
PRACTICE NOTE

PN 123/06

Date: 21 February 2006

BUDGET 2006 – INCOME TAX PROPOSALS

In today's Budget speech, the Minister for the Treasury, the Hon AR Bell MHK, announced various financial measures.

This Practice Note contains details relating to the following:-

1. Income tax allowances and rates of tax.
2. Class 4 National Insurance – change to limits.
3. Individual tax cap.
4. Nursing expenses – increase to prescribed limit of relief.
5. Repayment Supplement.
6. Personal Allowance Credit
 - increase to maximum credit for fuel costs
 - non-taxable benefits removed from computation.
7. Non-resident Personal Allowance.
8. Married couples – joint and several liability.
9. Corporate income tax
 - 0% rate of tax for trading companies
 - Corporate Charge.
10. Other measures
 - consultation on tax cap for companies
 - proposed concessional treatment of some taxable benefits.

It should be noted that some of the measures rely on provisions contained in the Income Tax (Amendment) (No 2) Bill 2005 which is currently passing through the legislative process. Once Royal Assent has been announced to Tynwald, various Orders and Regulations will be prepared. Subject to Tynwald approval, it is hoped that the necessary instruments will be brought into force in April 2006.

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.

1. INCOME TAX RATES AND ALLOWANCES

The following tax rates and allowances apply for the 2006/07 year of assessment commencing on 6 April 2006.

Personal allowances	2006/07	(2005/06)
	£	£
Single person	8,670	(8,500)
Married couple (combined)	17,340	(17,000)
Single parent addition	5,920	(5,800)
Blind person	2,665	(2,610)
Disabled person	2,665	(2,610)
Co-habiting couple's maximum addition	5,920	(5,800)
Non-resident's personal allowance (see para. 7)	2,000	N/A

Income tax rates

Individuals	%	%
* Resident		
Standard rate on first £10,500	10	(10)
Standard rate on first £21,000 (married couple)	10	(10)
Higher rate on balance	18	(18)
* Non-resident		
Non-resident rate on all income	18	(18)

Companies

Trading income	0	(10)
Banking business income ¹	10	(10)
Investment income	0	(18)
Land & property income (see para. 9)	10	(10/18)

Other entities with a liability to income tax (e.g. trusts) 18 (18)

Tax thresholds	£	£
Single person	10,500	(10,300)
Married couple jointly assessed	21,000	(20,600)

Personal allowance credit (PAC)

Lower income point	6,000	(6,000)
Upper income point	8,500	(8,225)
Maximum credit	350	(250)

All PAC amounts are doubled for married couples who are jointly assessed.

¹ A further Practice Note is available which provides detailed guidance on the definition of banking business income.

2. CLASS 4 NATIONAL INSURANCE CONTRIBUTIONS

The annual limits of profits between which Class 4 contributions are paid will be changed to (previous limits shown in brackets):-

	£	£
Lower limit	5,035	(4,895)
Upper limit	33,540	(32,760)

3. INDIVIDUAL TAX CAP

A cap of £100,000 on an individual's income tax liability will be introduced for the 2006/07 year of assessment commencing on 6 April 2006. The cap will be available, on application to the Assessor, for all taxpayers, both current residents and new residents.

The introduction of the tax cap is not intended to be accompanied by any changes in a person's tax obligations, such as filing a tax return and making a payment on account (where applicable).

The tax cap of £100,000 will be doubled for a married couple where they choose to be jointly assessed.

4. NURSING EXPENSES

It is current Treasury policy to increase the maximum deduction for nursing expenses in line with any increase in the single person's allowance. The Income Tax (Nursing Expenses) (Amendment) Order 2006 S.D.46/06 increases the limit from £8,500 to £8,670 for the year of assessment commencing on 6 April 2006.

5. REPAYMENT SUPPLEMENT

The rate of Repayment Supplement paid on repayments of income tax will decrease from 3% to 2% from 6 April 2006. The Income Tax (Repayment Supplement) Regulations 2006 S.D. 48/06 have been laid before Tynwald. The relevant Order under Section 107B Income Tax Act 1970 will be considered by Tynwald in March 2006.

