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## PRACTICE NOTE

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### BUDGET 2004 – 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 details relating to the following:-

1. Income tax allowances and rates of tax
2. Class 4 National Insurance – change to limits
3. Nursing Expenses – increase to prescribed limit of relief
4. Benefits in Kind – car benefits and fuel cash equivalent tables unchanged
5. Donations to Charities by individuals
6. Deeds of Covenant – educational
7. Exempt Companies – increased fees
8. Limited Liability Companies – increased fees
9. International Limited Partnerships – increased fees
10. Other measures
  - \* Regional Development Incentives
  - \* Space Industry
  - \* Child Nursery Facilities
  - \* Concession: Pensions to Employees Disabled at Work
  - \* Review of Personal Allowance Credits

**I Q Kelly**

**Assessor of Income Tax**

#### Important Notice

1. This Practice Note reflects the changes announced in the budget, some of which are subject to the required legislative changes being approved and implemented.
2. This Practice Note is intended only as a general guide and must be read in conjunction with the appropriate legislation, some of which has still to be formally approved. 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.
3. Comments and suggestions for improvements of issued Practice Notes and suggestions for future Practice Notes are always welcome.

## 1. INCOME TAX RATES AND ALLOWANCES

The Minister for the Treasury announced the following changes to apply with effect from the 2004/2005 year of assessment commencing 6<sup>th</sup> April 2004. Bracketed figures are those applicable for 2003/2004 and changes are shown in bold -

| <b>Personal Allowances</b>           | <b>£</b>      | <b>£</b> |
|--------------------------------------|---------------|----------|
| Single person                        | <b>8,225</b>  | (8,000)  |
| Married couple (combined)            | <b>16,450</b> | (16,000) |
| Single parent addition               | <b>5,630</b>  | (5,475)  |
| Blind person                         | <b>2,530</b>  | (2,460)  |
| Disabled person                      | <b>2,530</b>  | (2,460)  |
| Co-habiting couples maximum addition | <b>5,630</b>  | (5,475)  |

### **Personal Allowance Credits**

|                    |               |          |
|--------------------|---------------|----------|
| Lower income point | 6,000         | (6,000)  |
| Upper income point | <b>8,225</b>  | (8,000)  |
| Maximum credit     | <b>222.50</b> | (200.00) |

### **Income tax rates**

#### **Individuals**

|   |    |      |
|---|----|------|
| * Resident                                      |    |      |
| Standard rate on first £10,000                  | 10 | (10) |
| Standard rate on first £20,000 (married couple) | 10 | (10) |
| Higher rate on balance                          | 18 | (18) |
| * Non-resident                                  |    |      |
| Non-resident rate on all income                 | 18 | (18) |

#### **Companies**

|   |           |      |
|---|-----------|------|
| * Resident company – trading income             |           |      |
| Lower rate on first £100,000,000                | 10        | (10) |
| Standard rate on balance                        | 15        | (15) |
| * Resident Company – other income               |           |      |
| Higher rate on all income                       | 18        | (18) |
| * Non Resident Company – trading income         | <b>10</b> | (18) |
| * Non Resident Company – other income           |           |      |
| Higher rate on all income                       | 18        | (18) |
| All other taxable entities (except those at 0%) | 18        | (18) |

### **Tax thresholds**

|  |             |               |
|--|-------------|---------------|
| Single person                          | 10,000      | (10,000)      |
| Married couple                         | 20,000      | (20,000)      |
| Lower rate band for resident companies | 100,000,000 | (100,000,000) |

**NB The standard rate for resident individuals remains unchanged and therefore no replacement standard rate tables will be issued to employers.**

## 2. CLASS 4 NATIONAL INSURANCE CONTRIBUTIONS

The annual limits of profits between which Class 4 contributions are paid will be changed to (previous limits shown in brackets):-

|             |                |           |
|-------------|----------------|-----------|
| Lower limit | <b>£4,745</b>  | (£4,615)  |
| Upper limit | <b>£31,720</b> | (£30,420) |

### 3. NURSING EXPENSES

Since the announcement made by the Minister for the Treasury in 1999, the maximum deduction for relief in respect of nursing expenses has been increased in line with the single person's allowance. The Income Tax (Nursing Expenses) (Amendment) Order 2004 S.D. 73/04 increases the limit from £8,000 to £8,225 for the year of assessment commencing 6<sup>th</sup> April 2004.

### 4. BENEFITS IN KIND

#### Car Fuel

The cash equivalent table rates for car benefits and fuel provided by virtue of employment remain unchanged.

**Table A**

Cars with an original market value **up to** £19,250 and an internal combustion engine with one or more reciprocating pistons with a cylinder capacity calculated as for the purposes of the Licensing and Registration of Vehicles Act 1985.

| CYLINDER CAPACITY (CC) | CAR RATE                 |                 | FUEL RATE |
|------------------------|--------------------------|-----------------|-----------|
|                        | AGE OF CAR AT 05.04.2005 |                 |           |
|                        | UNDER 4 YEARS            | 4 YEARS OR MORE |           |
| 1400 or less           | £1,070                   | £710            | £970      |
| 1401 - 2000            | £1,980                   | £1,320          | £1,230    |
| More than 2000         | £3,140                   | £2,100          | £1,815    |

