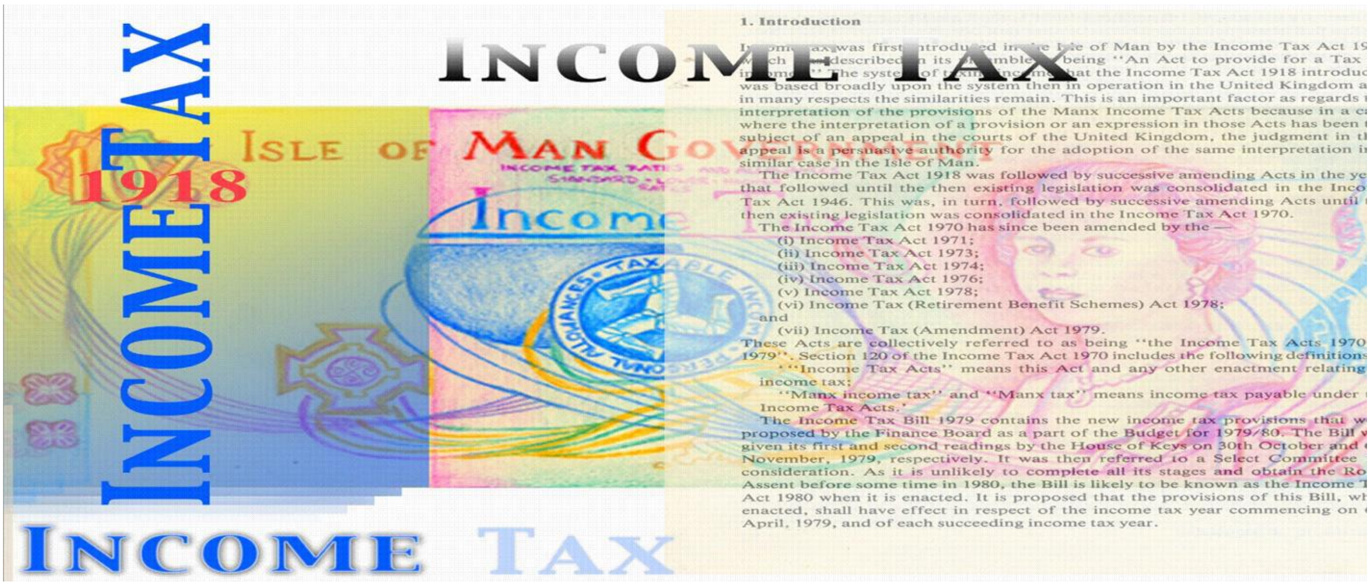
Isle of Man
Government
Reiltys Ellan Vannin



Basis of Assessment and Payment on Account

Guidance Note – GN 3

The Treasury
- Yn Tashtey
ITD
Income Tax Division

Issued by the Income Tax Division
14 May 2024

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.

CONTENTS

1 INCOME TAX FOR INDIVIDUALS IN THE ISLE OF MAN

This guide provides general information about how income tax assessments and payment on account charges are calculated.

In the Isle of Man, resident individuals are taxable on their worldwide income. We do not have capital gains tax or inheritance tax (death duties) in the Isle of Man.

1.1 What income is taxable in the Isle of Man?

The following lists provide some examples of the types of income that are generally taxable and those that are not:

Taxable

- Salaries, wages, most benefits in kind, tips
- Pensions, including state retirement pension
- Income from self-employment
- Income from investments
- Bank & building society interest
- Rental income

Non-taxable

- Incapacity benefit
- Attendance allowance
- Jobseekers allowance
- Maternity allowance
- Alimony and maintenance received under a court order (from 6 April 2012)

The above list is not exhaustive. If you are unsure whether your income is taxable you should contact the Income Tax Division or discuss this matter with your professional advisor.

2 THE TAX YEAR

2.1 What is the tax year in the Isle of Man?

The tax year in the Isle of Man commences on 6 April in one year and ends on the following 5 April. Tax assessments normally cover the whole of the tax year.

Sometimes an assessment may be for a period of less than a tax year; for instance where someone moves to or away from the Isle of Man or when someone dies.

The assessment period in these cases will be:

- For a new resident - from the date of arrival on the Island to the following 5 April;
- For a person moving away from the Island - from 6 April to the date of departure;
- When a person dies - from 6 April to the date of death.

If someone commences or ceases residence in the Isle of Man part way through a tax year their personal allowances will be reduced proportionately.

