



Isle of Man Government

Reiltys Ellan Vannin

INCOME TAX

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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". 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 definition: —

"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.

Taxation of Married Couples and Civil Partners

Guidance Note GN 26

This booklet 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.

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

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INTRODUCTION

The taxation of married couples¹ was modernised from 6 April 2006 to include, firstly, equality in law for husband and wife and, secondly, what is known as 'joint and several liability' for any payments that may be due.

Couples who were already married on 6 April 2006 and taxed jointly will continue to receive a single tax return and one assessment showing their joint income, deductions, allowances and reliefs, but now they will both need to sign the tax return. In addition, each spouse will be jointly responsible for paying tax and any other payment that may become due, and if a tax refund is due the cheque will be issued in joint names unless the Income Tax Division is instructed otherwise (see 'Nominated Spouse' section later).

All couples who marry after 6 April 2006, and married couples who move to the Island after that date, will be taxed independently and will need to elect to be taxed jointly if that is what they wish.

Civil partnerships have been recognised in the Isle of Man from 6 April 2011 and civil partners are taxed in the same manner as married couples. They will be taxed independently in the absence of an election to be taxed jointly.

Joint taxation may reduce a couple's combined tax liability. However, as mentioned earlier, it is important to be aware that joint taxation also means that each spouse or partner has joint responsibilities which should be taken into account. Before deciding whether you wish to elect for joint taxation you are advised to read this booklet thoroughly and ensure that you fully understand its contents.

This booklet also provides information on how a couple can request that joint taxation is ended, following which they will be taxed independently.

Year of marriage or civil partnership²

In the year that a couple marry or become civil partners, both will be treated as single for tax purposes; each spouse or partner will receive their own tax return, their own tax assessment and each will be responsible for any tax due. However, if the couple have asked to be taxed jointly, a transfer of any unused tax allowances in the year of marriage can be made from one spouse or partner to the other. The Income Tax Division will automatically carry out this transfer of allowances.

¹ This booklet applies only to legally married couples or civil partners.

² If you would like to know how married couples were taxed before 6 April 2006, please contact the Income Tax Division.

The tax position of an individual will not change in the year that they marry unless a transfer of allowances is made.

Independent taxation

If a couple have not asked to be taxed jointly, or have been jointly taxed and ask not to be, they will be taxed independently and each spouse or partner will be responsible for:

- submitting their own tax returns; and
- paying their own tax bills.

Please note that unused tax allowances cannot be transferred between independently taxed spouses.

Further information on independent taxation is provided later.

JOINT TAXATION

Joint taxation is optional, and where it has been requested:

- a couple can use their tax allowances jointly (time apportioned for couples not resident for the whole year);
- tax relief for any allowable deduction will be given jointly;
- forms and correspondence will be addressed to both spouses or partners;
- tax return forms need to be signed by both spouses or partners;
- a joint tax assessment will be made that maximises the benefit of allowances, deductions and tax rate bands.

Electing for joint taxation

An election for joint taxation must be made no later than:

- 31 December in that income tax year; or
- six months following the date of commencement of residence, if later.

To make an election **both** spouses or partners must sign a completed form R156 (which can be found at the end of this booklet).

Nominated spouse or partner

Whilst most correspondence will be issued in both names, a couple can nominate one spouse or partner to receive general correspondence and refund cheques by using form R156, which again has to be completed and signed by both spouses or partners.

If we are not asked to write to a nominated spouse or partner, all correspondence will be addressed to both spouses or partners.

Revocation of joint taxation

An election for joint taxation can be revoked by either spouse or partner by using form R205(JSL) (which can be found at the end of this booklet). The form must be received by the Income Tax Division on or before 5 April of the tax year in which the revocation is to apply. The revocation can apply to just that year or to both that year and the previous year. It is the responsibility of the spouse or partner making the revocation to indicate which years are covered.

Revocation of joint taxation will result in a couple being taxed independently.

INDEPENDENT TAXATION

If a newly married couple or newly registered civil partners decide not to be taxed jointly or if a jointly taxed couple decide to revoke joint taxation, each spouse or partner will be taxed independently.

Independent taxation means simply that each spouse or partner will be taxed as a single person: receiving a tax return that is used to declare their own income, claiming their own deductions and reliefs and being liable to pay tax only on their own income. One spouse or partner would not be liable for any tax owed by the other.

Being taxed independently also means that there can be no transfer of unused tax allowances, deductions, reliefs or the benefit of unutilised tax rate bands.

Independent taxation of a couple may result in a higher total tax liability for them than if they were taxed jointly.

