



PRACTICE NOTE

PN 67/97

Date: 10 June 1997

Revised Procedures For Granting Double Taxation Relief

Introduction

The introduction of Self Assessment in the United Kingdom has led the Isle of Man Income Tax Division to review its procedures for granting double taxation relief where a U.K. source of income is involved. (The previous procedure was outlined in PN [61/96.PN](#))

The introduction of self assessment by the U.K. Inland Revenue now creates significant complexities in the management of the Block Claim arrangement, which are out of proportion to the declining number of Manx taxpayers who use it.

The Extra Statutory "Block Claim Arrangement" is terminated with effect from the 6th April 1997. Taxpayers affected will therefore receive a DTA(I) certificate from this Division, showing the amount of Manx tax charged on their U.K. Dividends so that they or their agent can make their own claims for Unilateral Relief direct to the Inland Revenue.

Procedures

1. Taxed U.K. Income:

With effect from the income year ended 5th April 1997, returns received which include taxed U.K. income will be assessed in one of two ways.-

U.K. PERSONAL ALLOWANCES

a) No claim made

Where an individual or their agent does not make a claim to the Inland Revenue, double taxation relief will be given on any U.K. taxed income provided that the relevant certificate or proof of tax paid is supplied in order to support the claim for relief.

b) Claim made

In cases where a claim is made, double taxation relief will be given provisionally in line with the computation submitted to the Inland Revenue. From the income year ended 5th April 1997 the Inland Revenue may not issue an assessment or computation of U.K. tax.

If there are several sources of U.K. income it will be necessary to retain a copy of the U.K. self assessment return made to the Inland Revenue as this may also be needed to help verify the eventual entitlement to double taxation relief.

This Division will continue to accept copies of U.K. certificates P60, P14 etc. as proof of U.K. tax deducted. Where a claim is made, a copy of the final statement from the Inland Revenue will also be required.

Important Change: Whether a claim is made to the U.K. or not, apart from U.K. dividends and debentures, the U.K. income will be aggregated for the purposes of determining the amount of double taxation relief. (See example 1)

2. U.K. Dividend and Debenture Income (incorporating Unilateral Relief)

U.K. dividend and debenture income will be assessed on the amount actually received except where U.K. additional higher rate tax has been paid. For Manx computational purposes the dividend and debenture income will be taken as the "top slice" of U.K. income. (See example nos. 2,3 and 4 attached.)

3. Income from a U.K. Property or Trade

It has been the Division's practice to accept the U.K. adjusted figure for income from a U.K. property or trade when including the source in a Manx assessment.

The Division will continue to accept the computation submitted to the Inland Revenue provided that no elements of capital relief inadmissible under Isle of Man rules are included.

During the transitional years for the introduction of the current year basis in the U.K. the Division will require accounts for each accountancy year end as usual.

4. Relief for Maintenance paid under a U.K. Court Order

The concessional practice to allow maintenance paid under a U.K. court order against U.K. liable income to the same extent that it is allowed by the Inland Revenue is no longer practical given the changes within the U.K. tax system.

With effect from the 1997/98 year of assessment the Division will allow maintenance paid under a U.K. court order against U.K. liable income to the extent of that income.

Example One

A single person age 60 is assessable to Manx Income Tax for the year 1997/98 on income from the following sources :-

IOM State Retirement Pension	2500	
IOM Bank Interest received	44000	
UK occupational pension	8000	PAYE deducted 860.40

Gross UK Rents	2000	Tax deducted 400.00
	56500	

1) U.K. Tax Payable per Self Assessment Return Form

Occupational Pension	8000
Gross UK Rents	2000
	10000
Less Personal Allowance	(3765)
Taxable Income	6235
Tax due on £3900 @ 20%	780.00
£2335 @ 24%	560.40
Total	1340.40

Average rate of tax = 13.40%

2) Isle of Man tax payable on Total Income:-

Total Income	56500	
Less Personal Allowance	(6800)	
	49700	
Tax due on £9270 @ 15%	1390.50	
£40430 @ 20%	8086.00	
Total	9476.50	(= A)

3) Tax on Total Income less U.K. Taxed Income

Isle of Man income	46500	
Less personal allowance	(6800)	
	39700	
Tax due on £9270 @ 15%	1390.50	
£30430 @ 20%	6086.00	
Total	7476.50	(= B)

The difference between A and B of £2,000 is more than the U.K. tax paid of £1340.40 and therefore the double tax relief is £1340.40.

If no claim is made, the original average rate of tax (Income £10,000, Tax paid £1260.40) of 12.60% is used to grant double tax relief of £1260.40.

