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PRACTICE NOTE

PN 150/08

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EUROPEAN DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

Further Update on Reporting Procedures and Related Matters for Paying Agents

Introduction

The purpose of this Practice Note¹ is to provide an update for paying agents in relation to:

1. the reporting requirements in respect of interest income which accrues before and after 1 July 2008, as the retention tax rate increases on that date from 15% to 20%;
2. the submission date for information where the client has elected for exchange of information; and
3. potential future developments.

Interest accruing before and after 1 July 2008

The rate of retention tax to be applied to interest payments increases on 1 July 2008 from 15% to 20% as part of the transition period arrangements of the Directive. Interest which in whole or in part accrued prior to 1 July 2008 can be apportioned in the same manner as at the implementation of the Directive on 1 July 2005, which is described in paragraph 31 of GN31.

For example, if interest is paid at the end of August 2008 in respect of the preceding six month period, the retention tax to be applied will be 15% for four months (March-June) and 20% for two months (July-August).

Apportionment is at the paying agent's discretion and can also be used when a client elects for exchange of information.

¹ This Practice Note is supplementary to PN140/07 (European Directive on the Taxation of Savings Income, Update on Reporting Procedures and Related Matters for Paying Agents), PN109/04 (EU Directive on the Taxation of Savings Income, Publication of a Guidance Note), PN118/05 (European Directive on the Taxation of Savings Income, Reporting Procedures and Update on Related Matters for Paying Agents) and GN31 (Notes for Guidance on the Application of the European Savings Directive for Isle of Man Paying Agents).

Submission date for exchange of information data

It is apparent that PN 118/05 has been construed by some people as giving paying agents a period of four months and 14 days to submit exchange of information data following the end of the relevant tax year. This is not the case.

The 'Reporting Requirements' section of PN 118/05 makes it clear that a one month extension to the three month reporting period provided by Article 5(2) of the Income Tax (Retention of Tax and Exchange of Information) (Temporary Taxation) Order 2005 has been granted; and that no additional extension of time will be permitted.

Retention tax is to be reported and paid and exchange of information data is to be reported to the Assessor by no later than 5 August immediately following the end of a tax year.

Future developments

Manx financial institutions were asked last year to submit returns of interest paid to Manx residents (required under Section 78, Income Tax Act 1970) in the electronic format required for the EU Savings Directive. An example of the format was provided as Appendix 1 of PN 118/05.

The quality of returns was varied. As a result, the Division will be contacting those institutions where problems with the submission format have been identified, with a view to offering advice and assistance, in the near future. The contact officer for this purpose is Mark Rutherford: telephone 685388 or email mark.rutherford@itd.treasury.gov.im.

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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.