



**Isle of Man**  
Government

*Reilhtys Ellan Vannin*

# The Treasury *Yn Tashtey*

Assessor  
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**INCOME TAX DIVISION**

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## PRACTICE NOTE

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**PN 9/86**

**Date: 27<sup>th</sup> October 1986**

### **Modified I.T.I.P - Estimates Of Interest To Be Paid**

From 6th April 1987, people in employment in the Isle of Man and people receiving Manx occupational pensions will be assessed to Income Tax on their actual earnings (or pension) for the year of assessment, instead of the earnings of the previous year of assessment. Also from 6th April 1987, relief will be given to individuals for interest actually paid in the year of assessment, instead of interest paid in the previous year of assessment.

To arrive at the correct amount of I.T.I.P. to be deducted from earnings, each employer will be sent a code number for each of his employees. The code number will reflect the employees entitlement to personal allowances and deductions, including interest paid.

When someone takes out a new loan or mortgage, he is likely to want to have interest included in his code (in the case of an employed person) or assessment (in the case of a self-employed person). Banks are therefore likely to receive more requests than at present for estimates of interest paid:

- a) from the date the loan is taken out to the subsequent 5th April; and
- b) for the next full tax year.

For existing mortgages and loans, the Assessor will estimate the amount to be paid in the year, on the basis of the amount paid the previous year, it follows that if the mortgage or loan is paid off during the year, the Assessor's estimate will be too high and too little tax will be collected during the year. Accountants' attention is drawn to the space for "Any Other Information" on the Return Form: it would be appreciated if accountants could indicate on clients' Returns if it is known in advance that a loan or mortgage will be paid off within the next year of assessment. A penalty is now eligible where anyone fraudulently or negligently fails to make or deliver a return.

The time limits are:

1. 562 Income Tax Act 1970, by 30 June;
2. S3 ITA 1970, within three months of the end of the year of assessment during which self employment commenced;
3. S5 ITA 1970, within three months of the end of the year of assessment during which residence in the Isle of Man commenced

It is thus very important for people newly liable to Manx Income Tax to notify the Assessor so that he can issue the necessary Return Forms. The pre 1986 legislation did provide for penalties in certain of these cases: the new enactment strengthens the existing legislation. In practice, the Assessor does not intend to charge a penalty under the new legislation in minor cases where the income which has escaped tax is small or where the return is only slightly late: practical difficulties in submitting returns on time are already recognised and due lee-way will continue to be given. A penalty is likely to be charged if two or more returns are submitted late and the tax escaped is substantial, but a penalty is unlikely if a default assessment already exists which charges only slightly less than the correct amount of tax.

### **Iii Mitigation Of Penalties**

As most accountants will know, the Assessor has concessionally mitigated penalties on a structured basis since the inception of the Income Tax Investigation Section. He is now empowered to do so by statute. The 1986 amendments are effective from the date the Act was announced to Tynwald, 17 June 1986, but where investigation cases were all but concluded under the operation of the pre 1986 legislation, penalties will be mitigated to have the same effect as if the investigation had been settled before then.

## **4. Interest An Tax Lost Through Taxpayer's Default**

Section 111B Income Tax Act 1970 extends the interest charge on overdue tax under Section 111A ITA 1970 where an assessment has been made for the purpose of making good a loss of tax wholly or partly attributable to the fraud, wilful default or neglect of any person. The interest will start to accrue from 1 January in the year which the assessment relates until the tax is paid. Because Section 111A ITA 1970 was not effective until 1 January 1986, neither is Section 111B ITA 1970. Its application will be effective in future years.

### **Example**

Income omitted relates to 1988/89 year of assessment

Omission discovered in September 1992

Assessment raised in November 1992 (when tax etc. involved has been agreed)

tax paid 1 December 1992

Interest due from 1 January 1989 to 1 December 1992

The Assessor has power to mitigate interest under Section 111A (5) ITA 1970, so no interest under Section 111B will be charged on any penalty included in the assessment for any period before the tax becomes payable following the issue of the assessment, i.e. it is not intended to penalise anyone twice for the same duty. The structure for mitigation of penalties will also be adjusted as Section 111B is brought into operation, so that the penalties and interest together charged in an investigation settlement will not be any more onerous than at present. In future where minor amounts of income have been omitted it may be that interest will be charged under Section 111B ITA 1970 and no penalty will be exacted.

## **Accountants And Banks**

NOTE Your attention is particularly drawn to item B 3(ii) of the attached Statement of Practice.