**Table B**

Cars with an original market value of **up to** £19,250 and not having a cylinder capacity

| ORIGINAL MARKET VALUE | CAR RATE                 |                 | FUEL RATE |
|-----------------------|--------------------------|-----------------|-----------|
|                       | AGE OF CAR AT 05.04.2005 |                 |           |
|                       | UNDER 4 YEARS            | 4 YEARS OR MORE |           |
| Less than £6,000      | £1,070                   | £710            | £1,815    |
| £6,000 - £8,499       | £1,980                   | £1,320          | £1,815    |
| £8,500 - £19,250      | £3,140                   | £2,100          | £1,815    |

**Table C**

Cars with an original market value of **more than** £19,250

| ORIGINAL MARKET VALUE | CAR RATE                 |                 | FUEL RATE<br>If car has a cylinder capacity use appropriate fuel rate at Table A above;<br><br>for all other cars use fuel rate at Table B. |
|-----------------------|--------------------------|-----------------|---|
|                       | AGE OF CAR AT 05.04.2005 |                 |   |
|                       | UNDER 4 YEARS            | 4 YEARS OR MORE |   |
| £19,251 - £29,000     | £4,120                   | £2,760          |   |
| More than £29,000     | £6,560                   | £4,360          |   |

**5. DONATIONS TO CHARITIES**

The Income Tax (Donations to Charities) (Amendment) Regulations 2004 S.D. 74/04 increases the maximum limit in respect of which individuals may claim income tax relief for donations to charities from £5,000 to £5,500 per annum. The new limit is effective from the year of assessment commencing 6<sup>th</sup> April 2004.

**6. DEEDS OF COVENANT**

The Income Tax (Deductions) (Prescribed Cases) (Amendment) Order 2004 S.D. 75/04 increases the maximum limit in respect of which individuals may claim income tax relief for covenanted educational payments for children and grandchildren from £5,000 to £5,500 per annum. The new limit is effective from the year of assessment commencing 6<sup>th</sup> April 2004.

**7. EXEMPT COMPANIES**

The Income Tax (Exempt Companies) (Fees) (Amendment) Regulations 2004 S.D. 78/04 increases the fees applicable to Exempt Companies from £430 to £450 in respect of the tax year commencing 6<sup>th</sup> April 2004 and subsequent years. There is no change in the higher rate for late applications which remains at £1200.

**8. LIMITED LIABILITY COMPANIES**

The Limited Liability Companies (Income Tax) (Fee) (Amendment) Regulations 2004 S.D. 79/04 increase the fees applicable to Limited Liability Companies from £430 to £450 in respect of the tax year commencing 6<sup>th</sup> April 2004 and subsequent years.

**9. INTERNATIONAL LIMITED PARTNERSHIPS**

The International Business (International Limited Partnerships) (Fees) (Amendment) Regulations 2004 S.D. 80/04 increase the fees applicable to International Limited Partnerships from £430 to £450 in respect of the tax year commencing 6<sup>th</sup> April 2004 and subsequent years.

## **10. OTHER MEASURES**

### **Regional Development Incentives**

The Income Tax (Capital Relief) (Commercial Buildings Allowance) (Ramsey) (Amendment) Order 2004 S.D. 77/04 and the Income Tax (Capital Relief) (Commercial Buildings Allowance) (Port St Mary) (Amendment) Order 2004 S.D. 76/04 extend the appropriate time limits by 1 year. This brings the incentive for Ramsey and Port St Mary in line with that applied to Peel. A review of the effectiveness of the incentives will be carried out during 2004. Any person wishing to make comments should forward them to the Income Tax Division by 30 June 2004 and address them for the attention of Ian Asbridge, Policy Officer.

### **Space Industry**

The 0% rate of income tax is to be extended to approved activities within the space and satellite industry. This is a small but exceedingly promising area and could encompass the manufacture, operation, sale or other activities provided in respect of launch vehicles, satellites or similar assets. Educational or other training activities directly associated with the industry will also be included in the list of approved activities. Detailed draft proposals will be published in a subsequent Practice Note.

### **Child Nursery Facilities**

Measures are to be brought forward that will provide an incentive to the provision of further places through the introduction of relief for capital expenditure on nursery premises. This will require a period of consultation with interested parties with the intention of bringing proposals to Tynwald in October. There are no immediate proposals to provide relief to individuals for the cost of nursery facilities.

Employers are reminded of the exemption from a benefit in kind tax charge of registered nursery or crèche facilities either provided or paid for at the expense of the employer where the facilities are necessary to enable an employee to attend at the place of employment to perform the duties of the employment. This has been in force since 1990. (GC No 448/89)

### **Extra-Statutory Concession: Employees Disabled at Work**

Treasury has approved an amendment to the concession covering pensions to employees disabled at work (GC No 282/91). It will no longer be a requirement for the injury or illness to be a discernible physical injury or illness. A revised concession will be issued shortly.

### **Review of Personal Allowance Credits**

A review is being carried out of the effectiveness of the personal allowance credit. Representations are invited from persons who feel they are being unfairly excluded from the scope of the credit or from any organisation that wishes to suggest improvements. Any person wishing to make comments should forward them to the Income Tax Division by 30 June 2004 and address them for the attention of Ian Asbridge, Policy Officer.

### **Temporary Taxation Order: Non-resident Rate of Income Tax**

An Order will be introduced to provide the legislative mechanism for the reduction in the non-resident rate of income tax for trading income.