



**Isle of Man
Government**

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PRACTICE NOTE

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TAX CAP ELECTION

In his Budget speech today, the Minister for the Treasury, the Hon. Eddie Teare, MHK, announced the introduction of a five year Tax Cap election with effect from 6 April 2014.

This Practice Note contains further information regarding this election. Full details can be found in Statutory Document No 2014/0019.

1. THE TAX CAP

The statutory Tax Cap for resident individuals was announced in the 2006 Budget and is part of Government's policy to attract wealthy entrepreneurs to the Isle of Man. The amount of income tax paid by any individual is capped at a level approved by Tynwald; the amount of the Tax Cap for 2013/14 and 2014/15 is £120,000 per annum (£240,000 per annum for a jointly assessed couple).

2. TAX CAP ELECTION

The introduction of a five year Tax Cap election provides certainty of treatment for existing residents, and also for prospective new residents who have annual income such that their tax liability would otherwise exceed the Tax Cap.

For an election for the Tax Cap to be valid it must:

- i. be made in writing to the Assessor;
- ii. include details of the wealth and income of the individual concerned and any other information the Assessor requires;
- iii. be made within the required time limit; and
- iv. be approved in writing by the Assessor.

As previously, only individuals resident in the Isle of Man for income tax purposes can benefit from the Tax Cap.

If no valid Tax Cap election is in place, income tax will be charged on an individual's total income at the prescribed tax rates applicable for each tax year.

3. ELECTION PERIOD AND AMOUNT

A valid Tax Cap election will remain in force for five consecutive tax years, with the amount charged for each year being the value of the Tax Cap in the first tax year covered by the election.

For example, an individual who makes a valid Tax Cap election for the tax year commencing 6 April 2014 will have the following tax liabilities:

<u>Tax Year</u>	<u>Tax Liability</u>
2014/15 (election year 1)	£120,000
2015/16 (year 2)	£120,000
2016/17 (year 3)	£120,000
2017/18 (year 4)	£120,000
2018/19 (year 5)	£120,000

It must be stressed that, once an election has been approved, the individual will be liable to the Tax Cap for each of the five tax years, whether or not their actual taxable income for a year is sufficient to produce a tax liability equal to the Tax Cap.

When the Assessor writes to approve a Tax Cap election, that letter will state the annual amount of the Tax Cap and the tax years to which the election will apply.

Individuals can apply to renew their Tax Cap election at any time.

4. COMMENCEMENT

The 2014/15 tax year will be the first year for which the five year Tax Cap election can be made.

For this year only, a Tax Cap election must be made by 30 June 2014.

The Assessor will contact current and previous tax capped individuals and/or their agents to advise them of the introduction of the new five year election process, in order to establish their individual tax treatment from the 2014/15 tax year.

Tax Cap elections for later years must be made before the start of the first tax year to be covered by the election. For example an election for the tax years 2015/16 to 2019/20 must be made on or before 5 April 2015.

An individual who commences residence in the Island during any tax year may make an election for the tax year in which residence commences and the following four tax years, provided such election is made within 60 days of commencement of residence.

In exceptional circumstances the Assessor may approve a late election for the Tax Cap.

5. CHANGES IN CIRCUMSTANCE

It is not possible to voluntarily revoke or terminate a valid Tax Cap election.

However, the Assessor may, in exceptional circumstances, revoke or terminate a valid Tax Cap election before the end of the relevant five year period, if satisfied that the circumstances justify such a revocation/termination and that this change of circumstances was unforeseen at the date the original election was made. Exceptional unforeseen circumstances could include, for instance, a death causing a significant change in an individual's financial circumstances.

6. COMPLIANCE

Individuals who have made a valid Tax Cap election must continue to file an annual return and comply with all other requirements of the Income Tax Acts.

7. ANTI AVOIDANCE

The legislation which brings in the new Tax Cap election also includes anti avoidance legislation to ensure that Tynwald's intentions in relation to the Tax Cap and the new election are not circumvented.

8. PAYMENT

The Tax Cap amount for each of the five years of an election is due and payable on 6 January in each tax year for which an election applies.

The Assessor may allow the Tax Cap amount to be paid by deduction from remuneration via ITIP rather than on 6 January.

Nicola Guffogg

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.