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How to get your pension out of Britain

Thinking of going abroad to avoid high taxes? Take your retirement fund with you

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OVERSEAS pension funds have seen demand soar over the summer, as a growing number of Britons plan to retire or move abroad to avoid the new 50% tax.

The Overseas Pension Scheme, based in Guernsey, said inquiries had doubled in the past three months amid the economic gloom in Britain. "The demand is coming from the quality end of the market — large banks, wealth managers and accountants," said the scheme's David Higgins.

"They're being asked about transferable pension arrangements by people in two main camps: City workers who have built up sizeable pension assets in the UK and are returning to their home countries and people planning to or thinking of retiring abroad." Here, we look at what you can do — and where in the world it is best to retire.

What is an overseas pension?

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Since 2006, UK citizens who move abroad have been able to transfer their pension, whether public or private-sector, to an overseas scheme as long as they appear on the HM Revenue & Customs (HMRC) list of Qrops — that is "qualifying recognised overseas pension schemes".

Qrops are essentially personal pensions that are set up outside of Britain, usually in offshore centres such as Jersey and Guernsey. When you retire abroad, you can take them with you to any country in the world, and they will be subject to the tax and pension rules in that country.

These may be more flexible or generous than in the UK (see below).

To qualify as a Qrop, a scheme must confirm that at least 70% of the fund will be used to give members a lifelong income in retirement and that the money cannot be taken out before the age of 50. Any pension can be transferred as long as an annuity hasn't been bought or, if it is a final salary scheme, the pension has not begun. Qrop schemes require the provider to report dealings within your fund to the Revenue for five years. After this, there are no reporting requirements.

What are the benefits?

These include improved death benefits, such as the ability to pass on what is left in your pension fund on death after five years free of tax, avoiding the punitive charge of up to 82% levied by the British government. You also have the freedom to invest in residential property and no compulsion to buy an annuity.

Who are these schemes suitable for?

They benefit people who have moved abroad and find UK pensions rules overly restrictive. However, unless you are certain you will retire abroad, there is no real benefit. Transfer and annual charges tend to be higher than a conventional UK pension. Some levy an initial 6% and annual fees of 2%, compared with no initial fees and an annual 1% typical in Britain.

Are there pitfalls?

Not all Qrop schemes are bona fide, so take professional advice and check that the scheme you are thinking of transferring into complies with HMRC rules.

"As interest in these schemes has grown, the taxman has started to take a closer look at them," said Matt Brunwin at Bestinvest, the broker.

A Singapore-based scheme was recently closed after HMRC discovered money was being transferred from it into a trust that allowed members to take out 100% of their cash — in contravention of the rule that at least 70% of the fund must be used to provide an income.

Remember, too, that by taking your pension offshore, you are liable to the tax and pension rules in that jurisdiction.

Cash in your pension in France, for example, and you won't be allowed any tax-free cash (compared with the 25% you can take in Britain).

Who are the main players?

RBC Cees, part of Royal Bank of Canada, recently joined dozens of providers in offering Qrops through the launch of its Fermain and Havelet plans. Tax havens such as Guernsey, Jersey and the Isle of Man are also going out of their way to make overseas pension schemes attractive.

Jason Butler at Bloomsbury Financial Planning, the adviser, said: "Qrops are still pretty expensive and there's not that much choice. If you can defer until early next year, when more players are expected to enter the market, you should do so."

Where should I retire to?

Tax regimes around the world vary enormously. The majority of countries levy tax on pension income at your highest marginal income tax rate.

While some countries have a top rate the same or higher than Britain's forthcoming 50% — Belgium's is 50% and Sweden's is 55% — others are far kinder on your pocket, figures from Gary Heynes at Baker Tilly, the accountant, show.

Hong Kong has a top rate of only 16% and Singapore has 20%. In America, the top rate of income tax is 35%, and in Cyprus it is 30%.

Pensioners living in Cyprus and drawing an overseas pension can opt to pay a fixed rate of 5% on income above a small tax-free personal allowance of €3,420 (£3,136). Alternatively, they can pay the normal rate of up to 30%, in which case the first €19,500 is tax free — so the smaller your income, the better off you are under the normal system.

France and Spain can be less attractive than the UK — unless you expect retirement income of £150,000 or more, which would mean you would be hit with Britain's 50% tax. France levies a top rate of income tax of up to 40% and Spain 43%.

In New Zealand and Australia income tax is charged at up to 39% and 45%. However, Australia does not charge tax on pension income, provided you are over 60.

Heynes said: "Recent changes to pension rules in Australia allow you to contribute more to your pension if you move there before you retire, and since July 2007, income drawn from retirement savings has been tax free if you're over 60."

Consider other aspects of tax regimes around the world, too. Capital gains tax (CGT) is levied at a flat rate of 18% in Britain. However, in places such as New Zealand and Hong Kong there is no charge. In America, CGT is 15%.

In Australia it is a hefty 45% — although residents are eligible for relief on their main home as in the UK.

Expats receive a tax uplift on their worldwide assets based on their date of arrival, so if you bought a painting, for example, for £5,000 and it had appreciated in value to £20,000 by the time you moved to Australia, you would be liable for CGT on growth only from that point.

Australia does not charge inheritance tax (levied at 40% in the UK), but France has rates of up to 60%.

What about my British state pension?

The state pension can be paid abroad, but in sterling. This means you will be exposed to the risk of the pound falling in value.

The basic state pension is not subject to UK tax because it is below the tax-free personal allowance, although it may be subject to tax in the foreign country depending on the rules there.

Only those who emigrate to countries within the European Economic Area, and where Britain has a reciprocal agreement, receive the annual state pension increase. These include France, Spain and Italy, but not Australia, New Zealand and Canada.

Can I come back to Britain?

Yes, you can, but you must make sure that you remain in non-resident status. If you are in Britain for 183 days or more in a tax year, or an average of 91 days-plus a year — measured over up to four years — you might become resident for tax purposes. However, if you come and go on the same day, this does not count as a day's residence