UK Tax & Pension Webinar

Alison Wood | Pitcher Partners

With Guest Speaker

Jason O'Connell | Shartru Wealth

September 2021

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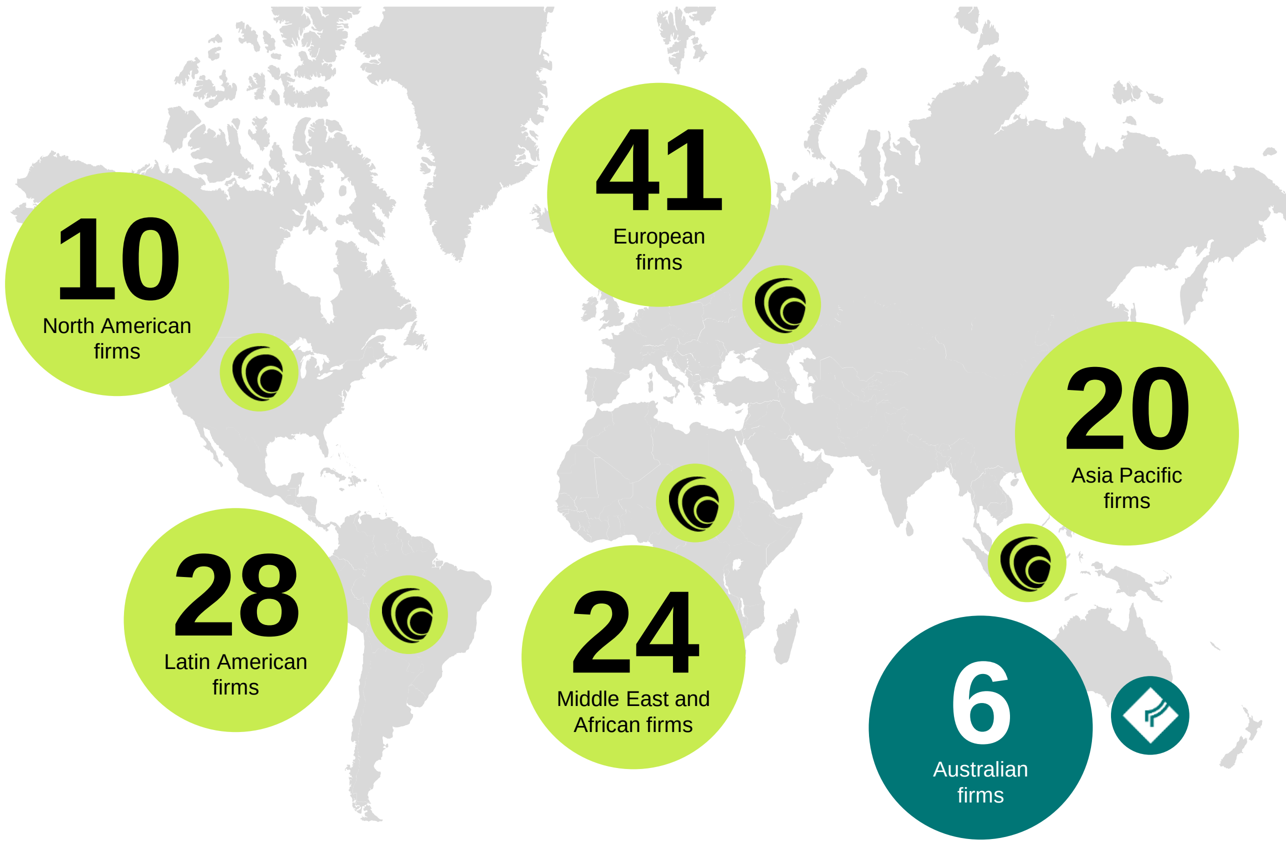

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Last updated 31 Dec 2020

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Agenda

What we are covering today

- Update from March 2021 Budget

- UK Properties – refresher on the changes

- Inheritance Tax - Update

- UK Pensions – overview

Important information

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March 2021 Budget

Overview

March 2021 Budget

- No Tax Increases on:
  - Income tax
  - VAT; or
  - NIC

- BUT – many tax allowances frozen till 2026:
  - Personal allowance - £12,570
  - Higher Rate tax threshold - £50,270
  - CGT annual allowance
  - Lifetime allowance

