



**Isle of Man
Government**

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A Consultation Response Document



Proposed changes to Individual Taxation

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Proposed changes to Individual Taxation

Consultation Response Document

1. Introduction

In support of the Manx Taxation Strategy, the Treasury Minister announced in his 2015 Budget speech that one of his aims was to lift as many of the low paid as possible out of income tax. He also spoke of the need to eliminate unnecessary bureaucracy by removing the requirement for as many individuals as possible to file an annual income tax return.

With the above considerations in mind, the Minister advised of his intention that, from 2016/17, the income tax system would be simplified by:

- removing the 10% rate band for individuals; and
- increasing the level of the personal allowance to over £14,000.

The Minister also asked the Assessor of Income Tax to commence work on a system that dispenses with the need to file a tax return in cases where the Income Tax Division holds sufficient information to issue an assessment straight to an individual.

Subsequently, in August 2015, the Treasury issued a consultation, "Proposed changes to Individual Taxation", in accordance with the Isle of Man Government Code of Practice on Consultation.

The purpose of the consultation was:

- to provide details of a proposed increase in the personal allowance together with the removal of the 10% rate of income tax;
- to provide an overview of the proposed operation of a new individual taxation system;
- to provide details of the proposed changes that would need to be made to the current system; and
- to invite comments on the proposed changes and suggestions for alternatives.

2. Executive Summary

The consultation was open for eight weeks, from 14 August to 9 October 2015, and generated a good deal of public interest. The online survey, in particular, generated numerous responses. In all, 165 replies were received (150 from the electronic survey and 15 written responses) and Treasury would like to thank everyone who responded.

This document provides a summary of the responses made to each question raised in the consultation, together with a sample of the comments and suggestions made by respondents.

Overall, the response to the majority of the proposals outlined in the document was positive. With regard to the proposed increase in the personal allowance in conjunction with the removal of the

10% rate of income tax, the majority of respondents supported the proposal, provided the increase in the personal allowance was sufficient to ensure that no individual would be adversely impacted by the changes. There was less support for the removal of the 10% rate of tax if this were to lead to a small increase in tax liability for some individuals.

There was a great deal of support for the proposed simplification of the tax system, with positive responses to the questions relating to this ranging between 69% and 82%.

The findings of the consultation are set out in more detail below.

3. Summary of Responses

This section provides a statistical overview of the responses to each of the questions raised in the consultation, together with a summary of the additional comments and suggestions made by the respondents.

The written responses have been reviewed, with comments being allocated to the relevant questions; a percentage has also been allocated for agreement or otherwise to enable a statistical overall view of respondents' opinions.

The sample comments highlighted in this section have been included on the basis that they either summarised views expressed by several respondents or were considered to be innovative, in that they provided suggestions or raised issues that had not been considered in the consultation document.

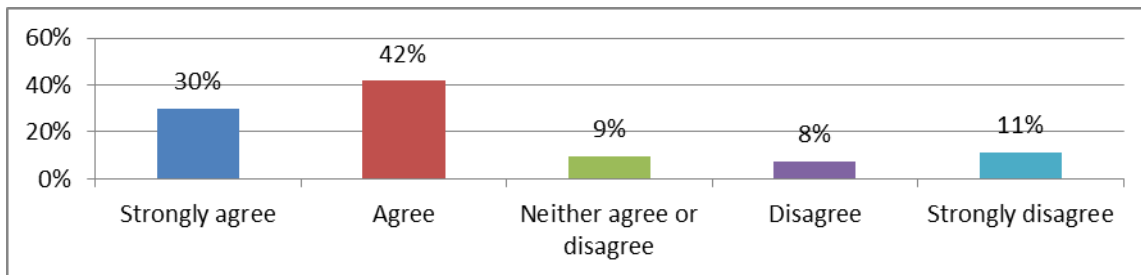
Increasing the personal allowance and removing the 10% rate of income tax

In addition to the Treasury Minister's stated aim of lifting as many of the low paid as possible out of income tax, a substantial increase in the personal allowance would also contribute to the aim of simplifying the tax system, as a much greater number of individuals would not have an income tax liability because their taxable income would be below the personal allowance.

The Minister indicated that he would like to set the personal allowance at £14,750, with the intention that no individual would be worse off as a result of the removal of the 10% rate of income tax, and the consultation document asked for comments on such a proposal. However, the consultation document also recognised that an increase in the personal allowance to this level would have an impact on tax revenues that might not be affordable for Treasury and that any increase in the personal allowance might have to be limited to a lesser amount. It therefore asked a second question concerning a proposal whereby the personal allowance would be increased to such a level that those on low incomes would benefit while the maximum increase in income tax liability for others would be limited to £150 per year.

Question 1

Do you agree with the principle of removing the 10% rate of income tax, provided that the personal allowance is increased to a level sufficient to ensure that individuals will be no worse off as a result?



Findings:

A very clear majority of respondents (over 70%) were in favour of the removal of the 10% rate of income tax, provided that the personal allowance was increased to a level sufficient to ensure that nobody was worse off as a result of the proposed change.