3 TAX ASSESSMENTS

3.1 Will I get an income tax assessment?

Everyone who is liable to pay income tax in the Isle of Man should receive an assessment annually. The assessment is normally issued after the end of the tax year to which it relates and following the submission of a tax return for that year. Exceptions to this rule are when a person leaves the Island or dies, as mentioned in section 2, when assessments may be issued during the tax year.

Where a person fails to send in their tax return on time, what is known as a default assessment will be issued; based on the best judgement of the Income Tax Division.

Your assessment is calculated in a set order and may include one or more of the following items:

Gross taxable income	e.g. salary, pension, benefits, investment income
Less specific deductions	e.g. pension contributions
Less allowances	e.g. personal allowance
	= Net taxable income

Tax is then calculated using the rates applying for the year; currently within the 24/25 tax year this is 10% on the first £6,500 (single person) and 22% on the balance. The tax calculation then continues:

Less general deductions	e.g. mortgage interest, private medical insurance
Less other reliefs	e.g. double taxation relief
Adjustments	e.g. credit balance adjusted from another assessment
Less payments	e.g. income tax instalment payments (ITIP)

The way in which tax relief for general deductions is allowed changed with effect for the tax year commencing on 6 April 2012. From that date tax relief for general deductions (mortgage interest, loan interest, charitable donations, private medical insurance, deeds of covenants, nursing expenses and pre-existing educational deeds of covenants) is deducted directly from the tax due on taxable income.

Example of an income tax assessment:

Salary	20,000		
Dividend	10,000		
Total Income	30,000		
Less:			
Personal Allowance	(14,500)		
Taxable Income		**15,500**	
	6,500 @ 10%		650
	9,000 @ 22%		1,980
Less General Deductions			
Mortgage	1200 @ 10%		(120)
Total Liability			**2,510**
Less:	ITIP		(2,000)
Tax Payable			**510**

4 Personal Allowances

4.1 What allowances am I entitled to?

Anyone who is resident in the Isle of Man for income tax purposes is entitled to receive a tax free personal allowance which is offset against their taxable income when calculating the amount of income tax due each year.

However, from 6th April 2023 onwards the amount of this personal allowance is restricted for anyone who receives total income of more than £100,000 during the tax year. This restriction is based on a reduction in the personal allowances of £1 for every £2 that the person's total income exceeds £100,000.

During the 2023/24 tax year the personal allowance was £14,500 per person. This means that anyone who has total income of more than £129,000 would have their personal allowances for the year completely reduced to nil.

Jointly assessed married couples will have their personal allowance reduced if their combined income is greater than £200,000 for the year.

During a year of marriage any unused personal allowances from one spouse/civil partner can be transferred to the other. When this happens this deduction is not subject to the same restriction as normal personal allowances are as explained above.

4.2 What income is counted for the purposes of restricting personal allowances?

The definition of "total income" for the purposes of restricting personal allowances when such income exceeds £100,000 is broader than the normal definition of taxable income. It includes any income that may not be taxable but is still income for the purposes of the Income Tax Acts. This includes the following:

- Box 3 distributions from IOM companies (see GN 49);
- Total worldwide income received by key employees under section 2D Income Tax Act 1970; and
- Any income which is Treaty protected and taxable only in another territory under a double taxation agreement with the Isle of Man.

For the avoidance of doubt the following sources of non-taxable income are not included within the definition of total income for the purposes of calculating the level of personal allowances, including:

- Box 4 distributions from IOM companies (see GN 49);
- Non-taxable social security benefits;
- Benefits in kind amounts that are below any tax free exemption, e.g. £600 general exemption or £1200 exemption for bikes;
- Income covered by the TT homestay allowance;
- Termination payments up to the statutory exemption of £30,000;
- Periodical Personal Injury Damages;
- Maintenance Payments;

- IOM Approved Pension Scheme Lump Sum payments;
- Jurors Remuneration; and
- Disablement Pensions.

4.3 How are restrictions to personal allowances treated within my monthly salary tax code deductions?

Your income tax code issued by the Division will include an estimated restriction to your personal allowances which is based on the most recent year's income figures which you have provided to the Division.

If you feel that the personal allowance granted through your tax code is not correct, either because it has been reduced too much or not enough based on your expected total income in the current year, please contact us so that your code can be amended to prevent an overpayment or an underpayment.

5 PAYMENT OF INCOME TAX

There are several ways to pay tax in the Isle of Man:

- By ITIP deduction from Manx employment income or pensions – please refer to Notes for Guidance GN16, "Income Tax Instalment Payments & Coding" for further information.
- By deduction from self-employment income under the Subcontractors Deductions Scheme – please refer to Notes for Guidance GN27, "A Guide for Subcontractors" for further information.
- By direct payment to the Income Tax Division.
- By using Online Tax Services.

