

Review of Pension Changes in the Isle of Man



Following a period of consultation pensions legislation in the Isle of Man was reviewed and updated by the Income Tax (Pensions) Act 2008 with effect from the 6 April 2008.

This year's UK budget introduced further limits on tax relief available to high income individuals in the UK (over £150,000) further highlighting the contrasts with Manx schemes as discussed below.

Contribution Limits

The old percentage based contribution limits are abolished and replaced by the "annual allowance". During the tax years 2008/09 and 2009/10 a maximum of £300,000 can be contributed. Tax relief on contributions is available up to 100% of an individual's net relevant earnings subject to the £300,000 cap.

Individuals with no income may also now obtain tax relief upon contributions made up to £3,600. In contrast to the UK the Isle of Man has not introduced a lifetime allowance and therefore the total contributions made are not capped.

Concurrency

It is now possible to contribute to more than one pension scheme at a time allowing contributions to both a personal and an occupational scheme subject to the overall contribution limit.

Tax Free Lump Sum

Up to 30% of the fund value can be taken as a lump sum and there is no cap on this amount.

The tax free lump sum can be taken without the

necessity to begin income withdrawal, however, income must be withdrawn at age 75.

No Annuity

There is no requirement to purchase an annuity and income can be drawn down between 0% to 120% before the age of 75.

Unlike the UK, income draw down can continue after age 75 and at this age it is still not necessary to purchase an annuity.

Death Benefits

If benefits have been taken funds can be used to provide a spouse or dependants pension or the fund can be wound up and distributed at a tax charge of 7.5%.

In contrast the UK charges tax at 35% of the fund value before age of 75 and if death occurs after age 75 the inheritance tax and other penalties can result in a total tax charge of 82% of the fund.

Income Tax

Isle of Man residents receiving their pension income will currently pay a maximum income tax rate of 18% in contrast to those UK residents paying 40% and from 2010, tax at 50%.

Investment Flexibility

Isle of Man pensions can invest in a wide range of investments in accordance with the "4 Tests Rule". This means that, in contrast to the UK investment in residential property is possible for example, buy-to-let property (as long as there is no element of personal use).

Retirement Flexibility

It is now possible for an individual after reaching their normal retirement age to continue to work with their employer and at the same time take their pension benefits. As the trend continues for the period of our working lives to extend and as average life expectancy increases it is expected that this will be a useful and widely utilised option.

Qualifying Recognised Overseas Pensions Schemes (QROPS)

Since “A-day” in the UK in April 2006 it has been possible to transfer funds out of a UK pension scheme into an overseas pension scheme qualifying as a QROPS.

A QROPS must act as if it were a UK scheme for the first 5 years after a member of that scheme leaves the UK and comply with HMRC reporting requirements. However, after those 5 years the scheme becomes subject to local legislation and will benefit from all of the advantages of Isle of Man schemes noted above and without the potential for an 82% UK tax charge.

It is extremely important for any individual to take UK tax advice prior to making any transfer out of their UK pension scheme. Any such transfer will be viewed in the UK as a Benefit Crystallisation Event and potentially result in a tax charge.

There are over 100 Isle of Man QROPS listed on HMRC approved list and the benefits of the changes to Manx pension schemes should continue to be attractive to employers and individuals wishing to become resident in the Isle of Man and who may now transfer their UK pension here.

Tax Agreements with the UK and Republic of Ireland

In 2008 the Isle of Man entered into tax agreements with both the UK and the Republic of Ireland which include provisions allowing certain pensions paid from the UK or Ireland to an Isle of Man resident individual to be taxed in the Isle of Man only.

These provisions will apply to pensions paid on or after the 6 April 2009 from the UK and the 1 January 2009 for those paid from Ireland. In either case the

individual concerned must make a claim directly to the revenue authorities of the appropriate country.

International Pension Schemes

The very nature of business and employees of today is increasingly mobile and international.

The Isle of Man has had for some years legislation to facilitate the creation of international superannuation schemes in the Isle of Man in relation to trade or business carried on outside the Isle of Man for the benefit of non-Isle of Man resident employees. International schemes complying with the requirements of the Income Tax Act 1970 may be approved by the Assessor of Income Tax in the Isle of Man as exempt from income tax.

A pension scheme can be created for employees located anywhere in the world which is itself centralised in one jurisdiction. The Isle of Man as a jurisdiction is extremely stable, with a AAA credit rating and was included on the OECD ‘white list’ of international finance centres alongside jurisdictions such as the UK.

Following the changes, it is now also possible to create an international personal pension scheme in respect of non-Isle of Man residents. International pension schemes in the Isle of Man are extremely well regulated by the Insurance and Pensions Authority (“IPA”).

Any scheme must (unless in certain circumstances an exemption is available) be authorised by the IPA and have sufficiently experienced trustees and scheme administrator. There are currently approximately 125 international schemes registered with the IPA. Subject to certain conditions it is not necessary for the trustee of such a scheme to itself be resident in the Isle of Man.

The legislation prescribes certain conditions for approval and the ongoing operation of the scheme, however, flexibility is achievable regarding, for example, the way in which benefits can be taken, contribution levels and retirement dates.

Both domestic and international schemes located in the Isle of Man allow flexibility and tax advantages whilst providing the benefit of a stable and highly regulated environment for the protection of scheme members.

Should you have any questions or request for further information please contact:

Annemarie Hughes
Senior Associate
ahughes@applebyglobal.com

Bahrain
Bermuda
British Virgin Islands

Cayman Islands
Hong Kong
Isle of Man

Jersey
London
Mauritius

Seychelles
Zurich