Although the question was posed on the basis that individuals would be no worse off, some people did not respond on the same basis. Therefore, a number of those who disagreed with the proposal did so on the basis that some individuals would be worse off.

Others who disagreed with the proposal did so on the basis that:

- everybody should pay tax and contribute to society;
- they do not support the removal of the 10% rate of tax.

Some respondents expressed concern that the increased personal allowance might not increase in line with inflation.

A number of respondents also expressed concern that raising the personal allowance to this level would adversely affect revenue for Treasury, which would not be desirable.

Sample responses:

I agree, but only if personal allowances are increased to a level sufficient to ensure that individuals will be no worse off as a result of this change.

Yes, on the basis in particular that it will allow for simplification.

It's about time the IOM Government looked at the personal tax regime - the current laissez-faire attitude is a disincentive to workers coming from the UK where the personal allowance is higher.

Removing a large proportion of the population from direct taxation will lead to the perception that Government is "free", driving social disengagement and encouraging the work of Government to focus on benefitting those who are directly paying for it. Simply put, if people do not pay for it, they do not value it.

Maybe it is an opportunity to actually help the low income family instead of feather bedding the rich?

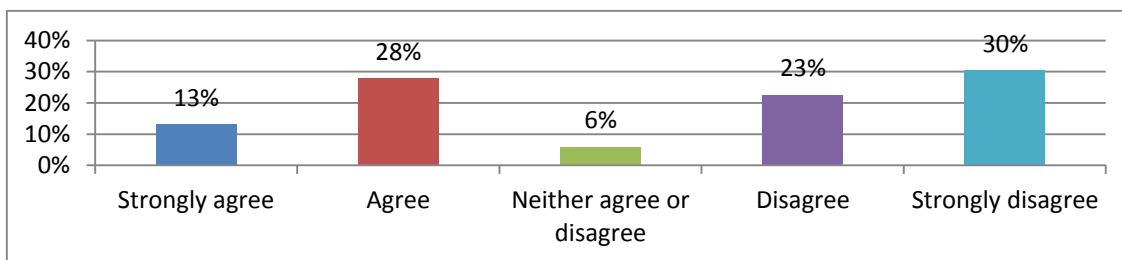
Any changes should ensure that there will be no overall reduction in tax revenue collected. This will not be possible without making some taxpayers pay more tax - and others less.

10% is a fair starting rate. It is too big a jump to go to 20%.

Yes, but only if there is a mandatory proviso that the new personal allowance will be reviewed on an annual basis and increased by the greater of the percentage rise in average earnings or retail price inflation.

Question 2

Do you agree with the principle of removing the 10% rate of income tax, provided that the personal allowance is increased to a level sufficient to ensure that individuals on low incomes benefit from the increase and the maximum increase in income tax liability for other individuals is limited to £150 per year?



Findings:

The response to this question was more mixed. Although a significant number of respondents continued to support the removal of the 10% rate of income tax provided that any increase in tax liability was limited to no more than £150, a small majority of respondents were against this proposal.

Several individuals expressed the view that, although the increase would not affect the lowest paid individuals, it would affect many people on less than the average wage. Others thought that the increase would be felt by those in the 'middle income' bracket, who were already experiencing increased costs for various reasons. Some also believed that they should not be expected to bear the burden of higher costs in order to support those who are low paid or on benefits and felt that higher tax can actually act as a disincentive to work.

However, those who agreed expressed the view that the simplification that would be achieved through raising the personal allowance would justify a small initial cost, although some suggested that the personal allowance should be raised to at least £14,750 as soon as this was affordable for Treasury.

Sample responses:

Clearly it would be preferable if no individual's income tax liability increased as a result of these proposed changes. However, in recognition of the affordability issue for Treasury, we would conclude that a maximum increase of £150 should not prevent these proposals from being progressed.

You should be able to make the additional revenue through savings achieved by simplifying the process.

This government continues to hit the middle income earners the most, with removal of mortgage allowance, child benefit cuts and increased parking charges. I do not think any one group should be made to feel the burden and another the benefit.

I agree that low earners have to be looked after, but protection should be limited - the tax system should incentivise hard work and a desire to get on in life; not to settle for a subsidy from those who have.

I have no issue with paying a relatively small increase in income tax to make sure the books are balanced.

This will affect everyone earning over £18,500 and is simply taking money to help the lower paid from the slightly better paid.

So you're looking to give more back to the people who, more than likely, are already on benefits? What motivation will you ever give for these to get off benefits? Giving them more money, by way of less tax, is certainly not motivation to get on and earn more, but to remain on the lower pay and take the benefits from the government, which the higher paid individuals provide for!!

The low income family needs more help than the high income family.

If it is not possible to increase the threshold to £14,750 then consideration should be given to some relief for those in the £18,500-30,000 bracket who will be proportionately worst affected.

