Treatment of pensions taxable in Ireland in respect of service in OECD and certain other international organisations

Part 04-04-03

This document should be read in conjunction with Part 4, Chapter 4, Schedule D, Case III, TCA 1997.

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1. Executive Summary.

This manual deals with pensions received by retired employees of certain international organisations, including the OECD. These organisations[1], are known as the Coordinated Organisations ("Co-Orgs").
International agreement requires that the taxation of these pensions be in accordance with the rules set out in Annex I.

To compensate Irish resident pensioners for their pensions being fully taxed in Ireland, the Department of Foreign Affairs ("DFA") arranges reimbursement to the Co-Orgs annually of a 'Fiscal Pension Adjustment' ("FPA"), a taxable amount that the Co-Orgs pay to the pensioners, in addition to their pensions.

Revenue is required, each year, to verify the tax calculation underpinning the FPA. This manual explains the verification process and Revenue's interaction with the International Service for Remunerations and Pensions ("ISRP"), the arm of the OECD that coordinates communications on behalf of the Co-Orgs.

This manual also explains the need for Revenue to perform compliance checks, to ensure that the pension and FPA received by each pensioner resident in Ireland are returned and taxed appropriately.

[1] Council of Europe, OECD (Organisation for Economic Co-operation and Development), ESA (European Space Agency), ECMWF (European Centre for Medium Range Weather Forecasts), EUMETSAT (European Organisation for the Exploitation of Meteorological Satellites) and NATO (North Atlantic Treaty Organisation).

2. Summary of Each Section.

2.1 Roles of the organisations involved.

Section 1 gives an overview of why the FPA is paid. It explains the roles of the ISRP, DFA and Revenue.

2.2 The Verification Process.

Section 2 outlines the annual process involved in verifying the tax calculation underpinning the FPA amounts. It explains how Revenue (Personal Taxes Policy & Legislation Division, “PTP&LD”) verifies the ‘tables of equivalence’ prepared by the ISRP, which in turn result in the ISRP making a demand for payment from the DFA.

2.3 The Compliance Process.

Section 3 outlines the compliance steps taken by Revenue (Personal Division), to ensure that income is returned correctly and tax paid.

2.4 Tax Treatment.

Section 4 explains the statutory tax treatment by reference to tax residency rules and the relevant charging provisions of the Taxes Consolidation Act 1997 (“TCA1997”).

3. Roles of the Organisations involved.

The internationally recognised conditions and terms of employment[2] of individuals who retire from the Co-Orgs include that pensions received from those organisations will only suffer partial (broadly speaking, 50%) taxation, provided the recipient is resident in a jurisdiction which is a member of the organisation in respect of which the pension is paid.

This result is achieved in Ireland by the pensioner being taxed on the full pension but receiving a monetary taxable supplement, the FPA, from the payer of the pension, which compensates the pensioner for being taxed on the full pension.

The pensioner will be taxed under self-assessment on the full pension received **and** the FPA that is paid at the same time as the pension.

The ISRP asks the DFA annually to reimburse the Co-Orgs for the aggregate amount of the FPAs paid during the previous year.

Revenue performs two key functions: firstly, to ensure that the tables used by the Co-Orgs correctly calculate the FPAs, having regard to Irish tax law of the year of

[2] https://www.oecd.org/careers/Staff_Rules_February_2020_to_print.pdf

payment: and secondly, to ensure that pensioners who have been compensated for being fully taxed are, in fact, fully taxed.

3.1 Role of the ISRP.

The ISRP is a Paris-based technical unit of the OECD that provides a common service platform for the Co-Orgs, providing services related to pensions and remuneration. Each year it produces tables of equivalence (described in Section 2), sends them to Revenue[3] for verification and uses them to ensure that the correct FPA is paid to each pensioner.
Separately each year, the ISRP sends a list of Irish resident pensioners and the payments made to them:-

- to Ireland's delegation to the OECD (DFA), with a request that Ireland reimburses the Co-Orgs; and
- to Revenue to facilitate tax compliance checks.

3.2 Role of the DFA.

Annually, the ISRP sends the list of payments and the request for reimbursement of the aggregate FPAs to Ireland's delegation to the OECD (DFA) in Paris.
The delegation/DFA arranges for payments to be made to the Co-Orgs, in reimbursement of the FPAs paid by the Co-Orgs to pensioners resident in Ireland.

