



PRACTICE NOTE

PN 49/94

Date: 15 March 1994

Budget 1994-Income Tax Proposals

The Minister for the Treasury, the Hon D J Gelling MHK, in his Budget speech on 15th March 1994, announced various financial measures.

1. Income Tax Rates And Allowances

The Minister for the Treasury announced that the income tax rates and allowances to be effective for the 1994/95 income tax year commencing 6th April 1994 will remain the same as those for 1993/94 namely:-

Personal Allowances

Single Person Â£6,200

Married Couple (combined) Â£12,400

Single Parent Addition Â£4,250

Blind Person Â£1,650

Income Tax Rates

Standard Rate 15%

Higher Rate 20%

Non-Resident Rate 20%

Tax Thresholds

Single Person Â£8,500

Married Couple (combined) Â£17,000

Balance taxable at 20%

2. Car Benefits / Benefits In Kind

(A) CAR SCALE RATES

Appendix 1 contains the car and fuel benefit scale rates to be applied for 1994/95.

(B) DISPENSATION FOR COMMERCIAL VEHICLES

Private use of a van, lorry or similar commercial vehicle falls to be a benefit-in-kind. Existing practice is to assess the benefit on either the proper "cash equivalent" basis or, by concession where advantageous, according to the car and fuel flat rate cash equivalent tables.

However, where the main purpose of the vehicle within a business is one of:-

- the transportation of goods or materials used in the trade, or
- the transportation of goods in the course of conducting a delivery service, or
- the transportation of the tools or equipment used by the employee in performing his/her duties,

no benefit-in-kind will be charged provided the vehicle is used primarily for this purpose. This change in practice will apply from 6th April 1994.

Clearance for this procedure will be by way of the employer obtaining a dispensation from the Division. Dispensations will be granted for one year or more, depending on the circumstances. An employer wishing to secure a dispensation in respect of any one vehicle or employee should contact the Technical Assistant, Arie Eisinger.

3. Itip / Employers' National Insurance Rebate

(A) A new edition of the Employers' Guide for ITIP purposes for use from 6th April 1994 will be issued after 15th March 1994. This new guide will include under its Section F all necessary coding instructions consequent upon the Budget proposals. This Section F replaces the form T8 which was previously issued to all employers with details of the coding amendments.

(B) It was announced in the Budget that the rebate on employers national insurance contributions shall not be extended beyond the contribution year 1993/94.

4. Remission Scheme

As stated by the Treasury Minister the Division has now substantially reduced the arrears of assessing work which has been dogging it for several years. Emphasis is therefore turning to improving the examination of returns and the overall effectiveness of the Division's performance. Situations are now being uncovered where:-

(1) persons have understated income on tax returns or completely omitted income such as rents, interest on bank, building society and post office accounts, income from what is

commonly known as 'foreigners' carried out in the evenings or at weekends and speculative trading transactions in land and property;

(2) individuals have failed to notify the Division of their commencement of residence;

(3) returns are still outstanding and the tax due on default assessments has not been paid even though the assessments are final and conclusive;

(4) a person has arrears of tax in respect of which substantial interest charges have accrued.

If the Division was to investigate cases of omitted income or failure to notify liability the person concerned would be charged interest on the tax together with a penalty of up to 200% of the tax due.

Prosecution for non-submission of a return can lead to a substantial fine. It may also result in interest being charged on income tax paid late and possibly a penalty where the true liability proves to be greater than the amount assessed in default.

It is recognised that whilst these problems and their resolution strictly rest with the taxpayer, both the Division and the persons concerned would benefit if these matters were dealt with in a speedy and cost effective manner.

In order to give all persons who may be affected the opportunity to regularise their affairs at the minimum cost, the Treasury is introducing a PENALTY AND INTEREST REMISSION SCHEME. The Scheme will be operated by both the Income Tax Division and the Customs and Excise Division.

Any person who is aware that they fall within one of the above categories or who believes that they may unintentionally have placed themselves in such a position, may, during the period 6th April 1994 to 31st October 1994 put their affairs in order, using a very simple disclosure system, WITHOUT INCURRING ANY PENALTY OR INTEREST CHARGE.

THIS OPPORTUNITY WILL NOT BE REPEATED AND NORMAL PENALTY AND INTEREST PROVISIONS WILL BE BROUGHT BACK INTO FORCE WITH EFFECT FROM 1ST NOVEMBER 1994.

A Guide is available from the Income Tax Division containing full details of the scheme, its operation, benefits and conditions and sets down the few exceptions from the Scheme. It also contains the relevant form should a person wish to avail themselves of the Scheme.

5. Film Industry

In the past year the Isle of Man Government has created a film commission under the auspices of the Department of Tourism, Transport and Leisure. The Isle of Man Film Commission (IOMFC) has a stated objective of creating a film industry on the Island. To assist in that development the Treasury is introducing an incentive which will make it attractive to invest in film productions carried out in the Isle of Man.

The incentive will be based on a transferable income tax credit calculated at the rate of 20% on specified investment in a film production

approved by the IOMFC. This incentive will apply for the period 6th April 1994 to 5th April 1996 and will be fixed at an aggregate tax credit for that period of £1m. Based on a rate of relief of 20% this equates to a total investment of £5m.

To enable the relief to be available to an offshore investor the tax relief will be capable of being transferred to a resident who has a tax-liability.

Combined with the existing incentives listed below this measure will strengthen the attractiveness of the Island as a location for undertaking film production:

a low rate of income tax

no withholding taxes for visiting artistes

tax holidays for up to 5 years for production companies

tax holidays for off-Island investors

favourable tax treatment for pre-production expenditure

100% capital allowances on all plant and equipment

tax free Government grants on approved capital and revenue expenditure.

