

## Introduction

The Isle of Man operates a very flexible pension regime that offers various tax advantaged pension planning opportunities. Following the loss of other tax reliefs in recent Manx Budgets, a pension contribution is now effectively the only tax allowable expense that attracts the full 20% relief and should not therefore be overlooked.

### **SIPPS instead of insured scheme(s)**

**Target market** - local residents who have pensions with insurance companies but are seeking more investment control/choice. Whilst companies such as Aviva have a reasonable range of funds, they don't allow members to purchase individual equities or have control over their own investments. Also, this method of pension provision will normally result in an annuity that will cease on the individual's (or spouse's) death with any residual capital reverting back to the insurance company.

**Planning** – a SIPPS (self-invested personal pension scheme) can be established and benefits can be transferred from existing insured pension schemes. The SIPPS can take in the transfer(s) and receive on-going contributions.

**Advantages** - a SIPPS provides investment opportunities into almost all arm's length and commercial investments, allowing members to self-select investments or appoint managers of their own choice. Typically, a SIPPS will be most beneficial to clients who have already built up a reasonable fund within an insurance company as a SIPPS becomes more cost effective as fund values increase. The use of a SIPPS will also

enable residual capital to be passed on to beneficiaries on death, rather than being lost on the cessation of an annuity.

### **QROPS planning for new IOM residents**

**Target market** – individuals who have moved to the Island from the UK; in particular, those who have had their own UK business or have been highly paid employees.

**Planning** - by establishing a Qualifying Recognised Overseas Pension Scheme (QROPS) approved under the IOM Income Tax Act 1989, it is possible to bring accrued UK pension funds to a pension scheme in the IOM.

**Advantages** - changes to the Double Taxation Agreement (DTA) between the UK and the IOM mean that UK pensions can be paid gross from the UK and only taxed in the IOM at local rates. Many people therefore often make the mistake of thinking that it isn't necessary to transfer their benefits to an IOM pension scheme. However, the tax that is payable on death after attaining age 75 is not covered by the DTA. Therefore, where an IOM resident

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over the age of 75 dies with funds in a UK scheme the residual fund will be taxed at the UK marginal rate of tax. However, if the pension benefits had been transferred to an IOM SIPPS, the tax payable can be reduced to only 7.5%, i.e. a potential saving of up to 37.5%.

There are other benefits of transferring to an IOM scheme, such as the potential for receipt of a greater tax-free lump sums (30% compared to 25% in the UK) and severing UK ties for domicile purposes, but the tax differential alone maybe sufficient reason to consider this basic planning.

## Local business owners/high earners

**Target market** – Business owners seeking to reduce their IOM taxation. Changes to pension contribution rules brought about by the Income Tax (Pensions) Act 2008 opened up opportunities for business owners to make significant tax savings.

Previously, allowable contributions were linked to a percentage of earned income and there was therefore no scope to use pension planning for business owners who took minimal salaries and maximum dividends in order to limit national insurance contributions. Current rules, however, allow companies to pay annual pension contributions of up to £300,000 for each employee, regardless of the level of salary.

**Planning** – there are various scenarios where clients can make tax allowable contributions to reduce the amount of tax they pay. SIPPS planning works for those who have cash available to contribute from earnings and also for

those who have existing (non-pension) assets that can be moved into a pension scheme.

**Advantages** – the business owner receives a straightforward reduction in IOM tax paid and, if existing assets are used, this can be achieved without creating cash flow problems.

## SIPPS for Property Purchase

**Target market** – individuals who want to invest in property in a tax efficient manner.

**Planning** - SIPPS can be used in a variety of scenarios to acquire both commercial and residential property. The acquisition of business premises from which to operate a business and the purchase of buy to let residential properties are the most common property investment scenarios for a SIPPS. N.B. residential property cannot have any connected use.

**Advantages** – property can effectively be purchased with a 20% 'contribution' from the Assessor of Income Tax and all Manx rental income received by the SIPPS is free of tax. N.B. there are different tax considerations if the property is outside the IOM.

This planning can also be used for people who already own property in their own names and wish to move it into a SIPPS to create a tax 'holiday'.

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## Fedelta

Fedelta Pensions Limited is registered with the IOM Insurance and Pensions Authority as a professional Retirement Benefits Schemes Administrator and was the first company to achieve that status (registration number RA001). The pensions team at Fedelta is one of the most experienced on the Island, having been administering such schemes for over 25 years. We have over 300 schemes under management and look after pension schemes for many of the Island's wealthiest residents.

The majority of our clients prefer not to participate in multi-member master trust pension schemes where they have limited control and could be tainted by the actions of other scheme members. Instead, we provide each client with their own stand-alone SIPPS with its own QROPS registration (if required). As co-trustees (with our corporate trustee) they are co-signatories and co-owners of all assets. The schemes are totally portable and are charged for based on the time they take to manage rather than a percentage of the assets under management. This method of charging can provide substantially lower charges for large pension funds.

We are always happy to meet and provide worked examples of the above planning opportunities without cost or obligation.

## Isle of Man

The Island is a premier international finance centre, providing a business friendly environment whilst adhering to the highest standards of financial regulation, supervision and transparency. Further information is available on the Financial Supervision Commission website [www.gov.im/fsc](http://www.gov.im/fsc).

If you would like to discuss your requirements or our services, without obligation or charge, then we would be delighted to hear from you. Please visit our website [www.fedelta.com](http://www.fedelta.com) for further information or contact Stephen Colderwood, Executive Assistant to the Board at [spcolderwood@fedelta.com](mailto:spcolderwood@fedelta.com).

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