



**Isle of Man
Government**

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A Consultation Document



Proposed changes to Individual Taxation

Issued by:

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Proposed changes to Individual Taxation

Consultation Document

1. Background and purpose of this document

In the Manx Taxation Strategy, which was approved by Tynwald in 2013, Treasury committed to have an income tax regime which contributes sustainable revenue to the Isle of Man Government and which, so far as possible:

- is fair;
- supports economic development;
- is easy to understand and to comply with;
- is simple to administer; and
- continues to build the Isle of Man's international reputation.

In support of this commitment, 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.

Ideally, if revenue receipts allow, the Minister would like to increase the personal allowance to a level of £14,750, which would mean that no individual would be worse off with the removal of the 10% rate band.

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

The proposed simplification of the tax system is intended to be of benefit to the taxpayer, but the efficiencies achieved should also benefit the Division, as resources can then be directed towards assisting the taxpayer in complying with their obligations and ensuring that those who *should* pay *do* pay.

Following the 2015 Budget, a working party was formed through the Tax Liaison Committee, comprising representatives from the private sector representing professional bodies and the Division.

The remit of the working party was:

- to develop a proposal for a new tax regime for individuals, incorporating the aims outlined by the Treasury Minister in his 2015 Budget speech; and
- to produce a consultation document providing details of the proposed changes to the current system and inviting comments and suggestions from the public.

The purpose of this consultation document, therefore, is:

- to provide detail on the 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 the 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. Increasing the personal allowance and removing the 10% rate of income tax

A substantial increase in the personal allowance will contribute to the aim of simplifying the tax system, as a much greater number of individuals will not have an income tax liability because their taxable income will be below the personal allowance.

Those with no tax liability under the new regime will not have to file an annual income tax return. This is clearly a simplification for the individuals who will fall into this category and will also reduce the administration costs that relate to the processing of these returns by the Division.

Removing the 10% rate of income tax to leave a single rate of income tax of 20% will also lead to further simplification. It will be easier for individuals to understand their tax liability and it will simplify administration for both employers and the Division.

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?

The Minister would like to set the personal allowance at £14,750, as this would mean that no individual would be worse off as a result of the removal of the 10% rate of income tax. In fact, individuals with an income of less than £20,000 would be better off as a result of the increase in personal allowance.

However, an increase in the personal allowance to this level would have an impact on tax revenues and, as such, this may not be affordable for Treasury. It may, therefore, be necessary to limit the increase in the personal allowance to a lower amount.

If, for example, the personal allowance were to be set at £14,000, those individuals with an income of £18,500 or less would be either unaffected by the changes or would be better off than they are at present. The benefit of the increase in the personal allowance would therefore be preserved for those on low incomes. Individuals with an income in excess of £18,500 would, however, be slightly worse off than they are at present, but this would be limited to a maximum amount of £150 per year.

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?

3. Overview of the current individual taxation regime

Under the current income tax regime for individuals, every Isle of Man taxpayer must submit a tax return for the tax year ending 5 April and this must be submitted by the following 6 October each year. The Assessor must then process and examine the return before raising an income tax assessment.

This system has effectively been in place since 1918 and is costly to administer due to the large number of tax returns that need to be processed and analysed and of the assessments that need to be raised.

3.1 Return filing requirements

Under the current income tax regime, individuals are required by law to make a return of their income on an annual basis. There is no statutory requirement for the Assessor to issue tax returns; however, in practice, the Assessor does issue returns to the majority of individuals. Where a married couple or civil partners have elected for joint taxation, only one return containing the relevant information for both individuals is required.

Under the current system, every individual or jointly assessed couple is required to make a return of their income every year, regardless of how simple or complex their tax affairs are.

The return also provides the individual with the facility to claim any additional allowances and deductions for which they are eligible.

Currently, approximately 58,000 income tax returns are issued on an annual basis. Approximately 75% of these returns are currently submitted in paper form, with the remainder being submitted electronically via Online Services.

Those registered for Online Services are notified by email shortly after the end of the tax year that their return is available for completion. For those individuals who are not registered for Online Services, paper returns are issued shortly after the end of the tax year.

Returns must be completed and submitted to the Division by 6 October following the end of the tax year.

