
PRACTICE NOTE

PN 87/01

Date:

Budget 2001 Income Tax Proposals

In Tynwald today, the Minister for the Treasury, the Hon R K Corkill MHK, announced various financial measures.

This Practice Note contains details relating to the following:-

1. Income tax rates reduced by 2%, increase to allowances and some thresholds
2. Nursing Expenses - increase to prescribed limit of relief
3. Benefits in Kind - car fuel cash equivalent tables increased and additional exemptions
4. Class 4 National Insurance - changes to limits and relief
5. Non-Resident Company Duty - fees payable
6. Tax Exempt Companies - increased fees and removal of requirement to swear forms on Oath
7. International Companies - Increased fees
8. Fund Managers - increase to level of relief
9. Other measures

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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.

1. INCOME TAX RATES AND ALLOWANCES

The Minister for the Treasury announced the following changes to apply with effect from the 2001/02 year of assessment commencing 6th April 2001 (bracketed figures are those applicable for 2000/2001).

Personal allowances £

Single person 7,700 (7,535)

Married couple (combined) 15,400 (15,070)

Single parent addition 5,270 (5,160)

Blind person 2,120 (2,070)

Disabled person 2,120 (2,070)

Co-habiting couples maximum addition 5,270 (5,160)

Income tax rates %

Standard rate 12 (14)

Lower rate for trading companies 12 (14)

Higher rate 18 (20)

Non-resident rate 18 (20)

Tax thresholds £

Single person 10,000 (10,000)

Married couple (combined) 20,000 (20,000)

Lower rate band for trading companies 500,000 (125,000)

As a result of the reduction in the higher rate there will need to be a number of consequential changes to long standing procedures such as -

- **the deduction of tax from employees** - replacement higher rate tables will be issued in due course,
- **the deduction of tax from sub-contractors** involved in the construction industry that do not hold a valid exemption certificate - the requirement will now be to deduct tax from payments made at a rate of 18%.
- **the deduction of tax from payments made to non-residents** - the requirement will now be to deduct tax from payments made at a rate of 18%.

2. NURSING EXPENSES

Since the announcement made by the Minister for the Treasury in 1999, the maximum deduction for relief in respect of nursing expenses has been increased in line with the single person's allowance. The Income Tax (Nursing Expenses) (Amendment) Order 2001 (SD 30/01) increases the limit from £7,535 to £7,700 for the assessment year commencing 6th April 2001.

3. BENEFITS IN KIND

Exemptions

The Income Tax (Benefits in Kind) (Exemptions) (Amendment) Order 2001 (SD 35/01) adds two further categories of benefits in kind to the exemptions listed in the principal Order. The new exemptions are effective from the year of assessment commencing 6th April 2001. Certain community police houses are exempted as are some works vehicles.

Police Houses The benefit in kind charge which would usually apply where a uniformed police officer is allowed to live in a house attached to an operational police station in the community where they serve will be exempt from income tax.

Works Vehicles Where a works vehicle, for example a van, is made available to an employee for their private use, the benefit in kind charge will be exempt if the vehicle's main purpose is to transport tools, goods, materials or make deliveries associated with the employer's business.

Car Fuel

The cash equivalent of fuel provided by reason of a person's employment for a car made available for private use has been increased to bring them into line with the Customs and Excise charge. The new rates, which take effect from 6th April 2001 and are applicable for the 2001/02 year of assessment, are set out in the Income Tax (Car Fuel Benefits) Order 2001 (SD 31/01). They are as follows (bracketed figures are those applicable to 2000/01):-

Table A

Cars with an internal combustion engine with one or more reciprocating pistons with an internal engine capacity as calculated for the purposes of the Licensing and Registration of Vehicles Act, 1985.

CYLINDER CAPACITY	CASH EQUIVALENT (£)	
1400 or less	1,025	(920)
1401 - 2000	1,300	(1,160)
More than 2000	1,915	(1,720)

Table B

CARS WITHOUT A CYLINDER CAPACITY	CASH EQUIVALENT (£)	
All models	1,915	(1,630)

4. CLASS 4 NATIONAL INSURANCE CONTRIBUTIONS

The rate of Class 4 National Insurance Contributions remains at 7% for the year 2001/2002. The lower limit is increased from £4,420 to £4,535 and the upper limit is increased from £27,820 to £29,900. Due to the reduction in the higher rate of income tax from 20% to 18%, it is also now planned to reduce the income tax relief given for Class 4 paid in the computation of the Class 4 assessment. It is proposed that the relief under Section 32A of the Income Tax Act 1970 will be at the rate of 18%. The appropriate Order will be submitted for Tynwald consideration in due course.