- Entrepreneurs relief remains untouched

- Furlough Scheme to September 2021

- Corporate Tax Rate changes

- Super Deductions for Plant and Machinery

UK Property Taxes

Overview of Changes – Income Tax, CGT and SDLT

Residential Property Timeline

2012 2013 2014 2015 2016 2017 2018 2019 2020

21 Mar 2012
15% SDLT for "enveloped" property > £2m

1 Apr 2013
ATED for property > £2m

6 Apr 2013
ATED CGT for property > £2m

20 Mar 2014
15% SDLT for "enveloped" property > £500,000

6 Apr 2014
Changes to CGT main residence relief (PPR)

4 Dec 2014
New SDLT rates and bands

1 Apr 2015
ATED/ATED CGT property > £1m

6 Apr 2015
CGT for non-residents and other changes to PPR

1 Apr 2016
ATED/ATED CGT property > £500,000 3% more SDLT on second residential properties

6 Apr 2016
Wear and tear allowance restriction

6 Apr 2017
Interest relief restriction for landlords

6 Apr 2017
IHT if UK property held via offshore companies and/or trusts

22 Nov 2017
SDLT first time buyers relief introduced

6 Apr 2018
Introduction of Welsh SDLT "Land Transaction Tax"

6 Apr 2019
Extension of CGT to commercial property and indirect disposals

6 Apr 2019
Abolition of ATED-CGT

6 Apr 2020
30 days reporting for disposals of UK residential property by UK residents

6 Apr 2020
Finance cost restriction 100% implemented

Non resident landlords switch to corporation tax

Income Tax on UK Rental Profits

- Restrictions of Finance Costs
- Cash Basis by Default
- No longer a distinction between Furnished and Unfurnished property

Changes to Capital Gains Tax on UK Property

- Timing of Tax payments
- Letting relief reform
- Reduction of PPR Final Relief

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Thinking of Buying a UK property?

- 2% non-resident stamp duty land tax from 1 April 2021

Stamp Duty Threshold	
Was	£500,000
June 2021	£250,000
September 2021	£125,000

Stamp Duty in the UK

- Check the post code for rate
- Additional charges for “second” or “additional’ properties

England		Scotland		Wales	
Value up to £125,000	Nil	Value up to £145,000	Nil	Value up to and including £180,000	0%
£125,000 to £250,000	2%	£145,001 to £250,000	2%	£180,001 to £250,000	3.5%
£250,000 to £925,000	5%	£250,001 to £325,000	5%	£250,001 to £400,000	5%
£925,000 to £1,500,000	10%	£325,000 to £750,000	10%	£400,001 to £750,000	7.5%
Over £1,500,000	12%	Over £750,000	12%	£750,001 to £1,500,000	10%
				The portion over £1,500,000	12%

All bands for non first time buyer where buyer intends to use property as their main residence.

Inheritance Tax – Are Changes Afoot ?

Office of Tax Simplification Report

Inheritance Tax - Recap

Current Reliefs
• Surviving spouse
• Main home
• £325,000 annual exemption
• Potential Exempt Transfers
• Gifts or events
• Gifts out of ordinary income
• Agricultural Property Relief
• Business Property Relief

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Recommendations

- Replacing annual gift exemption and marriage exemption with one single relief.
- Review the small gifts exemption (which has been frozen for 39 years) and reform or replace the relief for normal expenditure out of income.
- Reduce the 7 year limit for potentially exempt transfers to 5 years.
- Abolish both the poorly understood taper relief and the possibility that gifts taking place up to 14 years prior to death need to be taken into account in some circumstances.
- Review the interaction of IHT and Capital Gains Tax (CGT) which can sometimes mean that substantial values escape tax altogether.
- Consider alignment of the criteria defining business assets which can differ for IHT and CGT, particularly with regards to furnished holiday let properties.
- Address anomalies regarding Limited Liability partnerships, farmhouses and the need for formal valuations which can be unfair or unclear.
- Extend the reliefs for insurance policies written in trust to cover other similar policies.

