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PRACTICE NOTE

PN 66/97

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BUDGET 1997 - INCOME TAX PROPOSALS

In today's Budget speech, the Minister for the Treasury, the Hon R K Corkill MHK, announced various financial measures. This Practice Note contains details relating to the following:-

1. Income tax rates, allowances and thresholds.

The Treasury Minister announced the following changes to apply with effect from the 1997/98 year of assessment commencing 6th April 1997 (bracketed figures are those applicable for 1996/97).

Personal allowances £

Single person 6800 (6600)

Married couple (combined) 13600 (13200)

Single parent addition 4650 (4515)

Blind person 1860 (1800)

Income tax rates %

Standard rate 15 (15)

Higher rate 20 (20)

Non-resident rate 20 (20)

Tax thresholds £

Single person 9270 (9000)

Married couple (combined) 18540 (18000)

Balance taxable at 20%

2. Commercial Buildings Allowance.

The Income Tax (Capital Relief) (Commercial Buildings Allowance) Order 1997, SD No 92/97, applies to the area in the borough of Douglas defined as the special area in the Isle of Man Planning Scheme (Development Plan) (Douglas 2000 Area) Order 1994 (SD No 474/94).

- i. It modifies the present industrial buildings allowance provisions in respect of any new buildings or structures used for the purposes of any trade or profession (other than tourist premises) carried on wholly or partly within that designated area. The definition of buildings and structures is also modified to include retail shops, showrooms and offices.

- ii. Planning approval for the construction is required to be made before 6th July 1997 and in respect of the capital expenditure claimed -
 - o it has to be in respect of construction work carried out between 6th April 1994 and 5th April 1999; and
- iii. the obligation to pay has to become unconditional in the period 6th April 1994 to 5th April 1999.
- iv. Only 50% of any initial allowance falling to be made under the Order may be taken into account in any claim for the purposes of any claim under Schedule 2 of the Income Tax Act 1980 (Group Relief).

IMPORTANT - although the provisions are only effective from the date they are approved by Tynwald, the Treasury will by concession permit claims for relief to be made in respect of capital expenditure which would have qualified had both the Statutory Documents been in force on the 6th April 1994.

3. Prescribed deductions.

The Income Tax (Deductions) (Prescribed Cases) (Amendment) Order 1997, SD No 90/97, takes effect from 6th April 1996 and amends two provisions of the original Order (GC 374/89) -

- i. Extension of deductions for maintenance payments Maintenance payments made to or for the benefit of a child, to one or other of the child's natural parents even if not legally married now qualify as a deduction for income tax relief. Such payments will be assessable on the recipient in the normal way.
- ii. Educational covenanted payments to children or grandchildren The maximum amount which may be deducted in respect of each donee is increased from £3000 to £4500.

4. Training relief

The Income Tax (Training Relief) (Qualifying Courses) Regulations 1997, SD No 93/97, which takes effect from 6th April 1997, extends the range of courses qualifying for income tax relief to include level 5 accreditation by the National Council for Vocational Qualifications. This will mean that senior managerial and professional courses will now qualify, for example the Masters in Business Administration.

5. 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 in line with changes in the VAT rates. The rates applicable for the 1997/98 year of assessment (bracketed figures are those applicable for 1996/97) are set out in SD No 91/97 and are as follows:-

Table A

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

| CYLINDER CAPACITY (cc) | CASH EQUIVALENT (£) |
|------------------------|---------------------|
| 1400 or less | 800 (710) |
| 1401 - 2000 | 1010 (890) |
| More than 2000 | 1490 (1320) |

Table B

| CARS WITHOUT A CYLINDER CAPACITY | CASH EQUIVALENT (£) |
|----------------------------------|---------------------|
| ALL MODELS | 1490 (1320) |

NB: The tables of cash equivalents for cars made available by reason of employment and available for private use remain unchanged.

6. Directors, office-holders and employees liability insurance.

An extra statutory concession analogous to the legislation set out in the UK ICTA 1988 section 201AA is to be introduced to take effect from 6h April 1997. Income tax relief will be given for payments made to secure indemnity insurance against work-related liability claims or made to meet uninsured work-related liabilities. The concession will also cancel out a benefit in kind charge where the employer pays the insurance premium or meets the liability. Further details will be published as soon as the extra statutory concession has been approved.