The Treasury
- Yn Tashtey
ITD
Income Tax Division

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The Taxation Strategy

2012-2016

Consultation Background Information

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1. Introduction

The Isle of Man's taxation policies have played an important part in our economic success and previous public taxation strategies have been very useful for signalling the direction that Treasury is taking.

In 2000, Tynwald approved the Treasury's taxation strategy. The strategy was subsequently modified in 2002 to meet the twin challenges of the European Union's Code of Conduct for Business Taxation and its Directive on the Taxation of Savings Income (commonly known as the "EUSD"), and it has continued to evolve in subsequent years.

In his 2012 Budget speech, the Treasury Minister, Hon Eddie Teare, MHK, gave a commitment to publishing a new taxation strategy before the end of this year which, if supported by Tynwald, will indicate the areas of the taxation system which he would like to update during his time in office.

As part of the preparation of that strategy, Treasury is issuing a consultation document to stimulate debate and to seek views on future changes to our taxation and national insurance systems. The purpose of this information pack is to make available income tax and national insurance data which people may find useful when considering the contents of the consultation document.

2. Population

The Isle of Man's population is growing. At the census in March 2011 it was 84,497, representing an increase of 5.5% since 2006 and 10.7% since 2001.

The structure of the Island's population continues to change, with the proportion of people of working age increasing faster than the non-working proportion in recent years.

In 2011, 63.7% of the population were of working age and 21.1% were of retirement age. In 2006, these figures were 61.8% and 20% respectively.

The economically active workforce totalled 44,609 in 2011, up from 41,793 in 2006 and 39,685 in 2001.

As a consequence, the last decade has seen what is known as our dependency ratio (the number of children and those of retirement age shown as a percentage of those of working age) holding at a fairly steady level, as shown in the table below.

Age range	2001	2006	2011
0 to 15 years	14,509	14,571	15,036
Working age	47,081	49,485	51,614
Retirement age	14,725	16,002	17,847
Total	76,315	80,058	84,497
Dependency ratio	0.62	0.62	0.64

However, current projections indicate that during the period 2006 to 2026:

- the population of the Isle of Man will grow by 14%;
- the number of people aged 65 and over will grow by 59%; and
- the number of people aged 75 and over will grow by 63%.

3. Economy

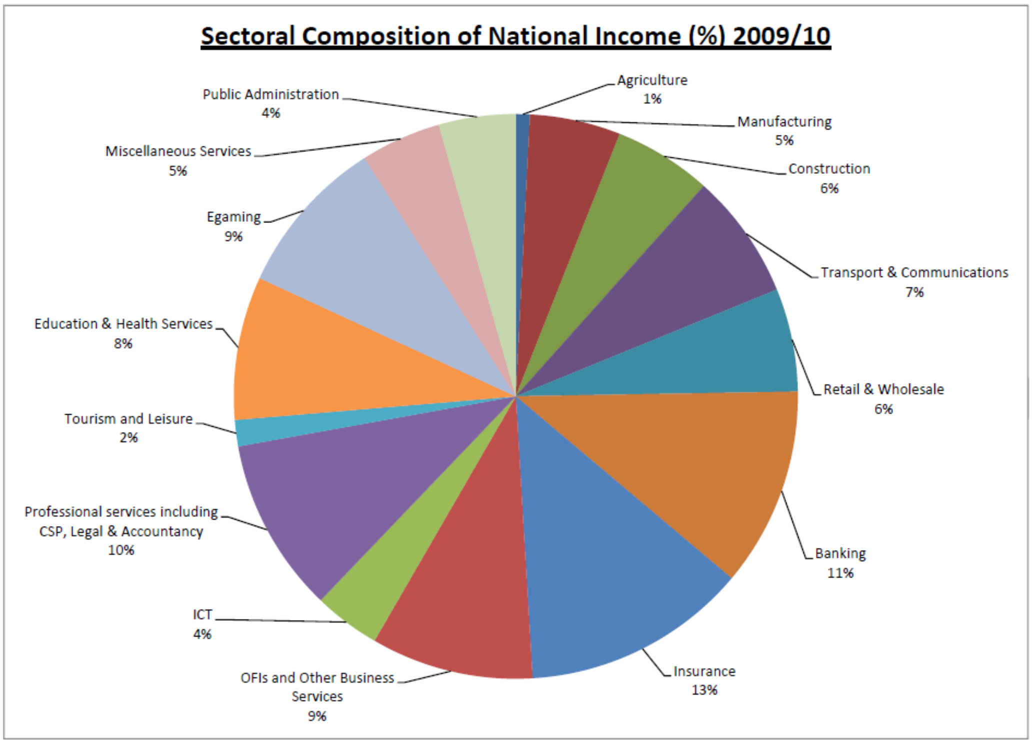
The Isle of Man has continued to have one of the fastest growing economies in Europe in recent years, with 2009/10 (the most recent year for which we have detailed information on the economy) being the twenty-seventh successive year of economic growth for the Island. Business is attracted by the Island's competitive tax regime, professional expertise, supportive government, world-class telecommunications infrastructure and sound financial regulation.

The value of goods and services produced (or gross domestic product) in the Isle of Man economy in 2009/10 rose to over £3.25 billion, a growth of 2.1% in real terms over the previous year.

The finance sector accounted for 34% of the Island's national income, with insurance being the largest single contributor (13%).

Real growth, (that is when the impact of price inflation is stripped out), of over 40% was seen in the e-gaming sector and there was an almost 15% increase in the size of the information and communications technology sector. Real growth above the national average was also seen in general manufacturing, food and drink production, mining and quarrying, corporate services and wholesaling.

However, the banking sector contracted by approximately 25%, a direct consequence of the global financial crisis, and there was also some contraction in the engineering, retail and insurance sectors.



For 2009/10, the Island's per capita national income was 19% higher than in the United Kingdom (UK), compared to a 13% differential in 2005/06, and a 17% differential in 2007/08.

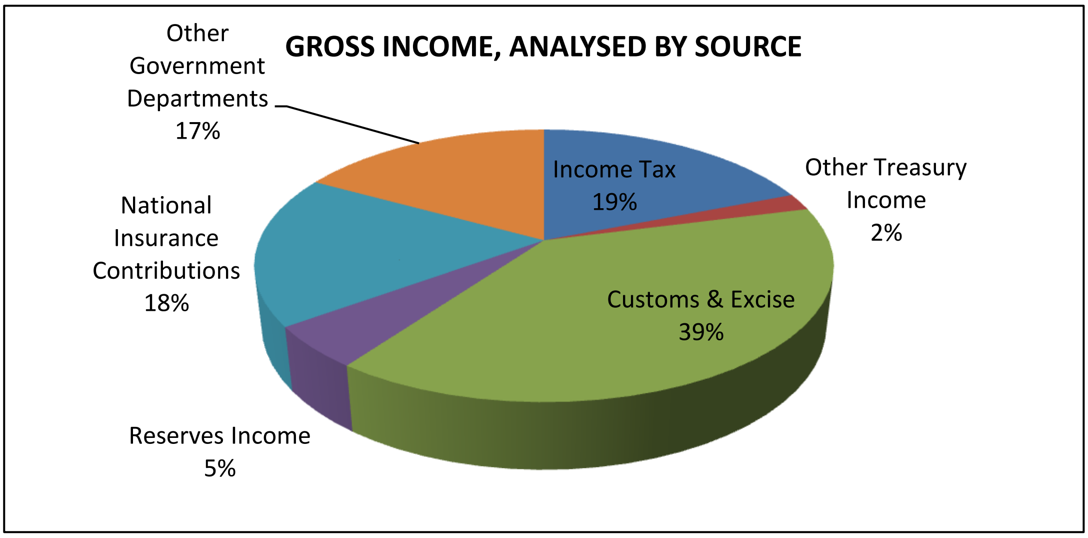
While all of the above data relate to the year 2009/10 and do not necessarily reflect the current position of the Island's economy, most economic indicators point to the economy having continued to expand further since then.

4. Sources of Government receipts

During 2010/11, the gross income of the Government from all sources was £910.3 million, with Treasury income totalling £594 million.

This was a decrease from the previous year of £38.7 million, which was mainly due to reduced taxation receipts (both indirect and direct).

Direct taxation receipts accounted for 19.4% of the overall Government income, and national insurance contributions (NIC), which totalled £164 million, accounted for 18% of the overall Government income.



Government revenue is derived from three principal sources.

Income tax

This is our only form of direct taxation as we have no capital gains tax, stamp duty or inheritance tax.

Indirect taxation

The Isle of Man is in a customs union with the UK. A 1979 Customs and Excise Agreement between the two countries provided for a revenue sharing agreement (RSA) and, for the purposes of trade in goods and value added tax (VAT) the two countries form a single area which in effect extends to the whole of the European Union.

In 2009, the RSA was renegotiated with the outcome being that it would be calculated on the basis of the ratio of total Isle of Man gross national income (GNI) to the total of the UK and Isle of Man GNI.

Further renegotiation took place in 2011, and the result was that the share of pooled revenue received by the Isle of Man will, in future, be based on a Tax Base Measurement Method that takes account of the size and composition of the Isle of Man economy. The details of how it is to be implemented and maintained by both administrations is currently being developed.

National insurance contributions

National insurance is levied on salaries and self-employment income, and is used to finance state benefits. We have a reciprocal agreement with the UK which means that the Island largely follows UK NIC legislation. However, in recent years the Island has adopted different NIC rates from those in the UK; which has given Treasury a degree of flexibility in the amount of revenue it raises.

Given the close alignment between the Isle of Man and UK indirect taxation and NIC systems, there is at present little room for variance in these areas. However, our direct taxation system is unique, and while this gives us opportunities to encourage economic activity of various kinds, we must also recognise that its retention depends to an extent on sustained economic growth.

5. Treasury income

The income received by Treasury in 2010/11 is detailed in the table below.

Source	£
Income tax	
Resident tax – including ITIP	148,488,000
Company tax	18,738,000
Non-resident tax	4,262,000
Sub-contractors	3,193,000
EUSD retention tax	2,075,000
Income tax total*	176,756,000
National insurance	
Class 1	157,894,737
Class 2	653,155
Class 3	249,586
Class 4	5,239,329
National insurance total	164,036,807
Indirect taxes	352,777,000
Other Treasury income	14,589,000
Treasury reserves income**	49,871,000
TOTAL	**758,029,807**

* Income reported in the Detailed Government Accounts (GD 0014/11) was £173.7 million. The difference between this figure and that above arises from movements on debtor balances not included within the Detailed Government Accounts, which are prepared on a cash basis for income tax income.

** Receipts, income and realised investment income in respect of Treasury's external and internal reserve funds.

6. Income tax receipts

In the Isle of Man, income tax is payable by residents on their worldwide income from all sources, less any personal allowances, and subject to the application of any allowable deductions (see section 8.5 for further details).

Non-residents are also liable to Manx income tax on certain income arising in the Isle of Man, e.g. rental income.

The tax system for companies is similar: resident companies are taxed on worldwide income and non-resident companies are taxed on certain Manx income only (see section 9 for further details).

The table below shows a breakdown of the income tax collected during 2010/11.

Source	£ (m)			
Individuals	50.71			
ITIP	101.87			
Sub-contractors	3.19	155.77		
Companies		17.89		
Non-resident		4.69		
EUSD retention tax		2.07		
Interest on overdue tax		0.40		
Late return penalties		1.04		
			181.86	
Repayment supplement on overpaid tax		(0.09)		
Personal allowance credit		(7.30)		
Superannuation		0.08		
Class 4 NIC relief		(0.87)		
			(8.18)	
			£173.68	*

* Income reported in the Isle of Man Government Accounts (GD 0037/11) was £176.76 million. The difference between this figure and that above arises from movements on debtor balances as the Detailed Government Accounts are prepared on a cash basis for income tax income.

Individuals

Tax is collected directly from individuals through the annual assessment and payment on account process (see section 8.7 for details of this process). The figure stated is net of refunds of £20.86 million.

ITIP

The Income Tax Instalment Payment system, or ITIP, is the process whereby income tax is deducted by an employer, on a weekly or monthly basis, and paid to the Income Tax Division.

Sub-contractors

This is tax collected through the sub-contractors' scheme; usually from the construction industry. It is similar to the ITIP system.

Companies

The tax paid by corporate taxpayers. The figure stated is net of refunds of £1.49 million.

Non-resident

This tax is collected from taxpayers who are not resident in the Isle of Man but who have income arising in the Island, such as rent from property. The figure stated is net of refunds of £1.24 million.

EUSD retention tax

The aim of the EU Directive on the Taxation of Savings Income, which came into force on 1 July 2005, was to have automatic exchange of tax information between countries. However, during a transitional period, it allowed for an alternative withholding tax to be deducted from savings income (15% until 2008, 20% from 1 July 2008 until 2011 and 35% from 1 July 2011). Most of the countries in the EU, including the UK, introduced the exchange of information regime. Three EU members (Austria, Belgium and Luxembourg) and many of the non-EU countries involved, including the Isle of Man, introduced the transitional withholding tax system (retention tax). Notwithstanding the withholding tax system, individuals could elect for exchange of information if they wished. Of the retention tax levied, 25% is retained by the Isle of Man authorities and 75% is transferred to the EU member state of residence of the beneficial owner of the interest.

In adopting a report on the International Taxation Strategy at the July 2009 sitting of Tynwald, Treasury's recommendation that the Isle of Man should inform the EU and its member states that it would end the EUSD transitional arrangements on 1 July 2011 was accepted: with the effect that the withholding tax option is no longer available to EU residents who invest in Isle of Man banks and who now only have the option of automatic exchange of information (EOI).

Interest on overdue tax

Interest is charged on late payments of income tax.

Late return penalties

Penalties are collected from individuals, companies and employers who fail to submit their tax returns on time.

Repayment supplement on overpaid tax

Interest is paid to taxpayers when the Income Tax Division has held a balance of tax that it has later found was not due.

Personal allowance credit

The personal allowance credit system makes payments to individuals whose income falls below the personal allowance.

Superannuation

Tax relief is granted for superannuation payments. However, if the superannuation is repaid to the individual for any reason, a tax charge is made to account for the relief previously granted.

Class 4 NIC relief

This relief provided for a tax deduction equal to a specified percentage of the Class 4 contributions of a self-employed person. Since 6 April 2011 the deduction has been reduced to zero. No tax relief is available for any other class of NIC.

7. Taxpayer base

The following tables show the number of taxpayers at the end of each of the last six tax years. Taxpayers are classified as either 'live', (required to submit an annual tax return) or 'suspended' (suspended at the discretion of the Income Tax Division from the requirement to submit an annual tax return, e.g. individuals with an income lower than the personal allowance, dormant companies, etc).

Taxpayer	Live					
	2011/12	2010/11	2009/10	2008/09	2007/08	2006/07
Individuals	73,497	72,901	71,501	72,157	72,124	72,829
Company	25,184	24,767	25,845	28,129	29,395	26,764
Trust	6,182	6,107	5,757	6,118	4,304	3,256
Partnership	1,340	1,365	1,740	1,760	1,710	1,230
Settlement	232	237	262	489	326	221
Charity	472	473	474	474	476	478
Association	75	79	83	78	74	73
Public body	78	77	77	77	77	75
Total	**107,060**	**106,006**	**105,739**	**109,282**	**108,486**	**104,926**

Taxpayer	**Suspended**					
	2011/12	**2010/11**	**2009/10**	**2008/09**	**2007/08**	**2006/07**
Individuals	3,293	3,463	4,101	2,508	2,293	415
Company	5,893	6,552	5,844	4,677	3,897	7,868
Trust	610	644	630	559	987	1,470
Partnership	3	1	2	2	638	2
Settlement	18	18	21	4	58	57
Charity	1	1	16	0	0	0
Association	7	5	2	2	3	2
Public body	0	0	0	0	1	0
Total	**9,825**	**10,684**	**10,616**	**7,752**	**7,877**	**9,814**

Over the six year period there has been an increase of 2,145 in the overall number of taxpayers. While the number of suspended cases has fluctuated over the years it remains between 6% and 9% of the taxpayer base.

Individuals and companies can have more than one status in our tax system. For example, in addition to being a taxpayer, an individual can also be an employer, and a company can be both an employer and a contractor: each of which is subject to a different set of obligations. The table below shows the main roles other than being taxpayer, and their number at the end of each of the last six tax years.

Role	**Live**					
	2011/12	**2010/11**	**2009/10**	**2008/09**	**2007/08**	**2006/07**
Employer	4,170	4,126	4,037	3,986	3,937	3,851
Contractor	557	582	589	582	575	560
Third Party Payer*	94	126	141	173	198	314
Third Party Information Supplier**	42	44	44	46	51	57
Total	**4,863**	**4,878**	**4,811**	**4,787**	**4,761**	**4,782**

* Third party payers are taxpayers who deduct tax at source and submit it on behalf of another, e.g. tax due on rent paid to a non-resident.

**Third party information suppliers are, in the main, banking companies who are required under Section 78 of the Income Tax Act 1970 to make returns detailing interest paid to Manx residents.

There has been an increase of 319 in the overall number of employers; the numbers of contractors and third party information suppliers has remained steady but the number of third party payers has reduced significantly due to changes in both legislative and internal practice.

8. Taxation of individuals

8.1 Overview of rates and allowances

Taxpayers are granted a personal allowance. This is the amount of income they can receive free of tax and is dependent upon their circumstances, e.g. their age, whether or not they are single, etc. Income above the personal allowance but below a specified threshold will be taxed at the lower tax rate (which can also be described as the 10% rate band); and any income above that threshold is taxed at the higher rate.

The personal allowances, tax rates and the tax rate threshold for 2012/13 are shown below.

PERSONAL ALLOWANCES	
Single person	£9,300
Jointly assessed couple	£18,600
Single parent addition	£6,400
Blind person	£2,900
Disabled person	£2,900
Age allowance	£2,020

TAX RATES	
Lower rate	10%
Higher rate	20%
Non-resident rate	20%

TAX RATE THRESHOLD	
Single person	£10,500
Jointly assessed couple	£21,000
Balance taxable at	20%

The rates and allowances for the last seven tax years are shown in the following table.

Tax year	05/06	06/07	07/08	08/09	09/10	10/11	11/12
Lower tax rate	10%	10%	10%	10%	10%	10%	10%
Higher tax rate	18%	18%	18%	18%	18%	20%	20%
Non-resident tax rate	18%	18%	18%	18%	18%	20%	20%
Single person tax rate threshold	10,300	10,500	10,500	10,500	10,500	10,500	10,500
Jointly assessed couple tax rate threshold	20,600	21,000	21,000	21,000	21,000	21,000	21,000
Single person	8,500	8,670	8,850	9,200	9,200	9,300	9,300
Single parent addition	5,800	5,920	6,040	6,300	6,300	6,400	6,400
Blind or disabled person	2,610	2,665	2,720	2,850	2,850	2,900	2,900
Age allowance	n/a	n/a	n/a	2,000	2,000	2,020	2,020
Non-resident allowance	n/a	2,000	2,040	2,120	2,120	0	0

8.2 Personal allowances

As mentioned previously, personal allowances enable a set amount of income to be received by an individual free of tax. It follows that all individuals receiving income benefit from personal allowances. Jointly assessed couples may aggregate their personal allowances, irrespective of whether they both receive income.

The amount of the allowances does two things. Firstly, it defines the population of people who have income but are nevertheless outside the scope of income tax and so the allowances can be an aspect of social policy in relation to the less well-off. Secondly, the amount of the allowances is the starting point for any consideration of the personal allowance credit system.

The freezing of personal allowances, or an increase at a rate lower than the growth in earnings, could bring some low income individuals into the scope of income tax. It could also result in an increased tax liability for everyone already subject to income tax (excluding tax capped individuals): a phenomenon known as "fiscal drag".

Prior to 2010, the UK had a policy of linking annual increases in personal allowances to the rate of inflation. However, following the General Election in May 2010, the agreement enabling a coalition government to be formed included a commitment to increasing the personal allowance to £10,000 by 2015. In seeking to meet this commitment subsequent increases have significantly exceeded the rate of inflation. The UK personal allowance for the 2012/13 tax year is £9,205.

The Isle of Man has no policy linking personal allowances to inflation. However, a policy statement made in 1999 linked the maximum permitted deduction for nursing expenses to the same amount as the single person's allowance.

The Isle of Man average rates of inflation for the last five years are shown in the table below.

Tax year	Average rate of inflation
2011/12	5.3%
2010/11	5.4%
2009/10	1.5%
2008/09	4.4%
2007/08	4.1%

These percentages have been calculated as the change in the average index between April-March each year rather than the average of inflation rates for each month.

The rates of increase in Isle of Man personal allowances for the last five years are shown in the table below.

Tax year	Percentage increase
2012/13	NIL
2011/12	NIL
2010/11	1%
2009/10	NIL
2008/09	4%

The following table shows the current personal allowances, the new (rounded) value of each allowance should various percentage increases be applied and the projected cost to Treasury of any changes.

Allowance type	Current allowance (£)	+1%	+2%	+3%	+5%	+10%
Single person	9,300	9,390	9,490	9,580	9,765	10,230
Married couple/Civil partners	18,600	18,780	18,980	19,160	19,530	20,460
Single parent	6,400	6,460	6,530	6,590	6,720	7,040
Blind/disabled person	2,900	2,930	2,960	2,990	3,045	3,190
Age (over 65)	2,020	2,040	2,060	2,080	2,120	2,220
People taken outside scope of income tax*	n/a	284	572	808	1,234	2,353
Total Cost – £ Million	**-**	**0.77**	**1.62**	**2.38**	**3.94**	**7.77**

***** Estimated irrespective of marital or assessment status.

The current projected cost to Treasury of increasing the personal allowance to £10,000 (a 7.5% increase), being the UK target for 2015, is £5.64 million. This would remove an additional 1,636 people from the scope of income tax.

The approximate total cost of personal allowances (including age, single parent, blind and disabled persons' allowances) based on the 2010/11 tax year was £92.5 million when each allowance is considered separately or £98.3 million when considered cumulatively.

8.3 Tax bands and thresholds

The maximum amount of income that an individual can receive before any tax becomes due is £9,300, i.e. the personal allowance. This amount may be higher depending on any allowances or deductions the individual is entitled to receive. The next £10,500 is currently taxed at 10% (the lower rate) with the balance of income taxed at 20% (the higher rate). The 10% band has not increased since the 2004/05 tax year.

If earnings growth is not matched by increases in tax rate bands and thresholds (or if rate bands and thresholds are reduced), then more people may find themselves becoming subject to income tax, or becoming subject to the higher rate of tax. The latter phenomenon is known as "bracket creep". Freezing or changing the rate threshold only affects those people already subject to income tax.

The following table shows the current threshold, the new values should various percentage increases be applied and the projected cost to Treasury of any changes.

Taxpayer	Current 10% band threshold (£)	+1%	+2%	+3%	+5%	+10%
Single person	10,500	10,605	10,710	10,815	11,025	11,550
Married couple/Civil partners	21,000	21,210	21,420	21,630	22,050	23,100
Cost - £ Million		**0.33**	**0.65**	**0.97**	**1.60**	**3.15**

The following table shows the current threshold, the new values should various percentage decreases be applied and the projected additional revenue to Treasury of any changes.

Taxpayer	Current 10% band threshold (£)	-1%	-2%	-3%	-5%	-10%
Single person	10,500	10,395	10,290	10,185	9,975	9,450
Married couple/Civil partners	21,000	20,790	20,580	20,370	19,950	18,900
Additional revenue - £ Million		**0.33**	**0.66**	**0.99**	**1.67**	**3.39**

8.4 Rates of tax

The lower rate of income tax for individuals has been 10% since the 2002/03 tax year. The higher rate was increased from 18% to 20% from the 2010/11 tax year.

The following tables show the cost/additional revenue to Treasury should changes be made to the current rates.

Changes to lower rate

Decrease/Increase **New rate**	- 2% 8%	- 1% 9%	Current rate 10%	+ 1% 11%	+ 2% 12%
Effect on revenue - £ Million	**-8.72**	**-4.36**	**-**	**+4.38**	**+8.77**

Changes to higher rate

Decrease/Increase	- 2%	- 1%	Current rate	+ 1%	+ 2%
New rate	18%	19%	20%	21%	22%
Effect on revenue - £ Million	**- 10.88**	**- 5.44**	**-**	**+ 5.54**	**+11.06**

Combined changes to both lower rate and higher rate

Decrease/Increase	- 2%	- 1%	Current rate	+ 1%	+ 2%
New lower rate	8%	9%	10%	11%	12%
New higher rate	18%	19%	20%	21%	22%
Effect on revenue - £ Million	**-19.58**	**-9.80**	**-**	**+9.92**	**+19.82**

The 2000 Taxation Strategy contained the objective of 'a reduction in the lower rate of income tax to 10% and a 15% higher rate for those on higher incomes'. At that time, the lower rate was 14% and the higher rate was 20%; the latter was subsequently reduced to 18% in the 2001/02 tax year.

However, in order to achieve a balanced budget, the higher rate of personal income tax was increased from 18% to 20% from the 2010/11 tax year, generating additional revenue in excess of £9 million.

In order to achieve the original objective of a 15% higher rate of tax at the present time, Treasury would incur a loss of revenue of £27.3 million.

The following table provides details of the number of individuals in each tax band for the 2010/11 tax year. It illustrates the number of taxpayers having no tax liability, and the number who paid tax at 10% or at both 10% and 20%. The number of people shown is higher than the number of assessments because of jointly assessed couples.

Tax band	Total number of people in tax band*	Total number of assessments issued	Total tax assessed £ (m)
NIL	20,511	14,945	NIL
10%	22,688	17,635	11.97
10% and 20%	29,195	21,576	134.99

The table below provides the results in the form of percentages.

Tax band	People*	Assessments	Tax assessed
NIL	28.3%	27.6%	0%
10%	31.4%	32.6%	8.15%
10% and 20%	40.3%	39.8%	91.85%

* These totals/percentages include 3,557 people (2,529 individuals and 514 jointly assessed couples) who were suspended from the annual return cycle for the 2010/11 tax year and subject to periodic review.

For the purposes of the above, tax cap cases are contained in the 10% and 20% band.

8.5 Deductions

Tax deductions and reliefs are essentially determined by fiscal and political considerations. Each one results in a revenue cost. However, as each one also evidently benefits some taxpayers, reducing or abolishing that benefit needs careful consideration. At the same time it is evident that certain deductions and reliefs increase 'red tape'; being difficult for taxpayers and the Income Tax Division alike to deal with.

Tax deductions and reliefs are reviewed as part of the budget process. There have been a number of changes made in respect of deductions and reliefs in recent budgets.

From 6 April 2008

- The withdrawal of life insurance and training reliefs removed approximately 15,200 deduction claims.

- Tax relief for mortgage and loan interest paid was capped at £15,000 per individual with effect from 6 April 2008. This limit was further reduced to £10,000 per individual with effect from 6 April 2010 and to £7,500 per individual with effect from 6 April 2011.

From 6 April 2011

- Tax relief for payments made in respect of educational deeds of covenant only continues for covenants entered into on or before 5 April 2011 and where the student is in qualifying full time education at that date. Going forward from that date the relief has been abolished.

- Tax relief for Class 4 national insurance contributions paid was abolished.

From 6 April 2012

- Tax relief for certain general deductions was restricted to 10%. The deductions affected are: interest paid on mortgages or loans, charitable donations or deeds of covenant, private medical insurance payments, nursing expenses and educational deeds of covenant entered into on or before 5 April 2011 and where the student is in qualifying full time education at that date.

- Tax relief for maintenance paid was abolished and maintenance received is no longer classed as taxable income.

The cost of deductions and reliefs for the 2010/11 tax year are shown in the table below. Figures for the 2009/10 tax year are shown in italics for comparison.

Deduction type	Number of claims	Total amount claimed (£ million)	Average relief per claim (£)	Cost of tax relief (£ million)
Mortgage interest	13,308 *13,593*	43.49 *46.76*	548 *522*	**7.29** ***7.09***
Loan interest	13,595 *14,254*	11.70 *11.53*	141 *117*	**1.92** ***1.67***
Alimony and maintenance	974 *982*	3.92 *3.86*	667 *580*	**0.65** ***0.57***
Educational deed of covenant	893 *876*	4.65 *4.66*	907 *845*	**0.81** ***0.74***
Charitable deed of covenant	545 *599*	0.88 *0.98*	275 *267*	**0.15** ***0.16***
Charitable giving	2,110 *2,090*	2.21 *2.16*	171 *153*	**0.36** ***0.32***
Private medical insurance	923 *909*	1.86 *1.81*	325 *286*	**0.30** ***0.26***
Nursing expenses	445 *434*	3.53 *3.48*	337 *323*	**0.15** ***0.14***

It should be noted in the above table that the overall amount of deductions claimed has decreased but an increase in the higher rate of income tax from 18% to 20% for the 2010/11 tax year resulted in an increased cost of tax relief.

There were 23,248 claims for at least one deduction and an overall total of 32,793 deduction claims. The total cost of tax relief was £11.63 million.

The table below compares the cost of tax relief based on the 2010/11 data in the previous table but with the cost of tax relief being restricted to the lower rate of 10% only.

Deduction type	Cost of tax relief with higher rate of 20% (£ million)	Cost of tax relief at 10% only (£ million)
Mortgage interest	7.29	4.10
Loan interest	1.92	1.09
Charitable deed of covenant	0.15	0.08
Charitable giving	0.36	0.21
Private medical insurance	0.30	0.17
Nursing expenses	0.15	0.10

Charitable donations

The relief for charitable donations can be split into two categories. The first is for payments made under a deed of covenant and the other is for one-off donations.

Tax relief is granted where a deed of covenant has been made in favour of a registered charity for a minimum period. There are no minimum or maximum limits for the relief allowable.

Relief is also allowed for one-off donations of £100 or more (including where the aggregate of smaller donations during the tax year also exceeds this amount). The maximum annual limit for relief for individuals was increased from £6,000 to £7,000 from the 2008/09 tax year.

Charities are not liable to pay income tax on the donations that they receive.

Private medical insurance

Tax relief is granted for certain private medical insurance premiums.

It is a complex relief to administer, having various rules regarding the eligibility of insurance contracts. There is a cap of £1,800 per individual on the amount of premiums that can be deducted for tax purposes. To qualify for relief the individual must be aged 60 or over.

Unlike most other deductions, private medical insurance relief can be given to taxpayers who pay the insurance premiums for another person, provided the insured person is over the age of 60.

Nursing expenses

Relief is available on payments made for care by a registered nurse or at a registered home in certain circumstances. The relief is also extended to payments made for looking after a relative.

8.6 Personal allowance credits

Personal allowance credits (PACs) were introduced from the 2002/03 tax year as a simple mechanism to provide an annual payment to those on low incomes. Under the system, a payment is made to those whose income is less than the personal allowance. The payment in respect of the 2011/12 tax year is £500 for an individual and £1,000 for a jointly assessed married couple.

Since the introduction of the system a number of measures have been put in place to further simplify it and to better focus support on low and fixed income groups.

- With effect from the 2005/06 tax year non-taxable state benefits were no longer included in the PAC calculation and the requirement to make a formal claim was waived.
- The reduction in the amount of PAC paid between lower and upper income points was removed with effect from 6 April 2008 making it an all or nothing payment.
- For payments made in respect of the tax year commencing 6 April 2009, the deduction of pension scheme contributions in determining eligibility for the payment was removed.
- From the tax year commencing 6 April 2010, individuals who are in full-time education, individuals serving a custodial sentence for the whole of the year and individuals whose spouse has their income tax liability capped, are no longer eligible to receive a PAC.

The value of the PAC payment increased steadily from its introduction up to the 2010/11 tax year, rising from £200 to £700. However, in the 2012 budget the amount of the credit was reduced to £500.

The table below shows the value of the payments since their introduction, showing an overall cumulative increase of 150%.

Paid after	PAC amount (£)	Percentage increase/decrease	Cumulative % increase
6 April 2003	200	n/a	n/a
6 April 2004	222.50	11.25	11.25
6 April 2005	250	11	25
6 April 2006	350	40	75
6 April 2007	420	20	110
6 April 2008	500	19	150
6 April 2009	550	10	175
6 April 2010	650	18	225
6 April 2011	700	7.7	250
6 April 2012	500	-28.6	150

The income point at which a person becomes entitled to a PAC is equal to the personal allowance. Therefore, any person in receipt of income of £9,300 or less in the year ended 5 April 2012 (£18,600 for a jointly assessed married couple or civil partners) automatically receives a full PAC of £500 (£1,000 for jointly assessed couples).

If the income point for PAC entitlement were to exceed the personal allowance it may result in the payment of a PAC to a person who also has an income tax liability.

For the 2010/11 tax year, 8,445 PAC notices were issued, benefiting 9,899 people and totalling £6.92 million.

The following table shows the projected savings to Treasury were decreases to be made to the current payment amount based on 10,000 recipients.

Current PAC amount	-£25	-£50	-£100	-£150	-£200
£500	475	450	400	350	300
Percentage decrease	-5%	-10%	-20%	-30%	-40%
Saving - £ Million	**0.25**	**0.5**	**1.00**	**1.50**	**2.00**

If, instead, the PAC was increased by the amounts shown above, Treasury would then incur costs equivalent to the projected savings shown.

8.7 Payment on account system

The payment on account (POA) system was introduced in the 2004/05 tax year to maintain Treasury cash flow during the move to a current year basis of assessment.

POA notices are issued to individuals who had a tax liability during the previous year that was not settled by either ITIP or sub-contractor's deductions. The tax was therefore not collected throughout the year and could only be determined once a return had been received following the end of that year. This situation could arise as a result of receiving income such as rental income, bank interest or dividends.

Under the POA system, a simple growth factor is applied to the tax liability of the preceding year in order to determine the amount that is due and payable on or before 6 January in the current tax year. Any balancing payment or repayment of tax is calculated once the person’s tax return has been submitted and assessed.

The growth factor is currently set at 5%. It is reviewed annually and has not been changed since its introduction nine years ago. If a person is aware that their current year income has fallen, a postponement of some or all of the POA liability can be requested. Setting the POA factor cannot be an exact science. Its level could vary according to factors that might affect returns on investments, such as the Bank of England base rate, the rate of inflation and the rate of increase in the state retirement pension.

POA notices to the value of £52.1 million were issued for the 2011/12 tax year during that year; for comparison, in the previous year the value was £54.4 million.

Gross receipts from POAs during the 2011/12 tax year were £42.35m from 2011/12 POAs and £5.15m in respect of earlier years. Comparative figures for the 2010/11 tax year are £41.8m and £6m respectively.

The average decrease in POA value for the 2011/12 tax year compared to the previous year was 1.35%. However, further analysis of data shows that investment income cases showed a decrease greater than the average whereas cases including self-employed income showed an average POA value increase in the region of 5.4%.

Whilst the total amount of POAs issued for the year was £52.1 million, postponement of payments totalled £6.68 million (12.8% of the overall total).The total postponements for the 2010/11 tax year were £7.68 million.

Retention of the current growth factor helps to maintain Treasury cash flow. However, as stated above, any person who is aware that their current year income has fallen can request a postponement of some or all of their POA liability.

8.8 Benefits in kind

A benefit in kind is something provided by an employer to an employee, office holder or connected person, but in a different form to salary or wages, e.g. a company car. It is provided by virtue of an individual’s employment and while some benefits are chargeable to income tax, others are not.

Benefits in kind also include goods, services and gifts made available to family or household members of an employee or director. Family or household members can include an employee’s spouse, children and their spouses, parents, dependents and guests.

There are two categories of benefits that can be provided, each with their own rules for income tax reporting purposes.

General benefits

The term general benefits applies to all benefits that are not related to the provision of a company car and company car fuel. For example, a benefit in kind may be provided when an employer provides an employee with free or below market value accommodation or allows an employee to take free meals, food or drink from the business during the course of a day.

The table below shows details of this category of benefits that have been assessed in each of the last two years.

Tax year	Number of cases	Total value of benefits assessed	Revenue received by Treasury
2010/11	1,487	3.16m	0.5m
2009/10	1,375	2.60m	0.47m

Company car and fuel benefits

Any car or fuel benefits provided by an employer which are not subject to specific rules or a reporting concession are subject to income tax.

A simplified system was introduced from 6 April 2009, based more on environmental impact and aligned with the annual vehicle duty bands currently being used by the Department of Infrastructure.

The table below shows details of the car benefits that have been assessed in each of the last two years.

Tax year	Number of cases	Total amount of benefits assessed	Revenue received by Treasury
2010/11	761	3.79m	0.68m
2009/10	826	3.93m	0.73m

8.9 Tax cap

The tax cap is part of Government's policy to attract entrepreneurial, wealthy individuals to the Isle of Man. The amount of tax paid by any individual is capped at a level determined by Treasury. The tax cap was introduced in the 2006/07 tax year and was set at £100,000 (£200,000 for a jointly assessed couple). This amount was subsequently increased:

- to £115,000 with effect from 6 April 2010 (£230,000 for a jointly assessed couple); and
- to £120,000 with effect from 6 April 2012 tax year (£240,000 for a jointly assessed couple).

The table below shows the numbers of assessed tax cap cases for the last five tax years.

Tax year	Single or independently taxed cases	Jointly assessed couples	Total people and tax amount (£m)
2010/11	71	0	71 - 8.17m
2009/10	77	1	79 - 7.9m
2008/09	83	0	83 - 8.3m
2007/08	96	1	98 - 9.8m
2006/07	72	1	74 - 7.4m

The current payment on account notices issued for the 2011/12 tax year provisionally indicate that there are likely to be in the region of 65 to 70 tax cap cases for this tax year.

The following table shows the projected additional revenue were Treasury o increase the tax cap based on 70 cases.

Current tax cap	+£5,000 *+4.17%*	+£10,000 *+8.33%*	+£15,000 *+12.5%*	+£20,000 *+16.67%*	+£25,000 *+20.83%*
£120,000 Single	£125,000	£130,000	£135,000	£140,000	£145,000
£240,000 Jointly assessed couple	£250,000	£260,000	£270,000	£280,000	£290,000
Additional revenue - £ Million	**0.35**	**0.7**	**1.05**	**1.4**	**1.75**

Removal of the tax cap would not necessarily generate additional revenue as it is likely that individuals would restructure their tax affairs in order to minimise their liabilities and/or relocate business activities away from the Island, which could have a wider negative economic impact.

8.10 Tax returns

Isle of Man residents are required to complete a personal tax return each year in order to declare their worldwide income. Any non-residents receiving Isle of Man source income, e.g. rent or pension payments, are also required to do so.

If a person's income is consistently below the personal allowance they may only be required to submit a tax return periodically.

Tax returns are issued shortly after the end of the relevant tax year on 5 April and the legal deadline for submitting them to the Income Tax Division is 6 October following the end of that tax year. However, this date will change in cases of death or commencing/ceasing residence in the Isle of Man.
If the Income Tax Division has not received a personal tax return for the year ended 5 April by the following 6 October, the taxpayer will be charged a £100 penalty. If the return has still not been

received by the following 6 April, a further £200 penalty will be charged. Even if the penalties are paid, the tax return must still be submitted and people may be prosecuted for failing to do so.

The imposition of penalties for failing to submit tax returns by the legal deadline was introduced in 2005 when both the initial and additional penalty amounts were £50 each. These amounts were increased to £100 and £200 respectively with effect from 6 October 2009.

The table below shows the number of return penalties issued after the legal deadline of 6 October has been reached in each year following their introduction.

Date	Number of taxpayers	Total returns issued	Penalties as % of total returns issued
October 2005	5,362	54,179	9.90%
October 2006	5,335	54,628	9.77%
October 2007	4,531	55,229	8.20%
October 2008	4,555	54,445	8.37%
October 2009	3,448	55,056	6.27%
October 2010	3,820	54,267	7.04%
October 2011	3,046	55,336	5.50%

8.11 Profile of individual tax returns and revenue raised

The following tables provide analyses of individual tax returns for the 2010/11 year.

Some individuals were suspended from the requirement to submit a tax return for this year due to low income levels. All other individuals were required to submit a return except for couples who were married or in a civil partnership and who had chosen to be jointly assessed: these couples were only required to file one return per couple.

Return category	Number of taxpayers	Cumulative total	% of total individuals
Tax return not required to be completed	1,197		2.1%
Tax return due to be completed	55,570	56,767	97.90%

Return status	Number of taxpayers	Cumulative total	% of total individuals
No. definitively assessed	53,113		93.6%
No. assessed in default*	1,364	54,477	2.4%
No. not yet assessed	2,290	56,767	4.0%

* Estimated assessment due to no return being submitted

Taxpayer category	Number of taxpayers	Cumulative total	% of total individuals
Individual	39,161		71.9%
Joint	15,245		28.0%
Tax cap	71	54,477	0.1%

Taxpayer status	Number of taxpayers	Cumulative total	% of total individuals
Not liable to pay tax	15,150		27.8%
Liable to pay tax	39,327	54,477	72.2%

Returns for the 2010/11 tax year have raised tax of £147.84m to date.

The two tables below show profiles of the 2010/11 returns for individual and jointly assessed taxpayers respectively. Within those categories, the information is then broken down into 4 income quartiles:

- 1 - below personal allowance threshold;
- 2 - above personal allowance threshold and within 10% band only;
- 3 - above personal allowance threshold and within both 10% & 20% bands;
- 4 - tax cap cases.

Individually assessed taxpayers

Quartile	Total income	Number of taxpayers	Effective tax rate	Tax raised	% of total individual tax raised
1	£ 0 – 9,300	10,503	0.24%	0.11m	0.07%
2	£ 9,301 – 19,800	12,812	2.67%	4.91m	3.32%
3	>£ 19,800	15,846	10.09%	60.68m	41.05%
4	>£ 115,000*	71	3.77%	8.17m	5.53%
Totals		**39,232**		**73.87m**	**49.97%**

* Tax cap cases

Jointly assessed taxpayers

Quartile	Total Income	Number of taxpayers	Effective tax rate	Tax raised	% of total individual tax raised
1	£ 0 – 18,600	1,403	0.22%	0.04m	0.03%
2	£ 18,601 – 39,601	5,042	2.72%	4.00m	2.70%
3	>£ 39,601	8,800	10.42%	69.93m	47.30%
4	>£ 230,000	0		0.00m	0.00%
Totals		**15,245**		**73.97m**	**50.03%**

In both tables the total income in Quartile 1 is below the personal allowance threshold, but part year assessments (e.g. commencement and cessation of residence, and deaths) apportion the personal allowance on a pro rata basis and consequently a liability to tax can result.

Over a quarter of the tax returns processed resulted in a zero tax liability but nonetheless required effort to complete and process. The tables below illustrate the breakdown.

Returns which produced no liability to tax

Individually assessed	Number of returns
Quartile 1	10,011
Quartiles 2 & 3	2,947
Total	**12,952**

Jointly assessed	Number of returns
Quartile 1	1,311
Quartiles 2 & 3	887
Total	**2,198**

It is possible to have no liability to tax despite total income being greater than the personal allowances due to the application of allowable deductions e.g. mortgage interest relief.

The data from the above tables can be summarised as follows:

- ignoring tax cap cases, the top 25% of taxpayers (extracted from individual and joint returns) account for 88.5% of the tax raised;
- tax cap cases account for 5.5% of the tax raised;
- the bottom 50% of individuals (extracted from single and joint returns) account for 6% of the tax raised;
- 15,150 (27.8%) of returns (individual and joint) produce no liability to tax.

9. Taxation of companies

Rates of tax

The standard rate of corporate income tax in the Isle of Man is 0%. The 0% rate was introduced on 6 April 2006 and applies to the profits of accounts that form the basis of a company's income tax assessment for the 2006/07 year of assessment and later.

Also with effect from 6 April 2006, a 10% rate of tax applies to income received by a company from the following sources:

- banking business; and
- land and property in the Isle of Man (including property development, residential and commercial rental or property letting and mining and quarrying).

Certain companies that are subject to tax at the standard rate can elect to pay tax at the 10% rate.

Resident companies are subject to tax on their worldwide income while non-resident companies are subject to tax on their Manx source income only. Both resident and non-resident companies are taxed on their income at the same rates.

Basis of assessment, returns and penalties

With effect from 6 April 2007, the Income Tax (Corporate Taxpayers) Act 2006 changed the way in which companies in the Isle of Man are taxed; from a year of assessment basis to an accounting period basis "pay and file" system.

Under the accounting period system tax returns are issued shortly after the end of the company's accounting period. The due date for filing company tax returns is 12 months and one day after the end of the accounting period. This is also the date by which payment of any income tax liability or charge must be made although returns can be filed and payments made before the due date.

All companies registered (or otherwise resident) in the Isle of Man are required to complete a tax return. However, dormant/non-trading companies may only be required to submit a return periodically. In 2007, penalties for failing to submit tax returns by the legal deadline were introduced. There are two civil penalties that can be charged:

- a first penalty of £250 will be charged if a return is not filed by 12 months and one day following the end of an accounting period (i.e. the due date);
- a second penalty of £500 will be charged if the return is not filed by 18 months and one day following the end of an accounting period. This second penalty is additional to the first penalty.

Even if the penalties are paid, the tax return must still be submitted and companies and their accountable officers may be prosecuted for failing to do so.

Charging provisions

The distributable profits charge (DPC) was introduced at the same time as the 0% rate of corporate income tax to ensure Treasury revenue cash flow and as an anti-deferral measure. It was designed to encourage companies to distribute a proportion of their profit to their shareholders, who would then be taxed on the distribution they received.

The DPC was subsequently replaced by the attribution regime for individuals (ARI) in respect of companies with accounting periods commencing on or after 6 April 2008. Resident individuals with an interest in a relevant company were taxed on their share of the attributed profits from that company. This, in essence, removed the corporate veil for income tax purposes as individuals were taxed directly as if they had received the income attributable to their share of the annual profits of a relevant company.

Following an evaluation by the EU Code of Conduct Group that a combination of the ARI and the 0/10 system of corporate income tax may give rise to harmful effects, and in the context of the Island's commitment to the principles of the Code itself, a decision was made by the Isle of Man Government to abolish the ARI. The legislation was repealed in October 2011 for distributable profits accrued by a corporate taxpayer after 6 April 2012.

The ARI, and its predecessor the DPC, were anti-avoidance mechanisms designed to charge the profits of a company even if they were not distributed, or in some cases to encourage distribution. It has been made clear by the EU Code of Conduct that this type of tax system is not compliant with the Code and therefore there cannot be a replacement for ARI. Indeed, any mechanism which would have a similar effect to the ARI, either in statute or in practice, could not be judged compliant with the Code. However, as the profits of a company have been charged to tax at the standard rate of 0%, it must be ensured that a person cannot receive an income distribution from a company without it being subject to income tax.

The principal objective of the ARI was to deter the use of 0% companies simply to 'wrap up' investments and thereby keep otherwise taxable income in a low tax 'money box'. The ARI appears to have been effective in achieving this objective and, whilst it is very difficult to predict the revenue that will be lost by the abolition of ARI, it is not expected that it will lead to an actual loss of income tax revenue (although it could affect the timing of the taxation of a limited amount of income). Recent Income Tax Division data shows that there were 408 declarations of attributed income in respect of the 2009/10 tax year with an associated liability of £2.19m and 741 declarations with an associated liability of £3.58m for the 2010/11 tax year.

The world of international taxation today is vastly different to that of 2006 when the new corporate tax regime was introduced, and it is subject to continual change. The Isle of Man recognises that the 0% rate of corporate tax has been a key element of its economic competitiveness and is keen to continue to maintain a competitive tax system whilst enhancing both transparency of business and international co-operation.

10. International arena

The Isle of Man is committed to international standards of tax transparency and co-operation and helped to develop the OECD template for tax information exchange agreements (TIEAs). Since then, the Government has remained at the forefront of efforts to put in place tax co-operation agreements. Also, in response to evolving world standards, the Island moved to automatic exchange of tax information on savings, under the EU Savings Directive, in 2011.

TIEAs provide a number of benefits. They:

- enhance the Isle of Man's international reputation as a leading international finance centre;
- assist the Island's integration into the international financial system and global community;
- support the international drive to combat criminal activity;
- remove the Island from certain types of defensive measures applied by TIEA partners, e.g. blacklists;
- place the Island on international white lists for transparency and co-operation - for example, the Island's TIEA network resulted in it being immediately "white listed" by the OECD in April 2009 and in it being given a clean bill of health when it underwent a review by the OECD Global Forum last year;
- may provide for the participation in preferential tax benefits offered by TIEA partners under tax treaties (e.g. Canada);
- provide for the Island to participate in and influence the development of international tax standards;
- are narrower in application than Double Taxation Agreements (DTAs), providing only for exchange of information on request, not spontaneous and automatic exchange of information;
- contain additional safeguards over and above those in DTAs, e.g. requiring the requesting country to have exhausted all avenues for obtaining the requested information before making a request;
- allow, where possible, additional tax agreements to be negotiated at the same time. These agreements seek to remove any tax barriers that may exist to certain types of cross-border business. For example, 11 shipping agreements have been entered into as a direct result of TIEAs;
- provide multiple opportunities to present the Island in a positive light and have given the Island access to high ranking officials around the world. As a result, the Island's views are now directly represented in various international forums and the Island has been able to expand its network of DTAs.

A list of the Isle of Man's 25 TIEAs is shown in the following table.

Country	TIEA signed	Effective	Status
Australia	29 January 2009	5 January 2010	In force
Canada	17 January 2011	19 December 2011	In force
China	26 October 2010	1 January 2012 (China) 6 April 2012 (Isle of Man)	In force
Czech Republic	18 July 2011	18 May 2012	In force
Denmark	30 October 2007	26 September 2008	In force
Faroe Islands	30 October 2007	3 August 2008	In force
Finland	30 October 2007	14 June 2008	In force
France	26 March 2009	4 October 2010	In force
Germany	2 March 2009	5 November 2010	In force
Greenland	30 October 2007	11 April 2008	In force
Iceland	30 October 2007	28 December 2008	In force
India	4 February 2011	17 March 2011	In force
Indonesia	22 June 2011	Awaiting ratification	Not in force
Ireland	24 April 2008	31 December 2008	In force
Japan	21 June 2011	1 January 2012 (Japan) 6 April 2012 (Isle of Man)	In force
Mexico	11 April 2011	4 March 2012	In force
Netherlands	12 October 2005	21 July 2006	In force
New Zealand	27 July 2009	27 July 2010	In force
Norway	30 October 2007	23 August 2008	In force
Poland	7 March 2011	27 November 2011	In force
Portugal	9 July 2010	18 January 2012	In force
Slovenia	27 June 2011	Awaiting ratification	Not in force
Sweden	30 October 2007	27 December 2008	In force
United Kingdom	29 September 2008	2 April 2009	In force
United States	3 October 2002	1 January 2004	In force

The table below shows the DTAs signed by the Isle of Man.

Country	Signed	Effective	Status
Bahrain	3 February 2011	1 January 2013 (Bahrain) 6 April 2013 (Isle of Man)	In force
Belgium	16 July 2009	Awaiting ratification	Not in force
Estonia	8 May 2009	1 January 2010 (Estonia) 6 April 2010 (Isle of Man)	In force
Malta	23 October 2009	1 January 2011 (Malta) 6 April 2011 (Isle of Man)	In force
Qatar	6 May 2012	Awaiting ratification	Not in force
United Kingdom	29 July 1955	6 April 1955	In force

In addition, the Government continues active negotiations aimed at concluding taxation agreements with a number of countries including:

- Italy;
- The Netherlands; and
- Spain.

Peer review report

The peer review assessment of the Isle of Man was carried out by a team of experts on behalf of the OECD (Organisation for Economic Co-operation and Development) Global Forum on Transparency and Exchange of Information for Tax Purposes, which has 109 members, including the Isle of Man.

The report published in June 2011 (available from the OECD's website) summarises the legal and regulatory framework for transparency and exchange of information in the Isle of Man as well as practical implementation of that framework.

The report commended the Island for the way it exchanges information with other countries. It also states that the general regulatory environment in the Isle of Man is comprehensive and, particularly for anti-money laundering purposes, all major financial sector industries are subject to active oversight designed to ensure that processes for customer due diligence and the maintenance of appropriate transactional information are followed.

The Isle of Man has exchanged information with the United Kingdom through a double tax arrangement since the 1950s (though the scope of information exchanged was limited) and has been exchanging information in accordance with international standards since its first TIEAs came into force in 2006. Although this is a relatively short period, experience to date shows that exchange of information has been effective and expeditious. The Island now has TIEAs in force with 25 countries with a further two awaiting ratification by the signing partner; it is actively engaged in negotiations for further agreements.

The power of the Isle of Man tax authorities to obtain information for exchange purposes is clear. Each agreement is ratified by an order of Tynwald that enables it to take effect and which modifies the basic access powers contained in the Income Tax Act 1970 to ensure that they apply for the purposes of the agreement.

The feedback provided by the Isle of Man's information exchange partners is very positive. The information requested is provided quickly and exchange of information partners are appreciative of the open and transparent relationship they have with the Isle of Man competent authority.

11. Online services

During the last six years the Income Tax Division has progressively introduced a suite of online tax services. The table below details these services and the dates they became available.

Online tax service	Date introduced
For taxpayers and agents – the provision of an on-line enquiry facility	October 2006
For taxpayers and agents – the ability to make payments on-line (via debit & credit cards)	May 2007
For companies and their agents – the ability to complete and submit returns on-line with attachments	September 2007
For agents – an on-line list of their clients with summary information	November 2008
For employers – an on-line list of their employees (past & present)	December 2008
For employers – the ability to submit end of year returns on-line with accompanying T14s	December 2009
For individuals and their agents – the ability to complete and submit returns on-line with attachments	January – March 2010
For all taxpayers and agents – the service of all returns and notices electronically (option to opt for paper service retained)	January – July 2011
For individual filing returns on-line – the generation of tax calculation and (subject to risk criteria) an automatic assessment	February 2012
For employers – enhancements to the on-line return to incorporate benefits in kind, and preparation for the introduction of compulsory on-line filing	February 2012
For companies – improvements to the on-line return and the removal of the ARI sections	April 2012

Significant benefits have been realised as a result of the introduction of online tax services:

- over half a million 'enquiries' have been made by clients and agents who can access the service almost 24 hours a day to view documents or make payments etc, instead of being restricted by normal office opening hours;

- since the introduction of credit transfer payments in March 2008, over £131 million has been paid using online tax services, thus reducing the number of payments handled by the Division;
- online returns for individuals are often faster and more straight-forward to complete due to the fact that information such as salary and ITIP deductions are pre-filled by the Division;

- E-notices (the issuing of notices through online services) has delivered measurable cash savings in terms of reduced paper, envelopes and postage and environmental savings in the reduction of paper being issued by the Division. Approximately 25,000 notices and returns have been issued using online tax services by the Division.

The savings that the use of online tax services has delivered have also contributed to a reduction in 6.5 full-time equivalent staff and removed the need for overtime.

The table below shows the take up of the services over the last three years.

All services

Tax Year	2009/10	2010/11	2011/12
No. of potential users	103,182	104,177	105,408
No. using service	2,173	4,603	6,823
% online users	2.11%	4.42%	6.47%

These can be broken down as follows:

Individuals

Tax Year	2009/10	2010/11	2011/12
No. of potential individuals	71,501	72,901	73,497
No. of individuals using services	1,209	2,829	4,458
% online individuals	2%	4%	6%

Companies

Tax Year	2009/10	2010/11	2011/12
No. of potential companies	23,947	22,892	23,249
No. of companies using services	138	386	524
% online companies	1%	2%	2%

Employers

Tax Year	2009/10	2010/11	2011/12
No. of potential employers	4,037	4,126	4,170
No. of employers using services	566	1,005	1,342
% online employers	14%	24%	32%

Agents

Tax Year	2009/10	2010/11	2011/12
No. of potential agents	2,967	3,451	3,841
No. of agents using services	205	277	353
% online agents	7%	8%	9%

Contractors

Tax Year	2009/10	2010/11	2011/12
No. of potential contractors	589	681	556
No. of contractors using services	45	89	125
% online contractors	8%	13%	22%

Third Party Payers

Tax Year	2009/10	2010/11	2011/12
No. of potential third party payers	141	126	95
No. of third party payers using services	10	17	21
% online third party payers	7%	13%	22%

Following consultation in 2010, the Income Tax Division is phasing in the compulsory use of online tax services for employers. Their use becomes compulsory for employers with more than 100 employees from 6 April 2012. Employers with 10 or more employees will be included from 6 April 2013 while all remaining employers will be included from 6 April 2014. The legislation to support this requirement was introduced in the 2012 budget.

Online tax services will also play a significant role in future service delivery. In 2012/13 the following services are planned for development:

- secure messaging – this will allow taxpayers to reply to secure messages issued by the Division or allow them to initiate correspondence;
- online refunds – the Division handles a significant amount and volume of payments via online services and there is a customer expectation that refunds should be handled in the same manner;

- online payments – enhancements are planned to the existing payments system to display recent account transactions to the user; this is planned in response to feedback from current users;

- employer tax services – following legislative changes, amendments to the online T14 are required in order to obtain the necessary national insurance information.

12. National insurance

National insurance contributions (NICs) are paid by most individuals who work. The contributions are divided into four classes and the class of contribution an individual is liable to pay will depend on their employment status. It is possible for an individual to pay more than one class of NICs at any one time. Individuals are only liable to pay NICs once they are more than 16 years' old but under state pension age. Employers are liable to pay NICs for all their employees aged over 16.

Class 1 national insurance contributions

Class 1 NICs are payable by both employees and employers on earnings that exceed certain thresholds. During the 2010/11 tax year employees paid £63 million in Class 1 primary NICs and employers paid £94 million in Class 1 secondary NICs.

There is no liability for any NICs to be paid until an employee's earnings exceed the employee and employer earnings thresholds which, for the current tax year, are £118 and £115 per week respectively. However, earnings falling below this threshold but above a point known as the Lower Earnings Limit (currently £107) will not attract payment of NICs but will count towards contributory benefits.

Once their earnings exceed the employee's earnings threshold the employee pays NICs at the "primary rate" of 11% until their earnings reach the Upper Earnings Level (currently £770 per week). On all earnings above this figure the employee pays 1% (the "additional rate").

There is no Upper Earnings Level for employers, who pay 12.8% on their employee's entire earnings above the employer's earnings threshold.

Class 2 and 4 national insurance contributions

An individual who is self-employed will normally be liable to pay both Class 2 and Class 4 contributions during a tax year.

Class 2 NICs are charged at a flat weekly rate (currently £2.65 per week) and are paid monthly in arrears.

Class 4 NICs are charged at 8% on all profits derived from self-employment between £6,136 and £40,040 per annum, with profits above this point being charged at 1%. Class 4 NICs are calculated as part of the individual's annual income tax assessment; and do not count towards any benefit entitlement.

Class 3 national insurance contributions

An individual who is not liable to pay either Class 1 or Class 2 NICs can instead pay Class 3 NICs on a voluntary basis. Class 3 NICs only count towards the basic state pension and the Manx pension supplement.

The current rates and thresholds for national insurance are shown in the table below, together with the figures for 2011/12 for comparison.

Item (per week unless stated otherwise)	**2012/13**	**2011/12**
Lower Earnings Limit (LEL)	**£107**	£102
Upper Earnings Limit (UEL)	**£770**	£750
Primary (employee) threshold	**£118**	£115
Secondary (employer) threshold	**£115**	£115
Prescribed annual equivalent of primary threshold	**£6,136**	£5,980
Prescribed annual equivalent of secondary threshold	**£5,980**	£5,980
Class 1 employees' primary rate of NI (between primary threshold and UEL)	**11%**	11%
Class 1 employees' additional rate of NI (above the UEL)	**1%**	1%
Class 1 employers' rate of NI (on all earnings above secondary threshold)	**12.8%**	12.8%
Class 2 rate self-employed	**£2.65**	£2.50
Class 2 small earnings exception level (annual)	**£5,595**	£5,315
Class 2 rate for volunteer development workers	**£5.35**	£5.10
Class 2 rate for share fishermen	**£3.30**	£3.15
Class 3 voluntary contributions	**£13.25**	£12.60
Class 4 lower profits limit (annual)	**£6,136**	£5,980
Class 4 upper profits limit (annual)	**£40,040**	£39,000
Class 4 rate between the lower & upper limits	**8%**	8%
Class 4 rate above the upper limit	**1%**	1%

The table below showing the distribution of persons for NI purposes across the various earnings bands broken down into 4 income quartiles (which mirror, as closely as possible, the tax tables in section 8.11 above.

Quartile	Earnings band	No. of insured persons	Average effective NI rate	% of total insured persons	% of total NI revenue
1	£ 0 – 9,100	4,508	2.77%	12.10	1.55%
2	£ 9,100 – 19,500	11,841	6.60%	31.78	19.00%
3	£ 19,500 – 39,000	16,121	8.81%	43.26	54.70%
4	>£ 39,000	4,793	9.38%	12.86	24.75%
Totals		**37,263**		**100%**	**100%**

Future changes

Due to the existence of the reciprocal agreement between the UK and the Isle of Man, Treasury is limited as to what it can do in relation to the operation of the current system. Unlike income tax, there is little scope within the NI system to materially affect the amount of NICs raised apart from altering the current rates and thresholds.

The following tables show the effect of increasing/decreasing the primary and additional rate of employee NICs charged on earnings.

The table below shows the current primary rate, the new values when various percentage decreases/increases are applied and the projected cost to Treasury of any changes.

Decrease/Increase	- 2%	- 1%	Current rate	+ 1%	+ 2%
New rate	9%	10%	11%	12%	13%
Effect on revenue - £ Million	**-11.8**	**-5.9**	**-**	**+5.9**	**+11.8**

The following table shows the current additional rate, the new values when various percentage decreases/increases are applied and the projected cost to Treasury of any changes.

Decrease/Increase	- 1%	Current rate	+ 1%	+ 2%
New rate	0%	1%	2%	3%
Effect on revenue - £ Million	**-1.33**	**-**	**+1.33**	**+2.66**

An employer only pays NICs at one rate and the table below shows the effect of decreasing/increasing that rate.

Decrease/Increase	- 2%	- 1%	Current rate	+ 1%	+ 2%
New rate	10.8%	11.8%	12.8%	13.8%	14.8%
Effect on revenue - £ Million	**-14.44**	**-7.22**	**-**	**+7.22**	**+14.44**

National Health Service allocation

Some of the NICs received each year are allocated to the Department of Health to cover its expenditure. During the 2011/12 tax year this allocation was £35 million, representing 21% of the overall amount of NIC income for the year.

13. Contact details

Anyone who has any queries in respect of the contents of this document should contact:

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