UK PENSIONS - TO TRANSFER TO AUSTRALIA OR LEAVE IN THE UK

GLOBAL
Pension Transfers

THERE ARE TRAPS FOR THE UNWARY

Every year there are thousands of British citizens who migrate to Australia for a myriad of reasons, not the least of which is lifestyle and general quality of life. In making the decision to migrate there are many issues that are often overlooked in the planning process.

It is not uncommon to be told by a UK IFA before you leave that your pensions can be left where they are as they effectively become "frozen" when you leave to UK. Sadly, that can be the worst advice you will ever receive. In addition to that advice, imagine if you migrated to Australia and based upon your UK IFA's advice you left your UK pension funds behind only to be notified in the future that your scheme has gone into voluntary receivership and your retirement plans are now in jeopardy.

Such occurrences are becoming more and more common as the Global Financial Crisis works its way through the British financial system.

You should, however, also be aware that there are some taxation consequences in Australia if your pension funds are not transferred within six months of you taking up permanent residency.

Essentially, the Australian tax system includes a provision that stipulates that if UK or offshore pension funds are not transferred within six months of permanent residency into an Australian Superannuation Fund that a tax will be levied under Section 305 of the Australian Tax Act.

The tax will apply to the increase in value, if any, from the date of residency to the date the funds are actually received into the Australian Scheme. The rate of tax will be one of :-15% of the increased value of the fund if taken directly from the fund, or your marginal rate of tax if you do not elect to have the fund pay the tax. By way of example: If we assume a fund has increased in value by say £20 000 since you arrived in Australia you have 2 ways to account for this gain for tax purposes.

Option 1 – to be paid by the fund means a 15% tax will apply or in this case £3000.

Option 2 – add £20 000 to your personal income and pay the tax based on your marginal rate which could mean you may pay as much as 45% or £9000.

Assuming this issue has been considered then there are two other issues that need to be considered as part of the process. In April 2006 the UK Government introduced a requirement that any Pension funds, if transferred outside the UK, would need to be received into a scheme that has been formally accredited by the UK authorities. This accreditation is known as QROPS or Qualified, Recognised, Overseas Pension Scheme. Without this accreditation the UK scheme is required to take tax out of the funds entire value at the rate of 55% of the actual fund value. Needless to say this is a potential trap, however, with the right advice this will not become an issue.

At the same time, all UK transfers into a QROPS scheme will have certain restrictions applied for a period of 5 full UK tax years from the date of non UK residency and this may or may not need to be managed at this end.

The third major factor that may need to be managed only applies where the amount to be transferred exceeds $450 000. In such cases the Australian Government has imposed caps on the amounts that can be transferred from overseas in any given year. The current rules provide that an amount of up to $150 000 can be transferred in any financial year (July – June) with the provision that you can bring forward up to a further two years of contributions and therefore transfer up to $450 000 on the condition that no further funds are transferred for a further two Australian financial years following. To do so you must be under age 65 at the time of transfer.

In instances where the amounts available for transfer are quite significant there then becomes a need to manage the process out of the UK, something that is quite complex and involved having to work across two entirely different jurisdictions.

Advice is essential, as is getting the right advice from an appropriately qualified adviser. That is where Global Pension Transfers can help. With over 15 years of direct UK pension transfer experience behind us we know what to do and exactly how to do it. If you have a UK pension fund and want to make sure you get the best of advice on your options contact us at www.globalpensiontransfers.com or email on info@globalpensiontransfers.com or telephone (07) 3369 6211.

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