5.1 When do I have to pay my tax?

The statutory due date for the payment of income tax is 6 January following the tax year. For many people, all that is payable on this date is a balancing amount, as they have already paid some of their liability by ITIP, subcontractor deductions or payment on account.

In some situations, tax is due 30 days after the date of an assessment:

- assessments issued after 6 December following the tax year;
- assessments issued when a person has moved away from the Island or has died; and
- assessments for the tax year 2003/2004 and earlier years.

6 THE PAYMENT ON ACCOUNT SYSTEM

6.1 What is the payment on account system?

People who have income which is not subject to tax deductions as covered earlier in this booklet may be required to make a payment on account. Payments on account are due on or before 6 January during the tax year. Examples of types of income which may lead to payments on account are:

- income from self-employment;
- investment income (bank and building society interest etc.);
- dividends;
- attributed profits from Manx companies; and
- non-Manx pensions.

Anything you pay on account will be credited against your eventual tax liability calculated after you have submitted your return.

If all of your income is already taxed at source, via a monthly tax code or subcontractor deductions, then you are unlikely to need to make a separate payment on account.

If you begin to receive income that does not have tax deducted at source, you should contact the Division for advice. We might be able to collect through your tax code or you may become subject to the payment on account system.

6.2 How is a payment on account calculated?

A payment on account is based on your tax liability for the previous tax year after crediting any tax paid at source, multiplied by what is known as the "payment on account factor". This factor is currently set at 105%, but may be varied in the annual budget.

Example 1

Total liability for the previous year		£2,500
Less:		
	ITIP deductions	0
	Subcontractor deductions	0
Net liability		£2,500
Multiplied by 105%		£2,625

The payment on account is £2,625

Example 2

Total liability for the previous year		£2,500
Less:		
	ITIP deductions	£750
	Subcontractor deductions	£500
Net liability		£1,250
Multiplied by 105%		£1,312.50

The payment on account is £1,312.50

6.3 When will I have to pay?

The Division issues payment on account notices which show the date by which the payment should be made. Normally this is 6 January following the date of issue.

If your payment on account notice is issued on or after 6 December in a tax year, it will require payment to be made within 30 days.

6.4 What happens during the first year I expect to receive a payment on account notice?

In the first year you receive a payment on account notice, payment will be due on the same date as the income tax assessment for the previous year. This means that two amounts will be due and payable at the same time.

Once you are in the payment on account system, and assuming your income remains fairly constant each year, you will only be required to make one main payment per year from then on.

If your income levels vary from year to year, it is possible that you may be required to make a balancing payment.

6.5 Is it possible to have income with tax deducted at source via a tax code and also income which is subject to a payment on account?

You may be in receipt of earnings from employment with ITIP deducted at source via your tax code and also receive some bank interest. Normally we would adjust your tax code to collect the tax on this bank interest.

If the amount of your bank interest is greater than your personal tax allowance and deductions, your tax code cannot collect enough tax to cover it. In this case you may have to make a payment on account.

6.6 I was not resident for the whole of the previous tax year; will I have to make a payment under this system?

If your first assessment does not cover a full year because you moved to the Island during the year, we will estimate the payment on account for the following year.

This is normally done by grossing up the income you received during the part-year to reflect the level that would have been received in a 12 month period.

6.7 What happens to the payment made under this system?

Any payment on account will be credited against your income tax liability when your assessment is calculated. Any overpayment will be refunded. If your liability is more than the payment on account, you will be required to make an additional payment.

6.8 Can I appeal against a payment on account notice?

Where a payment on account has been estimated following commencement of residence, you may appeal against the notice. The appeal should be made in writing, stating the amount of the payment that you dispute and setting out the reasons.

If your payment on account was based on your previous year’s liability, you cannot appeal against the notice.

However, if you believe that your actual liability is going to be less than the payment on account, there is a simple process that enables you to pay only what you think will be due. Each payment on account notice includes a tear off slip which you can complete and return to request that collection of the amount which you believe will not be due, is postponed.

For example, if you receive a notice for £1,000 but you believe that your liability will only be £750, then you can pay £750 and ask for the remaining amount of £250 to be postponed until your assessment is calculated and issued.

If you pay the amount you believe will be due but do not complete the slip, collection proceedings will continue on the balance.

