
PRACTICE NOTE

PN 210/20

Date: 18 February 2020

SPECIAL TREATMENT OF KEY EMPLOYEES

In his Budget speech today, the Minister for the Treasury announced the insertion of a new Section 2D of the Income tax Act 1970 providing for the special treatment of key employees.

The key employee incentive has operated as an Extra Statutory Concession (Government Circular No. 44/04) since it was first introduced for the 2003/04 income tax year and the workings of that measure are now being enacted into primary legislation.

Consequently, this Practice Note replaces PN185/14 – Application of the Extra Statutory Concession for Key Employees.

Introduction

The legislation is introduced with effect from 6 April 2020 to attract key employees, new business and employment to the Island.

Application

The special treatment is aimed at individuals who are or will be new residents and who are essential to the implementation and the operation of new business in the Island. This could be an entrepreneur setting up the new business itself or a key new employee that an existing business requires to move to the Island in order to expand or develop into a new area or market.

New business

To be new business, the Assessor must be satisfied that such business:

- a) is in the interests of the economy of the Island; and
- b) is necessary for the purpose of establishing or developing any business undertaking in the Isle of Man; and
- c) will enable the undertaking to provide additional productive employment in the Island.

Taxation

For as long as the special treatment applies to an individual (see below), whilst they will be resident for income tax purposes and therefore subject to resident income tax rates, allowances and reliefs, their income sources will be treated, for Isle of Man income tax purposes, as if they were not resident in the Island.

This therefore has the effect of subjecting only the individual's remuneration from employment, benefits in kind and rent arising from property in the Island to Manx income tax. Any other sources of Manx income or income from outside the Island will not be chargeable to income tax. However, as the individual will be a key employee of the business it is expected that their remuneration will be commensurate with this position.

If the individual has made a valid election to be jointly assessed for income tax purposes their income will fall within the legislation and be subject to tax on the above basis.

Time limit

The special treatment applies for a maximum of the first three years after the date of commencement when the relevant individual becomes resident for tax purposes in the Isle of Man.

It will cease to apply if the individual leaves the employment of the new business or employer within the three year period.

Other information

An individual can only benefit from this special treatment once. Anyone who falls within it may also be eligible for the National Insurance Holiday Scheme whilst that scheme is in operation.

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.