



Isle of Man Government

Reiltys Ellan Vannin



1. Introduction

Income tax was first introduced in the Isle of Man by the Income Tax Act 1918 which is described in its preamble as being "An Act to provide for a Tax on income under the system of taxation introduced by the Income Tax Act 1918 introduced was based broadly upon the system then in operation in the United Kingdom and in many respects the similarities remain. This is an important factor as regards the interpretation of the provisions of the Manx Income Tax Acts because in a case where the interpretation of a provision or an expression in those Acts has been the subject of an appeal in the courts of the United Kingdom, the judgment in that appeal is a persuasive authority for the adoption of the same interpretation in a similar case in the Isle of Man."

The Income Tax Act 1918 was followed by successive amending Acts in the years that followed until the then existing legislation was consolidated in the Income Tax Act 1946. This was, in turn, followed by successive amending Acts until the then existing legislation was consolidated in the Income Tax Act 1970.

The Income Tax Act 1970 has since been amended by the—

- (i) Income Tax Act 1971;
- (ii) Income Tax Act 1973;
- (iii) Income Tax Act 1974;
- (iv) Income Tax Act 1976;
- (v) Income Tax Act 1978;
- (vi) Income Tax (Retirement Benefit Schemes) Act 1978;
- and
- (vii) Income Tax (Amendment) Act 1979.

These Acts are collectively referred to as being "the Income Tax Acts 1970 to 1979". Section 120 of the Income Tax Act 1970 includes the following definitions—

"Income Tax Acts" means this Act and any other enactment relating to income tax;

"Manx income tax" and "Manx tax" means income tax payable under the Income Tax Acts."

The Income Tax Bill 1979 contains the new income tax provisions that were proposed by the Finance Board as a part of the Budget for 1979/80. The Bill was given its first and second readings by the House of Keys on 30th October and 6th November, 1979, respectively. It was then referred to a Select Committee for consideration. As it is unlikely to complete all its stages and obtain the Royal Assent before some time in 1980, the Bill is likely to be known as the Income Tax Act 1980 when it is enacted. It is proposed that the provisions of this Bill, when enacted, shall have effect in respect of the income tax year commencing on 6th April, 1979, and of each succeeding income tax year.

Instalment Payments and Coding

Guidance Note

GN16

PLEASE NOTE:

This guidance has no binding force and does not affect your right of appeal on points concerning your liability to tax.

The information in this booklet can be provided in large print on request.

CONTENTS

INTRODUCTION	4
OVERVIEW OF THE I.T.I.P. SYSTEM	5
STARTING YOUR FIRST JOB	5
Your Tax Reference Number.....	5
Your National Insurance Number.....	5
Your Tax Code.....	6
TAX CODES.....	6
Emergency Codes.....	6
How codes are calculated	6
WHAT HAPPENS WHEN YOU ARE PAID	6
CHANGING JOBS	7
Leaving a Job	7
Starting a New Job	7
MORE THAN ONE JOB.....	8
Other Income	8
AT THE END OF THE TAX YEAR.....	8
FURTHER INFORMATION	9

INTRODUCTION

This guide is intended to explain how employed people pay their tax through the I.T.I.P. system.

It covers how tax codes are issued, and how your employer uses your personal tax code to deduct the right amount of tax from your salary.

It also explains what to do when you leave a job, and how to ensure that you avoid overpaying tax when you move to a new job.

As this is a general guide and it may not cover all circumstances, please contact the Income Tax Division at the address on page 9 if you wish to discuss your tax affairs.

OVERVIEW OF THE I.T.I.P. SYSTEM

Every person who is employed in the Isle of Man is subject to the I.T.I.P. system which stands for Income Tax Instalment Payments. As the name suggests it is a way of paying your tax, either weekly or monthly, directly from your wages.

The system is operated by employers, who are given their instructions through a tax code for each of their workers. Every person's code is calculated by the Income Tax Division to try to predict how much tax they need to pay for that tax year.

So your tax code should reflect your personal circumstances, for example your marital status, and it tells your employer how much you can earn before they must start to deduct tax. If your pay goes up and down, you will find that a different amount of I.T.I.P. is deducted each time, which is correct.

The tax year runs from 6th April of one year to 5th April of the following year. You will be given an annual statement by your employer of your earnings and how much I.T.I.P. you have paid. This form is called a T14 and you should use it to complete your Income Tax Return Form which you will be sent every year during April.

Once your Income Tax Return is received, your annual assessment can be calculated to check if you have either overpaid or underpaid your I.T.I.P.

STARTING YOUR FIRST JOB

If you are a student, or you are about to leave school, you may find our Guide called GN10 Students and School Leavers helpful. This is available from the Division at the address on page 9.

When you start your first job on the Isle of Man your employer will need some details as follows:

Your Tax Reference Number

This reference number is allocated to you by the Income Tax Division and is unlikely to change. If you are uncertain of your number please contact the Division at the address on page 9 as you may need to register as a new client.

Your National Insurance Number

This number is allocated to you by the Department of Social Care. If you are uncertain of your number please contact the Department's Contributions section at the address on page 9.

