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PRACTICE NOTE

PN 128/06

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ADMINISTRATION OF THE TAX CAP

From 6 April 2006, an individual's income tax liability will be capped at £100,000 (which is doubled in the case of a jointly assessed married couple) in relation to all income types. This new form of relief is statutory, simple to understand and is available both to current residents and new residents alike. The fundamentals of our taxation system are not being changed.

The Assessor and staff of the Income Tax Division carry out their duties on the basis of the provisions of the Income Tax Acts. A principle underlying these duties is similar to that found in the financial services sector; 'know your customer'. The onus normally falls on a taxpayer to provide information to the Division in respect of their circumstances and their income liable to tax through the completion of various forms; for example, the tax return form or form R25 (Registration for Manx Income Tax). In certain situations the Assessor will request information from a taxpayer. In the main this is an informal process, although statutory powers are available should they be needed. Information provided to the Income Tax Division by a taxpayer or their agent is subject to the statutory confidentiality provisions of section 106 of the Income Tax Act 1970 and can be disclosed only in accordance with that section.

The Isle of Man taxes the worldwide income of its residents. Section 2 (a) of the Income Tax Act 1970 imposes income tax on:

"income arising or accruing to any person residing in the Isle of Man and derived from the annual profits or gains of or in respect of or from any kind of property whatsoever, whether situate or being in the Isle of Man or elsewhere, or derived from the annual profits or gains of or in respect of or from any profession, trade, employment, or vocation, whether they shall be respectively carried on in the Isle of Man or elsewhere".

What follows is a brief description of the procedures that we will follow in relation to individuals subject to or potentially subject to the tax cap.

- 1) We would expect to hold an initial meeting with the individual concerned and/or their professional agent. A meeting may not be needed where we already hold sufficient information in respect of a current Manx resident taxpayer.
- 2) At the meeting we will ask for a range of information, including details of the person's previous country of residence, sources of income and business and investment interests (including location); whether corporate, under trust or otherwise.
- 3) Where a person's financial affairs include trusts, settlements or similar arrangements, we will ask for details of the relationship between the person and their family and the trust, settlement or similar arrangement (for example as settlor, beneficiary or potential beneficiary).
- 4) We may ask for documentary evidence of the information mentioned in steps 2 and 3.

- 5) Following steps 1 to 4, where the Assessor has certainty regarding the person's final liability for a given year, the requirement for an annual tax return may be waived; subject to regular reviews of the person's circumstances.
- 6) Unless the Assessor is satisfied that an individual is tax resident in the Isle of Man and confirms that opinion, the tax cap will not be available.
- 7) Although individuals subject to the tax cap will be required to comply with the payment on account provisions of section 96B of the Income Tax Act 1970, subsection (5) will not apply, and so the payment on account will not be 105% of the amount of tax paid in the preceding year; it will be the same as the level of the tax cap for that tax year. For 2006/07 a payment on account of £100,000 will therefore be due on 6 January 2007.

Individuals or professional advisers requiring more information or wishing to discuss the application of the tax cap should contact the Assessor at the address above.

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.