



## Isle of Man Government

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**1. Introduction**

Income tax was first introduced in the Isle of Man by the Income Tax Act 1918 which is described in its preamble as being "An Act to provide for a Tax on Income". The system of Income Tax introduced by the Income Tax Act 1918 was based broadly upon the system then in operation in the United Kingdom and in many respects the similarities remain. This is an important factor as regards the interpretation of the provisions of the Manx Income Tax Acts because in a case where the interpretation of a provision or an expression in those Acts has been the subject of an appeal in the courts of the United Kingdom, the judgment in that appeal is a persuasive authority for the adoption of the same interpretation in a similar case in the Isle of Man.

The Income Tax Act 1918 was followed by successive amending Acts in the years that followed until the then existing legislation was consolidated in the Income Tax Act 1946. This was, in turn, followed by successive amending Acts until the then existing legislation was consolidated in the Income Tax Act 1970.

The Income Tax Act 1970 has since been amended by the —

- (i) Income Tax Act 1971;
- (ii) Income Tax Act 1973;
- (iii) Income Tax Act 1974;
- (iv) Income Tax Act 1976;
- (v) Income Tax Act 1978;
- (vi) Income Tax (Retirement Benefit Schemes) Act 1978;
- and
- (vii) Income Tax (Amendment) Act 1979.

These Acts are collectively referred to as being "the Income Tax Acts 1970 to 1979". Section 120 of the Income Tax Act 1970 includes the following definitions —

"Income Tax Acts" means this Act and any other enactment relating to income tax;

"Manx income tax" and "Manx tax" means income tax payable under the Income Tax Acts.

The Income Tax Bill 1979 contains the new income tax provisions that were proposed by the Finance Board as a part of the Budget for 1979/80. The Bill was given its first and second readings by the House of Keys on 30th October and 6th November, 1979, respectively. It was then referred to a Select Committee for consideration. As it is unlikely to complete all its stages and obtain the Royal Assent before some time in 1980, the Bill is likely to be known as the Income Tax Act 1980 when it is enacted. It is proposed that the provisions of this Bill, when enacted, shall have effect in respect of the income tax year commencing on 6th April, 1979, and of each succeeding income tax year.

# Self-Employment

## Guidance Note – GN4

**PLEASE NOTE:**

This guidance has no binding force and does not affect your right of appeal on points concerning your liability to tax.

The information in this booklet can be provided in large print on request.

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## 1 INTRODUCTION

This booklet is intended to offer basic tax and National Insurance advice to someone starting up in business or becoming self-employed: whether on a full or part-time basis. They relate to businesses carried out by a sole trader or partnership and NOT to those carried out by a limited company.

If there are any tax matters not sufficiently covered by this booklet and you wish to seek further advice, you should either ask your professional adviser or contact the Income Tax Division directly.

## 2 SELF-EMPLOYED OR EMPLOYED?

The difference between employment and self-employment is not defined by law, and it is not settled merely by you or your employer calling your job "employment" or "self-employment". It is something to be decided in a common sense way on the facts: looking at what you actually do, and the way you do it. If you have a number of jobs, the fact that you are self-employed at one does not necessarily mean that the same will apply to your next job.

If you are self-employed you must register with the Division by completing form [R133 Commencement of Self Employment](#). The form is available on the Income Tax and National Insurance website or you can contact us on 685400 and request a copy to be sent to you.

### 2.1 Self-employed?

If you can answer yes to the following questions it will usually mean that you are self-employed:

- Can you decide how, when or where you do your work? Are you financially liable for any losses or mistakes?
- Do you provide the major items of equipment you need to do your job, not just the small tools which many employees provide for themselves?
- Are you free to hire other people on terms of your own choice, to do the work that you have taken on? Do you pay them out of your own pocket?
- Do you advertise your own business?
- Do you have your own insurance? e.g. Public liability/professional indemnity

If you are self-employed it is your responsibility to pay your own tax and National Insurance.

### 2.2 Employed?

If you can answer yes to the following questions, you are probably an employee:

- Do you have to do the work rather than hire someone else to do it for you?
- Can someone tell you at any time what to do or when and how to do it?
- Are you paid by the hour, week or month? Can you get overtime and sick pay? (Even if you are paid by commission or on a piece-work basis you may still be an employee.)
- Do you work set hours, or a given number of hours a week or month?
- Do you work at the premises of the person you are doing work for, or at a place or places that they decide?

If you are an employee it is your employers' responsibility to deduct tax and National Insurance from your pay.

### 3 THINGS TO DO FIRST

Being in business for yourself means that you will need to keep a record of all of your business income and expenditure so that proper accounts can be drawn up. You may wish to consider engaging a professional adviser such as an accountant or bookkeeper.

It is a good idea to have a separate bank account for your business. Your bank manager will advise you about this. If you do not already have a personal bank account it would be advisable to open one.

If you wish to trade under a business name, you should register it at the General Registry. Please ensure that the name, or a similar one, is not already registered and used by someone else.

#### 3.1 Who to inform

3.1.1 Contact the Income Tax Division about the following:

- Inform us of your intentions by submitting a completed form [R133 Commencement of Self Employment](#). This MUST be done whether your self-employment is to be part, spare or full time.
- If you have given up your previous employment, you should send the form T21, 'Employees Leaving Certificate', given to you by your last employer to the Income Tax Division.
- If you are going to employ staff or construction industry subcontractors you must contact us so that we can set up an employer or contractor file for you.

You may need to arrange to deduct Income Tax Instalment Payments (ITIP) and Class 1 National Insurance contributions from your employees' wages.

