
PRACTICE NOTE

PN 179/12

Date: 28 August 2012

THE TAXATION OF THE INTEREST COMPONENT OF PAYMENT PROTECTION INSURANCE (PPI) COMPENSATION

Background

This note gives basic advice on the taxation of any interest included in PPI compensation payments.

Typically, PPI compensation payments are made up of two elements:

- the repayment of premiums
- interest which would have been earned if the premiums had not been paid.

How will PPI compensation payments be taxed?

Generally, no tax will be due on the repayment of premiums element of PPI compensation. However, the interest element of PPI compensation is taxable and should be declared on tax returns for the year in which the compensation is received.

Double taxation relief

The interest may have had UK tax deducted already: and this depends on the type of company paying it.

If the interest element of the PPI compensation has suffered UK tax it may be possible to claim an allowance for some or all of this tax in the Isle of Man; depending on the total amount of a person's UK income.

If a Manx resident's UK income is less than the UK personal tax allowance they must claim back the UK tax from HM Revenue & Customs, as they will not be eligible for double taxation relief in the Isle of Man

M Couch

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.