Example Two

A single person age 62 is assessable to Manx Income Tax for the year 1997/98 on income from the following sources :-

A single person age 62 is assessable to Manx Income Tax for the year 1997/98 on income from the following sources :-	4000	
IOM Bank Interest received	3000	
IOM Share of Profits	2000	
UK Rental Income	10000	Tax deducted 2400.00
* UK Net Dividends	8000	Tax credit 2000.00
* UK Building Society Interest received	2000	
Total	29000	
*Excluded income		

1) U.K. Tax Payable on Income Arising in the U.K.

UK Rental Income	10000	Tax 2400.00
UK Dividends, Gross	10000	Tax Credit 2000.00
UK Building Society Interest, Gross	2000	
Total Income	22000	
Less Personal Allowance	(3765)	
Taxable Income	18235	
Tax due on £3900 @ 20%	780.00	
£12000 @ 20%	2400.00	
£2335 @ 24%	560.40	
Normal Tax Liability	3740.40	(= a)
Applying Section 128 (1) limit :-		
Total Income	22000	

* Less Excluded Income	(12000)	
Chargeable	10000	
Disregard Personal Allowances		
3900 @ 20%	780.00	
6100 @ 24%	1464.00	
	2244.00	
Plus tax deducted at source		
	2000.00	
on excluded income		
Therefore limit of tax chargeable	4244.00	(= b)

As (a) is less than (b) Section 128(1) limit does not apply - Tax due 3740.40

2) Isle of Man tax payable on Total Income: -

Total Income	29000	
Less Personal Allowance	(6800)	
	22200	
Tax due on £9270 @ 15%	1390.50	
£12930 @ 20%	2586.00	
Total	3976.50	(= A)

3) Tax on Total Income less U.K. taxed income

Total Income	29000	
Less UK taxed income (excluding Divs.)	(12000)	
	17000	
Less Personal Allowances	(6800)	
	10200	
Tax due on £9270 @ 15%	1390.50	
£930 @ 20%	186.00	
Total	1576.50	(= B)

4) Calculation of Manx Tax Charged on U.K. Dividends

Total Income	29000
Less UK taxed income (excluding divs.)	(12000)
Less UK net dividends	(8000)
	9000
Less Personal Allowances	(6800)
	2200
Tax due on £2200 @ 15%	330.00

For the purposes of calculating double tax relief, UK dividends and debentures are charged Net. All other UK income is aggregated and Double Tax Relief is given based on the UK tax paid on that income. (The UK tax charged on the dividends is 1 0,000 @ 20%)

UK tax paid on £5900 @ 20%	1180.00
£2335 @ 24%	560.40
	1740.40
Average rate = 14.50	

The Double Tax Relief is the lower of :-

Either the UK tax paid of £ 1740.40

Or

The Manx tax charged on the income which is the difference between (A) and (B) £ 2400.00

The Double tax relief is therefore £ 1740.40

Example Three

A married person age 63 is assessable to Manx Income Tax for the year 1997/98 on income from the following sources :-

UK Pension	18000
UK Rental Income	7500
* UK Untaxed Interest	5000
* UK Net Dividends	3200 Tax credit 800.00
* UK Building Society Interest received	2500

National Insurance Retirement Pension	4000
IOM Bank Interest received	10000
	50200
* Excluded income	

1) U.K. Tax Payable on Income Arising in the U.K.

UK Pension	18000
UK Rental Income	7500
* UK Untaxed Interest	5000
* UK Dividends Gross	4000
* UK Building Society Interest Gross	2500
	37000
Less Personal Allowances	(3765)
Chargeable	33235
Tax due on [39001 + 37652] £7665 @ 20%	1533.00
£17835 @ 24%	4280.40
£7735 @ 40%	3094.00
	8907.40
Less adjustment for Married Allowance	(268.50)
Normal Tax Liability	8638.90 (= a)
Note1 Non-investment income:	
Pension	18000
Rents	7500
	25500
Less Personal allowance	(3765)
	21735
Taxed: £3900 @ 20%	
£17835 @ 24%	
Note2 Investment Income ("Top slice" for UK purposes)	
Untaxed Interest	5000
Dividends, gross	4000

Building Society Interest	2500
	11500
Basic rate band limit is £25500	
Already used on non-investment income £21735	
Leaves : £3765 @ 20%	
Balance : £7735 @ 40%	
Applying Section 128 (1) limit :-	
Total UK Income	37000
Less Excluded Income	(11500)
Chargeable	25500
Disregard Personal Allowances	
3900 @ 20% =	780.00
21600 @ 24% =	5184.00
	5964.00
Plus tax deducted at source on excluded income	800.00
Therefore limit of tax chargeable	6764.00 (=b)
As (b) is less than (a) Section 128(1) limit applies - Tax due £6764.00	

