

PRACTICE NOTE

PN 90/02

Date: 1th March 2002

Budget 2002 - Income Tax Proposals

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

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. 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.

Income Tax Rates Reduced And Allowances Increased

The Minister for the Treasury announced the following changes to apply with effect from the 2002/2003 year of assessment commencing 6th April 2002 (bracketed figures are those applicable for 2001/2002).

Income tax rates	%	%
Standard rate	10	(12)
Higher rate	18	(18)
Lower rate for resident trading companies	10	(12)
Standard rate for resident trading companies	15	(18)
Non-resident rate	18	(18)
Personal Allowances	£	£
Single person	8,000	(7,700)

Married couple(combined)	16,000	(15,400)
Single parent addition	5,475	(5,270)
Blind person	2,460	(2,120)
Disabled person	2,460	(2,120)
Co-habiting couples maximum addition	5,475	(5,270)
Tax thresholds	£	£
Single person	10,000	(10,000)
Married couple	20,000	(20,000)
Lower rate band for resident companies	500,000	(500,000)

A company, for the purposes of the lower rate and standard rate for resident trading companies, is a company coming within the provisions of Section 1A of the Income Tax Act 1970. For the purpose of Section 1A a company is a qualifying company if it derives the whole of its trading profits from a trade carried on in the Island. Any resident company not falling within Section 1A will be charged on the whole of its income at the higher rate.

As a result of the reduction in the standard rate for resident individuals, replacement standard rate tables will be issued to employers in due course.

Nursing Expenses - Increase To Prescribed Limit Of Relief

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 2002 (SD 147/02) increases the limit from £7,700 to £8,000 for the year of assessment commencing 6th April 2002.

Benefits In Kind - Car Fuel Cash Equivalent Tables Reduced And Additional Exemption

Exemption: Computer Equipment

The Income Tax (Benefits in Kind) (Exemptions) (Amendment) Order 2002 (SD 148/02) adds a further category of benefit in kind to the exemptions listed in the principal Order.

The new exemption applies to the provision (by, or at the expense, wholly or partly, of the employees' employer) of a personal computer to an employee for use at the employees' home. It includes devices designed to be used by being connected to or inserted in that computer. To the extent that the aggregate cash equivalent of the benefit does not exceed £1,000 the benefit in kind charge will be exempt. Where the aggregate cash equivalent exceeds £1,000 then only the excess over £1,000 shall be chargeable to income tax as a benefit in kind.

The new exemption applies to benefits received on or after the year of assessment commencing 6th April 2002.

Car Fuel

Form R22(b) has been updated to reflect the decrease in the cash equivalent table rates for car fuel provided by virtue of employment.

The Income Tax (Car Fuel Benefits) Order 2002 (SD 150/02) substitutes revised tables A and B for those in Section 2J(2) of the Income Tax Act 1970 with effect from 6th April 2002. The revisions are as follows (the previous values are in brackets):-

Table A

Cars with an internal combustion engine with one or more reciprocating pistons with an internal engine capacity as calculated for the purposes of the Licensing and Registration of Vehicles Act, 1985.

CYLINDER CAPACITY	CASH EQUIVALENT (£)
1400 or less	970 (1,025)
1401 - 2000	1,230 (1,300)
More than 2000	1,815 (1,915)

Table B

CARS WITHOUT A CYLINDER CAPACITY	CASH EQUIVALENT (£)
All models	1,815 (1,915)

Class 4 National Insurance - Change To Limits

The rate of Class 4 National Insurance Contributions remains at 7% for the year 2002/2003. 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 (£4,535) Upper limit £30,420 (£29,900)

International Limited Partnerships - Increased Fees

The International Business (International Limited Partnerships) (Fees) (Amendment) Regulations 2002 (SD 151/02) increases the fee applicable to International Limited Partnerships from £400 to £430 in respect of the tax year commencing 6th April 2002 and subsequent years. This brings International Limited Partnerships into line with other similar entities.

Donations To Charities By Companies

The Income Tax (Donations to Charities) (Amendment) Regulations 2002 (SD 149/02) increase the lower limit in respect of which companies may claim income tax relief for

donations to charities from £5,000 to £15,000. The new limit is effective from the year of assessment commencing 6th April 2002.

Other Measures

Regional Development Incentives

Insurance And Shipping Activities

In keeping with the Taxation Strategy and the Island's commitment to OECD it was announced that the 'ring fencing' around insurance and shipping activities is to be removed with effect from 6th April 2002. A zero rate of tax will be charged on the trading profits of resident companies carrying on defined activities. It will apply to income falling to be assessed in the 2002/2003 income tax year. Initially this will be achieved by way of an extra statutory concession but appropriate measures will be included in the forthcoming Taxes Bill.

Short Term Residence Concession

It is proposed that the Short Term Residence Extra Statutory Concession (G.C. 166/85), whilst being retained, should be modified so that a person coming within the concession will be placed in no more an advantageous position than a person who is not resident. This will help to counter the exploitation of unintended tax planning opportunities.

The proposed modification will ensure that any 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.

The Income Tax Division invites comments on the proposed changes by 30th April 2002.