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UK Pension Transfer changes

You may be aware that the UK inland revenue (HMRC) have recently made changes to legislation that affects anyone wishing to transfer their pension from the UK after 6th April 2012, so I thought it would be timely to highlight some of these changes and the importance of getting specialist impartial advice.

Since the changes in UK pension legislation on 6th April 2006, it's fair to say that the UK HMRC have been trying to continue to tighten up on those people transferring their UK pensions to New Zealand and accessing the money immediately, when effectively had it remained in the UK, it would have had to have been earmarked as part of their retirement pot.

Many forms of pensions in the UK attract tax relief on the contributions paid into them and the funds grow quite tax efficiently. When the fund is then drawn in the form of a pension income, this is treated as 'earned income' and taxed accordingly. This compares to the New Zealand regime which doesn't provide any tax relief on contributions going in, yet allows funds to be withdrawn tax free.

When UK pension funds in the past have been transferred to New Zealand, the UK HMRC has 'missed out' on their 'cut' of income tax. Also, those individuals cashing in their pensions early have forgotten that this is part of their longer term retirement planning and so how are they going to have sufficient money to live on in retirement when they get there? To prevent individuals from accessing their transferred pensions early, HMRC imposed certain restrictions back in April 2006 that in simple terms, stipulated money could not be withdrawn from a transferred pension until the individual had left the UK for five full UK tax years. Any withdrawals before this 5 year period would mean a potential tax liability of up to 55% of the fund.

As from 6th April 2012, the reporting period has increased from five years to ten years, so any transfers made after 6th April 2006 means that the New Zealand Superannuation provider will have to report back to HMRC any withdrawals made before 6th April 2016, which then could incur the 55% tax penalty. Furthermore, there is now a requirement that when money is withdrawn from the New Zealand superannuation, 70% of the fund has to be used to provide a regular income for life.

These changes are trying to ensure that no-one isbetter off from transferring their pension from the UK to NZ in terms of getting their money out early and with no tax consequences. New Zealand superannuation providers have had to revisit their schemes, known as Qualifying Recognised Overseas Pensions Schemes (QROPS) to ensure that they meet the new rules. Many have stopped taking transfers as they do not adhere to these rules and those that wish to remain in the marketplace are busy revising their documentation.

Although I have kept things very simple in this commentary, going forward it continues to be extremely important that anyone who has a private or employer sponsored scheme left in the UK receives professional, impartial advice. There are many facets in considering whether it's best to transfer the pension to New Zealand or keep it where it is in the UK, not just relating to these new rules. Choosing an adviser that is experienced in both jurisdictions and who can provide the specialist advice that's needed could save a great deal of headache and doing the 'wrong thing'.

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