



## PRACTICE NOTE

**PN 72/99**

**Date:**

### **Budget 1999 Income Tax Proposals**

In today's Budget speech, the Minister for the Treasury, the Hon R K Corkill MHK, announced various financial measures. 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.

### **Income Tax Rates And Allowances**

The Treasury Minister announced the following changes to apply with effect from the 1999/2000 year of assessment commencing 6th April 1999 (bracketed figures are those applicable for 1998/99).

<b>Personal allowances</b>	<b>£</b>	<b>£</b>
Single person	7350	(7070)
Married couple (combined)	14700	(14140)
Single parent addition	5035	(4840)
Blind person	2020	(1940)
Disabled person (see item 4)	2020	(N/A)
<b>Income Tax Rates</b>	<b>%</b>	<b>%</b>
Standard rate	15	(15)
New tax band for trading companies*	15	-
Higher rate	20	(20)
Non-resident rate	20	(20)
<b>Tax thresholds</b>	<b>£</b>	<b>£</b>
Single person	9900	(9500)

Married couple (combined)	19800	(19000)
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## **Independent Taxation - Separate Treatment Option For Married Couples**

The Income Tax Act 1989 (Appointed Day) (No.4) Order 1999 (SD 43/99) brings into force section 70 of the Income Tax Act 1989 with effect from 6th April 2000. This section substitutes a new section 65 and inserts sections 65A and 65B into the Income Tax Act 1970. For the income tax year commencing 6 April 2000, allowances will no longer be apportioned in relation to each partner's income, instead the computation will be as though the couple were not married. This will provide complete independence and confidentiality between partners. It is important to note that the replacement section 65 does not provide for the transfer of any unutilised allowances, reliefs, etc between partners. Income from property held in joint names will be assessed in equal shares unless evidence is available that beneficial entitlement is not equal. This method of apportionment will also apply to other items such as joint mortgage interest paid and joint life insurance payments. An election in writing for the separate treatment option may be made by **either** spouse by 31st December in the year preceding the year of assessment for which it is to apply. For couples who get married or become resident the date will be extended to three months after that event if that is later than 31st December. Married couples who are currently separately assessed under the original Section 65 will be contacted by the Division in due course. An election can be revoked for a year of assessment if **both** parties make a written request by 30th June immediately following the relevant year of assessment.

## **Nursing Expenses**

Section 39B of the Income Tax Act 1970 was inserted by Section 6 of the Income Tax Act 1995, and introduced relief in respect of Nursing Expenses, subject to certain conditions and limits. The maximum deduction allowed in any case was limited to £5,000. This was increased to £6,000 with effect from 6th April 1998 by the Income Tax (Nursing Expenses) Order 1998 (SD 124/98). The Income Tax (Nursing Expenses) (Amendment) Order 1999 (SD 42/99) makes a further increase to the maximum limit of the permitted deduction in any case from £6,000 to £7,350 with effect from 6th April 1999. For future years the Treasury has proposed increasing this limit in line with the single persons allowance.

## **Additional Allowance For Disabled Persons**

The Income Tax (Temporary Taxation) (Allowance for disabled persons) Order 1999 (SD 44/99) creates a new deduction with effect from 6th April 1999. Any person who receives either attendance allowance or disability living allowance from the Department of Health and Social Security for any part of the relevant tax year will be entitled to the new deduction of £2,020. Any married man, whose wife receives either of the above benefits, will also be entitled to claim the deduction in respect of his wife provided that they are living together [see also the Income Tax Act 1970 Section 64(2)]. A person who is entitled to claim a deduction under Section 35A of the Income Tax Act 1970, which is an allowance for those who are registered blind, may not also claim the additional allowance. Any person who is in receipt of either disability living allowance or attendance allowance will automatically be granted the new deduction.

## **"Homestay" Extra Statutory Concession**

The Treasury Minister announced an increase in the concessionary limit from £500 to £750 with effect from 6 April 1999. Under this concession, participants registered with the Department of Tourism's "Homestay" Scheme may receive during the TT period gross income from such lettings on which the income tax liability will not be pursued. Copies of the Extra Statutory Concession will shortly be available from the Income Tax Division. In broad terms the conditions are as follows:-

Participants must be registered with the Homestay Scheme for the relevant TT period.

The limit applies to total gross turnover from all such lettings in that period by the same person.

If the limit is exceeded all the income is subject to tax and any tax due will be pursued.

The concession will not apply in any case where abuse is suspected.