Construction industry subcontractors must have 20% tax deducted from their earnings if they can't show you a valid exemption certificate issued by the Income Tax Division.

When you start working for yourself, you must notify the Income Tax Division within 30 days, otherwise you may incur a £100.00 penalty. If you do not register and are not paying Class 2 contributions, you will be breaking the law and could be liable to prosecution.

3.1.2 Contact the Customs and Excise Division:

- If your taxable turnover exceeds certain thresholds you are required to register for VAT purposes.

Contact details for these Divisions can be found at the end of this booklet.

#### 3.2 National Insurance contributions

National Insurance contributions are paid by employees, employers and the self-employed to help build your entitlement to the State Pension and certain state benefits. There are four classes of contributions

Class 1 – Paid by employed earners and their employers

Class 2 – Paid by self-employed earners

Class 3 – Paid voluntarily by persons not liable for any other Class of contribution

Class 4 – Paid in addition to Class 2 contributions by self-employed earners whose profits are above certain levels.

As a self-employed individual you are responsible for ensuring that you pay your National Insurance contributions at the correct time. Failure to do so could result in your being prosecuted and might mean that any claim to certain benefits could be delayed.

### 3.2.1 Class 2 contributions

Class 2 is paid by self-employed earners. Class 2 contributions do not count for Job Seeker's Allowance, but do count for incapacity, Manx pension, Bereavement Support payment and maternity allowance.

Payments are due monthly and should be paid via direct debit by completing a form [CF351, 'Application to pay National Insurance Contributions by Direct Debit'](#), which is available on the Income Tax and National Insurance website. Other forms of payment are available if required.

### 3.2.2 Class 4 contributions

Class 4 contributions are collected as part of your annual income tax assessment process. The thresholds for charging of Class 4 are updated annually and details of the current rates can be found on the Income Tax and National Insurance website

On receipt of your completed tax return, we will review it and assess your profit for income tax. Should this profit exceed the thresholds set, a Class 4 assessment will also be issued. Payment is due in a lump sum at the same time and in the same way as your income tax, and you should therefore plan for this.

Class 2 contributions are not included in this amount and should be paid separately.

Please note that where you are in business on your own and you continue to work for an employer you are liable for Class 1, Class 2 and Class 4 contributions subject to certain minimum and maximum limits.

### 3.2.3 Exceptions to Class 2

If you have earnings below a level set annually you may be eligible to apply for Small Earnings Exception. You can submit a form [CF10, 'Application for exception for liability for Class 2 contributions'](#). If your application is approved you will be given a certificate of Small Earnings Exception and would not need to pay Class 2 for that tax year. You can make a further application each year if your earnings are below the level for that year. You should consider your position carefully as you may lose entitlement to benefits by not paying Class 2. For example, if you do not pay contributions your State Pension may be affected. You can pay Class 2 voluntarily, even if you have a certificate of Small Earnings Exception, to keep your entitlement for some benefits.

### 3.2.4 Exceptions to Class 4

Age exception may also be sought. Your age at the start of the tax year must be either under 16 or over the state pension age. If you are not sure of your pension age, a downloadable document is available on the [National Insurance Contributions](#) page.

If you have more than one job and already pay more than the prescribed amount of annual National Insurance contributions, you can apply for Class 4 to be deferred by submitting a completed form CF359, 'Application for deferment' to the Division.

## 3.3 Value Added Tax - <https://www.gov.im/customs>

Value Added Tax (VAT) is a tax charged on most goods and services by the suppliers of those goods and services.

Almost any business transaction can constitute what is known as a "taxable supply" for VAT purposes, for example:

- Sale of goods
- Performance of a service
- An exchange of goods or service
- A gift in kind

Not all supplies are liable to VAT. For example, no VAT applies to certain services such as insurance, finance, education etc. These are known as exempt supplies.

Taxable supplies can be chargeable to VAT at the following rates:

<b>Zero rate</b>	No VAT is charged on food, books, newspapers and magazines and children's clothes.
<b>Reduced rate</b>	A 5% rate of VAT applies to domestic fuel, and to both property repairs and tourist accommodation in the Isle of Man.
<b>Standard rate</b>	25% VAT is applied to all goods and services not exempt or liable at the zero or reduced rates.

Taxable supplies are business transactions which take place in the Isle of Man and the UK on which VAT is chargeable at either zero, reduced or the standard rate. The term also includes goods and some services imported from outside the European Community (EC).

The value of these supplies is called your "taxable turnover". The taxable turnover limit above which you have to register is set annually. You may also have to register if you purchase things from other EC countries or sell goods under the distance selling arrangements to the UK.

Should you not reach the limits set, you can still register voluntarily for VAT.

Once registered, VAT is collected at every stage in the distribution of goods and services by "taxable persons" registered with Customs and Excise. The term "taxable person" includes self-employed individuals, partnerships, limited companies, clubs etc.

If your business is like most businesses, you will collect more VAT from your customers than you pay to your suppliers. You must fill in the VAT return every quarter and pay the surplus VAT. You may opt to complete an annual return form, provided that the annual turnover of your taxable supplies is less than the agreed limit.

If you pay out more VAT than you collect, you may fill in your return every month and Customs and Excise will make the necessary refunds.

### 3.4 Engaging professional assistance

You are free to decide whether or not to engage a professional adviser. It is not essential, but it may be an advantage to have a qualified professional to advise you on financial matters generally, such as day-to-day bookkeeping, payment of National Insurance contributions, VAT and the operation of ITIP. They can also draw up your accounts, agree the amount of your taxable profit with the Income Tax Division and help you claim, within time limits, any reliefs that may be available.

