



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

OFFICE OF  
CHIEF COUNSEL

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The Honorable [REDACTED]

Dear Congressman [REDACTED]

I am responding to your letter dated April 12, 2000, to Mr. Floyd Williams, National Director for Legislative Affairs, Internal Revenue Service, regarding the taxation of [REDACTED]'s retirement income.

[REDACTED] is a U.S. citizen and resident. Because he was born in the United Kingdom, he also is a British national. He receives three kinds of retirement income: a private pension from a U.S. company, a U.S. government pension, and U.S. social security benefits. His concern is whether his retirement income will be subject to double taxation if he and his wife move to the United Kingdom. He specifically asked you whether he would be entitled to any relief under the income tax treaty that is currently in effect between the United States and the United Kingdom (the Treaty).

**U.S. citizens are generally required to pay U.S. tax on their worldwide income**

Under the Internal Revenue Code (the Code), the United States generally taxes its citizens on their worldwide income, regardless of their residence or the source of their income. However, the Code rules may be changed by an income tax treaty to which the United States is a party.

**Nothing in the Treaty exempts a U.S. citizen's retirement income from U.S. tax**

The Treaty sets forth rules that generally assign to either the United States or the United Kingdom the right to tax particular kinds of income received from one of the countries by a resident of the other country. As a general rule, retirement income received from the United States by a British national living in the United Kingdom would be exempt from U.S. tax under Articles 18(1), 19(2)(b), and 22(1) of the Treaty and would be taxable only by the United Kingdom. Unfortunately, this would not apply to a U.S. citizen. Article 1(3) contains a "saving clause" that, with certain exceptions not applicable in this case, allows the United States to continue to tax its citizens as if the Treaty had not come into effect. Accordingly, a U.S. citizen who moves to the United

Kingdom would continue to be taxed in the United States on his worldwide income, even though he would also be taxed in the United Kingdom as a British resident.

**U.S. taxes paid by a British resident generally reduce his U.K. tax liability**

Double taxation can occur where the same item of income is taxed in both the United States and a foreign country. Article 23 of the Treaty eliminates double taxation in cases where income is subject to taxation in both the United States and the United Kingdom. Under Article 23(2), a resident of the United Kingdom generally is entitled to a foreign tax credit in the United Kingdom for U.S. tax paid on his U.S.-source income. In other words, the amount of the U.K. tax that he would otherwise have to pay would be reduced by an amount that reflects the tax paid in the United States. The result is there would be little or no double taxation.

I hope this information is of assistance to you. If you have any questions, please contact me or Grace Fleeman at (202) 622-3880.

Sincerely,

Elizabeth U. Karzon  
Chief, Branch 1  
Office of the Associate Chief Counsel (International)