



PRACTICE NOTE

PN 157/09 (updated)

Date: 26 June 2009

UNITED KINGDOM AND REPUBLIC OF IRELAND PENSIONS

Introduction

This Practice Note updates and replaces the Practice Note on United Kingdom and Republic of Ireland Pensions issued on 7 May 2009 (PN 157/09) as, following discussions, HM Revenue & Customs (HMRC) have now agreed to extend the benefits of a new tax agreement between the Isle of Man and the United Kingdom (UK) to more categories of pension (see the section on UK Pensions below).

This Practice Note is relevant to Manx residents in receipt of pensions from the UK or the Republic of Ireland (Ireland), and their agents.

As part of its programme of developing closer economic and taxation co-operation with other countries, the Isle of Man concluded new tax agreements with both the UK and Ireland in 2008. The new agreements cover a number of areas. However, changes to the tax treatment of pensions received by Manx residents from the UK and Ireland are potentially the most significant. The agreements include provisions which allow certain pensions paid from the UK or Ireland to people living in the Isle of Man to be taxed in the Isle of Man only.

Manx residents who already receive their UK or Irish pension without any tax having been deducted in the UK or Ireland will not be affected by the changes.

It is possible for a person to be tax resident in more than one country. The guidance in this Practice Note applies if you are resident for tax purposes in the Isle of Man only. If you are tax resident in more than one country, you may need to consider the full text of the relevant agreement.

The full texts of the agreements are available on the Income Tax Division's website (<http://www.gov.im/incometax>). We are developing more detailed guidance which will be published in due course.

The Income Tax Division (the Division) wrote to the Manx residents who, according to its records, may be affected by these changes and will also be ensuring that residents affected by this update are notified. If you think you may be affected by the changes but have not received a letter please contact the Division.

Background

A Manx resident in receipt of a pension from the UK or Ireland often has UK or Irish tax deducted from it at source. This tax is then credited against their liability to Isle of Man income tax on the pension. As the rates of tax in the UK and Ireland are generally higher than those in the Isle of Man, it normally means that there is no Isle of Man tax to pay on the pension income.

The new agreements provide that certain types of pension can only be taxed in the taxpayer's country of residence.

This means that Manx residents in receipt of certain types of pension from the UK or Ireland will only suffer Manx tax on that income. As this tax will not be collected at source, Manx residents benefiting from these changes will, in the first year of operation, need to budget for any Manx tax due on this income. For subsequent years a payment on account notice may be issued in order to collect any Manx tax due.

UK Pensions

After the original version of this Practice Note was published on 7 May 2009, HMRC agreed that pensions paid by the UK Government should in many cases be treated the same as other pensions paid from the UK and that this treatment should apply from 6 April 2009. This section has been updated to reflect this.

What types of UK pension are affected?

The UK agreement includes the following provision:

"Pensions and other similar remuneration paid to an individual who is a resident of one of the territories shall be taxable only in that territory".

This means that UK occupational pensions set up by private employers, personal pensions and group personal pensions paid to Manx residents will be taxable only in the Isle of Man.

This new provision will also apply to pensions paid by the UK Government (e.g. pensions paid for former employment with HM Forces and the UK Civil Service) if you are resident and ordinarily resident in the Isle of Man.

What does "resident and ordinarily resident in the Isle of Man" mean and what difference does it make?

The terms "resident" and "ordinarily resident" for Isle of Man tax purposes are explained in full in PN 144/07 where it is stated that:-

"..the word "ordinarily" should be construed as synonymous with "generally" or "usually".."

In what are anticipated to be the very rare circumstances in which an individual in receipt of a UK Government pension is resident but not ordinarily resident in the Isle of Man, they will continue to be subject to UK tax, and will be exempt from tax in the Isle of Man on their UK Government pension.

When do the changes apply from?

The changes apply to pensions paid on or after 6 April 2009.

How do I benefit from the changes?

To get the benefit of the changes individuals will need to make a claim to HMRC as the Division cannot do this on their behalf.

Further details of the UK claim process can be found on the HMRC website at www.hmrc.gov.uk/cnr/app_dtt.htm

What happens if I submitted a claim to HMRC in respect of my non-Government pension before this updated Practice Note was issued?

HMRC have confirmed that claims submitted to them before this updated Practice Note was issued will not be affected.

If, however, you have already submitted a claim in respect of your UK non-Government pension and you also receive a UK Government pension which was not included in your claim as it was submitted before this updated Practice Note was issued, HMRC have advised us that you should write to them at the address below to notify them of your UK Government pension (a separate claim will not be required).

HM Revenue and Customs Residency
Ferrers House
PO Box 38
Nottingham
United Kingdom
NG2 1BB
Telephone: +44 151 210 2222 (or 0845 070 0040 if calling from the UK)

Irish Pensions

What types of Irish pension are affected?

The agreement with Ireland provides the general rule that pensions paid "*in consideration of past employment*" are taxable only in the country of residence. This means that Irish occupational pensions paid to Manx residents are now taxable only in the Isle of Man. Private pensions are unaffected by the agreement as they are not paid "*in consideration of past employment*".

This general rule does not normally apply to pensions paid by governments or local authorities. Pensions paid by the Irish government or an Irish local authority to a Manx resident remain taxable in Ireland; but in most cases will no longer also be taxable in the Isle of Man.

If you are unsure about which category your Irish pension falls into, further guidance can be obtained from the Irish Revenue Commissioners (see contact details for the Collector General's Office below) or by sending an email to dirtaxe@revenue.ie

When do the changes apply from?

As Ireland has a calendar tax year the changes apply to Irish pensions paid on or after 1 January 2009.

How do I get the benefit of the changes?

To get the benefit of the changes individuals need to make a claim to the Irish Revenue Commissioners as the Division cannot do this on their behalf.

Further details of the Irish claim process can be obtained from:

The Collector General's Office

Government Offices

Nenagh

Co. Tipperary

Republic of Ireland

Telephone: +353 67 63 400

Email: intclaims@revenue.ie

Website : www.revenue.ie/en/business/international/claim-forms.html

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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.