We will normally correspond with the adviser you authorise, not directly with you. Annual tax returns, payment on account requests and notices of assessment to tax and Class 4 National Insurance will be sent to you. Your adviser will be sent copies of the payment on account requests and notices of assessment.

Engaging an agent **does not** remove your personal obligation to ensure prompt submission of tax returns, any supporting information and any payments of Income Tax and National Insurance.

### 3.5 Employees

If you employ someone in your business, you are responsible for the deduction of ITIP and Class 1 National Insurance contributions from the wages you pay your staff.

If you will be employing staff, you should submit a completed form [T30 - Employer's Registration](#), which is available on the Income Tax and National Insurance website, or by calling the Division.

It is important to remember that failure to deduct Income Tax Instalment Payments and National Insurance Contributions from your employees' wages may result in prosecution action and you being held personally liable for all the deductions that should have been made.

If you have any outstanding Income Tax and National Insurance debt, this may affect whether you receive any financial assistance from other Government Departments.

### 3.6 Subcontractors

Some people who work for you may themselves be self-employed and in these circumstances you are generally not responsible for the deduction of income tax or National Insurance from their payments.

However, special rules apply to subcontractors engaged in the construction industry. If you are working in the construction industry and engage subcontractors, you are responsible for the deduction of 20% income tax from their labour payments, unless they hold a valid tax exemption certificate, in which case payments can be made to them gross.

If you think this scheme may apply to your business, you should complete form [R13\(i\)](#), 'Contractor's Notification', which is available on the Income Tax and National Insurance website. It is important to remember that failure to make the correct Income Tax Instalment Payments may result in prosecution action and you being held personally liable to pay the amounts which should have been deducted.

## 4 BOOKS AND RECORDS

You must keep records of all money you receive from customers for goods and services supplied, and money you spend on purchases, wages and other items.

In addition, you need to keep a record of any money that you draw from the business (in cash or by cheque) to meet private expenditure, and also what money is put into the business from other sources.

If at the end of your accounting period you have stocks, raw materials or partly completed work on hand you will need to have a stock take. This is because increases or decreases in the value of these items have to be taken into account. Consumable stores should be valued at their cost to you, or the net price they will fetch if this happens to be lower.

Where the customer does not immediately pay for the goods and services which you supply, or where you similarly obtain goods or services on credit, you will need to keep records of the amounts owing to you (debtors) and amounts owing by you (creditors).

All of this information is needed when your accounts are drawn up. When you are running a business, accounts help you to know where you stand in terms of how successful it is and what money you owe or are due from others. The accounts also provide the profit figure for your tax return and will be reviewed if you have any sort of business finance from the bank.

You can buy various types of account books and software accounting packages which can be used to record your business transactions.



At the end of your accounting period you will need to know:

- Your total sales (gross monies received for goods/services provided).
- Separate items of expenditure, such as stock bought for resale, rent, rates, lighting, heating, insurance, repairs to premises, repairs to fixtures and fittings, motor vehicle running expenses, wages and salaries of employees (gross before tax and National Insurance contributions,) stationery, postage and telephone.
- The amount of any cash taken from the business for your own or your family's use (for example, weekly living expenses).
- The amount of any cheques drawn on the business bank account for private purposes, and the reason (for example buying clothing, life assurance premiums).
- Private money introduced into the business, showing the amount and origin (for example, cashed in National Savings Certificates, sums received on maturity or surrender of assurance policies, dividends on investments).
- The market value of goods taken or services received from the business for your own or your family's use, not paid for in cash at retail price.
- Amounts owed to you by customers (debtors).
- Amounts owed by you to suppliers (creditors).

You should keep bank statements, cheque book stubs, paying-in books, receipted bills and similar evidence so that your figures can be checked. You should also keep both business and personal bank statements, especially if there have been transfers between your private account and business. These paper records should be kept irrespective of whether you write up your business transactions in account books or you use a software accounting package.

Your adviser, if you decide to have one, will help you with all of the above issues.

Should you be required to register for VAT purposes, there is no set way to record your transactions. However, the figures needed to fill in your VAT return must be easy to find. Invoices, and the way they are recorded, normally form the basis of your records. You must have a VAT account that shows how the figures on your VAT return are derived.

You are obliged by law to keep your business records for at least six years.

You are legally required to retain all relevant business records for the required period and the Assessor may request to see these records whilst reviewing your tax returns. Failure to keep full and accurate business records may lead to a fine of up to £10,000. Further information on this can be found in [Guidance Note 54: New Requirements for Accounting Records](#).

#### **4.1 Expenditure before your business starts**

You may be able to claim expenditure which you incur before you actually start your business. Expenditure will qualify for relief if:

- It was incurred up to three years before the date that your business started; and
- It would have been an allowable deduction in working out your profits if your business had already started.

The relief is given by treating the expenditure as incurred on the first day of your trade.

## 4.2 Capital expenditure

In very broad terms expenditure is defined as capital when it has been spent to acquire or alter assets or rights which are of lasting use in the business.

For example:

- The purchase, building or alteration of business premises
- The cost of plant, machinery or vehicles
- The initial cost of tools.

