

PRACTICE NOTE

PN 142/07

Date: 20 March 2007

BUDGET 2007 – INCOME TAX PROPOSALS

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

This Practice Note contains further information regarding the changes.

Index	Page
1. Income tax allowances and rates of tax	1
2. Class 4 National Insurance	2
3. Nursing expenses	3
4. Personal Allowance Credit	3
5. Benefits in kind	3
6. Charitable donations	3
7. Mortgage and loan interest relief	3
8. Corporate income tax	4
9. Corporate charge	4
10. Pensions	4
11. Short term residence concession	4

1. INCOME TAX ALLOWANCES AND RATES OF TAX

The following tax rates and allowances apply for the 2007/08 year of assessment commencing on 6 April 2007:-

Personal allowances	2007/08	(2006/07)
	£	£
Single person	8,850	(8,670)
Married couple (combined)	17,700	(17,340)
Single parent addition	6,040	(5,920)
	2007/08	(2006/07)

	£	£
Blind person	2,720	(2,665)
Disabled person	2,720	(2,665)
Co-habiting couple's maximum addition	6,040	(5,920)
Non-resident's personal allowance	2,040	(2,000)

Income tax rates

Individuals	%	%
Resident		
Single: Standard rate on first £10,500	10	(10)
Married jointly assessed: Standard rate on first £21,000	10	(10)
Higher rate on balance	18	(18)
Non-resident:		
Non-resident rate on all income	18	(18)
Companies		
Banking business	10	(10)
Land & property in the Isle of Man	10	(10)
All other income	0	(0)
Other Non-corporates e.g. trusts	18	(18)

Tax thresholds for resident individuals

	£	£
Single person	10,500	(10,500)
Married couple jointly assessed	21,000	(21,000)

Personal allowance credit (PAC) for resident individuals

Lower income point	6,170	(6,000)
Upper income point	8,670	(8,500)
Maximum credit	420	(350)

All PAC amounts are doubled for married couples who are jointly assessed.

2. CLASS 4 NATIONAL INSURANCE

The rate of Class 4 National Insurance remains at 8% and is charged on profits between the lower and upper limits. The limits have been increased as follows (the previous limits are shown in brackets):-

	£	£
Lower limit	5,225	(5,035)
Upper limit	34,840	(33,540)

3. NURSING EXPENSES

The maximum deduction allowed for nursing expenses has been increased, in line with the single person's allowance, from £8,670 to £8,850. This new maximum will apply for the year of assessment commencing on 6 April 2007.

4. PERSONAL ALLOWANCE CREDIT

The Personal Allowance Credit is paid to resident individuals who do not fully utilise their personal allowance. The amount of the credit will be increased by 20%, from £350 to £420, with effect from 6 April 2007. All amounts and limits are doubled for jointly assessed married couples.

The full payment is due where a person's income is below the lower income point and a restricted payment is due where a person's income is between the lower and the upper income point. The lower income point will be increased from £6,000 to £6,170 and the upper income point will be increased from £8,500 to £8,670 for payments made after 6 April 2007.

When making a restricted payment of the Personal Allowance Credit, an abatement factor is used; this factor is increased from £1.40 to £1.68 for every £10 over the lower limit.

5. BENEFITS IN KIND

A review is to take place before the 2008 Budget with a view to changing the way that the benefit in kind charge is calculated for cars and fuel. The review will focus on changing the current car benefit and car fuel tables to encourage the use of vehicles with lower emission rates and those which use environmentally friendly fuels.

In the meantime, electric cars provided by an employer will no longer be subject to a tax charge. With effect from 6 April 2007, the tables used to calculate the charge have been changed to ensure that an employee who receives the benefit of private use of an electric car is no longer charged income tax on that benefit.

Following liaison with interested parties, a new benefit in kind category may be added to the current benefit in kind exemptions Order. The exemption will mean that an employee will not be charged to income tax where their employer pays for 'season tickets' or 'multi journey tickets' to and from work on normal scheduled public transport, or similar coach services. Importantly the employer must pay the travel operator directly and the exemption will not apply to the reimbursement of home to work travel costs. The relevant Order will be drafted as soon as possible.

6. CHARITABLE DONATIONS

Where an individual makes qualifying charitable donations during the year they may claim relief from income tax. The maximum amount of donations that an individual may claim tax relief on has increased from £5,500 to £6,000 with effect from 6 April 2007.

7. MORTGAGE AND LOAN INTEREST RELIEF

The Treasury Minister announced a new maximum limit on the amount of mortgage and loan interest relief that an individual can claim. The new limit will apply from 6 April 2008. The delay in introducing this measure is to allow time for those individuals adversely affected to take account of the change in planning their personal finances.

The maximum limit will be applied to the total, aggregate amount of mortgage and loan interest paid and claimed under the prescribed deductions Order. The maximum amount to be granted in an individual's assessment is to be £15,000. This limit will be doubled for a jointly assessed married couple, regardless of which spouse is responsible for paying the interest.

The Income Tax Division will contact any person who it appears from current records could be affected by this measure, to ensure they are fully aware of the timescale for introduction of the limit and to make sure that any income tax codes to be operated by employers for the tax year 2008/2009 reflect the new maximum.

This change will not affect claims for interest paid in relation to rental income received or interest paid which is a valid business expense.

8. CORPORATE INCOME TAX

There is no change to the rates of corporate income tax or the rates and limits used when computing the distributable profits charge. The Treasury Minister announced that the introduction of a 'cap' on the corporate tax charged at 10%, or a lower tax rate on profits above a given amount, is still being considered.

9. CORPORATE CHARGE

The collection and administration of the corporate charge is to be transferred from the Income Tax Division to the Financial Supervision Commission with effect from 6 April 2007. The annual filing fees payable to the Registrar will be increased to include the corporate charge.

At present, where a company pays income tax at the rate of 10%, relief is given in full for the amount of corporate charge and any income tax liability is reduced accordingly. After the transfer of the charge to the Financial Supervision Commission it is intended that this form of relief will be continued for a limited period.

10. PENSIONS

Treasury's response to the taxation of pensions consultation has now been published and is available on the Division's website at www.gov.im/incometax.

A Bill will be introduced later this year and, subject to approval by the Branches of the Legislature, will be effective from April 2008. In the meantime, extra-statutory concessions covering 'triviality' and 'concurrence' in relation to pensions will be put before Tynwald as soon as possible.

11. SHORT TERM RESIDENCE CONCESSION

Treasury wishes to take this opportunity to remind people that the 'short term residence concession' will be revoked with effect from 6 April 2007.

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.