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## **PRACTICE NOTE**

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**PN 44(5)/93**

**Date: 6<sup>th</sup> April 1993**

### **Budget 1993- Income Tax Proposals**

#### **Review Of Residence Rules - Individuals**

Residence is an important concept for determining the extent of a person's liability to income tax. Little guidance is given by the Income Tax Acts other than in cases of temporary visits and temporary absences.

Apart from these few statutory guidelines the remainder of the residence rules are made up of a series of precedents and practices. Although generally they present no problems, the time has come to codify those rules and embody them. within the Income Tax Acts.

Discussions will be taking place later in the year with the appropriate professional bodies with a view to drawing up amending legislation.

#### **Review Of I.T.I.P./N.I.C. System For Employers**

Under the system which has been in operation since 1974, employers are required to account for I.T.I.P and N.I.C. deductions on a monthly basis. A monthly remittance card has to be forwarded along with the relevant payment no later than the 19th of each month.

In conjunction with the relevant employers, associations and professional advisers a review is to be carried out to determine whether the present administrative system can be streamlined, particularly for the employer with only a few employees. At the same time it is the intention to investigate whether employers could manage to operate a cumulative system of I.T.I.P. rather than the non-cumulative approach currently adopted.

Advance notification of agreed changes would be given to enable the appropriate alterations to be made to both manual and computer based payroll systems. In any event, no changes would be introduced before the start of the 1994/95 income tax year.

#### **Arrears Of Tax Arising Through Official Error**

The Division is reviewing its procedures where arrears of tax arise because of the failure of the Division to make proper and timely use of information supplied by the taxpayer about his income and personal circumstances such that it would be reasonable for that person to believe that his or her tax affairs were in order. One example could be the granting of

excessive personal allowances or reliefs, another could be an error in the amount of double taxation relief given.

The intention is to consider a relief based on:-

- Level of tax underpaid.
- Time taken to discover the error.
- Taxpayers ability to pay the tax underpaid.

Discussions will be taking place via the consultative bodies to determine a framework within which to operate the extra statutory concession, which will be introduced no later than the 6th April 1994.

This concession will only apply to individuals and not to companies.

## **Douglas 2000 Project**

The Treasury Minister in his Budget speech gave full support to the initiatives being undertaken in developing the concept of the Douglas 2000 project. In particular -

"the concept of an international finance zone within that development holds exciting concepts for the future and if progressed would provide a valuable stimulus to the Island's economy".

To assist in its development, the following taxation initiatives are being considered:-

- Capital allowances for commercial buildings.
- Tax holidays for rental income arising on development properties.
- Collective investment scheme to provide development capital with tax relief for investors.
- Special tax arrangements for key personnel who come to the Island on a temporary basis to set up high value operations.

These and other measures will be progressed over the coming months with a view to introducing legislation in the Income Tax Bill in 1994.