Important Note: If you ask to pay a lower amount but your assessment results in a liability that is more than you have paid, interest will be charged on the balance.

For example:

You receive a payment on account notice for £1,000 but you tell us that your liability will only be £750. When your assessment is raised, your liability is £950.

This means that you will need to pay a further £200 and, because this £200 is part of the payment on account balance that you postponed, late payment interest will be due on that amount.

Section 7 details how late payment interest is calculated.

6.9 Do I have to pay more than the amount on the payment on account notice?

You are only required to pay the amount shown on the payment on account notice. If your income has increased the additional tax will be charged when your annual assessment is issued. You will then be required to pay the additional amount by the date stated on the assessment notice.

The payment on account for the next year will be increased to take the extra income into account, so you should make provision to pay the tax and payment on account due on the additional income.

7 INTEREST ON LATE PAYMENTS OF INCOME TAX

7.1 I have not paid all of my payment on account, will I be charged interest?

Yes, you will be charged interest for late payments of tax. Interest is charged for the period starting on the day after the payment on account was due and ending on the day before full payment was received.

7.2 I have not paid all of my annual assessment liability, but I did pay my payment on account on time. For what period will interest be charged?

Interest will be charged on the amount due on the annual assessment for the period beginning on the day after the due and payable date of the assessment and ending on the day before the date of the payment of the outstanding amount.

7.3 I requested to pay a lower amount of payment on account but my assessment has been issued and part or all of the payment on account that was postponed is now due. Will I be charged interest on this amount?

Yes. The interest will be calculated starting on the day after the payment on account was due and ending on the day before full payment was received.

If you have requested that part of your payment on account be postponed, it is important that you closely monitor your income levels. If you think it is likely that some, or all, of the amount postponed will actually be due, then you should make additional payments in order to minimise potential interest charges.

As stated earlier in this guide, you only have to pay the amount of tax that is notified on the payment on account notice.

8 REPAYMENT SUPPLEMENT ON CERTAIN REFUNDS OF INCOME TAX

8.1 What is repayment supplement?

Repayment supplement is an additional amount that may be due to you when you have paid more tax than your total liability on your assessment notice.

This tax could have been paid through your tax code, subcontractor deductions or payment on account.

8.2 How is the supplement calculated?

Repayment supplement is calculated based on the overpayment and the period during which your tax was "in credit".

Tax is considered to be in credit during the period that begins on one of the dates listed below and ends on the date the refund is authorised for issue.

Tax paid through:

Payment on account	Later of 6 January during tax year, or the actual date of payment if later.
ITIP	6 January during tax year
Subcontractors scheme	6 January during tax year

Example 1

Payment on Account paid 4 Jan 2023	£5,000 Annual
Assessment issued 9 Sept 2023	£4,500 Refund
authorised on 14 Sept 2023	£500

The refund of £500 would attract a repayment supplement for the period beginning on 6 January 2023 and ending on 14 September 2023.

Had the payment on account been made late, for example on 1 March 2023, the repayment supplement would only apply for the period beginning on 1 March 2023 and ending on 14 September 2023.

Example 2

ITIP paid throughout the year	£5,000 Annual
assessment issued 9 Sept 2023	£4,500 Refund
authorised on 14 Sept 2023	£500

The refund of £500 would attract a repayment supplement for the period beginning on 6 January 2023 and ending on 14 September 2023.

8.3 Could I be charged interest and receive a repayment supplement in respect of the same tax year?

It is possible. In the second part of example 1 above, the repayment supplement period would be shorter if the payment on account was made late (e.g. on 1 March 2023). In that example interest would be due on the full amount of the payment on account for period from 6 January 2023 to 28 February 2023 and repayment supplement on the overpaid amount would cover the period 1 March 2023 to 14 September 2023.

9 HOW TO MAKE A PAYMENT TO INCOME TAX DIVISION

Income tax payments can be made in the following ways (a receipt will only be issued if requested):

1. In person at the Income Tax Division

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

2. 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.

3. By Credit or Debit Card

If you have a credit or debit 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.

4. By Bank Giro Credit

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

5. Cheques and Postal Orders

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

6. Online

You can pay online with a credit or debit card after registering and enrolling for Online Tax Services at www.gov.im/incometax.

10 CONTACT INFORMATION

Address: The Treasury
Income Tax Division
Second Floor
Government Office
Buck's Road
Douglas
IM1 3TX

Telephone: (01624) 685400
E-mail: incometax@itd.treasury.gov.im
Website: www.gov.im/incometax

Opening Hours: see here.