WealthAdviser

How to SURVIVE THE FINANCIAL CRISIS

Before you get started

This digital handbook contains general and factual information only, and is part of the Wealth Adviser library, published by:

- Wealth Today (AFSL 340289)
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Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library

This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step

Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

Wealth Adviser Library

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Introduction

Moving between countries can be a difficult and daunting experience, but many people cope with the initial phases of culture shock by reminding themselves that they made the move in order to secure a better future for themselves and their children. It will however be very difficult to achieve this ‘better future’ if it is not built on a solid financial basis. It is with this in mind that we offer you this brief guide to help you to ‘settle down’ financially as soon as possible after your arrival. It will do this by helping you to think about the possibility of letting your hard earned UK ‘pension pot’ follow you to Australia.

It is, in a nutshell, possible to transfer the lump sum of a ‘preserved’ UK pension fund to Australia. A ‘preserved fund’ (also sometimes referred to as ‘paid up’, ‘frozen’ or ‘deferred’) is a fund in which an entitlement has accrued but from which no payments are currently made. UK tax rules stipulate that a transfer should be made into a ‘Qualifying Recognised Overseas Pension Scheme’ (QROPS) in Australia. If the fund into which the transfer is made is not recognised a 55% tax bill may be levied! We realise that all of this sound like quite a mouthful so we will ‘unpack’ the different elements of pension transfers from the UK as well as the possible benefits and pitfalls. As always, it will be good to get the best possible advice as you contemplate the issues set out in this guide.

Benefits of Transferring Your UK Pension

There are many benefits associated with transferring your UK pension to Australia.

Most significant among these are:

Control

Your pension will be transferred into your Australian superannuation fund which means that you will have much more control over the overall investment strategy and also over your retirement options (For example, in the UK you will be required to purchase an annuity while your options will be much wider in Australia).

Return on Investment

The fact that you will have a wider range of investment options available to you should, in most cases, lead to better long term results.

Minimising Currency Risks

Having your retirement funds in the currency of the country where you plan to retire makes a great deal of sense. This will facilitate better long term planning and will shield you against the possible negative effects of currency fluctuations.

Minimizing Taxes on Your Pension

There are specific tax charges on your pension that you can avoid, or at the very least minimise, by transferring it to Australia.

These include:

Income tax on pension payments

If you get to the stage where you draw a pension but the fund making the payments is still in the UK these payments could be classed as 'regular' income by ATO and could be taxed at up to 46.5%. If, however, such payments are made from an Australian superannuation fund after age 55 they will be taxed at a lower rate and will become tax-free after you turn 60.

UK Inheritance Tax

The UK levies a substantial inheritance tax (this can be up to 55%!) on the remaining portion of a deceased person's pension fund. This does not apply in Australia which means that a larger proportion of your life savings can be passed on to your loved ones from an Australian based fund.

Tax on pensions exceeding the UK 'Lifetime Allowance'

UK residents can accumulate £1.5 million (2012/2013 financial year) in pension schemes. This is known as the 'Lifetime Allowance'. Any pension savings in excess of this limit are taxed at 25% (or 55% if taken as a lump sum). These limits and tax penalties do not occur in the Australian superannuation sector. It should be noted, however, that if you have already accumulated more than £1.5 million in UK pensions (before the date of transfer), you will be taxed at 25% on any amount above that at the time of transfer.

Overseas Earnings from a Foreign Investment Fund or Foreign Life Assurance Policy

An Australian resident may be taxed annually on an accrual basis (i.e. the earnings of the fund is assessable to the income of an Australian tax resident annually, even if earnings are not realised). There are some significant exceptions (e.g. employer sponsored funds and funds with assets of less than $50 000) but the existence of this tax may mean that you will have to pay tax on your UK pension in Australia if you leave it there, even if you are not currently drawing an income from it.

More Options in Retirement

Transfers to an Australian super fund are preserved in the fund until the condition of release has been met. Generally, this is determined by reaching preservation age (55-60) and work status. In Australia, once the condition of release has been met, you are permitted to receive your super balance as a lump sum or as an income stream –or as a combination of both. There is no absolute requirement to purchase an annuity as there is in the UK. (Although UK QROPS rules state that you should be able to show that at least 70% of your pensions is being used to create an 'income

for life')

The short-term tax implications of transferring to a QROPS will be more fully discussed in a subsequent section.

Challenges & Possible Pitfalls

Transferring your retirement savings to a new jurisdiction is a major decision that should not be taken lightly. You should, in light of this, be aware of the following possible pitfalls associated with such a move.

A competent financial adviser should prove invaluable as you contemplate the 'pros and cons' behind such a transaction.