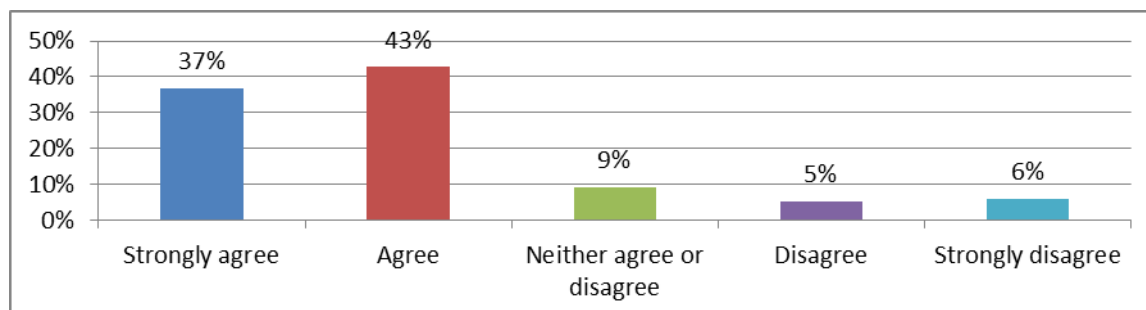
Overview of the proposed new individual taxation regime

In his 2015 Budget speech, the Treasury Minister spoke of the need to eliminate unnecessary bureaucracy by removing the requirement for as many individuals as possible to file an annual return.

In the proposed new simplified regime, the completion of a return would no longer be required in all cases and views were sought on this suggestion.

Question 3

Do you agree that the Division should simplify and minimise its contact with individuals by removing the requirement to submit an annual return where an individual has no tax liability or where all details of their income are provided to the Assessor by third parties?



Findings:

The majority of respondents (80%) were in favour of this proposal, with many strongly supporting the proposed simplification of the tax system for individuals.

Of those who disagreed (11%), some believed that either the current system should continue, or that annual contact by the Division should be maintained, to remind people of their obligations.

Concerns were also expressed that:

- individuals might not understand their obligations;
- people might abuse the system.

Sample responses:

Yes - but what if their circumstances change? Will you at least email them annually to remind them of changes they need to tell you about?

We believe that the simplification of the taxation system for individuals by not requiring tax returns where there is no liability to tax or information is fully provided by a third party is reasonable in order to create administrative efficiencies. However, when the obligation to submit a tax return is removed, it could increase the risk of non-compliance where there is a change in circumstance.

Agree, however from the taxpayer's point of view, the online tax return is easy to use and neither onerous nor debilitating (unlike UK!)

This is a great idea - less disorganised people having to be chased, reducing resources and possible fines, prosecution, court time etc.

It is possible that the information the Assessor receives from third parties is incorrect, for example, an employer may make an error by not submitting benefits in kind information. Where an individual is not required to submit a return, these discrepancies may not be identified, resulting in reduced revenue for the ITD both through the reduction in taxable income declared and not receiving the relevant penalties from the employer's error.

Every individual should be required to make a signed annual statement that they do not have a tax liability. Otherwise, there will be tax evasion, in spite of it being a legal requirement to disclose income.

This would be dependent upon the Treasury Income Tax Division's appetite for risk! You will undoubtedly save on admin costs, but may suffer a reduction in the level of taxes collected.

I think that this should have random checks every few years however to ensure that people do not abuse the lack of contact to hide additional non-coded income.

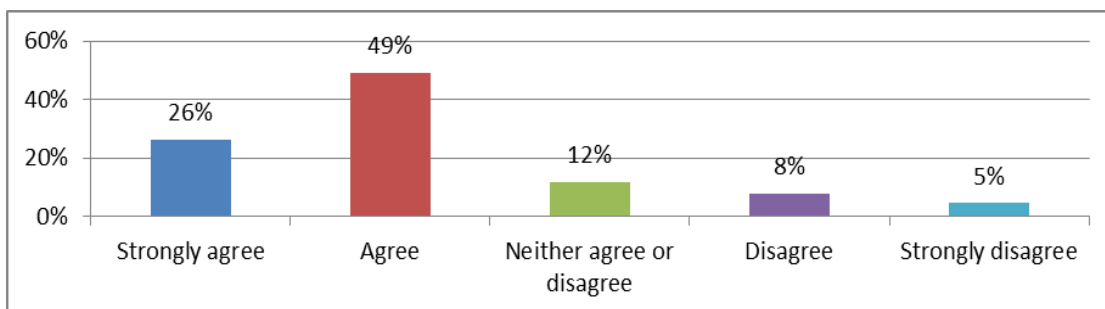
New notification requirement

The Division recognises that if individuals were no longer required to file an annual return of their income, the level of contact between these individuals and the Division would decrease considerably. Measures would therefore be needed to compel individuals to notify the Assessor of any changes in their circumstances which might affect their tax position. It would also be essential to ensure that individuals understood their obligations in this regard.

The consultation document outlined a proposal for a new notification requirement, whereby individuals would be required by law to notify the Assessor of changes that could affect their tax position and views were sought regarding the proposed timeframe for notification. Suggestions were also sought as to any additional notification requirements that might be necessary.