This type of expenditure cannot be deducted in arriving at the amount of your taxable profits, but there are special allowances known as capital allowances which are available in respect of:

- Plant and machinery (including vans)
- Motor cars
- Agricultural buildings
- Industrial buildings
- Tourist premises

## 4.3 Motor cars

For tax purposes you can "write down" 25% of the value of the car each year (up to a maximum of £3,000 per year). This is known as a "Writing Down Allowance". The value, when calculating the tax allowances, is either the cost of the vehicle or the cost less any previous allowances (commonly known as the "written down value").

### Example 1

Year 1	Motor car bought	£14,000
	Writing Down Allowance 25% (restricted to £3,000 maximum)	<u>(£3,000)</u>
	Written down value carried forward	<u>£11,000</u>
Year 2	Written down value brought forward	£11,000
	Writing Down Allowance 25% (no restriction)	<u>(£2,750)</u>
	Written down value carried forward	<u>£8,250</u>

## 4.4 Plant and machinery (including vans)

For tax purposes you can claim up to 100% of the value of plant, machinery and vans each year by claiming what is known as a "First Year Allowance" during the year in which the expense was first incurred. If less than 100% is claimed as a first year allowance, a writing down allowance of up to 25% can be claimed on the remainder in future years.

### Example 2

Year 1	Van bought for	£14,000
	First year allowance claimed (50%)	<u>(£7,000)</u>
	Written down value carried forward	<u>£7,000</u>
Year 2	Written down value brought forward	£7,000
	Writing Down Allowance (25%)	<u>(£1,750)</u>
	Written down value carried forward	<u>£5,250</u>

## 4.5 Disposing of an asset

When an asset that you have claimed capital allowances for is sold for **less** than the written down value, there will be a "balancing allowance" so that you get a full allowance for the cost to your business.

This will **reduce** the profits assessable to income tax for that year in the same way as a writing down allowance.

### Example 3

If the car in example 1 is sold in year 3 for £5,000 the balancing allowance is:

Year 3	Written down value brought forward	£8,250
	Sales proceeds	<u>£5,000</u>
	Balancing allowance is	<u>£3,250</u>

If the asset is sold for **more** than the written down value, there will be a "balancing charge"; which means that you have only been given an allowance for the cost to your business.

A balancing charge is a negative allowance in effect, so it will **increase** the profits assessable to income tax for that year.

### Example 4

If the van in example 2 is sold in year 3 for £6,000 the balancing charge is:

Year 3	Written down value brought forward	£5,250
	Sales proceeds	<u>£6,000</u>
	Balancing charge is	<u>£750</u>

Capital allowances are usually claimed and the written down values managed by using a capital allowances computation.

The general layout of a capital allowances computation is shown on the following page.

Standard layout of a capital allowances computation:

	<b>Plant and Machinery</b>	<b>Cars</b>	<b>Capital Allowances Claimed</b>
Written down value brought forward ( <b>WDV b/f</b> )	<b>X</b>	<b>X</b>	
Additions not qualifying for first year allowance (e.g. cars)			
Less: Disposals	(X)	(X)	
	X	X	
Balancing adjustment			X/(X)
Less:			
Writing down allowance (25%)	(X)	(X)	X
	<b>X</b>	<b>X</b>	
Add:			
Purchases qualifying for first year allowance (FYA)	X		
FYA 100%	(X)		X
Written down value carried forward ( <b>WDV c/f</b> )	<b>X</b>	<b>X</b>	
<b>Total Capital Allowances Claimed</b>			<b>X</b>

**Note:**

Capital allowances are restricted for assets where there is personal use by the business proprietor e.g. cars.

A balancing adjustment is made where the asset is disposed of and the proceeds are more or less than the written down value of the asset. Earlier examples show how these figures are calculated. Certain assets, such as plant and machinery, can be put together and "pooled" in your capital allowance computation. When assets are pooled, balancing adjustments only arise when all the assets in the pool have been disposed of.

Calculating capital allowances can be complex, especially if you have lots of different types of business asset, if you regularly change your business assets, or if you use your business assets for private purposes (e.g. using a business vehicle for the school run or to do your weekly shop). It is recommended that you contact the Income Tax Division or your professional adviser with any questions regarding capital allowances and your business.

## 4.6 Business expenses

The day to day running costs of your business can be claimed for tax purposes; such as wages, rent, rates, repairs, lighting and heating and purchases of goods for resale.

Business expenses also include the running costs of vehicles, normal accountancy fees, and the cost of replacing worn out tools with new ones.

You cannot include your private or domestic expenditure in your business accounts; such as your own wages, food, medical treatment, clothing (except protective clothing or uniform), and income tax and National Insurance contributions.

Where expenditure relates to both business and private use, only that part which relates to your business will be allowed. Examples of expenses which are only partly allowable are lighting, telephone charges and heating bills of premises used partly for business and partly for domestic purposes.

We will agree with you a reasonable way to split this type of expense between the business and private parts.

When a vehicle is used for business and private use, a split of both capital allowances and total running expenses has to be made. You need to keep records of your total mileage and the number of miles travelled on business so that the split can be properly calculated. Journeys between your home and regular place of work are treated as private ones, and not for business purposes.

If you employ a member of your family in your business, their wages are an allowable expense, so long as you do in fact pay them. But you must pay them no more for their services to the business than you would pay anyone not related to you for doing the same work. Merely putting an entry in the books is not enough! Remember too that, depending on their earnings, you may need to deduct ITIP or National Insurance contributions in the same way as you would from any other employee.

You can claim a separate deduction for any debt which you cannot recover, or expect to be irrecoverable, even if you are taking enforcement action against the debtor. If you succeed in recovering the debt in a later year, the amount you recover will have to be treated as a receipt in that year.