Some possible pitfalls that you should consider, and discuss with your adviser, may include:

Complexity

The process is not always a simple one. If you've had several employers, or if your former company or the scheme has changed hands, it can be difficult to locate your pension scheme. A competent financial advisor should be able to assist you in locating 'missing' funds, even in the UK.

Currency Issues

The exchange rate applied to your transfer is set by your scheme's banker in line with the prevailing market rate at the time of transfer or by the transferring fund. This means that you are vulnerable to short term currency fluctuations, something that can obviously work either 'for' or 'against' you.

Investment Risk

With more choice and flexibility in investing, there could be the potential for increased investment risk. It is therefore, once again, of critical importance that you get the best possible advice before committing to a particular investment strategy.

Contribution Limits

Transfers are treated as 'contributions' to an Australian super fund. Care must be taken not to exceed the contribution limits set by the Government. Transfers in excess of contribution caps are taxed at individual marginal tax rates.

Accessibility

UK pension rules currently allow you to retire from age 55. Preservation ages are different in Australia and if you transfer you may not be able to access your funds before age 60 (this applies to people born after 1 July 1964).

Tax May Be Payable

If you transfer your UK pension fund after you have been resident in Australia for longer than six months, the transfer is likely to give rise to a tax liability. Tax may be applicable to earnings in the fund for that period (often referred to as the 'growth component').

Not all Australian super funds qualify as QROPS and transferring to a non-recognised scheme will be classified as an unauthorised payment by HMRC and may be subject to up to a 55% tax charge. Attempting to transfer into non-qualifying schemes should be avoided at all costs.

(Tax issues and the concept of QROPS will be discussed in more detail in subsequent sections)

All of the points made above illustrate the importance of getting sound advice and expert assistance to help you guide your transaction through the possible complexities and pitfalls.

Am I Eligible?

The first step in deciding to transfer your UK pension to Australia is obviously to determine whether you are, in fact, able to do so.

The following basic requirements apply:

- You have to be resident in Australia
- You have to be in possession of a 'Tax File Number' (TFN) and this number has to be registered on the system of your nominated Australian superannuation fund.
- If you already receive payments from a UK pension fund, then your entitlement in that specific fund cannot be transferred.
- Some age related restrictions apply after age 65. After your 65th birthday certain 'work test' rules apply. In a nutshell these require you to show that you have worked at least 40 hours during a period of 30 consecutive days in the financial year when the transfer is completed. Age 75 is the final cut-off point for transfers.

Australian funds into which transfers are made should be recognised by the UK authorities as a Qualifying Recognised Overseas Pensions Scheme (QROPS) and by the Australian Prudential Regulation Authority (APRA) as an approved superannuation fund.

(The QROPS system will be discussed in more detail later on)

UK Pension Funds Eligible for Transfer

The points above obviously cover your personal eligibility from an Australian perspective. You will, however, also have to determine whether the pension entitlements you hold in the UK are eligible for transfer.

As a general rule it can be stated that most personal 'pension pots' held with private or employer-linked pension providers will be eligible for transfer.

Examples include:

- Occupational Pension Schemes (e.g. 'money purchase' or 'defined benefit'
- employer programs)
- Personal Pension Schemes
- Stakeholder Pension Schemes

It should be noted that in a small minority of cases internal fund rules may make transfers difficult or even impossible. If you left your UK scheme before 1 January 1986, you may also not have a right to transfer.

The best way to ascertain the position of your own fund in this regard is to contact them directly. Your financial advisor can assist with this.

It is where state pensions come into play where things get a bit more complicated.

There are two types of UK state pensions. The first is the 'Basic State Pension'. This State or 'Old Age' Pension, does not qualify for a transfer. The State Pension is provided by the UK Government. Once you have built up enough qualifying years, you are entitled to this benefit, regardless of how high or low your income is in retirement.

You can claim the basic State Pension even if you receive a personal pension or other sort of retirement income, such as a salary-related pension. The State Pension can be received in Australia in retirement as a regular income (lump sum payments are not available).

Australian residents receiving a UK State Pension do not receive payments that are indexed according to inflation (as they are in many other countries). For more information on UK State Pensions visit http://www.thepensionservice.gov.uk

A second type of UK state pension is called the Additional State Pension (also called the State Second Pension and formerly the State Earnings Related Pension Scheme). It is made up of part of the National Insurance Contributions paid in employment. Individuals may choose to transfer (known as 'contracting out') their contributions to a personal pension scheme. The government therefore pays directly into that scheme.

If you have arranged for your contributions to be contracted out in this way your stake in the personal pension scheme can possibly be transferred.

The QROPS system

UK pension transfers should only be made into a Qualifying Recognised Overseas Pension Scheme (QROPS). This is a certification given by Her Majesty's Revenue & Customs (HMRC).