3.3 Role of Revenue.

Revenue performs two distinct functions. PTP&LD verifies the tables of equivalence for Ireland. Personal Division has responsibility for compliance checks, to ensure that Irish tax resident pensioners correctly return their pension income and FPA and pay tax on those amounts.

4. The Verification Process.

Each year (normally February) the ISRP sends the draft tables of equivalence to Revenue (International Tax Division, "ITD") for verification. The tables contain tax computations for a range of potential pension amounts over a range of potential personal circumstances (married, single, aged etc). In line with the rules of the pension scheme, the verification checks are carried out based on certain assumptions, and the tax payable figure set out in the tables are calculated based on these assumptions.

Having due regard to the above, PTP&LD will check whether the draft tables accurately reflect Ireland's laws on the taxation of personal income and whether the

[3] International Tax Division coordinates for Revenue

FPA calculations in the tables are accurate. If satisfied that the tables are accurate, as described above, PTP&LD will confirm that to ITD for relay to the ISRP.

4.1 Content of the Tables.

The tables of equivalence are a grid of:

- Annual Theoretical Pension Payments with a range of values applied to age and marital status categories to reflect the potential tax circumstances of different recipients e.g. over or under 65 or 70; single or married.
- An FPA amount is shown for each pension amount in each category.
- An annual tax and USC liability is shown for each of those potential permutations, applying the Irish tax system of the year in question. These liabilities are calculated based on the assumptions and limitations set out in the rules of the pension scheme as follows:
  - i) the pensioner does not have any other sources of income (other than the pension and FPA amount); and
  - ii) the pensioner is resident in Ireland for tax purposes; and
  - iii) the only reliefs due to the pensioner are those reliefs which would universally be available to all other individuals in the same age group and with the same marital or civil status i.e. the standard rate cut of point, age-related income tax exemption and associated marginal relief, basic personal tax credit and age tax credit only.

Figure 1 is an extract from the tables.

Figure 1: This page from the tables shows a range of monthly and annual pension amounts, as well as the related FPA amounts, payable to a pensioner that is single and who has not yet reached the age of 65. It shows the theoretical liability, (to Irish tax and USC) in respect of each of those levels of payment, of a recipient in that category.

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Pensions versées en 2020 Pensions paid in 2020

Impôt sur revenu 2020 2020 Income Tax

€ Célibataire < 65 Single €

Pension Nominale Mensuelle Monthly Nominal Pension	D2/2 Mensuel Monthly D2/2	D2/2 Mensuel Provisoire Provisional Monthly D2/2	Pension Nominale + D2/2 Provisoire Mensuels Monthly Nominal Pension + D2/2 Provisional	Pension Nominale Annuelle Annual Nominal Pension	D2/2 Annuel Annual D2/2	Pension Nominale + D2/2 Annuels Annual Nominal Pension + D2/2	Impôt Annuel sur Pension Ajustée Annual Tax on Adjusted Pension
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
680	0	0	680	8,160	0	8,160	0
690	0	0	690	8,280	4	8,284	7
700	2	1	701	8,400	19	8,419	34
710	3	3	713	8,520	34	8,554	61
720	4	4	724	8,640	49	8,689	88
730	5	5	735	8,760	64	8,824	115
740	7	6	746	8,880	79	8,959	142
750	8	7	757	9,000	94	9,094	169
760	9	8	768	9,120	109	9,229	196
770	10	9	779	9,240	124	9,364	223
780	12	10	790	9,360	139	9,499	250
790	13	12	802	9,480	154	9,634	277
800	14	13	813	9,600	169	9,769	304
810	15	14	824	9,720	184	9,904	331
820	17	15	835	9,840	199	10,039	358
830	18	16	846	9,960	214	10,174	385
840	19	17	857	10,080	229	10,309	412
850	20	18	868	10,200	244	10,444	439
860	22	19	879	10,320	259	10,579	466
870	23	21	891	10,440	274	10,714	493

Figure 1: Screenshot of sample of tables of equivalence

4.2 Verifying the Tables.

PTP&LD will ensure, by sample testing, that the FPA amounts in column 6 are correct, having regard to Ireland's relevant personal income tax rules for the year in question, i.e. universal type tax reliefs only, as noted above. This verification underpins Ireland's reimbursement of the Co-Orgs.