5. NON-RESIDENT COMPANY DUTY

The amount of duty which is payable under the Non-Resident Company Duty Act 1986 is increased from £800 to £830 with effect from 1st June 2001. This duty is payable to the Financial Supervision Commission on delivery of an annual return to the Companies Registry, confirming a certificate in respect of section 9(2) of the Non-Resident Company Duty Act 1986 is still in force. (See SD 34/01.)

6. TAX EXEMPT COMPANIES

The Income Tax (Exempt Companies) (Fees) (Amendment) Order 2001 (SD 32/01) confirms the increase in fees from £400 to £430 which was announced provisionally in the previous Practice Note 85/00. The Minister for the Treasury also announced the proposal to remove the requirement for renewal applications to be sworn on Oath. This will bring the procedure into line with the International Limited Liability Companies regime which has never required the swearing of forms on Oath and will remove an unnecessary burden for the businesses concerned. To achieve this the prescribed forms in the Income Tax (Exempt Companies) (Forms) Regulations 1984 will need to be changed. It is proposed to change Form 2 (also known as TEC 4) in the Schedule of the Regulations as follows:-

"I ...[insert name], of ...[insert address]

being a Manx resident director of ...[insert company name] hereby declare that the provisions of the Income Tax (Exempt Companies) Act 1984 (as amended) were complied with in respect of the year of assessment ended on 5th April ..[relevant year], being the last year of assessment during which the company was an exempt company under the Income Tax (Exempt Companies) Act 1984 and that the undertaking given pursuant to section 3(2)(iii) of that Act in respect of that year was complied with.

Signature Date.....

This change is subject to the necessary Regulations being laid before Tynwald. Any person currently listed as using an approved substitute form will be contacted by the Income Tax Division.

7. INTERNATIONAL LIMITED LIABILITY COMPANIES

The Limited Liability Companies (Income Tax) (Fee) (Amendment) Order 2001 (SD 33/01) increases the fee applicable to International Limited Liability companies from £400 to £430 in respect of the tax year commencing 6th April 2001 and subsequent years.

8. FUND MANAGERS

The level of relief available to fund managers by virtue of the Income Tax Extra Statutory Concession Fund Managers - Special Relief (GC 318/91) is to be increased from 75% to 100% of taxable income. As 75% relief on this source of income had the effect of reducing the effective tax rate to 5% (25% of income charged at 20% income tax), the Division has allowed distributions made out of fund management profits to be made to non-resident recipients after deduction of 5% tax. It is intended to continue this principle and the rate of

tax to be deducted from distributions will be 0% for the tax year commencing 6th April 2001, i.e. without deduction of tax. Where a fund manager incurs a loss, it has been the Division's practice to allow 25% of the loss against any bank interest. As bank interest will now be treated as incidental income there will be no such restriction necessary as the whole of the income including incidental bank interest will be relieved by the Concession. Conversely, losses will not qualify for group relief under the terms of the Concession. The revised Extra Statutory Concession will be published in due course.

9. OTHER MATTERS

ISDN and ASDL

The scheme announced in last year's Budget speech, whereby the cost of connection charges for ISDN or ASDL technology is met by Government is to continue for a further twelve months. The scheme is financed by the Department of Trade and Industry.

Regional Development Incentives

The Minister also announced plans to re-introduce the commercial buildings allowance for two new designated areas identified as priority areas by the Economic Development Committee of the Council of Ministers. The area in Ramsey will incorporate the existing commercial and industrial zones following the provisions of the Ramsey Local Plan which came into effect on 1st December 1999. A second area in Port st Mary (which does not have an adopted plan for the village) will be identified after the Public Enquiry into the Area Plan later this year. The incentive will be similar to that which was introduced for lower Douglas in 1994. It will be valid for three years commencing on 6th April 2001 with a subsequent two year run off period. In the event of delays in finalising the Port st Mary Area Plan the timescale will be revised. A full practice note will be issued when the enabling legislation and areas have been approved.

Any person requiring further information on any of the topics covered by this Practice Note should contact the Income Tax Division, Government Office, Buck's Road, Douglas, Isle of Man, IM1 3TX. Telephone: (01624) 685400, Fax: (01624) 685351.