

PENSION TRANSFERS FROM UK TO ISLE OF MAN - ACT NOW

Changes to UK pensions legislation in April 2006 will end the reciprocal agreement facilitating pension transfers between UK and Isle of Man pension schemes. Isle of Man residents contemplating transfer of UK pensions to Isle of Man schemes are advised to act now.

Actuaries and pension scheme consultants Boal & Co www.boal.co.uk are alerting Manx residents to the need to take prompt action if considering the future transfer of UK preserved pension arrangements.

Up until now, Isle of Man residents have been able to easily transfer pensions to Isle of Man pension schemes (which can have certain advantages), under the reciprocal agreement between the UK and IoM tax authorities. However as part of Gordon Brown's pensions simplification measures being introduced in the UK on 6th April 2006 ("A-day"), the UK/IoM reciprocal agreement (and others like it - including UK agreements with Republic of Ireland, Jersey and Guernsey) will come to an end. Anyone with UK occupational or personal pensions, who might wish to transfer such pensions to Isle of Man schemes (including small self-administered schemes) after 6th April will be affected by the change.

Transfers from UK pension schemes will still be possible after 6th April, but only on the basis of an entirely new set of rules. Boal & Co are advising anyone considering the transfer of UK pensions to act now on the basis of the current reciprocal arrangements.

After 6th April, tax-free transfers from UK schemes to overseas pensions schemes (including those in the Isle of Man) will only be possible subject to certain new conditions. In particular, if the overseas scheme is not a "qualifying recognised overseas pension scheme" (QROPS), any transfer to it from a UK scheme will potentially be classed as an unauthorised payment and subject to a 40% tax charge.

For an overseas pension scheme to become a QROPS, though, the scheme administrator must first register it with the UK tax authorities. As part of this registration, the QROPS administrator has to undertake to provide the UK tax authorities with certain information when making future pension payments in respect of transferring members. The benefits of transferring pre-April on the basis of the current reciprocal agreement (with no ongoing reporting requirement) are self-evident.

Furthermore, the new measures enable the UK tax authorities to tax non-resident members of overseas schemes in certain circumstances (for example, if the transfer from the UK scheme increases in value overseas with investment returns to the extent that it breaks through the new UK "lifetime allowance", currently £1.5 million).

Gary Boal, managing director of Boal & Co, said:

"Whilst the A-day changes are designed to simplify UK pensions, they bring a new ongoing reporting burden, and a potentially nasty tax sting in the tail, for individuals transferring pensions from UK to Isle of Man schemes. One positive change is that UK-residents will now potentially be able to transfer to overseas schemes (eg Isle of Man ones), without becoming UK non-resident. However there are heavy anti-avoidance measures as part of this, including the potential application of UK tax charges in respect of UK non-residents with overseas pensions built up in the UK. For anyone considering the possible transfer of UK pension benefits to an Isle of Man scheme, there is absolutely no doubt that the current regime is the more attractive one. Anyone thinking of transferring UK benefits to an Isle of Man scheme should therefore do so now, to ensure that the transfer is completed before 6th April."

For the avoidance of doubt, none of these changes affect the relationship between UK and Isle of Man State pensions, including the old age pension. They affect occupational/company pensions and personal/self-employed pensions, but not State pensions.

MEDIA ENQUIRIES

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