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## PRACTICE NOTE

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**PN 125/06**

**Date: 1 March 2006**

### IMPORTANT CHANGES TO TAX CODES

Subject to final legislative approval of the Income Tax (Amendment) (No. 2) Bill 2005, a number of changes to our tax system will come into effect from 6 April 2006, including a new allowance for non-residents, and fairer treatment of married couples for tax purposes.

It is very important that all employers apply the correct code for a new employee or when making payments to a non-resident. The starting point should be the completion of form T10 to establish the employee's personal information and their residence position.

#### Resident Employees

A resident employee should bring their code from any previous employment by means of form T21 parts 2 and 3. This will provide the new employer with authority to operate their code until a new one is issued. Form T21 part 3 should be forwarded to the Income Tax Division by the new employer so that the code in operation can be checked for appropriateness and accuracy.

Where a new employee does not bring their T21 from a previous job, has not worked recently or has never worked before, the emergency code must be established and a T20 form completed and forwarded to the Income Tax Division as a matter of urgency.

It is no longer relevant to apply a different emergency code based on gender or marital status, so all resident employees will have an emergency code which is based on the nature of their new employment and their other remuneration as follows -

Resident individual in receipt of a pension (occupational or state retirement)	SB
Resident individual starting a main employment but has another subsidiary employment	867S
Resident individual starting a subsidiary employment but has another employment	SB
Resident individual with no other employment or pension	867S

#### Non-resident Employees

In most cases the employer will need to determine the appropriate code for a non-resident employee. This is decided by the nature of the remuneration and the contract details.

The payment of directors' fees, consultancy fees or other remuneration in respect of professional services to a non-resident should be made using the code HR.

Where a new employee is a temporary worker or on a short term contract and does not intend to stay on the Isle of Man for more than 6 months, they will be eligible for the new non-resident allowance. The new non-resident code of 400N should be used.

If they stay longer than 6 months they must be treated as potentially resident and a form T20 should be submitted as soon as this appears likely, e.g. when their contract is extended beyond 6 months.

For some time a concession has operated which allocated non-resident temporary workers the code 850N. This concession will now be phased out as it is to be replaced by the new non-resident allowance. Where an employee has already been allocated the code 850N at the start of their contract, it can still be applied until their temporary employment ends.

All new non-resident temporary workers who commence employment after 6 April 2006 should have the 400N code applied to their remuneration.

## **Occupational Pension Payments**

### **Resident Recipient**

Where an occupational pension scheme administrator makes payments for the first time to a person who is resident in the Isle of Man, they should consider the following guidance –

- If they employed the person up to the time of their retirement and also administer the pension scheme, they may continue to operate the same code which was in operation against the employee's salary. A form T21 should also be completed and all 3 parts forwarded to the Income Tax Division.
- If they are the administering insurance company they may operate the code, forwarded from the person's employer, which was in operation at the time of their retirement. A form T20 should also be completed and forwarded to the Income Tax Division.
- If the person has not worked for them as an employee recently, or they are the administering insurance company and have not received a code, then the emergency code SB should be applied and form T20 completed and forwarded to the Income Tax Division. A new code will be issued as soon as possible.

### **Non-resident Recipient**

Where a non-resident person is in receipt of an occupational pension, they will now be entitled to the new non-resident allowance of £2,000 per year. Payments should, therefore, be made using code 200N. The only exception to this is where it is known that the person receives another occupational pension from the Isle of Man, in which case the code HR should be used.

### **Summary**

The income tax legislation in the Isle of Man is changing a great deal. The employer's guide will be updated regularly to incorporate changes and it will also be made available on our website in due course. The Division now also offers short seminars aimed at those new to operating a payroll and there is no charge for attendance.

If you are uncertain regarding which emergency code to apply to a resident or which code should be used for a non-resident you should contact the Income Tax Division for guidance on the employer enquiry contact telephone number 685410.

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**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.