UK Pensions

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UK Pensions and Tax

- UK State Pension – max £179.58 (New State Pension)
- UK Private Pensions
- Similarities to Australian Super
  - Tax relief on contributions
  - Can't access to 55yrs
  - Lifetime allowance of £1,073,100 (complex rules to protect)
- Differences
  - 25% tax free lump sum
  - Pension is taxable

Immigration Status and Pension Transfers

Temporary Residents

- Temporary visa holders
- New Zealand Citizens who arrived after 26 February 2001
- Not married to or in Defacto relationship with Permanent Resident or Citizen

Permanent Residents

- Visa holders
- Australian Citizens

Jason O'Connell

Financial Life Planner

Shartru Wealth

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Meet Jason O’Connell

- Who Am I?
- Lived and worked overseas since 2004
- EU, UK and Australian qualifications in pensions and financial planning
- Co - Founder and Non executive director/Secretary of Federation of European Independent financial advisers

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Important information

- Financial solutions for expatriates in Australia | Jason O'Connell is an Authorised Representative ("AR") 1269423 Shartru Wealth Management. ABN: 46 158 536 871 operating in Australia under AFSL: 422409.
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- The included case studies are for illustrative purposes only and is not an estimate of the investment returns you will receive, the fees and costs you will incur.
- This presentation includes a lifetime cashflow forecast. This analyses incomes, expenditures, savings, and investments to illustrate whether certain financial objectives are achievable, and how certain decisions regarding your finances will be likely to affect you many years down the line.
- Throughout this presentation many assumptions have been made, including anticipated rate of inflation, and an estimated investment return rate, as well as the current tax positions. In reality these figures may fluctuate and have a significant impact on your finances in comparison to those shown. We recommend clients regularly review the assumptions made in this report for the most accurate forecast.
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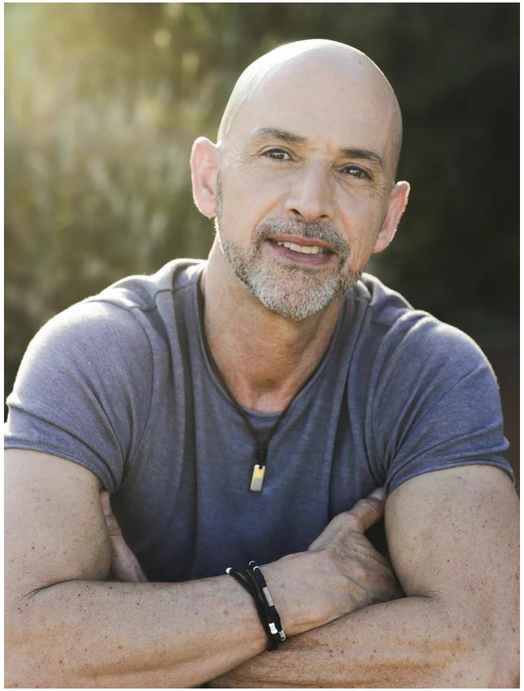
Case Study - Peter



- Peter 47 years old
- Defined Benefit/Final Salary and UK State Pension
- Small Australian Superannuation balance

Option 1 - Leave Funds in UK

Annual income at 65

	Estimated value		
UK DB (65)	£ 22,859.37	$	43,204.21
	Total	$	43,204.21
	Tax	-$	4,751.00
	UK fund	**$**	**38,453.21**
Australia Super (65)	$ 779,018.00		
Drawings	4%	$	31,160.72
	In pocket	**$**	**69,613.93**

Annual income at 68

	Estimated value		
UK DB (65)	£ 22,859.37	$	43,204.21
UK State (68)	£ 15,620.00	$	29,521.80
	Total	**$**	**72,726.01**
	Tax	-$	14,103.00
	UK fund	**$**	**58,623.01**
Australia Super (65)	$ 779,018.00		
Drawings	4%	$	31,160.72
	In pocket	**$**	**89,783.73**

Assumptions:

- This case study is for illustrative purposes only and is not an estimate of the investment returns you will receive, the fees and costs you will incur. This case study is based on the following assumptions:
- Defined Benefit indexed at 2.5% from current value of 15,620 for 18 years
- Exchange rate as at 26/8/2021 – xe.com $1.89.
- Australian Super - 2021 balance super $90k in Australia, forecast 18 years of $20k p.a. contributions to 65, assume 5% annual net returns to 65 super value $779,018 assume 4% annual returns from 65 and 4% drawdown Tax free
- Tax based on 2021/22 ATO rates

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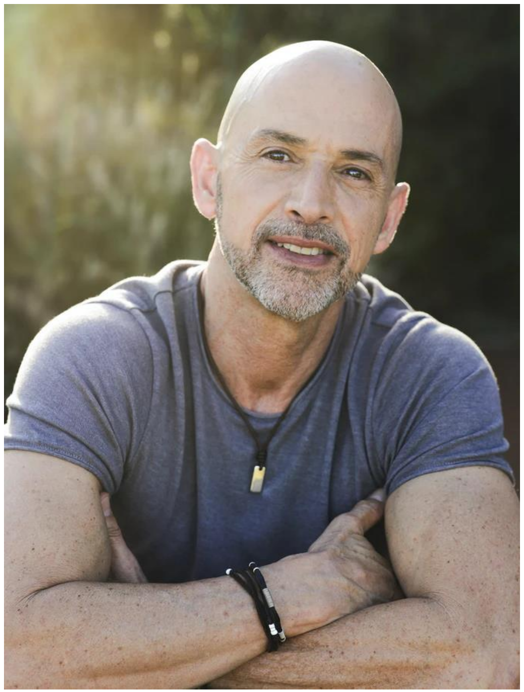
Case Study - Peter



- UK State Pension remains
- DB transferred to UK DC fund at 47 - £265/$500k and transfer to Australia and put in Super at 55 - £392k/$740k

Option 2 - Transfer DB funds

Annual income at 65

	Estimated value		
	UK fund		**$ -**
Australia Super (65)	$ 779,018.00		
Transferred Balance (65)	$ 1,206,034.84		
Drawings		4%	$ 79,402.11
	In pocket		**$ 79,402.11**

Annual income at 68

	Estimated value	
UK State (68)	£ 15,620.00	$ 29,521.80
	Total	**$ 29,521.80**
	Tax	-$ 2,151.00
	UK fund	**$ 27,370.80**
Australia Super (65)	$ 779,018.00	
Transferred Balance (65)	$ 1,206,034.84	
Drawings	4%	$ 79,402.11
	In pocket	**$ 106,772.91**

Assumptions:

- This case study is for illustrative purposes only and is not an estimate of the investment returns you will receive, the fees and costs you will incur. This case study is based on the following assumptions
- Exchange rate as at 26/8/2021 – xe.com 1.89.
- Defined Benefit indexed at 2.5% from current value of 15,398 for 18 years
- Australian Super - 2021 balance super $90k in Australia, forecast 18 years of $20k p.a. contributions to 65, assume 5% annual net returns to 65 super value $779,018 assume 4% annual returns from 65 and 4% drawdown Tax free
- Transferred defined benefit to UK DC Fund current value £265k + (annual growth 5% for 8 years to 55 = £392k/$740k) transferred to Super fund at 55 and growth of 5% for 10 years to 65
- Tax based on 2021/22 ATO rates

