

## PRACTICE NOTE

**PN 199/18**

**Date: 20 February 2018**

### BUDGET 2018 - INCOME TAX AND NATIONAL INSURANCE PROPOSALS

In his Budget speech today, the Minister for the Treasury, the Hon. A L Cannan, MHK, announced various taxation and National Insurance measures.

This Practice Note contains further information regarding the changes.

Index	Page
1. Income Tax Allowances and Rates of Tax	1
2. National Insurance Contributions	2
3. Nursing Expenses	3
4. Benefits in Kind	3
5. New Pension Product	3
6. Pensions - Trivial Commutation	4
7. Tax Relief on Existing Pension Schemes	4
8. Payments to participators relating to sales of goodwill or unquoted shares	4

#### 1. INCOME TAX ALLOWANCES AND RATES OF TAX

The following rates and allowances will apply for the 2018/19 tax year commencing on 6 April 2018:-

<b>Personal allowances</b>	<b>2018/19</b>	2017/18
	£	£
Single person	<b>13,250</b>	12,500
Married couple/civil partners (combined)	<b>26,500</b>	25,000
Additional Personal Allowance	<b>6,400</b>	6,400
Blind person	<b>2,900</b>	2,900
Disabled person	<b>2,900</b>	2,900
Co-habiting couple's maximum addition	<b>6,400</b>	6,400

<b>Income tax rates</b>	<b>2018/19</b>	2017/18
<b>Individuals</b>	<b>%</b>	<b>%</b>
Resident		
Single: Lower rate on first <b>£6,500</b> [2017/18 - £6,500]	<b>10</b>	10
Married couple/civil partners - jointly assessed: Lower rate on first <b>£13,000</b> [2017/18 - £13,000]	<b>10</b>	10
Higher rate on balance	<b>20</b>	20
Non-resident:		
Non-resident rate on all income	<b>20</b>	20
<b>Companies</b>		
Banking business	<b>10</b>	10
Land & property in the Isle of Man	<b>20</b>	20
Retail business - profits above £500,000	<b>10</b>	10
All other income	<b>0</b>	0
<b>Other non-corporates</b>	<b>20</b>	20

## 2. NATIONAL INSURANCE CONTRIBUTIONS

The following rates and thresholds will apply for the 2018/19 tax year commencing on 6 April 2018:-

<b>Item</b> (per week unless stated otherwise)	<b>2018/19</b>	2017/18
Lower Earnings Limit (LEL)	<b>£116</b>	£113
Upper Accrual Point (UAP)	<b>£770</b>	£770
Upper Earnings Limit (UEL)	<b>£784</b>	£784
Primary Threshold	<b>£118</b>	£118
Secondary Threshold	<b>£118</b>	£118
Prescribed annual equivalent of primary threshold	<b>£6,136</b>	£6,136
Prescribed annual equivalent of secondary threshold	<b>£6,136</b>	£6,136
Class 1 employees' primary rate of NI (between primary threshold and UEL)	<b>11%</b>	11%
Class 1 employees' additional rate of NI (above the UEL)	<b>1%</b>	1%
Class 1 employers' rate of NI (on all earnings above secondary threshold)	<b>12.8%</b>	12.8%

Class 2 rate self-employed	<b>£5.40</b>	£5.40
Class 2 small earnings exception level (annual)	<b>£6,136</b>	£6,136
Class 2 rate for volunteer development workers	<b>£5.80</b>	£5.65
Class 2 rate for share fishermen	<b>£6.70</b>	£6.70
Class 3 voluntary contributions	<b>£14.65</b>	£14.25
Class 4 lower profits limit (annual)	<b>£6,136</b>	£6,136
Class 4 upper profits limit (annual)	<b>£40,768</b>	£40,768
Class 4 rate between the lower & upper limits	<b>8%</b>	8%
Class 4 rate above the upper limit	<b>1%</b>	1%

### 3. NURSING EXPENSES

The maximum deduction allowed for nursing expenses remains at £12,500 for the tax year commencing 6 April 2018. However, the relief is extended to also apply to the costs of engaging a qualified physiotherapist in instances where the current criteria for relief for nursing expenses have already been met and where the physiotherapy forms an integral part of the treatment.

### 4. BENEFITS IN KIND

The annual aggregate value of all general benefits in kind that will not be charged to income tax is increased from £400 to £600 from the 2018/19 tax year.

The benefit in kind exemption introduced in last year's Budget for employers providing employees with bikes and related safety equipment for use between their home and place of work is extended to include certain types of electrically assisted bikes. The £1,000 limit to the total cost to the employer of the bike and equipment is removed but the maximum value of the benefit in kind remains at £1,000 per employee in any period consisting of three consecutive tax years.

Further details can be found in PN 200/18 – Cycle to Work Scheme – Benefit in Kind Exemption.

### 5. NEW PENSION PRODUCT

From 6 April 2018, legislation will be introduced which will allow for a new pension product. The new product will permit a member aged 55 or over to take a tax-free lump sum of 40% and also have full access to the remaining funds as and when required. Tax relief will be allowed on contributions to the pension scheme up to an annual contribution limit of £50,000 and, on death of the member, no tax will be charged on any remaining funds. The new product will be able to accept transfers from existing pension schemes that have been approved by the Assessor, subject to the payment of a 10% transfer fee.

Further details can be found in PN 201/18 – Pension Changes.

## **6. PENSIONS - TRIVIAL COMMUTATION**

The trivial commutation lump sum limit for any pension scheme approved by the Assessor is increased to £100,000 from 6 April 2018 and the level of fund remnant that can be paid as a lump sum also increases to £100,000. This allows for a fund of approximately £142,000 to be paid under triviality and fund remnant rules.

## **7. TAX RELIEF ON EXISTING PENSION SCHEMES**

From 6 April 2018, the annual allowance for a pension scheme approved by the Assessor under the Income Tax (Retirement Benefit Schemes) Act 1978, the Income Tax Act 1989 and the new pension product, will be £50,000. This is the maximum amount of pension contributions that can be made in respect of an individual in any year of assessment, regardless of the number of schemes they have.

## **8. PAYMENTS TO PARTICIPATORS RELATING TO SALES OF GOODWILL OR UNQUOTED SHARES**

Measures are introduced aimed at limiting tax loss when members extract profits and benefits from Isle of Man companies using methods other than paying out taxable dividends. These changes apply in respect of transactions made on or after 20 February 2018.

Further details can be found in PN 202/18 – 2018 Budget Changes: Payments to participators relating to sales of goodwill or unquoted shares.

**Nicola Guffogg**

**Assessor of Income Tax**

This Practice Note is intended only as a general guide and must be read in conjunction with the appropriate legislation. It does not have any binding force and does not affect a person's right of appeal on points concerning their own liability to income tax.

Comments and suggestions for improvements of issued Practice Notes and suggestions for future Practice Notes are always welcome.