6. Deferment Of Balancing Charge On Sale Of A Ship

An Order is being introduced permitting a deferment for up to 5 years of a balancing charge arising on the sale of a ship.

Normally, when a ship is sold the proceeds are immediately brought into account in the capital allowances computation whether or not a further vessel is acquired. This can sometimes result in a substantial balancing charge arising on the business forcing the company to consider the acquisition of another vessel at a time when market conditions are more conducive to a sale rather than a purchase.

To provide greater flexibility over the timing of the re-investment of the sale proceeds of a vessel, a shipping concern will be permitted to defer that purchase for up to 5 years without incurring a tax penalty. This will be conditional upon the business continuing to trade as a shipping operation from the Isle of Man and remaining within the charge to income tax.

It will be possible in approved situations to transfer the deferred balancing charge to another company very much in the same way as group losses.

7. Commercial Building Allowance

A new capital allowance is to be introduced to provide a first year allowance of 100% on the cost of constructing a commercial building within a designated area of central Douglas. Appendix 2 shows the proposed area.

The underlying legislation will be the provisions currently adopted for industrial buildings and the allowance will be available for qualifying expenditure incurred within the three year period 6th April 1994 to 5th April 1997 inclusive. A post completion period of two years will be allowed for developments on which a significant start had already been made during that period.

A commercial building will include premises used for the purposes of a trade or undertaking carried on wholly or partly in the Isle of Man. It will extend to shops as well as offices, banks and other financial institutions. Premises intended primarily for residential occupation will be excluded although caretakers flats or similar above a qualifying undertaking may be included on a de minimus provision.

The relevant legislation permitting the introduction of such an allowance will be contained within the Income Tax Bill 1994.

In his Budget speech the Treasury Minister pointed out that at the end of the three year period the need for the allowance will be reviewed and that it may be extended to other areas or removed as circumstances dictate.

8. Extension Of The Removal Of A Small Company Audit

In August 1993 it became possible for non-resident and income tax exempt private companies to dispense with the statutory audit of their accounts. This provision will shortly be extended to include resident private companies which either have a turnover which does not exceed the VAT registration limit or is a family investment holding company.

A draft order is being drawn up and will be presented to Tynwald as soon as the consultation process has been completed.

The Treasury Minister in his Budget speech stated his intention to keep the matter under review with the aim of extending the exemption limits should experience show that it is both feasible and desirable to do so.

9. International Business

The path has now been cleared to enable the International Business Act 1994 to be brought into force. Royal Assent to the legislation is imminent. To avoid any problems over the retention of the exempt company provisions it will be necessary for the International Business (Amendment) Bill 1994 to receive Royal Assent at the same time. It is therefore envisaged that the legislation will come into operation during April 1994 with partial back-dating to 6th April 1993.

Exempt Company -	this is being retained and for the present the normal application time limits of 30th June and 30th September will be followed although the position will be reviewed to determine whether greater flexibility should be introduced;
International Limited Partnership -	applications may be made from 6th April 1994, back-dated to 6th April 1993, if so required,

International Companies -	for the present only the negotiated tax provision is being introduced; no appointed day order will be made for the minimum tax charge provision in Section 2(2) of the Act. Applications are invited from 6th April 1994, back-dated to 6th April 1993, if so required.
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It should be noted that from a date to be agreed (but no earlier than 19th April 1994) an exempt company, and any international company paying income tax at a rate less than 15%, will be excluded from the provisions contained in the Isle of Man/United Kingdom Double Taxation Arrangement.

Appendix 1

Car And Fuel Benefits 1994/95

Notes:-

1. 1993/94 Comparatives are shown in brackets
2. Practice Note 28/90 refers

CARS MADE AVAILABLE TO EMPLOYEES FOR PRIVATE USE TABLES OF FLAT RATE CASH EQUIVALENTS APPLICABLE FOR 1994/95

Table A

Cars with an original market value up to £19,250 and having a cylinder capacity

	AGE OF CAR AT 05.04.95	
CYLINDER CAPACITY (CC)	UNDER 4 YEARS	4 YEARS OR MORE
1400 or less	£1070 (760)	£710 (510)
1401 - 2000	£1980 (990)	£1320 (660)
More than 2000	£3140 (1570)	£2100 (1050)

Table B

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

	AGE OF CAR AT 05.04.95	
ORIGINAL MARKET VALUE	UNDER 4 YEARS	4 YEARS OR MORE
Less than £6000	£1070 (760)	£710 (510)
£6000 - £8499	£1980 (990)	£1320 (660)
£8500 - £19250	£3140 (1570)	£2100 (1050)

Table C

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

	AGE OF CAR AT 05.04.95	
ORIGINAL MARKET VALUE	UNDER 4 YEARS	4 YEARS OR MORE
£19251 - £29000	£4120 (2060)	£2760 (1380)
MORE THAN £29000	£6560 (3280)	£4360 (2180)

FUEL PROVIDED FOR CARS AVAILABLE FOR PRIVATE USE

TABLES OF CASH EQUIVALENTS APPLICABLE FOR 1994/95

Table A

Cars with 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)	CASH EQUIVALENT
1400 or less	£640 (£530)
1401 - 2000	£810 (£660)
MORE THAN 2000	£1,200 (£990)

Table B

Cars other than described at Table A

ORIGINAL MARKET VALUE	CASH EQUIVALENT
Less than £6,000	£640 (£530)
£6,000 - £8,499	£810 (£660)
£8,500 or more	£1,200 (£990)