Question 4

Do you consider the requirement to notify the Assessor of a change in circumstances within three months of the end of the relevant tax year to be reasonable?



Findings:

A clear majority of respondents agreed that a requirement to notify the Assessor of a change in circumstances within three months of the end of the tax year was reasonable.

A few individuals believed that a longer notification period should be given; however, the majority of the concerns related to whether individuals would understand the notification requirements and whether they would remember their obligations to notify and therefore clear guidance, annual reminders or regular publicity would be needed. In addition, some respondents were concerned about penalties that might be issued for failure to notify as a result of an individual failing to understand or remember their obligations under this requirement.

Sample responses:

The time frame appears reasonable to allow an individual time to notify the Assessor of a change in circumstance.

If there will be liability to individuals then this has the potential to be more cumbersome than a tax return. The chance to miss/forget will be greater than for an annual return that everyone has to complete. The government should identify options for public reminders of these scenarios and look for ways to interact with the processes that would trigger a notification requirement.

If the change in circumstances happens very close to the end of the relevant tax year, 3 months is not a long time, especially for events like arriving/leaving the Island and particularly for separation which can be traumatic. 6 months would be better, with discretion depending on the circumstances.

On the assumption that these new notification requirements only apply to those individuals who are not otherwise required to file a return, they appear reasonable, albeit potentially quite widely drawn.

Clear guidance will be required to know what information constitutes a change in circumstances.

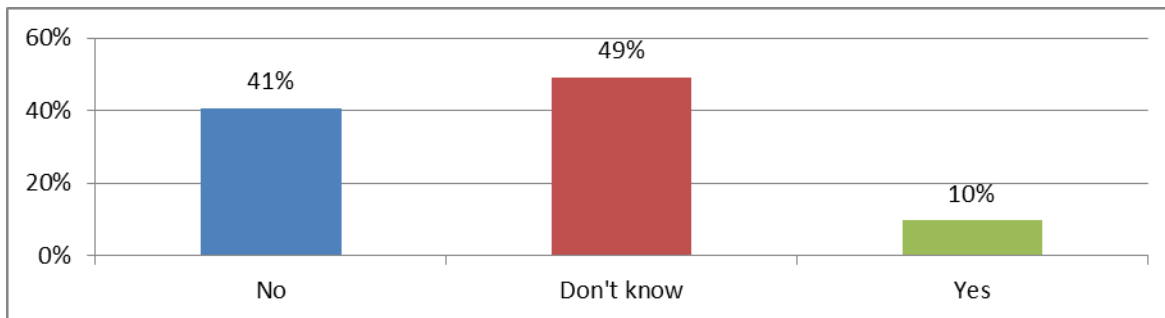
Whilst strongly agreeing, I would only do so if strenuous steps are taken to ensure that people are aware of their obligations, and that it is still possible for exceptions to be granted based on 3rd party information - e.g. when someone is hospitalised/ in a care home / lacking mental capacity.

I think too many people will fail to notify of changes in their circumstances.

Notification should be made as simple as possible i.e. online through the government online portal.

Question 5

Do you consider that there should be any additional notification requirements?



Findings:

Only a few individuals put forward suggestions for additional notification requirements. Others commented that the suggested notification requirements as outlined in the proposal document were too broad and would need further definition/explanation, while some put forward the suggestion that an online notification facility would be helpful.

Sample responses:

The 5 July as the latest notification date is poor planning as it will always be a date that the ITD office is closed - make it 6 July.

On a practical level, we would recommend that a simple notification facility be available through the online portal, in addition to a paper format, to minimise the administrative burden for individuals and for the ITD.

All individuals MUST be required to sign a statement to the effect that their circumstances have, or have not, changed.

If you are notifying where tax increases, then you should be notifying where your liability may decrease.

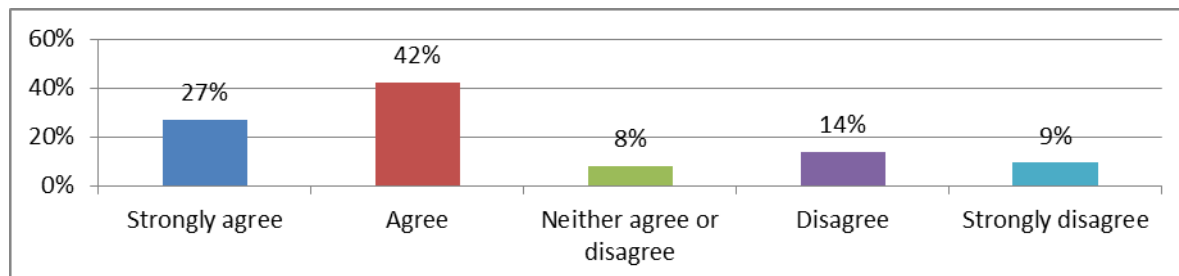
We note that there is no notification requirement if an individual is intending to claim tax relief which they have not previously claimed and assume that new tax relief claims will be dealt with through the assessment appeal process. However, it may be more efficient to allow for notification of a tax relief claim 3 months after the tax year end so that there are not multiple assessments issued for an individual. Having the option to notify the Assessor of the intention to claim tax relief could be more efficient for the ITD.