Article 42(2) of the pension scheme rules (see Annex) explains how the FPA is calculated:

> *"The adjustment shall equal 50 per cent of the amount by which the recipient's pension would - theoretically need to be increased, were the balance remaining after deduction of the amount of national income tax or taxes on the total to correspond to the amount of the pension calculated in accordance with these Rules."*

The FPA for an individual is therefore half of the amount which, if added to the pension amount and taxed in accordance with Irish rules, would result in an after-tax amount equal to the pension amount. Article 42(3) of the pension scheme rules (see Annex) outlines the basis for calculation of the FPA amount.

The FPA amounts in column 6 of the tables can be verified by the following steps:

1. Take an annual nominal pension amount from column 5 in the tables.
2. Take the related FPA amount from column 6.
3. Double the FPA amount.
4. Add the annual nominal pension amount to the doubled FPA amount (i.e. step 1 + step 3).
5. Calculate the theoretical income tax and universal social charge payable on the amount arrived at in step 4, based on the provisions of Article 42 of the pension scheme rules.
6. Calculate the net amount after theoretical income tax and universal social charge (i.e. step 4 – step 5).

If the answer arrived at in step 6 is the annual nominal pension amount from column 5 (i.e. the figure used in step 1), the FPA in column 6 is correct.

As an additional check, ensure that the income tax and USC liability on the amount in column 7 is the amount in column 8.

5. The Compliance Process.

Compliance checks on the return of pension income by Irish tax resident individuals are carried out by Personal Division, based on the list of payments for a previous year sent by the ISRP to ITD.

The following material is either exempt from or not required to be published under the Freedom of Information Act 2014.

[…]

6. Tax Treatment.

Before paying a FPA to a pensioner, the ISRP or the Co-Org concerned will, at the start of each year, require the pensioner to make a declaration or provide evidence of the pension being subject to Irish income tax.

6.1 Tax Resident.

A person resident, ordinarily resident and domiciled in Ireland is liable to tax on their worldwide income regardless of source. As this includes pension income, the pension **and** the FPA received by a tax resident individual is liable to tax in the State.

6.2 Charge to Tax.

The pension income **and** the FPA paid to Irish tax residents should be returned annually through the self-assessment system on Form 11. The charge to tax is under Part 4, Chapter 4, Schedule D, Case III, TCA 1997.
Should a technical query arise relating to the taxation of this pension income and FPA the caseworker should submit the query on Form RTS 1A to RTSQueries@revenue.ie

7. Contact.

Any enquiries regarding this manual should be forwarded to:

International Tax Division – EU Branch - euqueries@revenue.ie

Annex 1 – Article 42 from the Pension scheme rules applying to permanent staff of the co-ordinated organisations.[4]

"Article 42 - Pensions which are subject to national tax legislation

1. The recipient of a pension under these Rules shall be entitled to the adjustment applying to the Member country of the Organisation in which the pension and adjustment relating thereto are chargeable to income tax under the tax legislation in force in that country.

2. The adjustment shall equal 50 per cent of the amount by which the recipient's pension would theoretically need to be increased, were the balance remaining after deduction of the amount of national income tax or taxes on the total to correspond to the amount of the pension calculated in accordance with these Rules. For such purpose, there shall be drawn up, for each Member country, in accordance with the implementing instructions referred to in paragraph 6, tables of equivalence specifying, for each amount of pension, the amount of the adjustment to be added thereto. The said tables shall determine the rights of the recipients.

3. In calculating the theoretical amount of income tax or taxes referred to in paragraph 2 of this Article, account shall be taken only of the provisions of tax legislation and regulations affecting the basis of liability and the amount of income tax or taxes for all pensioner taxpayers in the country concerned.

Pensioners without spouse or dependants shall be deemed to be in the position of a pensioner without entitlement to any tax reliefs or allowances for family responsibilities, all other recipients being deemed to be pensioners enjoying the tax reliefs and allowances of a person who is married without children.

No account shall be taken:

- of individual factors related to the personal circumstances or private means of a particular pensioner,

- of income other than that arising under these Rules

- of the income of the spouse or dependants of the pensioner.

On the other hand, account shall, in particular, be taken of circumstances arising in the course of the year as a result of:

- a change in civil status or settlement in another place of residence with a different taxation system,

- Commencement or cessation of payment of the pension".

More details about the Pension Scheme Rules can be obtained from the ISRP at OECD.

[4] Link to full text of Pension scheme rules