3.2 Fixed penalties for late submission of returns

If a return is submitted late (i.e. after 6 October), a first late return penalty is issued (£100). A further late return penalty (£200) is issued if the return is still outstanding six months after the due date, (i.e. after 6 April).

The Assessor also prosecutes for non-submission of returns.

3.3 Assessments

At present, the data from each paper return submitted must be manually entered into the system by the Division. Where returns are submitted via Online Services, the data is entered directly into the system by the individual or their appointed agent.

The Assessor must then review the information contained within every return submitted and, if satisfied that the return is true and correct, issue an assessment. The assessment contains a calculation of the individual's tax liability for the year and advises as to whether a refund or a balancing payment of tax is due.

Where an individual fails to make a return, the Assessor may make an "assessment in default", based on the Assessor's best judgement.

3.3.1 Amendment to individual's return

Under the current system, if an individual finds that they have failed to include income within their return, or they have failed to make a claim for a tax deduction, there are provisions within the Income Tax Act 1970 which allow for their assessment to be amended to take account of these changes, within certain timeframes.

Under these provisions, the Assessor will amend the assessment accordingly.

3.3.2 Where the Assessor makes enquiries into returns

Before an assessment is calculated, the Assessor may currently make an enquiry into a return. This may include a request for additional documentation in support of the return, or a request for further information about a declaration or claim for any deduction or relief.

3.3.3 Appeals

If the individual does not agree with the assessment, they are entitled to make a written appeal within 30 days of the assessment date. If no appeal is made within 30 days, the assessment becomes "final and conclusive".

4. 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 regime, the completion of a return will not be required in all cases, reducing the number of assessments that need to be issued.

- Individuals whose annual income falls below the level of the new personal allowance, with certain exceptions (see below), will not be required to complete an annual return. These individuals will have no tax liability and therefore no assessment will be issued by the Assessor.
- Individuals who have a tax liability and whose income is derived solely from employment and/or social security benefits and who are not claiming any reliefs will also not be required to complete a tax return. Instead, these individuals will be issued with an assessment that has been automatically generated using details provided to the Assessor by their employers or other third party sources. The individual will therefore only have to have contact with the Division if they do not agree their assessment or they are required to notify the Assessor of a change in circumstances (see Section 5 below).

All other individuals will continue to be required to submit a return under the new regime. This will include certain individuals who may be required to complete a return, regardless of whether or not they have a tax liability.

This will be the case for individuals who are in receipt of:

- income from self-employment;
- rental income; or
- income from another jurisdiction;

and for individuals who:

- are partners in an Isle of Man partnership;
- are members of an Isle of Man LLC;
- are directors or shareholders of a limited company which is resident in the Isle of Man for tax purposes;

- are beneficiaries of a Trust; or
- wish to claim any reliefs or deductions.

The Assessor will continue to issue an assessment to those individuals who are required to submit returns. The process, however, will differ from the current system, as the assessment will be generated automatically based on the information contained within the return without any intervention on the part of the Assessor. In addition, there will be a review period of 12 months from the date on which the return is submitted by the individual, during which the Assessor may review the information contained within the return and commence any necessary enquiries.

The introduction of a new tax regime for individuals will allow the Assessor to place more emphasis on educating and assisting individuals in matters of personal tax, and to focus on non-compliance and tax avoidance, rather than having to spend time administering and assessing returns.

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?

5. New notification requirement

As indicated above, the proposed changes to the system will mean that many individuals who are required to file a return under the current rules will no longer be required to do so. It is anticipated that, as a result of the proposed changes, the level of contact between these individuals and the Division will decrease considerably. It is therefore imperative that measures are put in place to ensure that individuals are compelled to notify the Assessor of any changes in their circumstances which will affect their tax position and that they understand their obligations in this regard.

It is proposed that Isle of Man resident individuals will be required by law to notify the Assessor of changes that could affect their tax position, such as:

- arriving in the Isle of Man;
- leaving the Isle of Man;
- separation (for jointly assessed couples);
- commencement of self-employment;
- commencement of receipt of foreign income;
- new source(s) of income; or
- any other circumstances which give rise to an increase in income to a level in excess of the personal allowance, resulting in the individual having a tax liability.