Individuals with income below the personal allowance

The consultation document proposed that those individuals whose income is below the personal allowance would, in most circumstances, no longer be required to make an annual return of their income. No further correspondence would be required unless either there is a change in the individual's circumstances or the Assessor raises an enquiry.

Question 6

Do you agree that most individuals with income below the personal allowance should have no annual contact with the Division unless they have a change in circumstances which will affect their tax position?



Findings:

A clear majority of respondents agreed that those with income below the personal allowance should have no contact with the Division. There were, however, some concerns that:

- the system could be abused;
- individuals would not understand their obligations;
- individuals who do not pay tax or file returns would not be engaged with the tax system.

Those concerned by these issues expressed the views that all individuals should either continue to be required to file a return, should make an annual declaration of some kind, or should be issued with regular reminders by the Division.

Sample responses:

We consider that at the very least, there should be an annual (by post, not just e-mail) reminder to individuals of their obligations.

People may forget to advise of a change of circumstance, but if they have to complete a tax return it acts as a reminder and if they do it on-line it is quick and easy.

This seems a reasonable position in order to minimise the resources required by ITD in administering the tax system.

All individuals should every year confirm that their income falls below the personal allowance if they are to be exempt from completing a tax return.

People who don't pay direct tax will be disenfranchised and less likely to engage with the state.

Yes, with the rider that they are not beyond the ambit of random checks.

We would recommend sending reminders periodically to all individuals who are not required to submit tax returns because they have no tax liability, in the form of a standard letter, to prompt them to notify the Division if their income levels increase over the personal allowance. There will always be individuals who struggle to understand what is required of them and who will over time forget the requirement to notify the Division.

Individuals whose total income is notified to the Assessor by third party sources

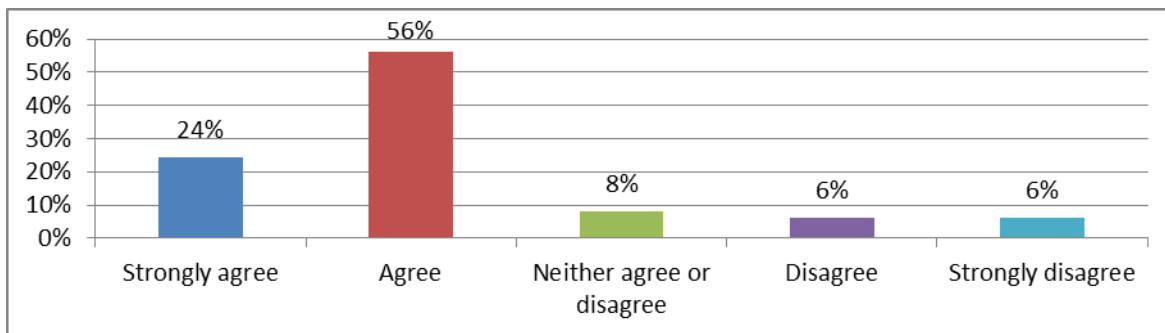
The consultation proposed that the income tax liability of these individuals (whose income derives solely from employment and/or social security benefits and who do not claim any reliefs or deductions) will be determined from information provided to the Assessor by third parties.

These individuals would not be required to make an annual return of their income and an assessment would be generated and issued automatically when all of the required information has been received and reconciled from the third party sources.

The individuals would only have to contact the Division if they needed to notify the Assessor of a change in circumstances or if the assessment they receive is incorrect.

Question 7

Do you agree that where the Assessor already holds sufficient information to produce an assessment on the individual's behalf the individual should only be required to contact the Division if they need to notify the Assessor of a change in circumstances or if the assessment is incorrect?



Findings:

A clear majority of respondents supported this proposal; however, again, some were concerned that some individuals might abuse the system or fail to understand their obligations.

Sample responses:

This seems a reasonable position. However, we have concerns in respect of the management of the risk that individuals may not notify the Assessor that they have a change of circumstance and the Assessor has no means to identify changes so the Assessor may lose revenue take in future

through incorrect assessments not being appealed. We assume penalties would apply where notification does not occur and that these would act as a deterrent.

Assessment will need to include questions to determine if individual has any other income.

Notes issued should remind individuals of the deductions they could be entitled to.

I think this system is open to abuse.

The 90 day rule seems a bit harsh, as I suspect the Division would have longer to correct something the other way.

People aren't fail-safe - perhaps a reminder one a year to inform of changes would be needed?

Plenty of time to challenge an assessment. At the moment the 'ordinary' tax payer only puts about 5 numbers into a tax form and if this streamlines matters, all for the better.

