

# If you've moved to the Isle of Man, shouldn't your pension do the same?

Many local residents have at least one company or personal pension arrangement which is based in the UK and operates under UK tax rules. The tax rules applying to pensions in the UK and the Isle of Man have moved far apart in the last 3 years, with both changing in different ways. So are there advantages in moving a UK pension to the Isle of Man? In many cases, the answer is yes: when compared to the UK, the advantages of an Isle of Man pension can be overwhelming.

Let us begin with the Retirement Lump Sum: Firstly, in relation to the maximum tax-free lump sum, expressed as a % of the pension fund, the comparison is as follows:

	UK	Isle of Man
Lump Sum	25%	30%

So more of the pension fund can be taken tax-free for an IoM scheme than for a UK scheme, thus reducing the overall tax charge.

It should be added that to avail of the full 30% lump sum, an individual should be UK non-resident at the time of receipt (otherwise the extra 5% could be considered by the UK tax-man as an unauthorised payment). Indeed, it should also be understood that the full benefits of transferring a UK pension to the IoM arise in situations where the person is not just leaving the UK for 5 years or more, but intends to stay out of the UK too.

### Drawdown

For someone with a personal pension, including a SIPP, the main advantages of the IoM pensions



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regime over the UK are in relation to the rules which govern pension at retirement, and on the re-use of

funds on death. Taking firstly the pension at retirement, then assuming the individual does not

wish to go down the annuity route (and few do!), the alternative drawdown regimes pre and post age 75 are summarised in the table below.

	UK	Isle of Man
Pre 75	0-120% GAD	0-120% GAD or Actuarial calc
Post 75	55-90% GAD	35-120% GAD or Actuarial calc

In this table, 100% of "GAD" indicates a rate of drawdown broadly similar to annuity rates. The "ASP" abbreviation after age 75 refers to an "Alternatively Secured Pension", which is the UK tax-man's only permitted alternative to an annuity after age 75. The ASP is a nightmare creature which, fortunately, does not exist anywhere beyond the shores of the UK. (I often think that the UK tax man was tasked with designing a pension concept even worse than an annuity, and the ASP was the winner (or for tax-payers, the loser) in this hideous competition.)

The maximum ASP is broadly around 90% of annuity rates, so what this means is that - in most

cases - it is impossible to fully use up the pension fund to provide pension during the person's retirement. And in the Taxation table below, we will see what happens to the UK fund remaining on the person's death (guess?).

Fortunately, after a UK personal pension has been transferred to the IoM, the ASP nightmare goes away. The member's IoM pension fund is instead used to provide a drawdown pension. In the case of the Isle of Man, the drawdown rules are considerably more attractive and flexible than in the UK. Drawdown can be stepped up or stepped down in any year, within generous limits. This can be very helpful - many retirees find they are more active in their 60s & 70s than in their 80s, so drawdown can be stepped up in



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earlier years and reduced in later years. The ability to drawdown based on individual actuarial calculation also allows for important differentiation to be made, for example depending upon the person's pension investment policy (eg if they are investing in equities), or tailored to align to the person's own life expectancy (eg if impaired).

### Taxation

Historically, an important reason for transferring a company or personal pension from the UK to the IoM has been to ensure that the pension is taxed at lower IoM rates of taxation. With UK tax rates as high as 50%, this is entirely understandable!

However, changes to the UK/Isle of Man double tax agreement (DTA) as from April 2009 should be noted. Under the revised DTA, an IoM-resident in receipt of a UK pension should

henceforth only pay tax in the Isle of Man, and no UK tax should be deducted. There is an administrative process to be followed to achieve this, but this is an important change. IoM residents in receipt of UK pensions need to be sure that they make their UK pension provider aware, as there will be no automatic adjustment to tax unless the due process is followed.

### Death - The Greatest Divide

The greatest divide between UK and IoM pensions however can be seen in relation to the final tax on death. Whereas the UK tax-man is utterly zealous in the belief that pensions must not be handed down on death, Income Tax Division in the IoM is more liberated. The table below compares how much of a personal pension fund ("Fund") remains for final beneficiaries on wind-up

after death at different ages:

	UK	Isle of Man
Pre retirement	Fund	Fund
Retire pre 75	Fund-35% tax	Fund-7.5% tax
Retire post 75	Fund - up to 82% tax	Fund - 7.5% tax

So whereas a UK pension can return as little as 18% of the fund on death, an IoM-resident/domiciled individual can perfectly legitimately utilise an IoM pension scheme (a SIPP) to hand down up to 100% of the fund on death. (The 7.5% IoM tax can be avoided too, by various planning techniques.) If you are no longer UK-resident, after all, why should you pay UK tax on your pension or pension estate?

### Taking Action

Faced with such a strong list of "reasons why", most IoM-residents

with a UK personal pension should take individual advice on moving their pension to the IoM. Boal & Co have a wide range of bespoke and off-the-shelf IoM pension scheme solutions, including schemes we have specially designed and administer for leading local advisory firms who are able to provide individually tailored pension and investment advice.

For Manx residents with a final salary UK pension scheme, the issues are different, but transfer can in many cases still be advantageous, particularly where life expectancy is sub-standard.

For individuals currently - but temporarily Manx-resident - we also (uniquely) have our own Guernsey-based pension scheme solution, which can be more tax-efficient for individuals retiring to countries other than IoM and UK.

Further details are available on-line at [www.boal.co.uk](http://www.boal.co.uk).