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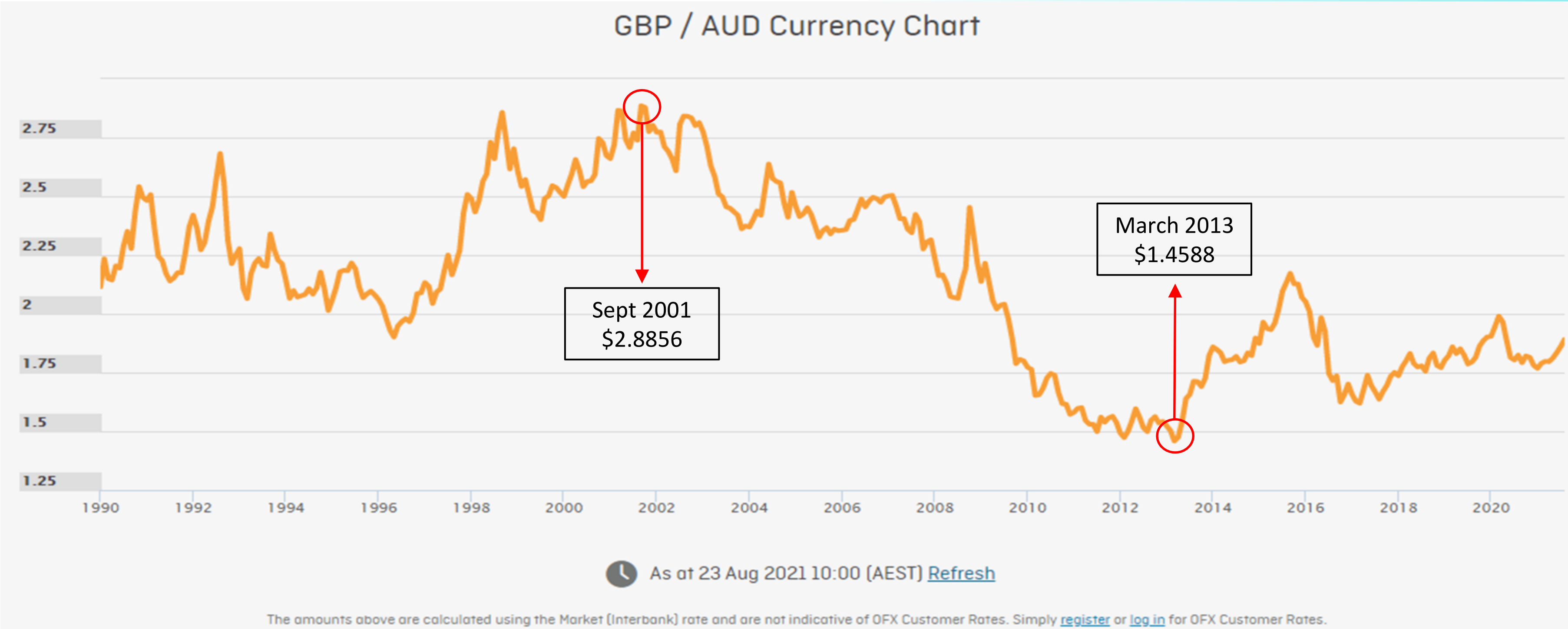
Currency Risk



Source: https://www.ofx.com/en-au/exchange-rates/aud/

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Currency risk in real terms

Option 1 Leave funds in UK

Highest GBP to AUD - September 2001

UK DB (65)	£	22,859.37	$2.89	$	65,963.00
UK State (68)	£	15,620.00	$2.89	$	45,073.07
			Total	$	111,036.07
			Tax	$	26,553.00
			In pocket	**$**	**84,483.07**

vs

Lowest GBP to AUD - March 2013

UK DB (65)	£	22,859.37	$1.46	$	33,347.25
UK State (68)	£	15,620.00	$1.46	$	22,786.46
				$	56,133.70
			Tax	$	8,710.00
			In pocket	**$**	**47,423.70**

Difference
$
37,059.37

Option 2 Transfer DB funds

UK State (68)	£	15,620.00	$2.89	$	45,073.07
			Tax	$	5,115.00
			Pension	$	39,958.07
	$1,985,052.84	4%	Super	$	79,402.11
			In pocket		**$ 119,360.19**

vs

UK State (68)	£	15,620.00	$1.46	$	22,786.46
			Tax	$	871.00
			Pension	$	21,915.46
	$1,985,053	4%	Super	$	79,402.11
			In pocket		**$ 101,317.57**

Difference
$
18,042.62

Assumptions:

