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PRACTICE NOTE

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DEFERMENT OF THE STATE RETIREMENT PENSION

Introduction

The UK Pensions Act 2004 brought in new choices for people reaching the state retirement age, enabling them to defer claiming their state retirement pension. Putting off claiming their state pension allows people, at a later date, either to opt to receive a lump-sum payment together with the pension at the normal rate or to opt to receive a higher pension without a lump-sum payment.

Equivalent measures were introduced in the Isle of Man via Social Security (Application) Orders¹.

Scope

This Practice Note deals only with the taxation of state retirement pension lump-sum payments. State retirement pensions, whether paid at the normal amount or at an increased amount following a deferral period, are subject to normal income tax rules.

Effective Date

Only people who have become eligible to claim their state pension since 6 April 2005 have been able to use the new deferral rules.

Taxation of the Lump-sum Payment

The lump-sum will form part of the recipient's total taxable income for the year of assessment in which it is received.

It is possible to have the lump-sum paid in the year following the year of assessment in which the pension deferral ended. In these instances it will be taxed in the year of receipt.

Interaction with Personal Allowance Credits

A pension lump-sum is part of a person's total income for the purposes of calculating personal allowance credit, and will therefore reduce or eliminate available personal allowance credit for eligible individuals in the year of receipt.

Non-residents

¹ Orders and Regulations can be obtained via the Tynwald Library Tel: (01624) 685520 and may be subject to a small charge.

Currently a state retirement pension paid from the Isle of Man to a non-resident individual is by concession exempt² from Manx income tax.

The new pension deferral rules are available to non-residents, and so the concession will exempt lump-sum payments from income tax in these situations.

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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.

² Exemption introduced by Government Circular GC122/90 "National Insurance Pensions – Payments to Non Residents".