Notification requirements will also apply in respect of non-residents who are in receipt of taxable income from an Isle of Man source (e.g. rent).

In all cases, individuals will be required to notify the Assessor of any changes in their circumstances as they arise, but no later than three months after the end of the tax year in which the change in circumstances arises – i.e. no later than 5 July following the relevant tax year.

Where any failure to notify the Assessor of a change in circumstances results in an underpayment of tax, fixed late return penalties will apply as well as penalties based on the unpaid tax. In addition, interest will be payable on any late payment of income tax. The Assessor will continue to prosecute for non-submission of returns.

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?

Question 5 – Do you consider that there should be any additional notification requirements?

6. How the proposed new system will work

When moving from the old regime to the new one it is proposed that the Assessor will review the position of all individuals currently registered for Manx income tax. The Assessor will then contact all individuals during the first year of the new tax regime to let them know whether or not they will be required to complete a tax return.

It is also proposed that the Assessor will arrange extensive publicity, education and guidance to enable a smooth transition.

6.1 Individuals with income below the personal allowance

These individuals will be advised that they will not be required to make a return of income but that they must notify the Assessor of any changes in their circumstances that could affect their tax position.

No further correspondence will be required unless there is a change in the individual's circumstances, such as those listed above in section 5, or the Assessor raises an enquiry.

It is estimated that just over 13,000 individuals currently have no income tax liability, as their taxable income is below the personal allowance. With the proposed increase in the personal allowance, the number of clients falling into this category will increase to approximately 25,000.

As mentioned in section 4, the removal of the requirement to make a return will not apply to all individuals. The individuals specified in that section may be required to submit a return regardless of whether or not they have a tax liability.

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?

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

The income tax liability for 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 (e.g. employers).

These individuals will be advised that they will not be required to make a return of income but that they must notify the Assessor of any changes in their circumstances that could affect their tax position.

It is estimated that 7,500 individuals will fall into this category.

6.2.1 Assessments

Individuals who fall into the category described in 6.2 will be issued with an assessment. The assessment will be generated and issued automatically when all of the required information has been received and reconciled from the relevant third party sources.

The assessment will detail the information provided to the Assessor by third parties and will include a calculation of the individual's tax liability. The assessment will represent a return of the individual's income and it will be the responsibility of the individual to check that it is complete and correct. It will also be the individual's responsibility to notify the Assessor if they believe that a revision to the assessment is required.

6.2.2 Revisions

Individuals will have 90 days in which to notify the Assessor if they believe that the assessment is incorrect. A revision might be necessary if, for example, an individual received a new source of income in the tax year, or if an individual wishes to make a claim for a deduction. If this is the case, the individual may be required to submit a return.

6.2.3 Acceptance of assessment

Legislation will be introduced to ensure that if no revision is requested by the individual within 90 days, the Assessor will consider that the individual has accepted the assessment

as being a true and correct return of their income and the assessment will become final and conclusive.

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?

6.3 All other individuals

All other individuals will still be required to submit an annual tax return.

6.3.1 Submission of returns

All relevant individuals will be notified that they will still be required to submit a tax return. Subsequently, those individuals who are currently registered for Online Services will be notified by email that their return is ready for completion, as is already the case under the current system, while those individuals who are not currently registered for Online Services will be issued with an annual return.

The Assessor will be encouraging submission via Online Services in order to simplify the process for the individual and for the Division. With this in mind, it is proposed that the due date for those individuals who choose to file their income tax return online will be later than the current date of 6 October. Correspondingly, due to the additional administration required on the part of the Division when processing paper returns, it is proposed that under the new regime the deadline for submission of paper returns will be earlier than the current filing date.

The proposed due date for submission of a paper return will be 6 August following the end of the relevant tax year and, for those filing via Online Services, the date will be 6 December following the end of the relevant tax year.