<b>Example: Trading Profit and Loss Account</b>		
Mr T Smith trading as T S Joinery – 12 months ended 31.3.2019		
	<b>£</b>	
<b>Sales Receipts</b>		10,000
<b>Less Trading Account:</b>		
Opening Stock	500	
Add Purchases	3,000	
Less Closing Stock	-450	-3,050
		6,950
<b>Less Expenses:</b>		
Fuel	600	
Business Phone Calls	200	
Wages	1,000	
Heat & Light (x 50%)	500	-2,300
		4,650
<b>Net Profit</b>		<b>4,650</b>

## 4.7 Losses

If you make a loss in a year there are different options available to you.

You can set a business loss against other income in the same year of the loss. If you do not choose to do this, it will be carried forward and set against future profits of the same business. You must claim relief for business losses.

There are more complex loss relief regulations. Your adviser will be able to help you understand them, or you can contact the Income Tax Division for help.

## 4.8 Low turnover businesses

If your annual turnover remains consistently below £15,000, you may not need to send in full accounts with your tax return. Instead, you can send in a simple three line statement in the form shown in the example below.

If you wish to take advantage of this concession you will need to apply in writing to the Income Tax Division. In considering whether to confirm acceptance the Division will have regard to the overall position of your income tax affairs. For example:

- Do you have a history of submitting accurate returns?
- Have those returns been submitted on time?
- Are there any outstanding income tax payments?

If this review is satisfactory your application will be approved and a three line statement will be accepted in place of full accounts, provided the following conditions continue to be met:

- Returns and income tax payments must be made on time.
- Your annual turnover must not exceed £15,000.
- Full details of income and expenditure for each year must be retained by you together with supporting documentation.
- Full details will need to be sent in for checking for the year in which you start self-employment, every five years afterwards and when you close down the business.
- When called for, explanations are submitted for claims for capital allowances and loss relief.

### Example: Concession for Low Turnover

Mr Jones works as a landscape gardener. He normally earns about £250 per week from this business. He applies to make a simplified statement of his self-employment income on future tax returns. A check of his income tax affairs shows everything to be in order and the application is approved.

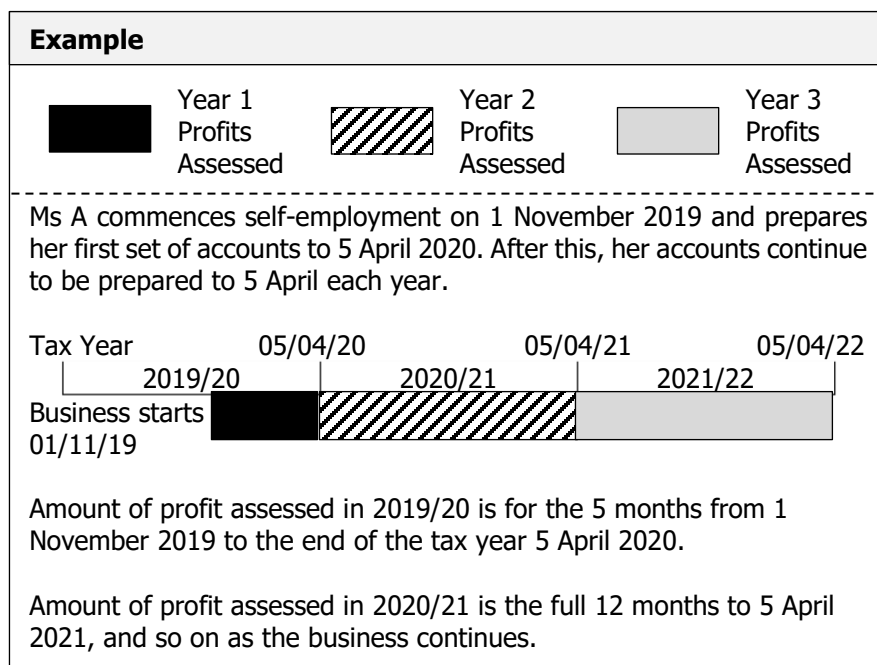
Mr Jones shows the following details of his self-employment on his next return:

	Sales / Receipts	13,000
Less	Expenses	5,000
	Net Profit	£8,000

Note: In normal circumstances Mr Jones will now not be required to send in full details for five years.

## 5 TAX ASSESSMENT OF BUSINESS PROFIT

In law, a self-employed person is taxed on the profit that they make in the tax year.



Where the accounts are prepared to another date in the tax year, the amount of profit will be apportioned to the tax year.

If you choose an accounting date other than one which corresponds to a tax year (6 April to the following 5 April) then it you may apply for the concessional treatment explained below.

### 5.1 Concessional treatment

What is known as the "accounts basis" of assessment can be used in order to avoid apportionment of profit, but only where a business draws up accounts to a date between 30 June and 5 April. Under the accounts basis, the profits of a business for the period ending in the tax year are treated as the profits for the tax year.

Please Note - You cannot claim this concessional treatment if your accounts are made up to a date between 6 April and 29 June.

Accounts basis may not suit every type of business or your own personal circumstances. If you are in doubt, you may want to seek independent advice. In addition, if you decide to change that date that you use for drawing up accounts when you are using the accounts basis you should seek advice, as your situation could become complicated.

To reduce red tape, and provided that certain conditions are met, we will treat the sending in of accounts to a date other than 5 April as an application for accounts basis. Those conditions are as follows:

- A new business must prepare accounts to a date within the tax year ending 5 April following the startup of the business (year one), or within the tax year ended 5 April following (year two),
- The accounts must be drawn up to a date falling on or after 30 June in each tax year,

- The accounts must be prepared which run consecutively for the life of the business,
- The standard of accounts prepared must be accurate and complete.