Concessionally for Isle of Man Tax purposes, dividends will be taken as the "top slice" of income. Therefore, as there is no higher rate tax paid, dividends of £3200 will be assessed net in the above example. The remaining UK income of £33,000 has suffered UK tax of £5,964, giving an average rate of 18.07%

2) Isle of Man tax payable on Total Income:-

Total Income	50200
Less Personal Allowance	(13600)
	36600
Tax due on £18540 @ 15%	2781.00
£18060 @ 20%	3612.00
Total	6393.00 (=A)

3) Tax on Total Income less UK taxed income

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Total Income	50200
Less UK income	(33000)
	17200
Less Personal Allowances	(13600)
	3600
Tax due on £3600 @ 15%	540.00 (=B)

As A minus B (£5,853) is less than the UK tax charged on the UK other income of £5964 and therefore the double tax relief will be £5,853.00.

A DTA 1 will be issued for the U.K. net dividends of £3,200.00.

Example Four

A married person age 62 is assessable to Manx Income Tax for the year 1997/98 on income from the following sources :-

UK Pension	20000
UK Rental Income	7500
* UK Net Dividends	9200 Tax credit 2300.00
National Insurance Retirement Pension	4000
IOM Bank Interest received	10000
	50700
*Excluded income	
1) UK Tax Payable on Income Arising in the UK	
UK Pension	20000
UK Rental Income	7500
*UK Dividends Gross	11500
	39000
Less Personal Allowance	(3765)
Chargeable	35235
Tax due on [39001 + 17652] £5665 @ 20%	1133.00
£19835 @ 24%	4760.40
£9735 @ 40%	3894.00
	9787.40

Less adjustment for Married Allowance	(268.50)
Normal Tax Liability	9518.90 (= a)
Note 1 Non-investment income:	
Pension	20000
Rents	7500
	27500
Less Personal allowance	(3765)
	23735
Taxed : £3900 @ 20%	
£19835 @ 24%	
Note 2 Investment Income ("Top slice" for UK purposes)	
Dividends, gross	11500
Basic rate band limit is	£25500
Already used on non-investment income	(£23735)
Leaves:	£1765 @ 20%
Balance:	£9735 @ 40%
Applying Section 128 (1) limit :-	
Total Income	39000
Less Excluded Income	(11500)
Chargeable	27500
Disregard Personal Allowances	
3900 @ 20% =	780.00
21600 @ 24% =	5184.00
2000 @ 40% =	800.00
	6764.00
Plus tax deducted at source on excluded income	2300.00
Therefore limit of tax chargeable	9064.00 (=b)

As (b) is less than (a) Section 128(1) limit applies - Tax due £ 9064.00

Concessionally for Isle of Man Tax purposes, dividends will be taken as the "top slice" of income. Therefore Double Tax Relief at the marginal rate will be granted on the net dividends of £ 1,600 (2,000 x 80%) in the above example. The remaining UK dividends of £7,600 will be assessed net.

The UK income of £27,500 has suffered UK tax of £5,964.00, giving an average rate of 21.69%.

2) Isle of Man tax payable on Total Income :-	
Total Income	50700
Less Personal Allowance	(13600)
	37100
Tax due on £18540 @ 15%	2781.00
£18560 @ 20%	3712.00
Total	6493.00 (=A)

3) Tax on Total Income less UK net dividend income that has suffered additional tax at 25%

Total Income	50700
Less dividends	(1600)
	49100
Less Personal Allowances	(13600)
	35500
Tax due on £18540 @ 15%	2781.00
£16960 @ 20%	3392.00
Total	6173.00 (=B)

4) Tax on Total Income less other UK taxed income

Total income	50700
Less dividends	(1600)
	49100
Less Personal Allowances	(13600)
	35500
Tax due on £18540 @ 15%	2781.00
£16960 @ 20%	3392.00
Total	6173.00 (=B)

4) Tax on Total Income less other UK taxed income

Total Income	50700
Less UK dividends	(1600)
Less UK other income	(27500)
	21600
Less Personal Allowances	(13600)
	8000
Tax due on £8000 @ 15%	1200.00 (=C)

As A minus B (£320.00) is less than the additional tax paid on the UK net dividends of £400.00, the double tax relief will be £320.00.

B minus C (£4973.00) is less than the UK tax charged on the UK other income of £5964.00 and therefore the double tax relief will be £4973.00.

A DTA(1) certificate will be issued for the remaining £7600 UK net dividends.