Submission of returns

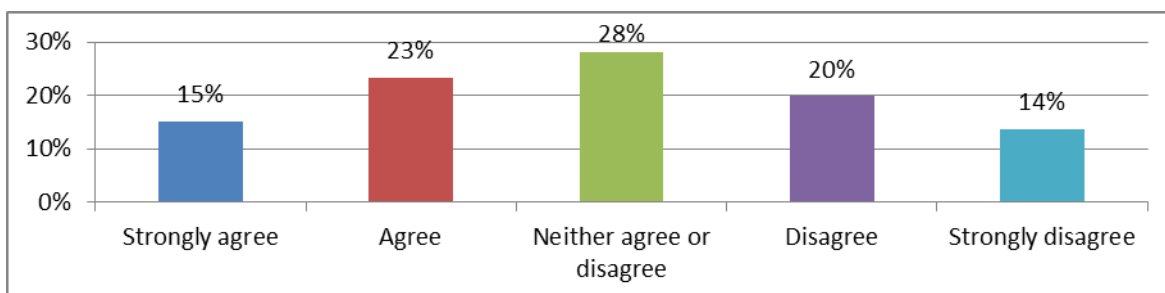
For those individuals who would still be required to submit an annual return, submission via Online Services would allow for the greatest degree of simplification for the Division as, under the proposed new system, assessments would be automatically generated and issued immediately to the individual, based on the information contained within their return. On the basis that online assessments would be generated automatically, without any intervention from officers within the Division, the consultation proposed that the submission date should be later than the current filing date for those individuals who submit their return via Online Services.

As the processing of paper returns requires additional administrative work by the Division, the consultation also proposed that the submission deadline for paper returns should be earlier than the current filing deadline.

Two questions relating to this proposal were asked, and findings and comments relating to both questions have been grouped together.

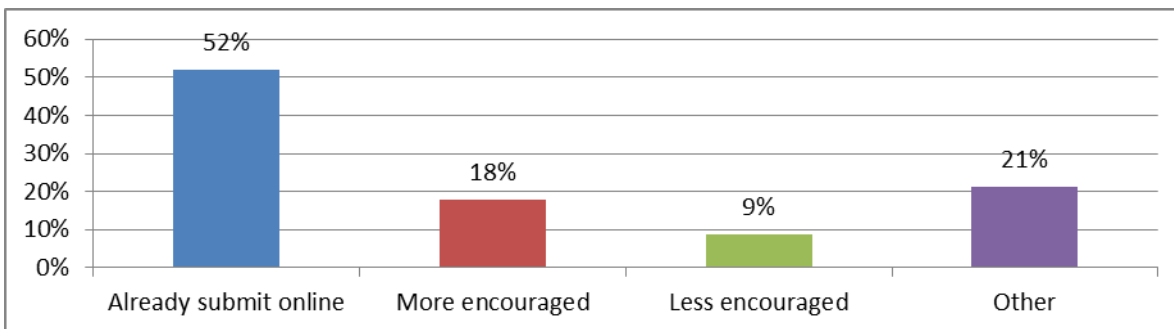
Question 8

Do you agree that the due date should be later for those individuals who submit online?



Question 9

Would a later online due date encourage you to submit your return online?



Findings:

Responses to these proposals were quite evenly split. Some respondents supported the suggestion, given that it would assist the Division with simplification. Many of the respondents already file online – with some mentioning the benefits of doing so - and a further 18% agreed that a later deadline would encourage them to file online in future.

Others agreed with the proposal that the online submission date should be later, but they did not agree that the paper deadline should be brought forward to 6 August, as they felt that this was too early.

Of those respondents who disagreed with the proposal, some felt that it would be unfair to people who might be unable or unwilling to use Online Services. Some also mentioned that they had not tried to file online as they believed it would be too difficult, while others had tried the online system previously and had encountered problems.

Sample responses:

This appears a reasonable approach and may encourage individuals to file online, so reducing the administrative burden for the ITD in manual processes.

We already submit online - and when we changed to that we found it smoother and preferable to the paper return, and benefitted from almost instant notifications of assessment afterwards. These are benefits to the taxpayer that could be sung!

Would it not be easier for the Division if the deadline date was kept the same, so that more returns could be submitted without estimates, for info not received by 6 August 2015, rather than spend time altering them at a later date?

In the interests of operational efficiency, taxpayers should be encouraged to file online. A later due date is a perfectly reasonable way of doing this. Another perfectly reasonable approach would

be to charge anyone who files a paper return a modest administration fee to cover the Division's processing costs.

Definitely not. Effectively penalising the 'paper return' taxpayer is unacceptable. I will never submit a return online.

The online system that I tried to join several years ago was so basically un-user friendly that it would take a sea change in Customer Service to make me even consider on-line submission.

No difference, unless the online site is made simpler.

I have additional rent/expenditure and income schedules which I am led to believe online assessment does not support. Why should people such as me be penalised for complex reporting. Surely simple online submissions need less time and could have an earlier submission date?