- This case study is for illustrative purposes only and is not an estimate of the investment returns you will receive, the fees and costs you will incur. This case study is based on the following assumptions
- Exchange rate as highlighted
- All other assumptions remain consistent across scenarios:
- Defined Benefit indexed at 2.5% from current value of 15,620 for 18 years
- Australian Super - 2021 balance super $90k in Australia, forecast 18 years of $20k p.a. contributions to 65, assume 5% annual net returns to 65 super value, assume 4% annual returns from 65 and 4% drawdown Tax free
- Transferred defined benefit to UK DC Fund current value £265k + (annual growth 5% for 8 years to 55 = £392k/$740k) transferred to Super fund at 55 and growth of 5% for 10 years to 65
- Tax rates based on 2021/22 ATO rates

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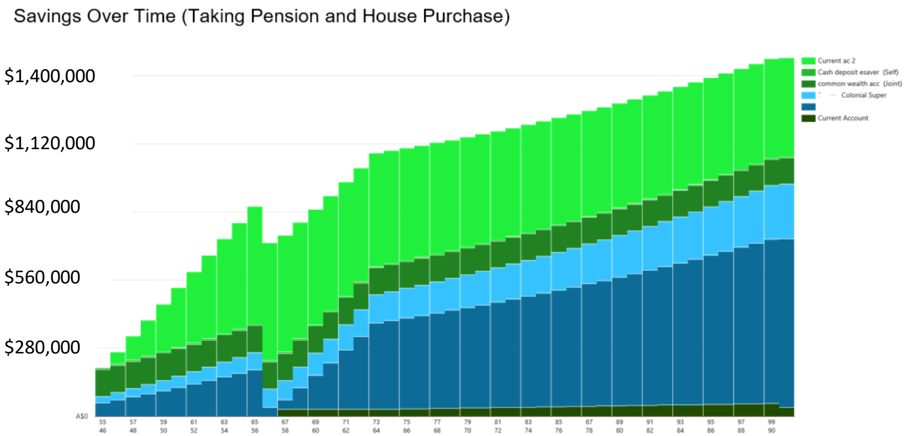
Why transfer?

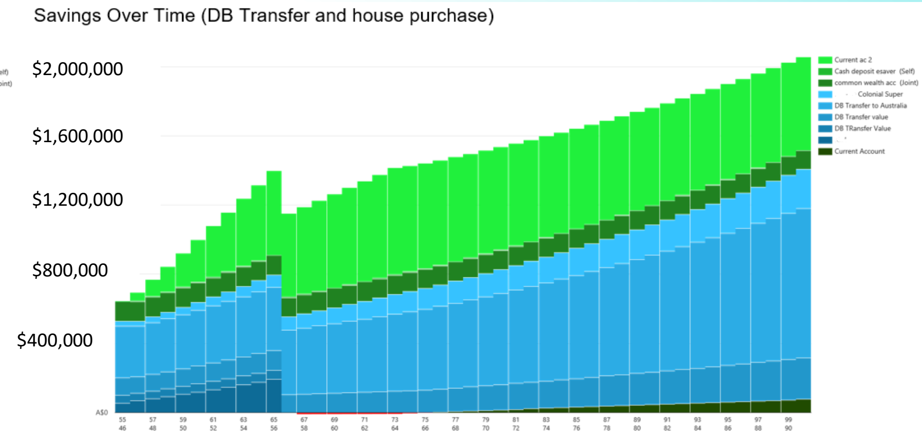
- Benefits
  - Remove currency risk
  - More favourable taxation in accessing retirement funds from an Australia Superannuation
  - Legacy death benefit
  - Flexible access to retirement savings to meet specific needs
- Downside
  - Currency could have an upside
  - Guaranteed income for life

Case Study – Ian and Cindy

- Ian (55) and Cindy (46)
- Ian has UK DB Pension
- Wants to buy a home and pay off prior to retirement in 10 years

Left in UK vs Transfer to Australia





They could have paid off the mortgage whether he transferred or not, though by transferring his pension to Australia his wealth aged 100, was forecasted to be in excess of $2,000,000 versus $1,400,000 had he retained his defined benefits in the UK.

