



**INCOME TAX (RETIREMENT BENEFIT SCHEMES) ACT 1978  
AND  
INCOME TAX ACT 1989**

**INCOME TAX (APPROVED PENSION SCHEMES) (TRIVIAL COMMUTATION  
LUMP SUMS) REGULATIONS 2008**

*Approved by Tynwald*

*16<sup>th</sup> July 2008*

*Coming into operation in accordance with regulation 1(2)*

In exercise of the powers conferred on the Treasury by sections 2(5) and 10B(8) of the Income Tax (Retirement Benefit Schemes) Act 1978<sup>1</sup>, sections 5A(2) and 22B(6) of the Income Tax Act 1989<sup>2</sup>, and of all other enabling powers, the following Regulations are hereby made:-

**Part 1 – Introduction**

**Citation and commencement**

1. (1) These Regulations may be cited as the Income Tax (Approved Pension Schemes) (Trivial Commutation Lump Sums) Regulations 2008.  
  
(2) These Regulations shall come into operation on the date on which they are approved by Tynwald and shall have effect in respect of the income tax year commencing 6<sup>th</sup> April 2008 and subsequent years.

**Interpretation**

2. In these Regulations-

“the 1978 Act” means the Income Tax (Retirement Benefit Schemes) Act 1978;

“the 1989 Act” means the Income Tax Act 1989;

“approved pension scheme” means any scheme or arrangement approved by the Assessor under the Income Tax Acts;

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<sup>1</sup> 1978 c.9

<sup>2</sup> 1989 c.10



“the commutation limit” is £16,500, or such lower amount remaining after payment of trivial commutation lump sums paid during the commutation period;

“the commutation period” means the period –

- (a) beginning with the day on which a trivial commutation lump sum is first paid and;
- (b) ending 12 months after that date;

“member” includes:

- (a) an employee as defined in section 14 of the 1978 Act; and
- (b) an individual, being a member of a personal pension scheme, who makes arrangements in accordance with a scheme approved under Part 1 of the 1989 Act;

“nominated date” means the day within the period of three months ending with the first day of the commutation period nominated by the member (or, if no date is nominated, is the first day of the commutation period);

“value of the member’s pension rights” has the meaning given in Regulations 5 and 6.

## **Part 2 - Trivial Commutation Lump Sums**

3. (i) A trivial commutation lump sum may be paid by an approved pension scheme to the scheme member.

(ii) A lump sum is a trivial commutation lump sum if:

- a) it is paid –
  - i. when no trivial commutation lump sum has previously been paid to the recipient; or,
  - ii. if such a payment has been made, before the end of the commutation period;
- b) on the nominated date, the value of the member’s pension rights does not exceed the commutation limit;
- c) it extinguishes the member’s entitlement to benefits under the approved pension scheme; and
- d) it is paid when the member has reached the age of 60 but has not reached the age of 75

## **Part 3 – Value of Member’s Pension Rights**

4. For defined benefit schemes the value of the member’s pension rights shall equal 20 times the annual rate of pension payable by the approved pension scheme on the nominated date.

5. In all other cases the value of the member’s pension rights is the full amount of the fund available to purchase an annuity or to pay a pension, and includes any amount that has



been, or could be, paid as a lump sum in commutation of the member's pension.

#### **Part 4 - Taxation**

6. A trivial commutation lump sum shall be charged to tax:
  - a) if paid in respect of benefits accrued with a scheme approved under the 1978 Act, in accordance with section 10B of that Act; or
  - b) if paid in respect of benefits accrued with a scheme or arrangement approved under Part 1 of the 1989 Act, in accordance with section 22B of that Act.
  
7. The amount of a trivial commutation lump sum treated as earned income for the purpose of section 22B of the 1989 Act may be reduced by the lump sum payable under section 5 of that Act.

Made this 11<sup>th</sup> day of June 2008



Minister for the Treasury

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#### **EXPLANATORY NOTE**

(This note is not part of the Regulations)

These Regulations allow the payment of a lump sum on the grounds of triviality when the value of a member's accrued benefits is below a prescribed limit. These Regulations provide the definition of certain terms, the valuation of benefits that may be commuted and confirmation that income tax shall be payable on part of the lump sum.