Penalties, assessments and amendments

The consultation document provided details of the proposed new timing arrangements for late return penalties, how an assessment would be generated and how a submitted tax return could subsequently be amended by the individual and by the Assessor. The document did not ask any specific questions about these proposals, but comments and suggestions were welcomed.

Sample responses:

A degree of discretion still needs to be able to be applied by the Assessor for tax payers with a 'valid' reason for late returns e.g. loss of capacity to manage their affairs.

It would be reasonable to reduce the proposed fine for late submission of paper returns to £50 after the proposed new 6 August deadline and a further £50 penalty if the paper return is not received by 6 December.

Any penalties, both civil and criminal should be sufficient to discourage evasion and under the new proposals, you may need to give particular consideration to any penalties for failing to notify a change in circumstances.

I am totally against making people with more complex paper based requirements suffer. That is unjust discrimination. It is simply a plan to collect more fines and I object strongly.

Why should the assessor have 12 months to deal with an enquiry and the individual have only 9 months max to file or 6 months to amend? Make them the same.

The penalty amount of £100/£200 is too low.

These proposals appear to be overly complex and will be difficult for the public to follow. This area should be relooked at to simplify it and make it easier to understand.

The proposed paper filing date is far too early. 6 October is already very tight for agents who can have hundreds/thousands of tax returns to process. Do the tax office want to impose a requirement that agents do all their work in 6 months or less?

Payment of tax and refunds

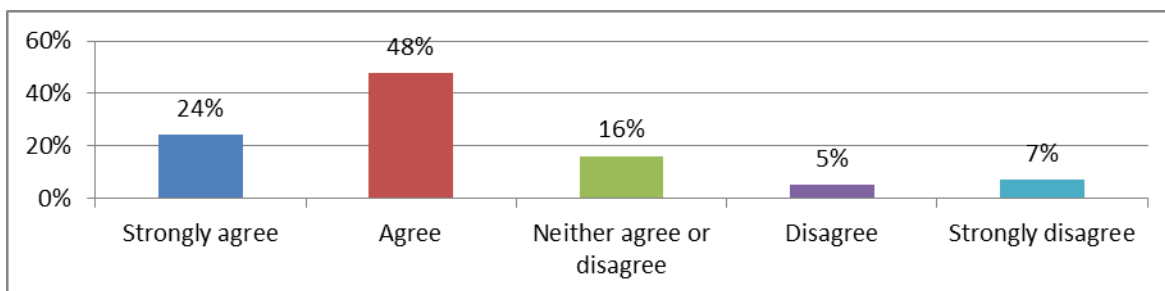
The consultation document stated that refunds of tax would be paid by cheque or, for those individuals registered for Online Services, refunds could be made direct to their bank account.

For those individuals required to submit a tax return, the consultation document anticipated that there would be no change to the due date for payments on account, which would remain 6 January in the year of assessment.

The consultation also proposed that, where possible, underpayments of income tax would be collected via an individual's tax code, with a maximum limit of £2,000 for collecting debt in this manner and views were sought on this proposed change.

Question 10

Do you agree that, where possible, underpayments of income tax should be collected via an individual's tax code?



Findings:

A clear majority of individuals supported the collection of underpayments of income tax via an individual's tax code, although some expressed the view that the proposed limit of £2,000 was too high. Several people stated that this should not be compulsory and that individuals should still have the option to settle the amount in full.

Sample responses:

This should be up to the individual taxpayer. You cannot assume that they want this option as it will depend on their personal circumstances as to how they want to deal with the debt.

This seems a reasonable approach, and we would agree that the maximum limit to collect debts via an individual's tax code of £2,000 would appear reasonable.

Another great idea - collect at source.

Provided it's a reasonable low amount (up to £500?). I think for larger amounts it is more prudent to make alternative arrangements to pay any outstanding tax.

This could leave an individual in serious financial difficulty, i.e. they may not be able to make mortgage payments or feed a family.

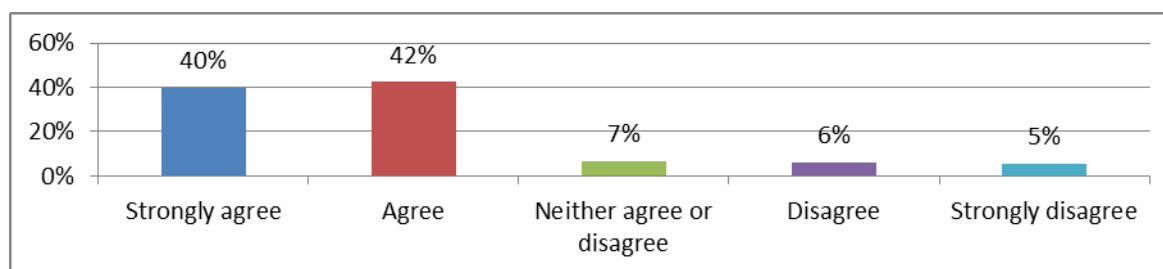
It sounds very fair to collect underpaid taxes over the next tax year by changing their tax code.

