
PRACTICE NOTE

PN 216/21

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Taxation of COVID-19 financial support

Introduction

This Practice Note provides clarity in relation to the income tax and National Insurance treatment of the financial support provided by the Isle of Man Government during the COVID-19 pandemic.

Relevant financial measures

A number of financial measures were introduced by the Isle of Man Government to support individuals and businesses during the COVID-19 pandemic. The financial measures included:

- COVID-19 Salary Support Scheme;
- Manx Earnings Replacement Allowance ("MERA");
- Coronavirus Business Support Scheme;
- Coronavirus Fisheries Industry Support Scheme; and
- Strategic Capacity Scheme (together the "COVID -19 financial measures").

Income tax treatment of amounts received

All amounts received by businesses or individuals under the above listed COVID-19 financial measures are income for tax purposes. Under the Income Tax Act 1970 all income is subject to income tax unless it is specifically excluded or exempted. The only COVID-19 financial measure specifically excluded or exempted from income tax is MERA.

[Income Tax \(Social Security Benefits\) \(Exemption\) Order 2020](#), approved by Tynwald, provides that the MERA is not to be treated as income for any purposes of the Income Tax Act and had effect in respect of the income tax year commencing 6 April 2020.

The remaining amounts received in respect of the above COVID-19 financial measures are therefore liable to income tax.

However, although amounts received under the COVID-19 Salary Support Scheme form part of the turnover/income of the business and are liable to tax, as usual an income tax deduction is available for the gross amount paid to the employees of the business via the Isle of Man payroll i.e. the employees' salaries.

National Insurance treatment of amounts received

MERA

MERA was paid directly to an individual as an earnings replacement. MERA payments are therefore not earnings for the purposes of National Insurance and as such there are no National Insurance consequences for those who received MERA payments.

COVID-19 financial measures (excluding MERA)

Self-employment income

All amounts received by self-employed individuals (which also include individual partners of partnerships) under the above listed COVID-19 financial measures (excluding MERA) form part of their self-employment income. These amounts, together with the turnover of the self-employed individual but after tax deductible expenses, are subject to Class 4 National Insurance Contributions.

Business profits (not forming part of self-employment income)

All amounts received by businesses under the above listed COVID-19 financial measures (excluding MERA) are business profits. There are no National Insurance consequences as amounts received would form part of the turnover of the business.

Employment income

Amounts paid over to the employees of a business as a result of the business having received payments under the COVID-19 Salary Support Scheme are treated in the same manner as any payment of earnings, and as such they are subject to Class 1 Primary (payable by employees) and Secondary (payable by employers) National Insurance Contributions.

Reporting of amounts received

MERA

As MERA payments are specifically excluded from income tax and not treated as earnings for the purposes of National Insurance, these payments are not required to be reported on your Income tax return.

COVID-19 financial measures (excluding MERA)

Any amounts received in respect of the above listed COVID-19 financial measures (excluding MERA) are to be reported on your Income Tax return in the relevant tax year in which they are received.

Self-employment income

Any amounts received (as explained above) should be included within the turnover/income of the business accounts of the self-employed individual but need to be identified separately to ensure that the correct tax treatment is applied.

Example

A self-employed individual prepares accounts to the year ended 31 March. During the year ended 31 March 2021 the following amounts were received/incurred:

- financial support under the Coronavirus Business Support Scheme of £9,500;
- turnover of £15,000;
- allowable deductions totalling £4,500.

The financial support received will form part of the turnover resulting in total income of £24,500. After allowable deductions of £4,500, the taxable profits for the 2020/2021 tax year will be £20,000. The taxable profits will be subject to income tax and Class 4 National Insurance Contributions.

The financial support of £9,500 should be clearly identified separately either in the business accounts or in the tax computation.

Business profits (not forming part of self-employment income)

Any amounts received should be included within the turnover/income of the business accounts but need to be identified separately to ensure that the correct tax treatment is applied.

The amounts, for each type of financial support received, can be identified separately in the business accounts, either directly in the profit and loss account or as a separate disclosure in the notes to the business accounts, or in the tax computation.

Example

A business prepares account to the year ended 31 March. During the year ended 31 March 2021 the following amount were received/incurred:

- financial support under the COVID-19 Salary Support Scheme of £5,000;
- financial support under the Coronavirus Business Support Scheme of £9,500;
- turnover of £15,000;
- salary costs of £7,000
- other allowable deductions totalling £4,500.

The financial support received will form part of the turnover resulting in total income of £29,500. After allowable deductions of £11,500, the taxable profits for the year ended 31 March 2021 will be £18,000.

Each type of financial support, £5,000 under the COVID-19 Salary Support Scheme and £9,500 under the Coronavirus Business Support Scheme, should be clearly identified separately either in the business accounts or in the tax computation.

Employment income

An employer must report payment of any earnings through their payroll within the normal reporting timescales, deduct income tax and National Insurance Contributions from these payments and provide the employee with the necessary forms (e.g. payslip, T14 etc).

An employee should declare all earnings received on their income tax return form for the year in which the payment is made.

It is the responsibility of the taxpayer and the employer to correctly report, for income tax and National Insurance purposes, any amounts received in respect of the above financial measures and to pay the income tax and National Insurance liability at the correct time.

Failure to report the amounts to the Assessor at the correct time may result in penalties for non-compliance and late payment.

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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.