MONEY, MONEY, MONEY!

If you are looking to migrate to Australia, make sure that you stop to consider your pension and other finances, *writes Paul Davies....*

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Plan ahead to make sure you are not weighed down by money worries

For many people, pensions and other financial matters are not high on the list of priorities to consider when they migrate. However, what an individual may not be aware of is that there are some major differences in UK and Australian pension rules and it is important for an individual to receive expert advice on their UK pensions as soon as possible to avoid being subject to unnecessary tax charges and to capitalize on any opportunities that may be available. This article outlines the major issues and the points to consider...

YOUR UK PENSION

When moving from the UK to Australia, sorting out pensions is not the first consideration that springs to mind for many migrants. Some people are unsure as to whether they have any UK pensions. However, since the introduction of auto enrolment into work place pensions, by the UK Government in 2012, most individuals, who worked for a large employer, would have accrued something in UK pensions.

SHOULD I TRANSFER MY UK PENSION?

If you move to Australia as a permanent visa holder, any private or employer pension income, in retirement, paid from a UK scheme would be assessed for tax by the Australian Tax Office (ATO).

The system in Australia is different where benefits from Australian pensions (known as superannuation schemes) are paid tax free to the member, if they are an Australian resident, at age 60.

Another point to consider is that Australian regulations have always allowed a member to take full flexible benefits from their superannuation schemes at retirement.

Whereas the UK introduced similar flexibility, from 6 April 2015, the key difference is that only 25 per cent of the pension funds value is tax free from a UK scheme – with the balance being assessable for tax when it comes into payment. If an individual is a permanent Australian resident when they receive the lump sum, this too could have an element of Australian tax to pay on.

When you consider, therefore, the difference in the tax treatment of UK and Australian pensions by the ATO, it would appear that there are obvious advantages

More benefits may be available to expats over the age of 55

in transferring your UK pension from the UK to Australia.

However, there are other factors that a new migrant to Australia will have to take into account before deciding to transfer their UK pension to an Australian scheme. The first of these is the exchange rate.

For a new migrant to Australia, money held in a UK pension fund should be viewed in much the same way as any cash or assets held elsewhere in UK currency. For instance, as the Pound Sterling to Australian Dollar rate fluctuates, the value of your UK pension fund is effectively doing the same. This leads to the question as to the timing as to exactly when to transfer.

PENSION TRANSFER – IF YOU ARE AGED 55 OR ABOVE

As we have already established, the exchange rate could have a bearing on when you transfer your UK pension to Australia, however, there are also important rules regulations as to what age you can transfer.

The UK's HMRC have tightened their rules on the type of overseas scheme that can receive transfers from UK pensions. From 2006, the receiving scheme will have to have been granted QROPS (Qualifying Recognised Overseas Pension scheme) status by HMRC to receive a transfer. Since 2015, HMRC further tightened the rules to confirm that no overseas scheme, that allowed retirement benefits to be taken before age 55, could be considered a QROPS. This led to hundreds of Australian schemes losing their QROPS status – as there were circumstances (albeit limited) where Australian schemes permitted benefits to be taken before age 55.

> 'The exchange rate could have a bearing on when you transfer your UK pension to Australia'

Since 2015, however, Australian individual schemes (known as Self-Managed Superfunds or SMSFs) have been granted QROPS status. This is providing the member is already 55 or older and therefore automatically meeting the HMRC criteria where benefits will not be taken before age 55.

PENSION TRANSFER – IF YOU ARE BELOW THE AGE OF 55

If you are migrating to Australia, and not yet aged 55, you cannot transfer your UK pension to Australia as the rules currently stand. However, this does not mean that you should not do anything.

Working with an advice firm, that can provide both UK and Australian licensed advice, there are opportunities that you take advantage of up to the age of 55. For example, you may be several years away from age 55 and it is important that your UK pension funds achieve a good level of growth between now and that age. Do you know where your funds are invested? It is important to get your invested funds reviewed regularly.

What happens if there is a swing in the exchange rate? Although your UK pension funds may not be immediately transferring to Australia, this does not mean that the fund has to remain invested in Pound Sterling. Should the Pound Sterling strengthen against the Australian dollar, with the right advice, you could capitalise on the favourable swing and hold your funds in Australian dollars.

If you are a deferred or paid-up member of an employer's final salary (defined >>

There are options available for over 65s to retire tax efficiently in Australia

benefit scheme) you will not have a fund invested, as such. However, it is possible to request a cash equivalent transfer value (CETV) to see what your pension is worth if you transferred out.

CETV's for final salary schemes are currently being valued at an all-time high and it would be worth speaking to an adviser that can assist with a comprehensive analysis of your scheme – with a potential transfer to Australia in mind, either for now or in the future.

TRANSFER LIMITS

Under Australian Superannuation rules, there is a limit that can be transferred into Australia. This is known as the non-concessional contribution cap (NCCC). At present the cap is A$180,000 per Australian tax year. From 1 July 2017, this is reducing to A$100,000 per tax year.

For those under the age of 65, it is possible to transfer up to three times the NCCC to Australia, which is currently A$540,000. Remember that this amount will then reduce to A$300,000 from 1 July 2017, in line with the annual limits, and the opportunity to maximize the amount that can be transferred, at A$540,000, would be lost.

For those over the age of 65, there is a limit on not only the annual amount (ie a three year roll up is not possible), but a transfer to an Australian scheme is only possible if you passed the Australian Work's Test. This could be prohibitive for those who have retired with no intention of working.

For those over 65, who are prevented from transferring to Australia because their UK pension fund size is large – combined with the Australian restrictions – there are still opportunities.

■ Paul Davies is the director of bdhSterling and based in the UK office. bdhSterling UK are authorized and regulated by the UK's Financial Conduct Authority (FCA) to provide expert financial advice. bdhSterling has Australian licensed offices in Melbourne, Sydney and Perth – providing comprehensive financial advice for those migrating to Australia. If you would like more information about its services, or would like to arrange a free initial consultation, please call 01372 724249 or email info@bdhsterling.com. Web: www.bdhsterling.com