

# [News story: New rules for taxation of termination payments](#)

Employers will need to pay Income Tax and Class 1 National Insurance contributions (NICs) on an element of all termination payments from today (6 April 2018), whether or not they are contractual payments.

The element that is now chargeable to Income Tax and NICs is the amount of the termination payment that represents payment in lieu of notice (PILON).

This change applies to payments, or benefits received on, or after, 6 April 2018 in circumstances where the employment also ended on, or after, 6 April 2018.

This follows an announcement at Budget 2016 that government would introduce rules to prevent employers from manipulating the system.

## **Fairness and clarity**

This measure is intended to bring fairness and clarity to the taxation of termination payments by making it clear that all PILONs, rather than just contractual PILONs, are taxable earnings.

All employees will pay Income Tax and Class 1 NICs on the amount of basic pay that they would have received if they had worked their notice in full, even if they are not paid a contractual PILON.

This means the tax and NICs consequences are the same for everyone and are no longer dependent on how the employment contract is drafted or whether payments are structured in some other form, such as damages.

## **Foreign service relief**

In addition, foreign service relief on termination payments will be removed for all UK residents, apart from seafarers, from today.

UK residents whose employment ends after today who receive a payment or benefit in connection with that termination made after 13 September 2017 will not be eligible for tax relief for any period of foreign service as part of that job.

## **Class 1A NICs and sporting testimonials**

Class 1A NIC employer charges on termination payments of more than £30,000 and on sporting testimonials of more than the £100,000 lifetime exemption had also been due to be included, but due to a delay in legislation, these are now due to come into effect in April 2020.