If we are unable for any reason to agree to apply the accounts basis, we will tell you why and your profit or loss will be apportioned and assessed on a 5 April tax year basis.

## 5.2 Start of business where accounts basis is applied

When you start your business and accounts basis is applied, the opening years will be taxed as follows:

(Year 1 is the first tax year in which you commenced to trade.)

**Year 1 -** If your accounts are prepared to a date in year one, the profits of those accounts will be included in your assessment for that tax year (Example 1).

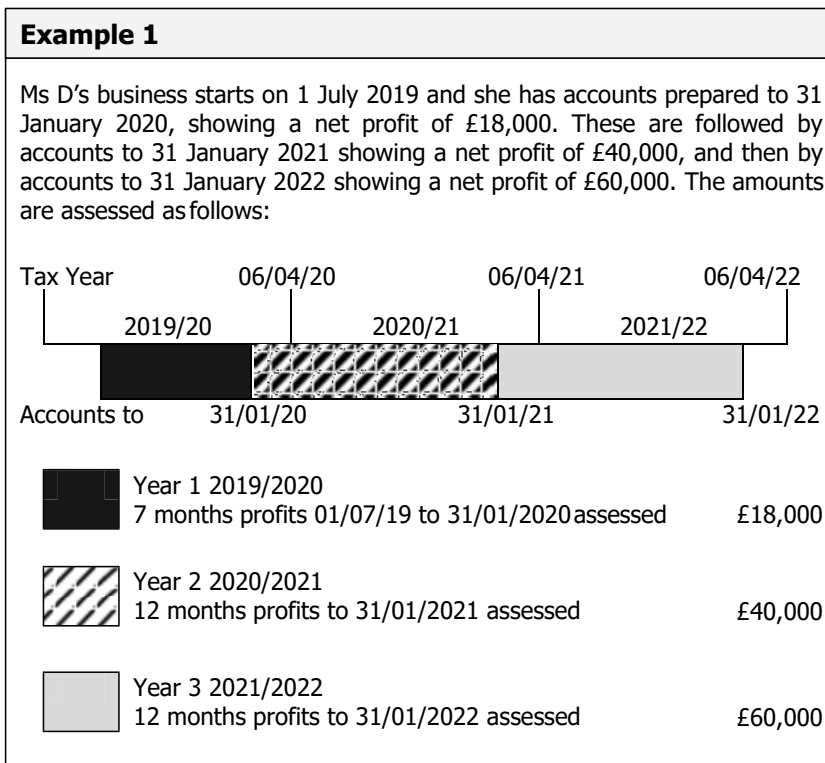
If no accounts are prepared to a date in year one, then no profit figure will be included in your assessment for that tax year (Example 2). You must, however, prepare accounts to a date in year two, or the statutory basis will be applied.

**Year 2 -** If your accounts were prepared to a date ending in year one, then the profits of the following 12 months will be included in your assessment for year two (Example 1),

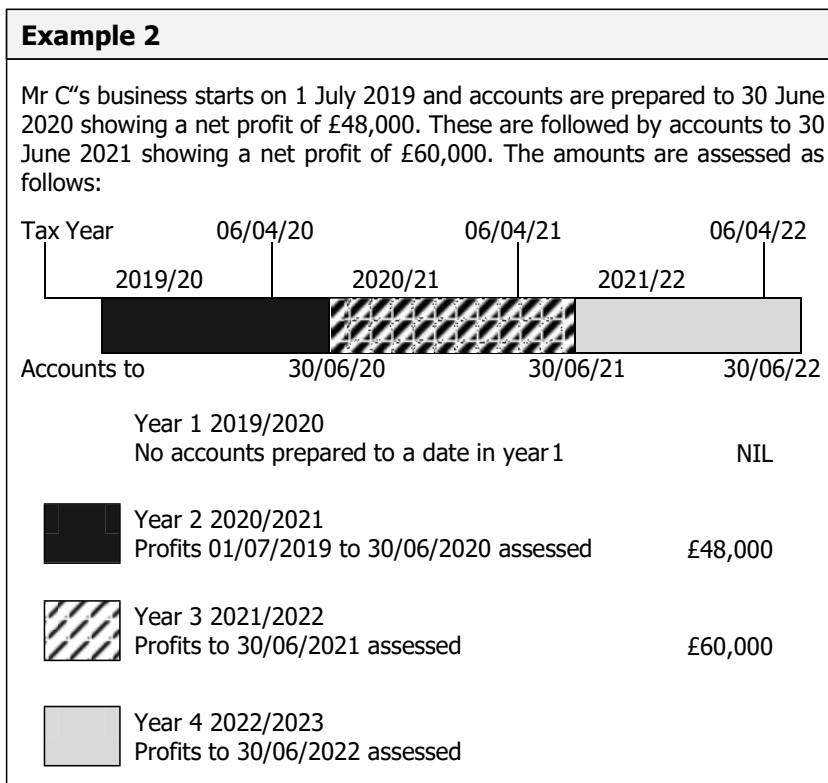
but

if no accounts were prepared to a date ending in year one, then the profits from the start of your business to the accounting date ending in year two will be included (Example 2).

**Year 3 -** The profits of the accounts ending in the year will be included in the assessment (Examples 1 & 2).







### 5.3 When a business ceases

In law, if you close down your business, you are taxed in the final year on the profits for the period from 6 April to the date the business ceased.

