



Isle of Man
Government

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PRACTICE NOTE

PN 79/99

Date:

Early Redemption Charges On Fixed Rate Mortgages

The Division has recently received a number of approaches from mortgage providers in the Island to clarify the taxation position for their borrowers where, due to falling interest rates, it has been financially beneficial for borrowers to break fixed term mortgage contracts, thus incurring penalty charges.

These charges, whilst the precise definition has varied between institutions (and indeed within an institution depending on when the mortgage was taken out), are predominantly linked to the monthly interest amount payable and the number of years or part years left to run on the term. The most common definition used for such charges has been that of 'penalty interest'.

The Division recognises that whilst there is no consistent approach by institutions as to the manner in which the charge is titled nor in the form of certification by which the charge is levied, the charge raised is linked to interest and will in any event be brought into charge as income by the relevant institution for income tax purposes.

Treasury has therefore agreed by concession that charges incurred by individual mortgage borrowers in the three years commencing 6th April 1998 by way of a penalty linked to monthly interest for the early redemption of a fixed rate home mortgage will qualify for relief for income tax purposes. This applies irrespective of the description of the charge within the mortgage contract.

This concession does not apply to any payment associated to the mortgage such as the standard fee chargeable for renewal of facilities etc, nor to any other penalty charge for early redemption on contracts other than personal home mortgages.

The Division has written to mortgage providers to advise them of the concession and confirmation has been requested of cases where such charges have been raised. This does not remove the obligation on the individual taxpayer to obtain the relevant certificate and make the appropriate claim for relief in the normal manner.

Any enquiries in respect of this matter should be addressed to the Technical Services Manager or by telephoning 685305.