



## Tax Policy Corner

### Tax Operations Policy No. 10 – Pension Plans

The Guyana Revenue Authority (GRA) is continuing its efforts to sensitize the general public on various issues, to ensure compliance. This policy provides guidance on the application of the Income Tax Act, Chapter 81:01 to **Pension Plans**.

A pension is a **regular payment** made to a person during his or her **retirement** from a **benefit plan** to which that person and/or their employer has contributed during their working life.

Employers usually maintain a pension plan for each employee in order to give employees a benefit when they cease to be in their employment by virtue of: **retirement; redundancy; being medically unfit; resignation or dismissal**. The payment often depends on how long the employee worked for the employer and on the employee's salary. In most instances, when an employee leaves the organisation, he or she has the option to choose between a lump-sum or a monthly payment.

- **Will I Pay Tax on Employee/ Employer Pension Contributions?**

In accordance with Section 35 of the Income Tax Act, the periodic **contributions (fortnightly, monthly etc.) made by an employee/employer** into an employee's Pension Plan **do not attract Income Tax**. As such, the employer is not required to deduct any Income Tax via Pay As You Earn (PAYE) from any employee or employer contribution which is deposited into the employee's Pension Plan.

- **Pension/ Retirement Benefits**

Section 13(z) of the Income Tax Act exempt from Income Tax **pension** payable to employees who cease to be in the employ of their employer. Notwithstanding, **interest accrued on contributions** (i.e. employee/ employer) will be **subject to Income Tax**.

The application of Income Tax to each component of a Pension Plan (i.e. employee/employer contributions and employee/employer interest) **will vary based on the reason for the employee's departure**, whether voluntarily or involuntarily as outlined below.

- **How would Retirement affect my Pension?**

Each component of the Pension Plan of an employee who has retired will be treated as follows:

Pension Plan Component	Application of Income Tax
Employee Contribution	<b>Not subject to Income Tax</b>
Employer Contribution	<b>Not subject to Income Tax</b>
Employee Interest	<b>Subject to Income Tax</b>
Employer Interest	<b>Subject to Income Tax</b>

- **How would Resignation/ Dismissal/ Redundancy/ Medically Unfit affect my Pension?**

Each component of the Pension Plan of an employee who ceases to be employed, as a result of resignation; dismissal; redundancy or being medically unfit will be treated as follows:

Pension Plan Component	Application of Income Tax
Employee Contribution	<b>Not subject to Income Tax</b>
Employer Contribution	<b>Subject to Income Tax</b>
Employee Interest	<b>Subject to Income Tax</b>
Employer Interest	<b>Subject to Income Tax</b>

- **Liability Statement**

Please be advised that, before pension is paid by an employer, the employee receiving the pension must obtain a **Liability Statement** from the GRA outlining whether that employee has any outstanding Income Tax liability with the GRA.

In order to obtain a Liability Statement, persons eligible for pension payments **must** submit the following document to the **Liability Section** of the **Tax Operations and Services Department – Internal Revenue**, GRA, G.P.O. Building, Robb Street, Georgetown:

- ✓ A letter from the Insurance provider (which holds the Pension Fund) stating the **total employee contribution; employer contribution; employee interest and employer interest** (where applicable). The letter should also indicate the condition under which the Pension became due (*retirement; redundancy; being medically unfit; resignation or dismissal*).

**Note:** All outstanding tax liabilities must be settled before pension is paid.

Persons who have queries or require assistance on the application of Income Tax to a Pension payable are encouraged to call the Liability Section, GRA on telephone number 227-0098 or visit the Tax Advisory Services Unit situated at 210'E' Albert and Charlotte Streets or contact us on telephone numbers 227-7567, 227-7672 or 227-3696 or visit our website [www.revenuegy.org](http://www.revenuegy.org) to leave your queries.