EXAMPLES

The following examples show how tax is calculated for jointly taxed couples and for couples who are independently taxed. For the purpose of these examples the personal allowances and rates of tax have been taken to be those applying for the 2008/2009 tax year.

Example 1

Total income: partner 1 - £30,000, partner 2 - £3,000

Joint Taxation Calculation	
Joint income	£33,000
Less : allowances	<u>£18,600</u>
Taxable income	£14,400
Combined liability:	
£14,400 @ 10%	<u>£1,440</u>
 Combined Tax Due	<u>£1,440</u>

Independent Taxation Calculation	
Partner 1	
Income	£30,000
Less : allowances	<u>£9,300</u>
Taxable income	£20,700
Liability:	
£10,500 @ 10%	£1,050
£10,200 @ 20%	<u>£2,040</u>
Tax due from partner 1	£3,090

Example 1 continued

Independent Taxation Calculation

Partner 2

Income	£3,000
Less : allowances	<u>£9,300</u>
Taxable income	NIL
Tax due from partner 2	NIL

Combined Tax Due	£3,090
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This example illustrates that because the balance of partner 2’s personal allowance (£6,300) cannot be transferred to partner 1 under independent taxation, the overall tax bill increases by £1,650.

Example 2

Total income: Partner 1 - £25,000, Partner 2 - £15,000

Joint Taxation Calculation

Joint income	£40,000
Less : allowances	<u>£18,600</u>
Taxable income	£21,400

Combined liability:

£21,000 @ 10%	£2,100
£400 @ 20%	<u>£80</u>

Combined Tax Due	£2,180
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Example 2 continued

Independent Taxation Calculation**Partner 1**

Income	£25,000
Less : allowances	<u>£9,300</u>
Taxable income	£15,700
Liability:	
£10,500 @ 10%	£1,050
£5,200 @ 20%	<u>£1,040</u>
Tax due from partner 1	£2,090

Partner 2

Income	£15,000
Less : allowances	<u>£9,300</u>
Taxable income	£5,700
Liability	
£5,700 @ 10%	£570
Tax due from partner 2	£570

Combined Tax Due	£2,660
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This example illustrates that because the balance of the 10% band of partner 2 (£4,800 @ 10%) cannot be transferred to partner 1, the overall tax bill increases by £480.

Example 3

Partner 1 – income £60,000
 has allowable deductions of £6,000
 (net income £54,000)

Partner 2 - income £80,000
 has allowable deductions of £10,000
 (net income £70,000)

Joint Taxation Calculation

Joint net income	£124,000
Less : allowances	<u>£18,600</u>
Taxable income	£105,400
Combined liability:	
£21,000 @ 10%	£2,100
£84,400 @ 20%	<u>£16,880</u>
Combined Tax Due	£18,980

Independent Taxation Calculation

Partner 1

Net income	£54,000
Less : allowances	<u>£9,300</u>
Taxable income	£44,700
Liability:	
£10,500 @ 10%	£1,050
£34,200 @ 20%	<u>£6,840</u>
Tax due from partner 1	£7,890

Example 3 continued

Independent Taxation Calculation**Partner 2**

Net income	£70,000
Less : allowances	<u>£9,300</u>
Taxable income	£60,700
Liability	
£10,500 @ 10%	£1,050
£50,200 @ 20%	£10,040
Tax due from partner 2	£11,090
 Combined Tax Due	<u>£18,980</u>

This example illustrates that, because both partners earn more than the personal allowance and standard rate band, independent taxation does not result in any overall change in their combined tax bill.

WHAT TO DO NEXT

1. If you want to elect for joint taxation, you will need to detach and complete the application form R156. The form must be completed, signed by both of you and received by the Income Tax Division no later than 31 December in the tax year that you wish the election to apply for.
2. For new residents who wish to elect for joint taxation, the form must be completed by either 31 December in the tax year or within six months of the date of commencement of residence if later.
3. You will have the opportunity to revoke the election for joint taxation up to 5 April in the tax year. Revocation of joint taxation may be made in respect of either the tax year in which the revocation request is received by the Income Tax Division or in respect of both that year and the previous year. Either of you may make a revocation of joint taxation using form R205(JSL).

4. If you are married and were jointly assessed prior to 6 April 2006 and you wish to continue being jointly assessed, then you do not have to do anything – your records will automatically be updated under the new rules mentioned earlier in this booklet. You can, of course, revoke joint taxation at any time in favour of independent taxation.