6. PERSONAL ALLOWANCE CREDIT

The Income Tax (Personal Allowance Credit) (Amendment) Regulations 2006 S.D. 47/06 were laid before Tynwald today. They effect two main changes to the Personal Allowance Credit (PAC) system -

Fuel costs increase

The maximum amount of PAC for payments made after 6 April 2006 in respect of income received in 2005/06 will be increased to £350 for single persons and to £700 for a jointly assessed married couple.

The maximum credit will apply where taxable income for 2005/06 is below £6,000 for a single person or £12,000 for a jointly assessed married couple. Where income is above that amount but below £8,500 for a single person or £17,000 for a married couple, the credit is reduced accordingly.

Removal of non-taxable benefits from the PAC computation

The Regulations also change the definition of gross income to link it to the definition used for computing income tax. The effect of this is to remove any non-taxable benefits from the calculation of PAC.

7. NON-RESIDENT PERSONAL ALLOWANCE

A personal allowance for non-resident persons will be introduced from 6 April 2006. The Income Tax (Amendment) (No 2) Bill 2005 contains the measure to introduce the allowance of £2,000 per year, with a pro-rata reduction where a person has ceased or commenced residence in the Isle of Man part way during the year.

The Employer's Guide has been updated to take account of this change, which is particularly relevant to those non-resident persons in receipt of occupational pensions from the Isle of Man.

To reflect this change in legislation the long-standing concession in respect of temporary non-resident workers will also change. Further guidance will be issued on this point.

The requirement to deduct tax under Section 71 Income Tax Act 1970 when making a payment to a non-resident individual will continue.

8. MARRIED COUPLES

The Income Tax (Amendment) (No 2) Bill 2005 contains measures to improve equality of treatment for a married couple. All married persons have been sent a letter explaining the new system and this will be followed with further information when the Bill becomes law.

It is proposed that married couples will be able to elect for joint taxation. However, it should be noted that any liability to tax will be 'joint and several'. No change is proposed to the computation of income tax and all allowances and deductions remain fully transferable where a joint taxation election is in force and the Income Tax Acts provide for that treatment.

9. CORPORATE TAXPAYERS

The Isle of Man's '0/10' taxation system for companies will be introduced from 6 April 2006 using appropriate Orders under the rates of tax legislation included in the Income Tax (Amendment) (No 2) Bill 2005 which will shortly become law.

General 0% rate of tax for companies

From 6 April 2006, the general rate of corporate income tax in the Isle of Man will be 0%. The 0% rate will apply to the profits of accounts that form the basis of a company's 2006/07 income tax assessment.

To ensure Treasury revenue cash flow, and as an anti-avoidance measure, the 0% rate will be introduced in conjunction with the Distributable Profits Charge. In certain circumstances, companies may pay the Distributable Profits Charge on behalf of their Manx-resident shareholders.

Full details of the Distributable Profits Charge are contained in Income Tax Guidance Note 36, which will be updated in line with the changes announced in the Minister's speech.

10% rate

From 6 April 2006, a 10% rate of tax will apply to the following sources of income received by a company –

- banking
- land and property in the Isle of Man (property development, rental / letting and mining & quarrying).

Withholding tax

For the 2006/07 tax year, withholding tax will continue to be due when companies make taxable distributions to non-residents, at the rate of tax paid by the company.

Corporate charge

Corporate taxpayers, except those that currently pay a fee and those that may be exempted, will pay an annual corporate charge of £250 from the tax year commencing on 6 April 2006.

The term 'corporate taxpayer' includes charities, clubs, associations, and societies and exemption from the corporate charge may be granted for these bodies, subject to Tynwald approving an

enabling Order once the Income Tax (Amendment) (No 2) Bill 2005 becomes law. It is envisaged that the corporate charge will be creditable against any liability to income tax that a company may have.

10. OTHER MEASURES

Tax cap for companies

The Assessor will shortly commence a consultation exercise with interested parties with a view to introducing a cap on company tax liabilities and will report the results to Treasury at the earliest opportunity.

Proposed concessional treatment of certain taxable benefits

A concession is proposed that will ensure that people whose **only** source of income is one or more of the following three benefits will not be taxed on them:

1. Child Benefit
2. Income Support
3. Family Income Supplement

It is further proposed that where the person has other income in addition to one of the above benefits, which in total is less than the single person's allowance or the married allowance for married couples, neither the income nor the benefits will be taxed.

The necessary Extra Statutory Concession will be published as soon as possible and will take effect from the 2006/07 year of assessment, subject to Tynwald approval.