. PERSONAL ALLOWANCE CREDIT

The PAC is paid to resident individuals who do not fully utilise their single or married couple's personal allowance. The amount of the credit will be increased by 18% to £650 in respect of payments made for the tax year commencing 6 April 2009 which are paid after 6 April 2010. The current upper income limit is £9,200.

All amounts and limits are doubled for jointly assessed married couples.

For payments made in respect of the tax year commencing 6 April 2009, the deduction of pension scheme contributions in determining eligibility for the payment is removed.

From the tax year commencing 6 April 2010, individuals who are in full-time education, individuals serving a custodial sentence for the whole of the year and individuals whose spouse has their income tax liability capped, will no longer be eligible to receive a PAC.

4. NON-RESIDENT PERSONAL ALLOWANCE

The non-resident personal allowance has been withdrawn with effect from 6 April 2010.

5. TAX CAP

The cap of £100,000 on an individual's income tax liability will be increased to £115,000 for the tax year commencing on 6 April 2010.

The tax cap of £115,000 will be doubled for a married couple where they choose to be jointly assessed.

6. MORTGAGE AND LOAN INTEREST

The maximum amount of mortgage and loan interest to be granted in an individual's assessment is to be £10,000. This limit will be doubled for a jointly assessed married couple, regardless of which spouse is responsible for paying the interest.

7. COMMUTATION OF TRIVIAL PENSION FUNDS

Treasury has increased the trivial commutation limit for pension funds to £18,000 for years of assessment commencing on or after 6 April 2010, in line with the limit set in the United Kingdom.

8. EMPLOYER COMPLIANCE

Legislative changes have been made in order to improve employer compliance that introduce three new penalties for employers; a penalty for ITIP paid late, a late return penalty and a failure to comply penalty.

The legislation enables any late monthly remittance to be subject to a penalty. Any payment or part payment of ITIP made later than the 19th day of each month will be liable to a 5% penalty. Any amount which remains outstanding after a further 6 months will then be liable to a 5% additional penalty.

The legislation also states that an employer's annual return which is submitted late will be subject to a civil penalty. Any return submitted later than 30 days from the end of the tax year or 30 days from the date of cessation as an employer will be liable to a £250 penalty, together with a penalty of £50 per day that the return continues to remain outstanding. The legislation also introduces a criminal offence if the return remains outstanding for more than six months.

The third penalty will apply to any failure to comply with the Income Tax (Instalment Payments) Act 1974 or the Income Tax (Modified ITIP) Regulations 1987 where another penalty does not apply. Any instance of non-compliance with the above legislation will be liable to a £250 penalty. This includes the failure to notify the Division that an employer has commenced or ceased to act as an employer.

9. DISCLOSURE AMNESTY

Treasury has announced that a disclosure amnesty will take place for three months during the tax year commencing 6 April 2010. By concession, the Assessor will waive the imposition of penalties in respect of any voluntary disclosures of previously omitted income made by taxpayers during the period. Interest charges will still apply.

M Couch

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.