ESC 3 Pension Income Allocation for Married Couples.

Amendment to the concession approved 18 December 2003

The Falkland Islands code of personal taxation is based upon the principle of Independent Taxation of individuals, regardless of their marital status or domestic arrangements. However, the combination of the move to this system from 1st January 2003 and the simplification of personal allowances introduced from 1st January 2004 have meant that some married pensioner couples after that date have significantly higher tax charges than they did under the previous system. To ease this situation, married people, where one or both are aged 60 years or over, receiving pension income of any type (Falkland Islands occupational or personal pensions) on or after 1st January 2004 may elect jointly in their tax returns for this to be treated as having been received equally between them. In this way their individual personal allowances may be used to reduce their joint tax liability in any year.

Explanation

For tax on income under Independent Taxation, each person's income is their own and only they can benefit from their tax allowances. However, the introduction of this system from 1st January 2003, followed by the abolition of the previously extremely generous age allowances from 1st January 2004, has significantly increased the tax liabilities of several pensioner couples. This was not an intended effect of the changes in 2003/04 and to obviate this negative impact married couples, where one or both are aged 60 years or over, in receipt of one or more pensions will be permitted to split their pension income equally between themselves in any year if they wish to, so that they can take better advantage of both their personal allowances. This reflects the fact that in many instances the pension will only be in the name of the principal earner over the years, usually the husband, although he will have effectively worked, and saved towards the pension, on behalf of them jointly throughout his working life.

The Tax Office will therefore invite all married pensioners aged 60 years or over in the year prior to the year of assessment, when submitting their tax returns for income received in 2004 and subsequent years, to elect jointly to share any one or more sources of pension income (eg. occupational or personal pension schemes or FIPS) equally between them if they wish. As the policy aim is to treat the pensions as being received jointly, there will not be a facility to split the pension other than equally – to do otherwise would be to invite couples to minimise their tax liabilities excessively.