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## PRACTICE NOTE

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**PN 44(2)\_93**

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

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

THIS PRACTICE NOTE IS AMENDED BY PN 47/93 DATED 17TH DECEMBER 1993

#### **Introduction**

With effect from the 6th April 1993, the Income Tax Division will make a non-taxable interest payment to a person who receives a refund of overpaid income tax which satisfies certain conditions. This payment is called a REPAYMENT SUPPLEMENT and will be made automatically by the Division.

The enabling legislation is contained in Section 79 of the Income Tax Act 1989 which inserts a new Section 107A in the Income Tax Act 1970. This has been brought into operation by the Income Tax Act 1989 (Appointed Day) Order 1993

In addition the rate of interest has been set at 6% by the Income Tax (Repayment of Supplements) Regulations 1993.

#### **Conditions**

The conditions which need to be satisfied are:-

- the person was resident for the year of assessment to which the repayment relates;
- the repayment is not less than a minimum amount;
- the repayment is made late.

#### **Minimum Repayment**

A repayment supplement will only apply to repayments of resident income tax for a year of assessment which are not less than:-

- £100 in the case of an individual; OR
- £250 in the case of an association.

Where more than one refund is made for the same year of assessment the amounts are aggregated for the purpose of the above limits.

## **Late Repayment**

A repayment is made late if it is made:-

1. More than 12 months after the end of the year of assessment for which the tax was payable; AND
2. After the end of the income tax year in which the tax was received by the Division.

For this purpose, I.T.I.P. is treated as being paid in the year in which it was deducted and is a payment for that year.

Where a repayment is made up of tax paid at different times it will be treated as being met out of the latest payment rather than the earlier one.

The date from which it becomes a late repayment is known as the "relevant time" and in any event may not be earlier than the 6th April 1993.

### **Example 1**

1991/92 year of assessment:-

1. I.T.I.P. deducted during the year was £500
2. Subsequent assessment resulted in a further tax payment of £300 which was made on 8th September 1992.

If a refund became due it would be met out of the £300 first and then the I.T.I.P. For the refund to be made late it would have to be made after 5th April 1993, i.e. 6th April 1993 is the relevant time.

### **Example 2**

If in the above example the direct payment of £300 had not been made until 5th July 1993, any refund of that tax would not be "late" if it was repaid before 6th April 1994, i.e. 6th April 1994 is the relevant time for the £300 and 6th April 1993 for the I.T.I.P..

## **Method Of Notification**

For technical reasons it will not be possible to add the repayment supplement to the tax being refunded and issue one cheque for both amounts.

Instead, a certificate setting out details of the repayment supplements due will be enclosed with the tax refund and a separate cheque for the supplement will follow. (See Appendix B).

Where the tax being refunded is set-off against existing arrears a repayment supplement will still be due and if necessary that will also be set-off against any outstanding tax debts. In such instances the person concerned will still receive a certificate advising the action taken.

## Calculation Of Supplement

A supplement is an interest calculation from the relevant time up to the end of the tax month in which the tax refund is made.

Relevant time -	date from which a refund becomes late (may not be earlier than 6th April 1993).
Tax Month -	commences on 6th of the month and ends on 5th of the following month, e.g. 6th May to 5th June.

### Example 3

1991/92 Assessment -	refund of I.T.I.P. of £600 made on 20th July 1993.
Relevant time -	6th April 1993 (12 months after end of year of assessment).
Interest up to -	5th August 1993 (end of tax month on which repayment is made).
Interest -	6% for 4 months on £600

### Further Advice

Examples of repayment supplement calculations are set out in Appendix A. Further advice can be obtained from the Income Tax Division.

## Appendix A

### REPAYMENT SUPPLEMENT CALCULATIONS

#### Example 4 - Company

1991/92 Assessment - tax payable of £1,200 and payment received on 3rd January 1992.

Subsequent refund of £200 on 8th June, 1993.

No repayment supplement as the payment is less than £250.

#### Example 5 - Individual

1990/91 Assessment - tax payable of £4,000 and payment received on 4th March 1991.

Subsequent refund made of £1,000 on 3rd August 1993.

Relevant time - 6th April 1993 (earliest date permitted).

Interest up to - 5th August 1993 (end of tax month in which tax refund made).

Repayment Supplement: 6% for 4 months on £1,000 = £20.00

## **Example 6 - Individual**

1991/92 Assessment - tax payable of £6,000

I.T.I.P. deductions £4,000

Payment of £2,000 on 30th September 1992. Subsequent refund of £2,500 on 14th September 1993.

Refund of £2,500 will be treated as £2,000 of the payment made 30th September 1992 and £500 out of I.T.I.P.

Relevant time £2,000 - 6th April 1993

£500 - 6th April 1993

Interest up to 5th October 1993.

Repayment Supplement: 6% for 6 months on £2,500 = £75.00

## **Example 7 - Company**

1991/92 Assessment - tax payable of £4,000

Provisional liability of £3,000 paid 3rd January 1992.

Final payment of £1,000 paid 26th April 1993

Subsequent repayment of £1,500 made on 10th February 1994.

Relevant time £1,000 - 6th April 1994

£500 - 6th April 1993

Tax Month of refund - 5th March 1994.

Only the £500 qualifies for repayment supplement.

Repayment Supplement: 6% for 11 months on £500 = £27.5