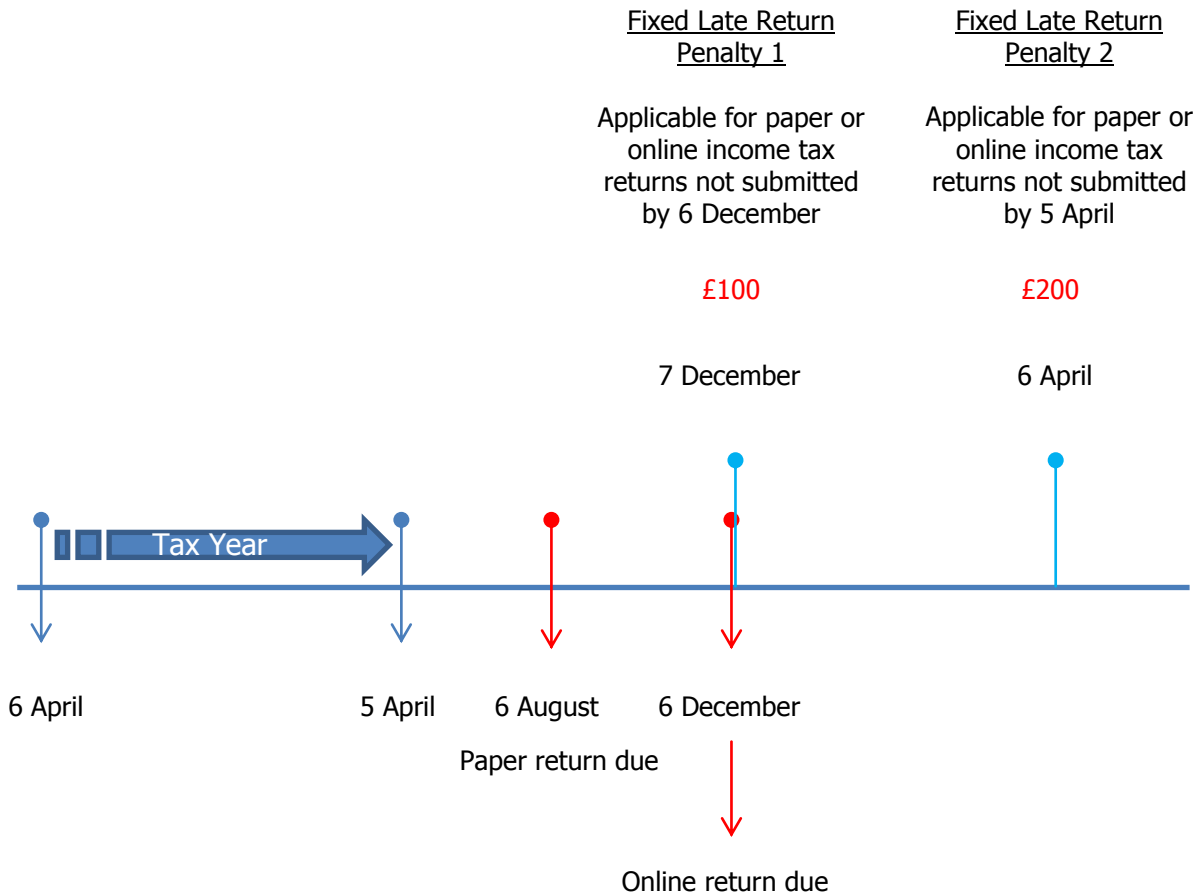
It should be noted that computers are available at the Division for individuals who would like to complete a tax return online. Officers within the Division can provide assistance where necessary.

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?

6.3.2 Fixed penalties for late submission of returns

Late return filing penalties will remain in place but their issue dates will change to reflect the change in due dates for returns. The proposed timeline for return submission and the issue of fixed late return penalties is as follows:



Paper returns submitted after 6 August will be subject to a fixed late return penalty, but the penalty notice will not be issued until after the 6 December due date for online submission has passed. All online returns submitted after 6 December will be subject to a fixed late return penalty.

6.3.3 Assessments

When a return is submitted online, an assessment will be automatically generated using the information provided by the individual.

For those submitting paper returns, the information will be input by the Division in order to generate the assessment. However, unlike the current regime, there will be no intervention by the Assessor at this stage, unless an obvious error has been made by the taxpayer. Instead, a review period of 12 months will begin from the date on which the return is submitted by the individual, during which any enquiries will be opened. Following the review period, the assessment will become final and conclusive.

