

The Isle of Man Budget



"a Pension Freedom Scheme was introduced from 6 April 2018"
Michelle Galpin



Further details of the budget changes can be found at:

<https://www.gov.im/categories/tax-vat-and-your-money/income-tax-and-national-insurance/budget-2018/>

The 2018 Isle of Man Budget, which was published on 20 February, set out a significant number of changes to different aspects of pension provision.

Trivial Commutation

From 6 April 2018 the limit on the size of pension pots that can be commuted on grounds of triviality was doubled from £50,000 to £100,000. This substantial increase comes just two years after the last change, when the limit was increased from £30,000 to £50,000 as part of the 2016 budget. Trivial commutations, which are available from age 55, are treated as income for tax purposes.

As a consequence of the trivial commutation limit changes, the maximum remnant lump sum amount is also increased to £100,000. This means that pension pots of up to £142,587 can be taken in full as cash; this is achieved by first commuting the maximum 30% tax-free lump sum, leaving a residual pension pot of £100,000, which can then be taken as a remnant lump sum.

Pension Contributions

The Isle of Man introduced an Annual Allowance of £300,000 in 2008. It has remained at this level for the last 10 years, but it was cut to £50,000 from 6 April 2018. As a result, the maximum tax relief on pension contributions is now limited to the lower of 100% of earnings and £50,000. In practice, this reduction is not expected to have a material impact since historically very few people have made contributions in excess of £50,000 pa.

National Insurance Changes

The Treasury Minister confirmed in his budget speech that the Isle of Man is still intending to abolish contracting out with effect from 6 April 2019. This will mean that the lower rate National Insurance contributions paid by employers and employees in contracted out employment will also be abolished.

The Minister also confirmed that the Isle of Man was still on track to introduce a new single-tier Manx State Pension in April 2019 and that State Pension Age in the Isle of Man should remain the same as in the UK for the foreseeable future.

Workplace Pensions

The Treasury intends to consider and consult on the possibility of introducing some form of workplace pension arrangements from 2020. However, no further details are currently available.

New type of Pension Scheme

Following on from a consultation about the potential introduction of "Pension Freedoms" last summer, a new type of pension arrangement, a Pension Freedom Scheme ("PFS") was introduced from 6 April 2018.

A PFS must go through the same approval process as other approved pension arrangements; it will first need to be authorised by the Financial Services Authority and then approved by the Income Tax Authority.

Changes from initial proposals

We summarised the initial proposals in the Quarter 4 2017 edition of Bandwagon. However there have been some changes. Only one PFS is available to a person at any one time. The annual contribution limit to a PFS is £50,000, rather than £5,000. In addition, the income tax relief on the contributions is available at a person's marginal rate, up to a maximum of 20%.

Some transfers to a PFS from other approved arrangements in the Isle of Man are permitted, but transfers from occupational defined benefit schemes or statutory schemes will not be allowed.

While there is no limit to the amount that can be transferred into a PFS, each transfer is subject to a 10% pension transfer fee. The Treasury has emphasised that this fee is not a charge to income tax.

Key Features of Pension Freedom Scheme

- a minimum retirement age of 55
- no maximum retirement age
- tax relief on contributions:
 - up to an annual contribution limit of £50,000; and
 - allowed at the member's normal rate of income tax
- pension growth builds up tax-free
- full access on reaching the scheme retirement age, including the ability to take the whole of the pension pot in one withdrawal or to take smaller withdrawals as required
- 40% tax-free lump sum
- remainder of funds are subject to income tax at the member's normal rate
- no tax on death
- 10% transfer-in fee



Location PO Box 68, Albert House
South Esplanade, St Peter Port
Guernsey, GY1 3BY

Tel +44 (0)1481 728432

Fax +44 (0)1481 724082

Web www.bwcigroup.com