When an Australian superannuation fund is classified as a QROPS it means that it can accept UK pension funds without the fund member having to pay any tax (subject to certain conditions). In turn, the QROPS agrees to certain reporting requirements as set out by HMRC. Regulations governing QROPS have recently changed, causing a rather substantial shake-up in the worldwide QROPS industry from 5 April 2012.

The major thrust of these changes were aimed at QROPS in 'third jurisdictions' (i.e. neither the UK nor the country where the pension holder is resident) and at stopping the payment of benefits that would not have been allowed if the pension was left in the UK (e.g. the payment of 100% lump sum before retirement). It is, therefore, believed that they will not have a major impact on the 'client side' of Australian QROPS for Australia based UK pension holders.

There are, however, some changes that will impact Australian QROPS:

- Up to now QROPS trustees had to report payments made from the fund to HRMC for a period of five years from the time a pension holder became a non-UK resident. This is because pension holders may be liable for UK tax on payments if they are deemed to have been UK residents for tax purposes at any stage during the preceding five years. The 'reporting period' has now been increased to ten years. At present the five-year residency rule (i.e. that you have to pay tax on payments if you were resident for tax purposes in the UK in the last five years) is still in place. It is, therefore, only the 'reporting period' that has been increased to ten years.
- All distributions from QROPS within this ten-year period will now have to be reported in detail (i.e. listing individual transactions) to HRMC within 60 days.
- All jurisdictions will have to abide by the '70% Rule'. QROPS members will have to show that they using at least 70% of the transferred value to provide an 'income for life' in retirement.
- (This is not to say that there is an absolute requirement to purchase an annuity since it may be possible to show that income is generated through other means)
- Potential members will have to lodge an acknowledgement of any "potential adverse tax consequences" with HMRC before they are allowed to transfer.
- UK pension schemes transferring to a QROPS will have to notify HMRC of this within sixty days of the transfer occurring.
- QROPS that are not recognised as pension funds in the country where they are domiciled will be removed from the list of approved QROPS.

These changes will probably not have a significant impact on clients who will still more or less be able to transfer funds into Australian QROPS much as they did before. They will however impact the QROPS operators. The increased reporting period will obviously add an additional administrative burden on funds, not only in terms of reporting payments but also due to the fact that they will have to keep UK contributions in a 'separate pot' for much longer instead of being able to combine them with Australian contributions into a single fund (administered solely as an Australian super fund) after five years. It remains to be seen, therefore, whether some Australian QROPS will decide to leave the market rather than cope with the new regime. It is therefore very important that you do your homework on specific funds, and their likely longevity, before signing on the dotted line.

It is absolutely vital that you make sure that the fund that you are transferring into is currently recognised as a QROPS by the HMRC as some funds have been de-listed due to non-compliance with recent changes. If a transfer is made to an Australian superannuation fund that is not classified as a QROPS, such a transfer is deemed an 'unauthorised transfer payment'. In such cases up to 55% in tax charges may apply.

This is made up of the following elements:

- A 40% UK tax charge, plus
- A 15% unauthorised payments surcharge

An up-to-date list of QROPS can be found:

http://www.hmrc.gov.uk/pensionschemes/qrops.pdf

Possible Short-Term Tax Implications Associated with Transferring Your Pension

We have already looked at some of the significant tax benefits that may result from a pension transfer. It should be noted, however, that some (mainly) short-term tax charges may result from the transfer transaction. It is therefore imperative that the whole process is managed in such a way as to reduce, minimise or even eliminate these charges altogether. A competent financial adviser could prove invaluable in this regard.

UK Tax

Once a transfer has been initiated you will be notified by HMRC on whether any tax is payable on the transferred amount.

The following guidelines currently apply in this regard:

- Transfers under £1.5 million done in the UK financial year to April 2013 will be tax free.
- Any amount above the £1.5 million threshold will be taxed at 25%

Values above which tax are payable are set annually by the UK Treasury and there has been a downward trend of late. This might be a factor to prompt you to transfer sooner rather than later if you hold a substantial 'pension pot' in the UK. As always, it is highly recommended that you make use of professional and competent advice.

HMRC will also notify you whether any tax would be payable on payments from the UK portion of your Australian super fund once your UK pension is transferred into it. They will obviously be aware of such payments since the Australian fund is under a statutory obligation to inform them for 10 years of any payments made from the 'ex-UK' part of your super.

UK tax may be payable if you are deemed to have been a UK tax resident at any time in the five years immediately preceding the payment from your super.

Australian Tax

If you transfer your UK pension within six months of becoming an Australian resident for tax purposes, there will generally be no tax due on your UK pension transfer.