Where a return form is due but not received by the Division, the Assessor's best judgement will be used to generate a default assessment.

6.3.4 Amendments by individuals

It is proposed that the Assessor will introduce the facility for individuals to make amendments to a submitted return for an additional six months following the online due date of 6 December. This would, for example, allow individuals to amend figures disclosed on the initial return or to claim a deduction which was not included on the initial return.

All individuals who submit a tax return, whether via Online Services or in paper format, will therefore have the ability to amend a submitted return up to 6 June, i.e. 14 months after the end of the relevant tax year.

6.3.5 Amendments by the Assessor

It is proposed that the Assessor will open any enquires into a return within 12 months of the date on which the return is submitted to the Division. Where an individual makes an amendment to a return, this will trigger a new 12 month period of enquiry, commencing on the date on which the amendment is made.

It should be noted that the Assessor will maintain the current provisions that provide for additional assessments to be made, where necessary, in the event of negligence or fraud. These enable the Assessor to make an additional assessment, at any time, where an individual has been undercharged to income tax as a result of dishonesty or neglect.

For example:

If an individual files an online return on 1 December 2017, the Assessor will have the opportunity to enquire into this return for a period of 12 months from the filing date, to request further information in support of the return, or to simply clarify any statement made. If the Assessor does not feel the need to enquire into this return, and provided the individual has not made an amendment, the assessment will be considered final and conclusive after the expiry of the 12 month period.

However, if, after the 12 month period, it becomes apparent to the Assessor that an individual failed to disclose an income source for example, or made an error when claiming a deduction or relief, the Assessor will be able to amend this assessment to collect the additional tax due and, depending on the nature of the incorrect return, interest and/or penalties may apply on top of the additional tax due.

If an individual has not notified the Assessor of a change in circumstances which affects their income tax affairs, within the timescales and categories given in section 5 above, fixed late return penalty provisions will apply to the relevant years due to late notification.

This may also involve interest and penalties based on the unpaid tax where it is shown that income tax was not paid at the correct time.

Where an individual wishes to make an amendment to their return after the six month period described in section 6.3.4 the assessment will only be revised where additional tax is due.

Certain statutory reliefs, such as loss relief and double taxation relief, have claim periods which exceed the standard time limits. These will continue and relief will be granted where claimed within the period provided for in statute.

7. Payment of tax and refunds

Any balance of tax will be due and payable on or before 6 January following the end of the relevant tax year. It is proposed that, where possible, underpayments of income tax will be collected via an individual's tax code. This will be subject to a maximum limit and an individual can choose to pay the balance of any underpayment in full on or before 6 January, if they prefer to do so. It is proposed that the maximum limit for collecting debt via an individual's tax code will be £2,000.

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

Refunds of tax will be paid by cheque or, for those individuals registered for Online Services, refunds can be made direct to their bank account. The new regime will benefit individuals as refunds will be issued automatically following the issue of the assessment.

Question 10 – Do you agree that, where possible, underpayments of income tax should be collected via an individual's tax code?

8. Appeals

A formal appeal process will continue to be available where an individual does not agree with an assessment issued by the Assessor.

9. 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. It is therefore proposed that debts and refunds of less than £10 will 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?

10. Guidance

The Assessor recognises the importance of clear guidance and will ensure that advice and assistance are made available to help individuals to meet their obligations and to ensure that they pay the right amount of tax at the right time.

It is proposed that guidance will be available on the Division's website and in paper format. Officers within the Division will also be available to assist.

11. Comments and suggestions

Responses to the questions raised in this document, together with any comments or suggestions concerning the proposed new individual taxation regime, would be welcomed.

12. Submissions

Anyone wishing to submit a response to this consultation is invited to do so by 9 October 2015.

Responses should be sent to:

Jo Coole
Policy Officer
Income Tax Division
2nd Floor Government Office
Buck's Road
Douglas
IM1 3TX Email: consultation@itd.treasury.gov.im

In any consultation exercise the responses received do not guarantee that changes will be made to what has been proposed.

Following the consultation period, the responses will be reviewed and the conclusions, together with a summary of the comments received, will be published.



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