If your business ceases, and has been assessed under the accounts basis, the profits assessed for tax are for the period:

- From the end of the last period of account which was included in an assessment,
- Up to the last day that the business operated.

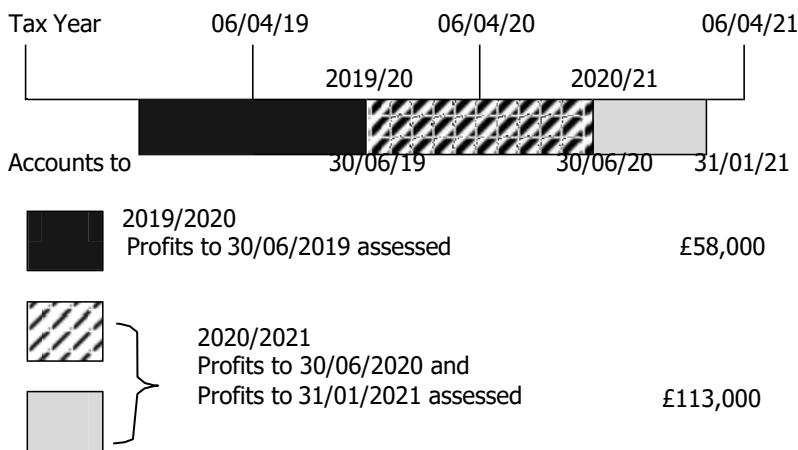
**Important Note** – Where a business using the accounts basis closes, the final assessment may include the profits from two periods of account which end in the same year (see Example 3 on the following page).

**Example 3**

Ms. E prepares her accounts to a 30 June year end. Her net profit for the year ended 30 June 2019 is £58,000 and for the year ended 30 June 2020 it is £68,000. She then ceases business on 31 January 2021. Her net profit for the 7 months from 1 July 2020 to 31 January 2021 is £45,000.

The amounts assessed are as follows:

<b>2019/20</b>	Profit 12 months to 30 June 2019	<b>£58,000</b>
<b>2020/21</b>	Profit 12 months to 30 June 2020	£68,000
<b>PLUS</b>	Profit 7 months to 31 January 2021	£45,000
		<b>£113,000</b>

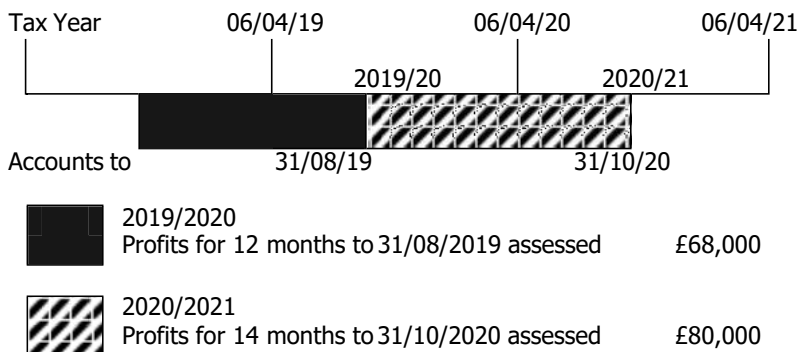


**Example 4**

Mr F prepares accounts to 31 August every year. His net profit for the year ended 31 August 2019 is £68,000. He then ceases business on 31 October 2020, drawing up accounts for the 14 month period to that date. His net profit for this period is £80,000.

The amounts assessed are as follows:

<b>2009/10</b>	Profit 12 months to 31 August 2019	<b>£68,000</b>
<b>2010/11</b>	Profit 14 months to 31 October 2020	<b>£80,000</b>



## 5.4 No accounts ending in a particular year

Where, due to a business cessation or a change of accounting date, a long set of accounts is prepared which "skips" a tax year, the profit will be apportioned over the periods involved to calculate a figure representing 12 months to the old accounting date falling within the tax year. This is shown at Example 5.

## 5.5 Two periods of account end in one tax year

Where, due to a change in accounting date, two periods of account end in one tax year, both periods will be aggregated and included in your assessment for that year. This is shown at Example 6.

## 5.6 Change of accounting date

Where you decide that the accounting date you are using each year no longer suits you or your business, you may wish to change to a new date. It follows that you would need to produce a period of account which is either longer or shorter than 12 months.

To continue to be treated under the accounts basis you must be able to demonstrate that you have made the decision for valid reasons and not to gain a tax advantage, otherwise the strict statutory basis will apply. You should also note that the change will affect your position should your business cease.

### Example 5

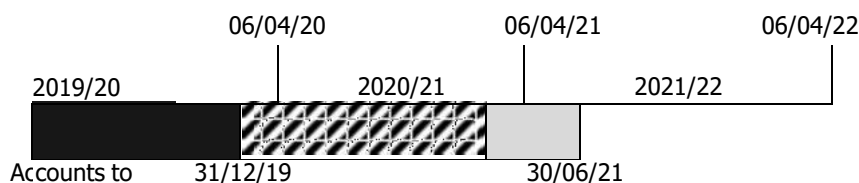
Mr G prepares accounts to 31 December every year. His net profit for the year ended 31 December 2019 is £48,000. He then ceases business on 30 June 2021, drawing up accounts for the 18 month period ending 30 June 2021. His net profit for this period is £90,000.

