

Assessor
M Couch

Telephone: (01624) 685400
Fax: (01624) 685351
E-mail: incometax@itd.treasury.gov.im
Website: www.gov.im/treasury/incometax

PRACTICE NOTE

PN 131/06

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TAXATION OF MARRIED COUPLES

Introduction

This Practice Note outlines changes in the taxation of married couples from 6 April 2006. The new provisions are contained in the Income Tax (Amendment) Act 2006, ('2006 Act')¹.

If you need further information after reading this Practice Note, please contact the Income Tax Division at the above address, telephone number, or e-mail address.

Please note:

- **The changes apply from 6 April 2006 onwards only (the 2006/2007 tax year)**
- **Practice Note 72/99 remains valid for earlier years.**

Background

Since April 2000 married couples resident in the Isle of Man have been able to be taxed jointly or to elect to be taxed independently. Independent taxation meant that both spouses were responsible for completing a separate tax return form and would each receive a single person's allowance. Tax relief for any allowable deductions was given to the spouse who made the payment and any joint payments, and joint income, were normally split on an equal basis unless the couple demonstrated that a different allocation should be used. Independent taxation also meant that both spouses received the full benefit of the 10% tax rate band, but any unutilised allowances, deductions or 10% tax rate band of one spouse could **not** be transferred to their partner, which could result in an increased combined income tax liability.

If no election for independent taxation was made then joint taxation would apply automatically. Our joint taxation rules had been in place for many years, and under them the husband alone was liable to pay the income tax resulting from a joint assessment, and his wife's income and any claims for deductions would be included on his tax return. Similarly, under the old rules all correspondence related to tax liabilities of a jointly taxed couple was sent to the husband in his name only, and if any refund of tax became due, the cheque was made out in his name only.

From 6 April 2006 we are, to a large degree, reversing our previous approach to the taxation of married couples, in that the default system following a couple's marriage or commencement of residence will be independent taxation. It will be necessary for those couples wishing to be jointly assessed to make an election for joint taxation to have effect.

The new legislation introduces 'joint and several liability' in respect of income tax for married couples, which means that both spouses have joint responsibility for their income tax affairs. A debt may be pursued by the Division from both or either of the spouses; similarly, in most cases

¹ This Act has completed its passage through the legislature and is expected to receive Royal Assent and become law during 2006.

refunds will be issued in joint names. All forms and correspondence will be addressed in joint names and, where necessary, will require declarations to be made jointly.

Couples Taxed Jointly prior to 6 April 2006 – Transition

The 2006 Act allows for all married couples who are currently jointly assessed for tax purposes and who have not made an election for independent taxation, to continue to be jointly assessed from 6 April 2006. They will, however, from the same date, be jointly and severally liable to pay tax that may be due.

From 6 April 2006 any couples who marry or commence residence will be able to elect for joint taxation. In the absence of an election they will be taxed independently.

Qualifying for Joint Taxation

To elect for joint taxation, a married couple must both be resident in the Isle of Man for income tax purposes and living together for the whole of the tax year.

Special rules will operate when a married couple move to the Island part-way through a tax year and an election is made for joint taxation. They will ensure that joint taxation applies from the date that residence commences.

If a couple marry after 6 April 2006 they may elect for joint taxation at any time, but the earliest date from which the election will apply is 6 April immediately following the date of marriage. The couple will be taxed as single people in the year of marriage, whether or not an election is made, although there is special treatment for the year of marriage which is dealt with below.

Election for Joint Taxation

If an election for joint taxation is to be made for a given tax year, it must be made no later than:

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

To make an election both spouses will have to complete and sign form R156 (see Appendix 1).

Joint Taxation

If a married couple are jointly taxed, all income of both husband and wife for a tax year will be declared on a joint income tax return which must be signed by both partners. Aggregation of income, personal allowances and deductions will apply in the assessment for that year.

All underpayments and overpayments of income tax will be joint obligations or property of both spouses, meaning that cheques, reminders, demands and warrants will be issued in joint names. However, it will be possible to nominate one partner to receive correspondence and cheques.

Revocation of Joint Taxation

A revocation of joint taxation may be made in respect of either the tax year in which the notice is received by the Assessor or both that year and the previous year.

For example, if a revocation of joint taxation is made in December 2008, the revocation could cover the 2008/2009 tax year, or the 2007/2008 and 2008/2009 tax years. It is the responsibility of the spouse concerned to indicate which tax years are covered.

Either spouse may make a revocation of joint taxation using form R205 (see Appendix 2).

Marriage and Separation

In the tax year in which a couple marries or separates, both partners will be treated as single people for tax purposes.

In the year of marriage, however, the Income Tax Division will allow the transfer of unutilised personal allowances and reliefs from one partner to the other. The allowances and reliefs that can be transferred include mortgage and loan interest payments, training relief, personal allowances, disabled person's allowance and blind person's allowance, nursing expenses, life insurance, annuity payments, private medical insurance and charitable donations. This type of transfer will not be possible in the year of separation.

It is important to note that in the year of marriage and separation there can be no transfer of the 10% tax rate band.

Death

In the tax year in which one spouse dies, each will be treated as a single person for tax purposes. The Division will allow the transfer of unutilised allowances and reliefs from one partner to the other in that year, however. The allowances and reliefs that can be transferred are the same as those mentioned under 'Marriage and Separation' above.

Summary

All married couples who are currently taxed jointly will continue to be taxed jointly unless they ask to be taxed independently. Jointly taxed couples will continue to be able to transfer allowances and reliefs, and computation of their income tax liability will remain the same as before. The principle changes for couples are that both spouses will be treated equally, and that joint and several liability will mean that both will be liable to pay income tax and both will have equal rights to any tax repayment.

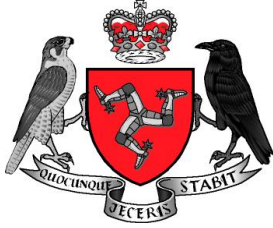
M Couch

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.

Appendix 1



**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.

Husband's full name:

Husband's address:

Husband's tax reference number: Tel No (Home/Work):

Wife's full name:

Wife's address (if different from above):

Wife'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 spouse)

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.

Husband's signature:

Wife's signature:

Date:

NOTE:

This form can be used by married couples 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. **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.**

Please note that with effect from 6 April 2006 married couples who are jointly taxed will be **jointly and severally liable** for their income tax affairs. Both spouses will be jointly liable for any amounts of income tax that may become due and both spouses 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.

If you wish to be independently taxed please contact the Division for further details.

Appendix 2



MARRIED PERSON'S REVOCATION OF JOINT TAXATION

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 taxed with my spouse but wish to revoke this treatment, under Section 65F (4) of the Income Tax Act 1970, in favour of independent taxation. **I understand that it is only possible to revoke joint taxation for tax years commencing on or after 6 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 preceding and current tax year

DECLARATION:

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

Signature:

Date:

NOTE:

- The new rules for the taxation of married couples came into effect on 6 April 2006; therefore it is only possible to revoke joint taxation for the 2006/2007 and subsequent tax years. Option 2 above will only be relevant for revocations made during the 2007/2008 or subsequent tax 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 Guidance Note 13 which gives further information about the effects on taxation of separation and divorce.