De minimis amount for debts and refunds

The administrative cost of pursuing small debts and issuing small refunds exceeds the value of debts and refunds of this level. The consultation therefore proposed that debts and refunds of less than £10 would be carried forward until the total debt or refund reaches £10.

Question 11

Do you agree that debts of less than £10 and refunds of less than £10 should be carried forward until the debt or refund reaches £10?



Findings:

There was very strong support for this suggestion, with a significant number of respondents suggesting that the proposed de minimis of £10 was perhaps too low.

Some respondents agreed that this should be the default position, but suggested that individuals should have the option to request a refund or settle a liability below the de minimis at any time, if they should wish to do so.

Sample responses:

£10 is an insignificant amount in this day and age. A level of £50 would seem more appropriate when balanced against likely administrative costs.

No. Debts and refunds should be paid at the correct time, not 'carried forward'.

We agree that this should be the default position, although Taxpayers should still be able to settle such debts and demand such refunds if they wish to do so.

Other comments

Finally, respondents were invited to submit any additional comments that they felt were relevant to the consultation.

Findings:

The general comments covered a variety of subjects, but some common themes emerged, some of which reiterated responses to earlier questions:

- Several respondents expressed the view that the tax cap should either be increased or removed altogether.
- A common theme was that any increase in taxes would be another cost for those in the middle income bracket.
- Some mentioned that removing the 10% rate of tax might make the Isle of Man seem less competitive as a low-tax jurisdiction.

Sample responses:

The 'tax cap' for high income people should be reviewed - to the 'ordinary person in the street' at least, it appears that it could be increased by a moderate amount, maybe up to 50% more, without becoming uncompetitive, and without causing very significant detriment to the said individuals.

My main concern is that in the eyes of the world, one of the main attractions of the Isle of Man is its low tax status. 10% is a huge 'selling-point'. I disagree that this should be changed.

Overall, we welcome the proposals set out in the Consultation Document. However, we believe that the Income Tax Division should have gone further by proposing a 0% tax rate for a relatively de minimis level of investment income. This would eliminate the need for an individual to file a tax return where, for example, their only sources of income were Isle of Man source employment income subject to ITIP and a small level of UK dividend income or UK/IOM bank interest. We do not have the data to comment on the appropriate level of that 0% band but, for example, we wonder how many additional taxpayers could be removed from the tax return filing process if that level were set at say £100? Clearly the cost of this measure to Treasury would need to be considered.

Several well documented surveys of income show that the average income here is around £29,000 a year. Why are we tinkering with simplifying tax at the bottom end of the scale? There has been no focus on simplifying tax for higher earners. If the allowance is set at £14,000 some people on well under the average will pay more tax under these proposals.

The principle of simplification is great - the worry is that middle income earners will pay the price for those on low incomes being lifted out of tax rather than the wealthy - middle income earning families have been hit by loss of other benefits such as child benefit and MIRAS reductions and I would not like to see this perpetuated.

It's time for the personal allowance credit to go entirely.

Change the tax year end to agree with the calendar year.

Everyone should pay taxes and be clear about their obligation to pay taxes. This proposal misses this fundamental point. People who don't pay direct taxes would treat the state with disdain - if they engage at all. On the other side of the coin there would be pressure for the state not to engage with people who do not contribute to it.

A fair, simple tax system which rewards hard work should be what drives us. This is a significant move in that direction.

We strongly recommend that the cumulative basis of Tax Codes should be implemented urgently, rather than the Week 1/Month 1 basis which has existed to date. We expect that at least 95% of employees' payroll is calculated using computer programmes, so that if a cumulative coding system was introduced, then providing the tax code was correct before the end of the tax year, no adjustments or repayments would be due for those 7,500 taxpayers whose assessments the tax office will calculate from information held from employers or Social Services.

Extra guidance will be welcomed, as quite a lot of areas need the advice of tax advisors.

Changes implemented should be well publicized in advance so that the public are fully aware of the implication of any changes. An attraction of the island is its competitive tax environment; whilst removing the 10% threshold might address international concerns about perceived low tax jurisdictions, it should not be disadvantageous to the business environment and attractiveness as a jurisdiction.

4. Conclusion

In the current economic climate, Treasury believes that the removal of the 10% rate band is not an affordable option. This is because, in order to mitigate the adverse effects of its removal on large numbers of taxpayers, the personal allowance would need to be raised to such a level that it would have an unacceptable impact on tax revenues.

Although this is something that cannot be achieved at present, it is something that can be introduced in stages and, to that effect, the Treasury Minister has announced in the 2016 Budget that the personal allowance will be increased to £10,500 from 6 April 2016 and the 10% rate band will be reduced so that it only applies to the first £8,500 of taxable income.

This is the first step towards achieving removal of the 10% band. Also, because it will remove additional taxpayers from the requirement to submit an annual return, it is a further step in the simplification of the tax system and a reduction in the current level of bureaucracy.

The simplification of the individual tax system will continue to be worked on and will go out for further consultation before implementation is considered.

The online system for individuals will continue to be enhanced to simplify the requirements for individuals.



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