Under Australian tax rules, however, the 'growth component' is taxable if the transfer is made after six months of residency for tax purposes. The growth component is the amount of the benefit that has accumulated in your UK fund between the date of your Australian tax residency and the date of the benefit transfer.

If there is tax due, then it is possible to either include it in personal income tax for the year of transfer (taxed at marginal rate), or there is the option of treating it as a taxable contribution in the fund (taxed at the special superannuation rate of 15% and included in the contributions cap, see below).

It should, furthermore, be noted that your UK pension transfer will be classed as a 'non-concessional' contribution and will be treated accordingly for tax purposes. The Non-Concessional Contributions Cap limits the amount of after-tax contributions to your super before additional tax is charged.

The following rules apply:

- There is a non-concessional contribution limit of $150 000 per financial year.
- However, if you are under 65 years old, you can make three years' worth of contributions 'in one go' taking the amount up to $450 000. (You will, in this case, have to wait for three years before you can make any further tax free non-concessional payments)
- Anything above the non-concessional limits outlined above will be taxed at 46.5% (including the Medicare levy)

The Transfer Process

The process is initiated by you completing a letter of authority enabling your adviser to get information from your pension provider of current benefits and a transfer value. Completing this initial investigation does not, in any way, bind you to eventually making a transfer.

The entire transfer can be divided into the following steps:

Step one

Meet with an adviser to determine whether transferring your UK pension is appropriate to your circumstances. If you choose to transfer, you will be required to fill out initial paperwork.

Step two

If you are unsure of your pension details, an adviser will begin the process by locating your UK pension.

Step three

An adviser will check with your UK pension scheme to see if you have the right to transfer. Most UK company and personal pension plans can be transferred to Australia. If, however, you left your UK scheme before 1 January 1986, you may not have a right to transfer.

Step four

At this stage, an adviser will determine whether you need to pay tax on your UK transfer. In most instances, you are not required to pay any tax on your UK pension transfer.

Please note, however, that if you are transferring after six months of Australian residency for tax purposes, you must pay tax on what is referred to as the 'growth component' of your transfer. This is the growth in value of your benefit between the time you became an Australian resident and the time the transfer occurs.

You have two options for paying this tax:

1. Include the growth component in your tax return as income for the relevant year, and have it taxed at your marginal tax rate.
2. Have the growth component treated as a taxable contribution to your super fund, which means it will be taxed at 15% rather than at your marginal tax rate.

Step five

Your adviser will present the required HMRC forms for you to fill out as well as the relevant Australian superannuation application forms. Once these have been completed the transfer of funds can take place.

Frequently Asked Questions

This section covers, in summary form, some of the most important questions that we have dealt with in this guide.

Am I qualified to transfer my UK pension to Australia?

Moneytree Partners will be able to provide an assessment of your situation, and the applicable transfer options available to you.

What are the major benefits of transferring?

The potential for tax savings, control over your investments and preservation of your estate for your dependents are the main advantages of transferring to an Australian QROPS fund.

What are some of the risks?

Investment risk may be increased depending on which type of investments you select once the funds have been transferred out of your UK pension. This can be managed with your Moneytree Partners adviser.

How does one begin the process?

Book an introductory appointment with a Moneytree Partners adviser. There is no obligation or charge for a first meeting.

Do state pensions qualify for transfer?

Not basic state pensions, but you may be eligible to receive a UK state pension while resident in Australia. Parts of 'second' state pensions may be eligible)

Will I pay tax on the transfer?

If the transfer is within six months of residency, then generally no. If you transfer after six months, you may have to pay tax on the growth component of your pension as outlined above.

What is a QROPS?

A Qualifying Recognised Overseas Pension Scheme is one which has been approved by HMRC as an authorised recipient of a UK pension transfer.

How do I find a QROPS fund?

An adviser can provide you with a list of recommendations. He/she will ensure that the fund meets your particular needs and that it is listed as a provider with current approval.

Conclusion

It is our sincere hope that the information presented above set you thinking about some of the issues that you will have to pay attention to in planning your financial future. It would be impossible, however, to present a complete guide to all your financial planning needs in a document as brief as this.

We urge you to continue your explorations by making use of some of the other resources and eBooks available.

We stand ready to serve you with professional advice, so please do not hesitate to contact us if we can be of further assistance.

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We look forward to meeting you soon.

Appointment booking request form

About the Adviser

Our services

Contact details

Please complete the Appointment Booking Request below and scan and email to:

Appointments are available Monday-to-Friday.

Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Preferred appointment day and time

Day

Date

Time am/pm

If you would like us to contact you via email to confirm your appointment or to answer any questions you have, please provide a valid email address for our records.

Email

Your Details

Title

First name

Last name

Mobile

Readers Notes

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