

## **UK PENSIONS AFTER ALIYA**

Before considering the taxation of pensions, one must look at the definition of a “pension”. In a publication issued by the Israeli Revenue in December 2002, the main conditions to determine whether income is a pension or not, are the following:-

1. The pension is receivable at regular intervals.
2. The pension arises from deposits into a pension fund which were made while working overseas as an employee or self-employed person out of that income source on a regular basis.
3. If deposits were made by the pensioner as an employee, any sums deposited by the employer are included as well.

To the best of our knowledge, the Israeli authorities have yet to issue a more formal definition, and therefore at the moment we must rely on the above guidelines.

The above definition only covers a pension received in respect of work performed in a foreign country. This means that there is a question as to whether a private pension arranged off-shore by private investment will fall into this category. It is assumed that pensions transferred to a surviving spouse, will also be included in the above definition, even though not specifically mentioned.

In the first 5 years following Aliya, one can continue paying UK tax on the pensions. Despite this however, there is an option to voluntarily pay Israeli tax (in which case, UK tax exemption will apply), on some or all of the foreign pensions. As part of this voluntary payment arrangement, it may be possible for the Israeli taxpayer to reduce his worldwide taxation for the 5 year period. Clearly, specific advice must be taken about this.

Following the 5-year transition period, the pension itself is fully taxable in Israel. This means that under the Double Tax Treaty with the UK, following opening an Israeli tax file and obtaining the relevant Israeli certificate as well as submission of the special forms to the UK tax authorities, no tax will be paid in that country. The liability to Israeli tax covers not only private pensions but also the UK State pension received by all UK citizens.

It should be noted that the Israeli Bituach Leumi (State) pension is exempt from Israeli Income tax. On the other hand, the UK State Pensions are, in principle, taxable in the UK or Israel.

It is important to note that the law states that the tax to be paid to the Israeli authorities on pensions only will be **no more** than the tax which would have been paid in the country of origin. If this limitation applies, the Israeli tax authorities will require documentation to prove the matter. This section applies only to someone who has been an Oleh (new immigrant) as well as Israeli-born returning juveniles, but not other returning residents who were born in Israel.

Pensions are subject to regular Israeli tax rates and, for persons over statutory retirement age (men – 67, women – 64, but possibly earlier, depending on the date of birth) on only 65% of the gross receipts, after allowing for the standard 35% exemption.

Finally as regards Israeli National Insurance (Bituach Leumi) liabilities, it must be mentioned that UK early retirees are liable for such payments in Israel even though no UK National Insurance is payable. From this point of view, if possible, it is best to defer taking one's pension before reaching the Israeli statutory retirement age (see previous paragraph).

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