Your Tax Code

Your new employer will need to apply for a tax code for you as you have not recently worked on the Isle of Man. Your tax code will usually be issued within a few weeks. This means that you may have an emergency code operated, particularly if you are paid weekly.

TAX CODES

Emergency Codes

If your employer does not have a tax code for you they are obliged to operate an emergency code. If you think you may be on an emergency code, please contact the Division at the address on page 9 to arrange for a new code to be issued.

How codes are calculated

Your tax code is made up of your personal allowances and any deductions that you have claimed, such as relief for mortgage interest paid. Your code may also take account of small amounts of other income, such as interest from savings accounts.

When all your personal circumstances are taken into account, the amount of income that you can earn from your employment per year *before* you pay any tax is known. This is then converted into a code which will be issued both to you and to your employer.

Your employer is only told the final code value and not how the code is made up. Your coding notice shows full calculations and there are some guidance notes on the reverse.

WHAT HAPPENS WHEN YOU ARE PAID

When your employer pays you, they must take account of the most recent code that has been issued for you.

The annual amount that you can earn before paying tax will be divided into either 12 monthly amounts or 52 weekly amounts depending on how frequently you are paid. This is called "Free Pay".

Your pay is then calculated as follows:

Example:	Code 930F
	(£9,300 per year before paying tax)
Weekly pay	£350.00
Less Free Pay	£178.84
Taxable pay	£171.16

Your code tells your employer how much they can pay you "tax free".

Your employer must then operate the tax rates in force against the balance of your earnings.

In the example above, the £171.16 would suffer tax at 10% which would be £17.11.

Your employer must also deduct any National Insurance contributions that you are due to pay.

The tax rates and thresholds in force are set for each tax year.

THRESHOLDS	
The Standard Rate (10%) is applied to the first amount of taxable income up to the threshold. The balance is taxed at the Higher Rate of 20%.	
Single Person	£10,500
Married Couple	£21,000

If you are married and are taxed jointly with your spouse all your allowances are fully transferable. Unfortunately, it is not possible to transfer the thresholds within a tax code, but your assessment will take account of this and any overpayment will be refunded if necessary.

If you disagree with the code that your employer operates and you cannot resolve the matter with them, you should contact the Income Tax Division at the address on page 9.

CHANGING JOBS

Leaving a Job

When you leave a job, it is important to get a form T21 from your employer. This is a Leaving Certificate which has 3 parts. Part 1 is sent to the Tax Division to inform us that you have ceased employment, parts 2 and 3 are given to you to hand to your new employer to inform them of your current tax code. Your new employer should retain part 2, and complete and return part 3 to the Tax Division. This informs us that you have started a new job.

If you do not get a form T21, or lose it, you will not have details of your current I.T.I.P. code. You will need to follow the procedure below.

Starting a New Job

If you are starting work for the first time, you should then be asked to complete a simple form T10, so that an emergency code can be operated for you. This is usually based on the personal allowance if you have no other employment. Your employer should then send a

Commencement form T20 to the Division to inform us that you have started work. You and your employer will then be issued with new coding notices.

MORE THAN ONE JOB

If you have more than one job, the Income Tax Division will review your codes and may contact you to check that your codes are arranged in the most appropriate way. Meanwhile, the emergency code for a subsidiary employment is HR (Higher Rate), which means that all your pay from that employment will be taxed at 20%. The Division will review and amend the code if necessary.

If you are receiving a state pension, or are a married woman, the emergency code is SB (Standard Band). This means that all income will be taxed at 10% up to the threshold of £10,500 per year, the balance being taxed at 20%. The SB code is used because your allowances may already be used elsewhere.

Other Income

You must enter all your income on your tax return. Other income and allowable deductions may be combined in your code so that the correct amount of tax has been deducted at the end of the year. If your total tax liability cannot be collected through the I.T.I.P. system, you may be asked to make a payment on account. This will be due and payable within 30 days or by 6th January in the tax year to which it relates, whichever is the latest.

AT THE END OF THE TAX YEAR

At the end of the year your employer will give you a form T14 showing the amount of your total pay which you have received from them during the year, the tax deducted and your I.T.I.P. code. You should use this to complete your annual return form which is sent to you in April.

When your assessment has been raised, it will show your liability, (how much tax is due for the year), how much I.T.I.P. you have paid, and therefore by how much you have underpaid or overpaid your tax. If you have paid too little, the balance will be due and payable within 30 days from the date of the assessment notice. If you have paid too much, the Division will refund the balance to you. Refund cheques are usually issued about 10 to 14 days after the assessment notice.

FURTHER INFORMATION

This leaflet does not cover every point about I.T.I.P. and coding. It is intended as a general guide. If you need any further information or would like to discuss this matter please contact the Division at:

Address	The Treasury Income Tax Division Second Floor Government Office Buck's Road Douglas IM1 3TX
Telephone	(01624) 685400
Fax	(01624) 685351
E-mail	incometax@itd.treasury.gov.im
Website	www.gov.im/incometax