HOW TO MAKE A PAYMENT TO INCOME TAX DIVISION

Online – you can pay online with a credit or debit card after registering and enrolling for Online Tax Services at www.gov.im/incometax.

By Debit/Credit Card – We accept most debit and credit cards. You can pay either over the phone, online or at our counter. Please ring (01624) 685400 during normal office hours to pay over the phone.

By Bank Giro Credit – present the payment counterfoil with your remittance at any bank. A bank account is not required to use this facility.

By Post – make sure that the payment counterfoil is enclosed. Cash should only be sent through the post by Special Delivery.

At the Income Tax Division – 2nd Floor, Government Office, Douglas – Monday to Thursday 9.15 am to 5 pm; Friday 9.15 am to 4.30 pm. Please bring the assessment with you.

Cheques and postal orders should be made payable to the “Isle of Man Government” and crossed. Post-dated cheques are not acceptable. A receipt will only be issued if requested.

CONTACT INFORMATION

If you require any further information or wish to discuss this matter, please do not hesitate to get in touch.

Address The Treasury
Income Tax Division
Second Floor
Government Office
Buck's Road
Douglas
Isle of Man
IM1 3TX

Telephone (01624) 685400

Fax (01624) 685351

Email incometax@itd.treasury.gov.im

Website www.gov.im/incometax

Opening hours Monday to Thursday 9.15 am – 5.00 pm
Friday 9.15 am – 4.30 pm

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Isle of Man
Government

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**APPLICATION FOR JOINT
TAXATION
AND/OR
NOMINATED ADDRESSEE**

The Treasury
Yn Tashtey

Income Tax Division
Government Office, Douglas
Isle of Man, British Isles
IM1 3TX

Telephone (01624) 685400
Fax (01624) 685351

We wish to make the following election/nomination.

Partner 1's full name:

Partner 1's address:

Partner 1's tax reference number:

Tel No (Home/Work):

Partner 2's full name:

Partner 2's address (if different from above).

Partner 2's tax reference number:

Tel No (Home/Work):

- We wish to elect for joint taxation under Section 65C of the Income Tax Act 1970.

- *We wish to nominate (state full name of partner)

to receive general correspondence and any repayments of tax, under Section 65C (2) of the Income Tax Act 1970.

(*Leave blank if all correspondence is to be addressed to both parties.)

DECLARATION: We understand that the above elections will remain in force until a written revocation is made by either of us.

Partner 1's signature:

Date:

Partner 2's signature:

Date:

NOTE:

This form can be used by married couples and civil partners to elect for joint taxation and/or to nominate one spouse as the addressee for general correspondence and refund cheques. General correspondence excludes tax return forms, assessments demands and other legal documents which will continue to be addressed to both spouses or partners. **In the absence of a nomination for one spouse to act as addressee, all correspondence issued by the Income Tax Division will be addressed to both spouses or partners.**

Please note that married couples and civil partners who are jointly taxed are **jointly and severally liable** for their income tax affairs. Both spouses or partners will be jointly liable for any amounts of income tax that may become due and both spouses or partners will be required to sign the annual tax return and other forms that may be issued by the Income Tax Division. Further details can be obtained from the Income Tax Division.



Isle of Man
Government

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**MARRIED PERSON'S
REVOCATION
OF JOINT TREATMENT**

The Treasury
Yn Tashtey

Income Tax Division
Government Office, Douglas
Isle of Man, British Isles
IM1 3TX

Telephone (01624) 685400
Fax (01624) 685351

I am currently jointly assessed for income tax with my spouse but wish to revoke this treatment, under Section 65F(4) of the Income Tax Act 1970, in favour of the independent treatment for married couples. **It is only possible to revoke tax years commencing on or after 6th April 2006.**

Full Name

Address

Tax Reference Number Tel No (Home/Work)

1. I wish to revoke joint taxation for the current tax year

2. I wish to revoke joint taxation for the previous and current tax year

NOTE:

- The new treatment of married couples came into effect on the 6 April 2006, therefore it is only possible to revoke joint assessment for 2006/2007 and subsequent years; option 2 above will only be relevant for revocations received during 2007/2008 or in subsequent years.
- If your reason for revocation is separation from your spouse, please do not complete this form but request and complete form R113. Form R113 is accompanied by a Guidance Note which gives further information about the effects on taxation of Separation and Divorce (GN 13).

DECLARATION:

I understand that this revocation will remain in force until a new joint taxation election is made and that revocation of joint treatment will prevent unutilised allowances, deductions and reliefs being transferred, which may result in my income tax liability increasing.

Signature:

Date: