



Isle of Man Government

Reilrys Ellan Vannin

INCOME TAX

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1. Introduction

Income tax was first introduced in the Isle of Man by the Income Tax Act 1918 which is described in its preamble as being "An Act to provide for a Tax in Manx". The system of taxation introduced by the Income Tax Act 1918 was based broadly upon the system then in operation in the United Kingdom and in many respects the similarities remain. This is an important factor as regards interpretation of the provisions of the Manx Income Tax Acts because in a case where the interpretation of a provision or an expression in those Acts has been the subject of an appeal in the courts of the United Kingdom, the judgment in that appeal is a persuasive authority for the adoption of the same interpretation in a similar case in the Isle of Man.

The Income Tax Act 1918 was followed by successive amending Acts in the years that followed until the then existing legislation was consolidated in the Income Tax Act 1946. This was, in turn, followed by successive amending Acts until the then existing legislation was consolidated in the Income Tax Act 1970.

The Income Tax Act 1970 has since been amended by the—

- (i) Income Tax Act 1971;
- (ii) Income Tax Act 1973;
- (iii) Income Tax Act 1974;
- (iv) Income Tax Act 1976;
- (v) Income Tax Act 1978;
- (vi) Income Tax (Retirement Benefit Schemes) Act 1978;
- and
- (vii) Income Tax (Amendment) Act 1979.

These Acts are collectively referred to as being "the Income Tax Acts 1970-1979". Section 120 of the Income Tax Act 1970 includes the following definitions:

"Income Tax Acts" means this Act and any other enactment relating to income tax;

"Manx income tax" and "Manx tax" means income tax payable under the Income Tax Acts.

The Income Tax Bill 1979 contains the new income tax provisions that were proposed by the Finance Board as a part of the Budget for 1979/80. The Bill was given its first and second readings by the House of Keys on 30th October and 6th November, 1979, respectively. It was then referred to a Select Committee for consideration. As it is unlikely to complete all its stages and obtain the Royal Assent before some time in 1980, the Bill is likely to be known as the Income Tax Act 1980 when it is enacted. It is proposed that the provisions of this Bill, when enacted, shall have effect in respect of the income tax year commencing on 1st April, 1979, and of each succeeding income tax year.

Basis of Assessment and Payment on Account

Guidance Note – GN 3

PLEASE NOTE:

This guidance has no binding force and does not affect your right of appeal on points concerning your liability to tax.

The information in this booklet can be provided in large print on request.

CONTENTS

1	INCOME TAX FOR INDIVIDUALS IN THE ISLE OF MAN	2
1.1	What income is taxable in the Isle of Man?	2
2	THE TAX YEAR	3
2.1	What is the tax year in the Isle of Man?.....	3
3	TAX ASSESSMENTS	4
3.1	Will I get an income tax assessment?	4
4	PAYMENT OF INCOME TAX	6
4.1	When do I have to pay my tax?	6
5	THE PAYMENT ON ACCOUNT SYSTEM	7
5.1	What is the Payment on Account system?.....	7
5.2	How is a Payment on Account calculated?.....	7
5.3	When will I have to pay?	8
5.4	What happens during the first year I expect to receive a payment on account notice?.....	8
5.5	Is it possible to have income with tax deducted at source via a tax code and also income which is subject to a payment on account?	8
5.6	I was not resident for the whole of the previous tax year; will I have to make a payment under this system?.....	9
5.7	What happens to the payment made under this system?	9
5.8	Can I appeal against a payment on account notice?	9
5.9	Do I have to pay more than the amount on the payment on account notice?	10
6	INTEREST ON LATE PAYMENTS OF INCOME TAX	10
6.1	I have not paid all of my payment on account, will I be charged interest?	10
6.2	I have not paid all of my annual assessment liability, but I did pay my payment on account on time. For what period will interest be charged?	10
6.3	I requested to pay a lower amount of payment on account but my assessment has been issued and part or all of the payment on account that was postponed is now due. Will I be charged interest on this amount?.....	10
7	REPAYMENT SUPPLEMENT ON CERTAIN REFUNDS OF INCOME TAX	11
7.1	What is repayment supplement?	11
7.2	How is the supplement calculated?.....	11
7.3	Could I be charged interest and receive a repayment supplement in respect of the same tax year?	12
8	HOW TO MAKE A PAYMENT TO INCOME TAX DIVISION	12
9	CONTACT INFORMATION	13

1 INCOME TAX FOR INDIVIDUALS IN THE ISLE OF MAN

This guide explains how the income tax assessments for the year 2003/2004 and later are calculated. This guide also explains the rules for due dates for payment of income tax for the assessment year 2004/2005 onward.

In the Isle of Man, resident individuals are taxable on their worldwide income. We do not have capital gains tax or inheritance tax (death duties) in the Isle of Man.

1.1 What income is taxable in the Isle of Man?

The following lists provide some examples of the types of income that are generally taxable and those that are not:

Taxable

Salaries, wages, most benefits in kind, tips

Pensions, including state retirement pension

Income from self-employment

Income from investments

Bank & building society interest

Rental income

Payments received under educational deeds of covenant

Alimony and maintenance received under a court order (for tax years up to and including 5 April 2012)

Non-taxable

Sickness benefit

Invalidity benefit

Supplementary benefits paid to pensioners

State retirement pension Christmas bonus

Maternity allowance

Alimony and maintenance received under a court order (from 6 April 2012)

The above list is not exhaustive. If you are unsure whether your income is taxable you should contact the Income Tax Division or discuss this matter with your professional advisor.

2 THE TAX YEAR

2.1 What is the tax year in the Isle of Man?

The tax year in the Isle of Man commences on 6 April in one year and ends on the following 5 April. Tax assessments normally cover the whole of the tax year.

Sometimes an assessment may be for a period of less than a tax year; for instance where someone moves to or away from the Isle of Man or when someone dies.

The assessment period in these cases will be:

- For a new resident - from the date of arrival on the Island to the following 5 April;
- For a person moving away from the Island - from 6 April to the date of departure;
- When a person dies - from 6 April to the date of death.

Different rules apply for tax years before 2004/2005. If you need to make a tax return for an earlier year please contact the Division for assistance.

3 TAX ASSESSMENTS

3.1 Will I get an income tax assessment?

Everyone who is liable to pay income tax in the Isle of Man should receive an assessment annually. The assessment is normally issued after the end of the tax year to which it relates and following the submission of a tax return for that year. Exceptions to this rule are when a person leaves the Island or dies, as mentioned in section 2, when assessments may be issued during the tax year.

Where a person fails to send in their tax return on time, what is known as a default assessment will be issued; based on the best judgement of the Income Tax Division.

Your assessment is calculated in a set order and may include one or more of the following items:

Gross taxable income	e.g. salary, pension, benefits, investment income
Less specific deductions	e.g. pension contributions
Less allowances	e.g. personal allowance
	= Net taxable income

Tax is then calculated using the rates applying for the year; currently 10% on the first £10,500 (single person) and 20% on the balance. The tax calculation then continues:

Less general deductions	e.g. mortgage interest, private medical insurance
Less other reliefs	e.g. double taxation relief
Adjustments	e.g. credit balance adjusted from another assessment
Less payments	e.g. income tax instalment payments (ITIP)

The way in which tax relief for general deductions is allowed changed with effect for the tax year commencing on 6 April 2012. From that date tax relief for general deductions (mortgage interest, loan interest, charitable donations, private medical insurance, deeds of covenants, nursing expenses and pre-existing educational deeds of covenants) is deducted directly from the tax due on taxable income.

Example of an income tax assessment:

Salary	20,000	
Dividend	10,000	
Total Income	<u>30,000</u>	
Less:		
Personal Allowance	(9,300)	
Taxable Income	<u>20,700</u>	
	10,500 @ 10%	1,050
	10,200 @ 20%	2,040
Total Liability		<u>3,090</u>
Less:	ITIP	(2,000)
Tax Payable		<u>1090</u>

4 PAYMENT OF INCOME TAX

There are several ways to pay tax in the Isle of Man:

- By ITIP deduction from Manx employment income or pensions – please refer to Notes for Guidance GN16, “Income Tax Instalment Payments & Coding” for further information.
- By deduction from self-employment income under the Subcontractors Deductions Scheme – please refer to Notes for Guidance GN27, “A Guide for Subcontractors” for further information.
- By direct payment to the Income Tax Division.
- By using Online Tax Services.

4.1 When do I have to pay my tax?

The statutory due date for the payment of income tax is 6 January following the tax year. For many people, all that is payable on this date is a balancing amount, as they have already paid some of their liability by ITIP, subcontractor deductions or payment on account.

In some situations, tax is due 30 days after the date of an assessment:

- assessments issued after 6 December following the tax year;
- assessments issued when a person has moved away from the Island or has died; and
- assessments for the tax year 2003/2004 and earlier years.

5 THE PAYMENT ON ACCOUNT SYSTEM

5.1 What is the payment on account system?

People who have income which is not subject to tax deductions as covered earlier in this booklet may be required to make a payment on account. Payments on account are due on or before 6 January during the tax year. Examples of types of income which may lead to payments on account are:

- income from self-employment;
- investment income (bank and building society interest etc.);
- dividends;
- attributed profits from Manx companies; and
- non-Manx pensions.

Anything you pay on account will be credited against your eventual tax liability calculated after you have submitted your return.

If all of your income is already taxed at source, via a monthly tax code or subcontractor deductions, then you will not need to make a separate payment on account.

If you begin to receive income that does not have tax deducted at source, you should contact the Division for advice. We might be able to collect through your tax code or you may become subject to the payment on account system.

5.2 How is a payment on account calculated?

A payment on account is based on your tax liability for the previous tax year after crediting any tax paid at source, multiplied by what is known as the "payment on account factor". This factor is currently set at 105%, but may be varied in the annual budget.

Example 1

Total liability for the previous year	£2,500
Less:	
ITIP deductions	0
Subcontractor deductions	0
Net liability	£2,500
Multiplied by 105%	£2,625

The payment on account is £2,625

Example 2

Total liability for the previous year	£2,500
Less:	
ITIP deductions	£750
Subcontractor deductions	£500
Net liability	£1,250
Multiplied by 105%	£1,312.50

The payment on account is £1,312.50

5.3 When will I have to pay?

The Division issues payment on account notices which show the date by which the payment should be made. Normally this is 6 January following the date of issue.

If your payment on account notice is issued on or after 6 December in a tax year, it will require payment to be made within 30 days.

5.4 What happens during the first year I expect to receive a payment on account notice?

In the first year you receive a payment on account notice, payment will be due on the same date as the income tax assessment for the previous year. This means that two amounts will be due and payable at the same time.

Once you are in the payment on account system, and assuming your income remains fairly constant each year, you will only be required to make one main payment per year from then on.

If your income levels vary from year to year, it is possible that you may be required to make a balancing payment.

5.5 Is it possible to have income with tax deducted at source via a tax code and also income which is subject to a payment on account?

You may be in receipt of earnings from employment with ITIP deducted at source via your tax code and also receive some bank interest. Normally we would adjust your tax code to collect the tax on this bank interest.

If the amount of your bank interest is greater than your personal tax allowance and deductions, your tax code cannot collect enough tax to cover it. In this case you may have to make a payment on account.

5.6 I was not resident for the whole of the previous tax year; will I have to make a payment under this system?

If your first assessment does not cover a full year because you moved to the Island during the year, we will estimate the payment on account for the following year.

This is normally done by grossing up the income you received during the part-year to reflect the level that would have been received in a 12 month period.

5.7 What happens to the payment made under this system?

Any payment on account will be credited against your income tax liability when your assessment is calculated. Any overpayment will be refunded. If your liability is more than the payment on account, you will be required to make an additional payment.

5.8 Can I appeal against a payment on account notice?

Where a payment on account has been estimated following commencement of residence, you may appeal against the notice.

The appeal should be made in writing, stating the amount of the payment that you dispute and setting out the reasons.

If your payment on account was based on your previous year's liability, you cannot appeal against the notice.

However, if you believe that your actual liability is going to be less than the payment on account, there is a simple process that enables you to pay only what you think will be due.

Each payment on account notice includes a tear off slip which you can complete and return to request that collection of the amount which you believe will not be due, is postponed.

For example, if you receive a notice for £1,000 but you believe that your liability will only be £750, then you can pay £750 and ask for the remaining amount of £250 to be postponed until your assessment is calculated and issued.

If you pay the amount you believe will be due but do not complete the slip, collection proceedings will continue on the balance.

Important Note: If you ask to pay a lower amount but your assessment results in a liability that is more than you have paid, interest will be charged on the balance.

For example:

You receive a payment on account notice for £1,000 but you tell us that your liability will only be £750. When your assessment is raised, your liability is £950.

This means that you will need to pay a further £200 and, because this £200 is part of the payment on account balance that you postponed, late payment interest will be due on that amount.

Section 6 details how late payment interest is calculated.

5.9 Do I have to pay more than the amount on the payment on account notice?

You are only required to pay the amount shown on the payment on account notice. If your income has increased the additional tax will be charged when your annual assessment is issued. You will then be required to pay the additional amount by the date stated on the assessment notice.

The payment on account for the next year will be increased to take the extra income into account, so you should make provision to pay the tax and payment on account due on the additional income.

6 INTEREST ON LATE PAYMENTS OF INCOME TAX**6.1 I have not paid all of my payment on account, will I be charged interest?**

Yes, you will be charged interest for late payments of tax. Interest is charged for the period starting on the day after the payment on account was due and ending on the day before full payment was received.

6.2 I have not paid all of my annual assessment liability, but I did pay my payment on account on time. For what period will interest be charged?

Interest will be charged on the amount due on the annual assessment for the period beginning on the day after the due and payable date of the assessment and ending on the day before the date of the payment of the outstanding amount.

6.3 I requested to pay a lower amount of payment on account but my assessment has been issued and part or all of the payment on account that was postponed is now due. Will I be charged interest on this amount?

Yes. The interest will be calculated starting on the day after the payment on account was due and ending on the day before full payment was received.

If you have requested that part of your payment on account be postponed, it is important that you closely monitor your income levels. If you think it is likely that some, or all, of the amount postponed will actually be due, then you should make additional payments in order to minimise potential interest charges.

As stated earlier in this guide, you only have to pay the amount of tax that is notified on the payment on account notice.

7 REPAYMENT SUPPLEMENT ON CERTAIN REFUNDS OF INCOME TAX

7.1 What is repayment supplement?

Repayment supplement is an additional amount that may be due to you when you have paid more tax than your total liability on your assessment notice.

This tax could have been paid through your tax code, subcontractor deductions or payment on account.

7.2 How is the supplement calculated?

Repayment supplement is calculated based on the overpayment and the period during which your tax was "in credit".

Tax is considered to be in credit during the period that begins on one of the dates listed below and ends on the date the refund is authorised for issue.

Tax paid through:

Payment on account	Later of 6 January during tax year, or the actual date of payment if later.
ITIP	6 January during tax year
Subcontractors scheme	6 January during tax year

Example 1

Payment on Account paid 4 Jan 2010	£5,000
Annual Assessment issued 9 Sept 2010	£4,500
Refund authorised on 14 Sept 2010	£500

The refund of £500 would attract a repayment supplement for the period beginning on 6 January 2010 and ending on 14 September 2010.

Had the payment on account been made late, for example on 1 March 2010, the repayment supplement would only apply for the period beginning on 1 March 2010 and ending on 14 September 2010.

Example 2

ITIP paid throughout the year	£5,000
Annual assessment issued 9 Sept 2010	£4,500
Refund authorised on 14 Sept 2010	£500

The refund of £500 would attract a repayment supplement for the period beginning on 6 January 2010 and ending on 14 September 2010.

7.3 Could I be charged interest and receive a repayment supplement in respect of the same tax year?

It is possible. In the second part of example 1 above, the repayment supplement period would be shorter if the payment on account was made late (e.g. on 1 March 2010). In that example interest would be due on the full amount of the payment on account for period from 6 January 2010 to 28 February 2010 and repayment supplement on the overpaid amount would cover the period 1 March 2010 to 14 September 2010.

8 HOW TO MAKE A PAYMENT TO INCOME TAX DIVISION

Income tax payments can be made in the following ways (a receipt will only be issued if requested):

1. In person at the Income Tax Division

The public counter is on the 2nd Floor, Government Office, Buck's Road, Douglas. Please bring the payment counterfoil with you.

2. By Post

Address to Income Tax Division, Government Office, Douglas, Isle of Man, IM1 3TX ensuring that the payment counterfoil is enclosed. Cash sent through the post should be sent by registered post only.

3. By Credit or Debit Card

If you have a credit or debit card, you can pay either over the phone or at the counter. Please ring (01624) 686420, ensuring that you have your card details and payment counterfoil with you.

4. By Bank Giro Credit

Present the payment counterfoil with your payment at any bank. A bank account is not required to use this facility.

5. Cheques and Postal Orders

Cheques should be made payable to the Isle of Man Government and crossed. Post-dated cheques are not acceptable.

6. Online

You can pay online with a credit or debit card after registering and enrolling for Online Tax Services at www.gov.im/incometax.

9 CONTACT INFORMATION

Address: The Treasury
Income Tax Division
Second Floor
Government Office
Buck's Road
Douglas
IM1 3TX

Telephone: (01624) 685400
Fax: (01624) 685351
E-mail: incometax@itd.treasury.gov.im
Website: www.gov.im/incometax

Opening Hours: Monday to Thursday 9.15am – 5.00pm
Friday 9.15am – 4.30pm