



Scottsdale Consulting
INDEPENDENT FINANCIAL ADVISERS

Pensions

Perhaps the second largest asset most people own is their pension. Whether it be an Occupational Scheme or a Personal Pension, you will have to decide whether to leave it in the UK or transfer it to Australia.

It is perfectly feasible to draw benefits from a UK pension whilst living abroad but there is risk in receiving your income in sterling and your expenditure in dollars. The exchange rate has moved dramatically in recent years and may well do so in the future. Your UK pension scheme might be index linked to protect you against future inflation. However, it will be linked to a UK index whereas inflation tends to be higher in Australia.

UK Tax Regime for Pensions

The basic premise is that pension contributions attract income tax relief at your highest rate but you pay tax on the pension you receive in retirement. There are limits on the amounts you can pay that will qualify for tax relief, but these are quite generous and do not affect most people.

The pension fund itself is allowed to grow free of income and capital gains tax – except for withholding tax on dividends from UK shares.

Australian Tax Regime for Pensions

In simple terms, there is limited tax relief on pension contributions but retirement benefits can be drawn tax-free from age

60. The entire fund can even be withdrawn as a tax-free lump sum if required.

“Concessional contributions” attract tax relief at your highest rate but then have 15% tax deducted before they are invested. This means that only \$85 is invested out of every \$100 contribution. Non-concessional contributions do not attract tax relief but are not subject to the 15% charge. Transfers from UK pensions are considered to be non-concessional contributions.

This very different tax treatment of pensions in the 2 regimes means that the majority of people emigrating to Australia choose to transfer their pension funds to Australia in order to effectively obtain very generous tax relief on both their pension contributions and their pension benefits. The rules are quite complex and larger funds need to be transferred in tranches over a number of years.

Larger pension funds remaining in the UK awaiting transfer to Australia need to be carefully managed. The funds will normally be held in sterling and will be at risk from currency fluctuations. However, Scottsdale Consulting has special arrangements with pension providers that allow UK pension funds to be held in Australian dollars where appropriate.

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