## **Married Couples Taxation**

The Treasury Minister announced the intention to simplify the approach to the taxation of married couples. This new approach will sit alongside the independent taxation provisions outlined earlier at item 2. The legislation will be designed to remove the current discriminatory approach of treating the income of a married woman to be the income of her husband. Instead it will recognise that the income is either separately or jointly owned and provide for joint returns of income to be made and signed by both partners. This will enable relevant taxation matters to be discussed, where appropriate, with either party. Allowances and deductions will as at present continue to be fully transferable, including for the whole of the year of marriage. In return, both parties will be held jointly and severally liable for the joint tax liability although provisions will be made to allow for adjustments in the year a marriage breaks down. It is also the intention to eliminate the triple allowance which can arise in years in which the relationship changes. The relevant legislation will be included in the next Income Tax Bill. In the interim, married couples will, as the opportunity arises, be invited to give authority to the Division to discuss joint tax affairs with either partner. This will improve the speed and efficiency of the administration of a married couple's tax affairs and remove a current source of annoyance for a married woman.

## **Single Parent Families**

The additional personal allowance for single parents has always been granted on the basis of whether the parent is entitled to either One Parent Benefit or Widowed Mother's/Father's Allowance from the Department of Health and Social Security. Changes planned for the State benefit system will no longer make this link feasible in all cases and therefore new legislation will be required. An order is to be introduced into Tynwald in May 1999 setting down the new provisions. Basically, they will remain very similar to the existing approach except for a cohabiting couple (this is explained further at item 8). Persons in receipt of one parent benefit at the 5 April 1999 will automatically have existing claims carried over into 1999/2000 and reviewed when the new provisions are in place. Further information will be published when the Temporary Taxation Order has been prepared.

## **Cohabiting Couples With Children**

At present an unmarried couple with a child who live together as a family unit do not qualify for either one parent benefit or additional personal allowance. In addition, not being a married couple there is no entitlement to the transfer of any unutilised personal allowances. With the introduction of new provisions for the additional personal allowance for single parents this perceived unfairness is to be removed. Subject to the approval of Tynwald, an unmarried couple with a child will in future be entitled to claim an additional personal allowance equal to the unutilised personal allowance of either partner. This will initially be done by way of a claim when submitting the income tax returns after the relevant year end. Ways will be sought to try and bring this allowance into play earlier in the year where the ITIP system is in use by one of the partners. It should be noted that the amount of the additional allowance will be determined by the amount of the unutilised personal allowance only. It does not extend to any other unutilised deduction or relief nor to the 15% rate band. The amount of the allowance will therefore vary between the full amount of the single persons allowance (£7,350 for 1999/2000) and nil according to the circumstances.

## **Late Assessments**

Legislation is being introduced modifying the due and payable date for payment of tax on late assessments from 7 days to 21 days. This allows a more realistic time limit for payment, particularly where a person is ill or off Island on business. The new time limit will come into operation by concession from the date of completion of the replacement of the Income Tax Division's computer systems, planned for April 1999.

## **Class 4 National Insurance**

The current rate of Class 4 National Insurance will remain at 6%. The annual limits of profits between which Class 4 contributions are paid will be raised to £7,530 and £26,000. Income tax relief at the 20% rate will continue to be given within the Class 4 assessment on the payment due.

## **Non-Resident Company Duty**

The amount of duty which is payable under the Non-Resident Company Duty Act 1986 to the Chief Registrar is increased from £750 to £775 with effect from 1st June 1999. This duty is payable on delivery to the Registry of a non-resident declaration or any annual return of a non-resident company.

## **Other Matters**

The Treasury Minister also announced the following additional items as part of the programme of improvement and support:-

1. **A major simplification of the system for individuals** - a study will be undertaken during 1999/2000 to determine how the basis of assessment for all income can be moved onto an actual basis. This will make it easier for a person to calculate and plan for their income tax liability.
2. **Refundable tax credits** - the concept of a tax credit approach will be explored and if feasible will be used to introduce a system of refundable tax credits to assist those below the tax threshold. Such an approach will, however, require all income -

replacement benefits to be taken into account in the calculation of total income. This may necessitate the taxation of benefits not currently taxed but could equally permit a redistribution of the additional income in the form of enhanced benefits to those below the tax threshold.

3. **New tax band for trading companies** - the standard rate of income tax is being extended to trading companies by way of a new lower rate band of 15% on the first £100,000 of taxable income. A Practice Note [PN 73/99](#) PN 73/99 has been issued outlining the manner in which the proposed new provisions will work. In his Budget statement the Treasury Minister referred to the new rate being an interim step, the final rate or rates of tax being dependent upon the strength of the economy and the general movements in tax rates elsewhere.
4. **Urban regeneration** - work is progressing on the new Capital Allowances legislation. The Treasury intends to fully participate in the review currently underway by the Department of Local Government and Environment into initiatives to stimulate urban regeneration. As a first step the commercial buildings allowance initiative is to be incorporated into the new Capital Allowances Bill.
5. **Pensions** - the work to draft the Bills which set out a new regulatory and taxation regime for private and occupational pensions are nearing completion. The regulatory Bill will be going out for consultation shortly. The taxation provisions seek to simplify a complex subject and provide incentives to encourage individuals to take out or enhance pension arrangements. In particular, there is an important incentive for those at home looking after a family or relative.