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PRACTICE NOTE

PN 172/12

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RESTRICTION OF GENERAL DEDUCTIONS

INTRODUCTION

In his Budget speech today, the Minister for the Treasury, the Hon W.E. Teare MHK, announced that from 6 April 2012 tax relief for certain general deductions is to be restricted to 10% for individuals. The general deductions affected are; interest paid on mortgages or loans, charitable donations or deeds of covenant, private medical insurance payments, nursing expenses and educational deeds of covenant entered into on or before 5 April 2011 and where the student is in qualifying full time education at that date.

For tax years prior to 2012/13, general deductions were treated as reducing an individual's taxable income and tax relief was therefore given at the individual's effective rate of income tax. From 6 April 2012, 10% tax relief for the affected general deductions will be treated as reducing an individual's total liability.

NOTICE OF CODING

To take account of the restriction, an adjustment will be made to certain tax codes issued for the tax year commencing 6 April 2012 (2012/13) and/or subsequent years.

Individuals who are not liable to income tax or individuals who pay income tax at the lower rate (10%) will not be affected by the restriction.

Lower Rate Payers

Individuals who were subject to income tax at the lower rate in their last assessment will not have an adjustment automatically made to their tax code for 2012/13 and/or subsequent years. (See Example 1)

Individuals who were subject to income tax at the lower rate in their last assessment but believe that they will be subject to income tax at the higher rate (20%) in 2012/13, should contact the Division to have the adjustment added to their tax code. This will prevent an underpayment of income tax under the Income Tax Instalment Payments (ITIP) system.

Higher Rate Payers

Individuals, who were subject to income tax at the higher rate in their last assessment and have certain general deductions, will have an adjustment made to their tax code for 2012/13 and/or subsequent years. This will be displayed in the tax code as '10% Relief Adjustment for Deductions'. (See Example 2)

Individuals who were subject to the higher rate of income tax in their last assessment but believe that they will only be subject to income tax at the lower rate in 2012/13, should contact the Division to have the adjustment removed from the tax code. This will prevent an overpayment of income tax under the ITIP system.

Examples

Example 1 - Lower Rate Payer

An individual had earnings from employment of £18,000 in their 2010/11 assessment. Loan interest of £1,000 was paid and bank interest of £100 was received. The tax code will be issued as follows:

Notice of Coding for 2012/13

Personal Allowance	9300
Loan Interest	<u>1000</u>
Total Allowances	10300
Bank Interest	<u>(100)</u>
Net Allowances	10200
CODE	1020F

Example 2 - Higher Rate Payer

An individual had earnings from employment of £40,000 in their 2010/11 assessment. Loan interest of £1,000 was paid and bank interest of £100 was received. The tax code will be calculated as follows:

Notice of Coding for 2012/13

Personal Allowance	9300
Loan Interest	<u>1000</u>
Total Allowances	10300
Bank Interest	<u>(100)</u>
10% Relief Adjustment for Deductions	<u>(500)</u>
Net Adjustments	<u>(500)</u>
Net Allowances	9700
CODE	970S

ASSESSMENT NOTICE

Tax relief for affected general deductions will be automatically restricted to 10% in assessment notices for 2012/13 onwards when calculating an individual's total liability.

Payment on Account notices issued for 2012/13 will be based on an individual's liability for 2011/12 and will not therefore reflect the restriction. As a result, payments made in respect of 2012/13 may not be sufficient to cover the eventual liability due for that year.

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Assessor of Income Tax

This Practice Note is intended only as a general guide and must be read in conjunction with the appropriate legislation. It does not have any binding force and does not affect a person's right of appeal on points concerning their own liability to income tax.

Comments and suggestions for improvements of issued Practice Notes and suggestions for future Practice Notes are always welcome.