The accounts are assessed as follows:




**2009/10** Profit 12 months to 31 December 2019 **£48,000**

**2010/11** No valid date ending in the year, therefore apportion profit 12 months to 31 December 2020

**2011/12** Apportion profit 6 months to 30 June 2021



As no accounts end in 2020/2021, the profits for the 18 months to 30 June 2021 will be apportioned as follows:

	2019/2020 Profits for 12 months to 31/08/2019, assessed	£48,000
	2020/2021 Profits for 18 months apportioned to represent 12 months to 31/12/2020, assessed	£60,000
	2021/2022 Balance of 18 months profits are apportioned to represent 6 months to cessation of trade, assessed	£30,000

**Example 6**

Ms H prepares accounts to 30 June every year. Her net profit for the year ended 30 June 2019 is £58,000. She then decides to alter her usual accounting period for her business to 31 December, by drawing up accounts for the 6 month period ending 31 December 2019. Her net profit for this period is £29,000. Thereafter, she draws up accounts to 31 December each year.

The accounts are assessed as follows:

<b>2019/20</b>	Profit 12 months to 30 June 2019	£58,000
<b>PLUS</b>	Profit 6 months to 31 December 2019	£29,000
		<hr/>
		<b>£87,000</b>
<b>2020/21</b>	Profit for 12 months to 31 December 2020	

## 6 PAYMENT

Income tax and Class 4 National Insurance for self-employed people are usually subject to the „payment on account“ system. There are particular rules applying to the first year of self-employment, but once your business is up and running, you will receive a payment on account request which is due on 6 January in the year of assessment. Please refer to [GN3 "Payment on Account and Basis of Assessment"](#) for details of the rules applying to the first year.

Once you have sent in your tax return and accounts after the tax year you will be sent an assessment which will show any balance. Any credit will be refunded and any outstanding amount will be due and payable on 6 January following the tax year. However, should the assessment be issued after that date, the tax and Class 4 liabilities become payable within 30 days of the assessment date.

If your tax return is not sent in on time, estimated assessments can be issued and any tax shown in them is payable within the same time limits.

Class 2 payments are due monthly.

### 6.1 Planning for payment

You should set money aside on a regular basis so that you can pay the tax and Class 4 liabilities as they become due and payable following submission of your first set of accounts.

Should you wish, payments can be made to the Income Tax Division in advance of your tax assessment or payment on account request being issued. Further information or standing order details can be obtained by contacting the Income Tax Division. Details of other methods of payment are listed in section 8 of this booklet.

Please note that subcontractor tax deductions are always credited to the year in which they are deducted.

Interest can be charged on overdue income tax and Class 4 National Insurance.

Where Class 2 payments are classed as "late paid" you might be charged at a higher rate than would have been originally charged. You may also not receive a qualifying year towards any benefits or pension entitlement.

## 7 APPEALS

If you disagree with any part of your income tax assessment you have the right of appeal against it. The appeal must be in writing and made within 30 days of the date of your tax assessment notice.

Full reasons for the appeal must be set out and the undisputed element of tax should be paid. By making part payment, interest charges may be reduced once the assessment has been settled.

Most appeals or other disputed matters can be settled by agreement after discussion between you or your agent and the Income Tax Division. If agreement cannot be reached the points at issue will be considered by the Income Tax Commissioners or National Insurance Tribunal. These are independent bodies whose role is to settle disputes between taxpayers and the Income Tax Division.

## **8 HOW TO MAKE A PAYMENT TO THE INCOME TAX DIVISION**

Income tax and Class 4 payments can be made in the following ways (a receipt will only be issued if requested). Class 2 payment methods are listed on page 3 of this guidance note.

### **1. Online**

You can pay online with a credit or debit card after registering and enrolling for Online Tax Services at:

[www.gov.im/onlineservices](http://www.gov.im/onlineservices)

### **2. By Debit/Credit Card**

If you have a debit card or a credit card, you can pay either over the phone or at the counter. Please ring (01624) 686420, ensuring that you have your card details and payment counterfoil with you.

### **3. In person at the Income Tax Division**

The public counter is on the 2<sup>nd</sup> Floor, Government Office, Buck's Road, Douglas. Please bring the payment counterfoil with you.

### **4. By Post**

Address to Income Tax Division, Government Office, Douglas, Isle of Man, IM1 3TX ensuring that the payment counterfoil is enclosed. Cash sent through the post should be sent by registered post only.

### **5. By Bank Giro Credit**

Present the payment counterfoil with your payment at any bank. A bank account is not required to use this facility.

### **6. Cheques and Postal Orders**

Cheques should be made payable to the Isle of Man Government and crossed. Post-dated cheques are not acceptable.

## 9 CONTACT INFORMATION

### INCOME TAX DIVISION and NATIONAL INSURANCE SECTION – GENERAL ENQUIRIES

**Address** The Treasury  
Income Tax Division  
Second Floor  
Government Office  
Buck's Road  
Douglas  
Isle of Man IM1 3TX

**Telephone** (01624) 685400  
**Fax** (01624) 685351  
**E-mail** [incometax@itd.treasury.gov.im](mailto:incometax@itd.treasury.gov.im)  
[nationalinsurance@itd.treasury.gov.im](mailto:nationalinsurance@itd.treasury.gov.im)  
**Website** [www.gov.im/incometax](http://www.gov.im/incometax)

### CUSTOMS & EXCISE

**Address** The Treasury  
Isle of Man Customs and Excise Division  
PO Box 6  
Custom House  
North Quay  
Douglas  
IM99 1HE

**Telephone** (01624) 648130  
**Fax** (01624) 661725  
**E-mail** [customs@gov.im](mailto:customs@gov.im)  
**Website** [www.gov.im/customs](http://www.gov.im/customs)