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Legacy Value

- When the member dies there are three possible outcomes:

- Retained DB:
  - Spousal pension typically 50% of the members income which is taxable and
  - A taxable income (value is scheme dependent) for minors <18 or <23 in full time education
  - No transfer value

- Transfer to Australia:
  - Death benefit equals the full value of both the transferred pension and the superannuation

- Where the transferred pension is in the UK:
  - Death benefit is full value with no tax where the member under 75 at time of death. Where the member is >75 funds at taxed at 45% when taken as a lump sum or 25% when taken as income with the income taxed at the beneficiaries marginal rate of income tax

Legacy Value – Case Study Peter

Retain Defined beneft

	Estimated value		Legacy Value 50%	
UK DB (65)	£ 22,859.37	$ 43,204.21	$ 21,602.10	
UK State (68)	£ 15,620.00	$ 29,521.80	$ 14,760.90	
	Total	**$ 72,726.01**	**$ 36,363.00**	
	Tax	-$ 14,103.00	-$ 3,451.00	
	UK fund	**$ 58,623.01**	**$ 32,912.00**	
Australia Super (65)	$ 779,018.00		**$ 799,018.00**	Subject to tax*
		Super + Pension	**$ 831,930.00**	

Transfer to Australia

	Estimated value		Legacy Value 50%	
UK State (68)	£ 15,620.00	$ 29,521.80	$ 14,760.90	
	Total	**$ 29,521.80**	$ 14,760.90	
	Tax	-$ 2,151.00	$ -	Under threshold
	UK fund	**$ 27,370.80**	**$ 14,760.90**	
Australia Super (65)	$ 779,018.00		$ 779,018.00	
Transferred Balance (65)	$ 1,206,034.00		$ 1,206,034.00	
			$ 1,985,052.00	Subject to tax*
		Super + Pension	**$ 1,999,812.90**	

*Tax on Superannuation at members death is dependant on whether the beneficiaries are tax dependents and if not, whether the components within the super are taxed or untaxed. Independent tax advice should be sort by the beneficiaries.

Assumptions/notes:

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- Exchange rate as at 26/8/2021 – xe.com $1.89.
- Australian Super - 2021 balance super $90k in Australia, forecast 18 years of $20k p.a. contributions to 65, assume 5% annual net returns to 65 super value $779,018 assume 4% annual returns from 65 and 4% drawdown Tax free
- Transferred defined benefit at £363k/A$685k at age 55 (current value DB £265 + annual growth of 5% for 8 years to 55 = £363/$685) transferred to Superfund at time of transfer and growth of 5% for 10 years
- Tax based on 2021/22 ATO rates

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Tax on UK Pension transferred to Australia

- Transfer of foreign pension/super to Australia up to 6 months from relocation date
  - the growth and earnings would have been taxed annually at 15% in super and there would have been no tax on the transfer
- Transfer of foreign pension/super to Australia 6 months **after** relocation date
  - A calculation is made to establish the applicable fund earnings (AFE) which is the growth of the fund since becoming an Australia tax resident. The AFE is taxed upon transfer. Default rate is the members marginal rate of income tax (up to 47% in the year of the transfer)
  - Where an the transfer is received from a compliant foreign superannuation scheme to an Australian superannuation fund the member can elect for the received scheme to pay the tax at a rate of 15%.
- Transfers consist of 2 parts:
  - Growth since becoming an Australian tax resident *and*
  - Non-growth component which is treated as a personal contribution in the form of a non-concessional contribution.

Lifetime Allowance

From tax year 2018/19 the Lifetime allowance (LTA) was increased annually by the Consumer Prices Index (CPI), this was until the 2020/21 tax year as from the 2021/22 to 2025/26 tax years the chancellor has frozen the increases. Although there is no way of predicting future rates of CPI, particularly give the uncertainty around UK inflation post Brexit

Level of LTA

The standard LTA is an amount fixed in legislation for specific tax years (6 April to 5 April).

The 'standard LTA':

Tax year	Amount
2006/07	£1.50m
2007/08	£1.60m
2008/09	£1.65m
2009/10	£1.75m
2010/11	£1.80m
2011/12	£1.80m
2012/13 & 2013/14	£1.50m
2014/15 & 2015/16	£1.25m
2016/17 & 2017/18	£1.00m
2018/2019	£1.03m
2019/2020	£1.055m
2020/2021	£1.0731m
2021/2021	£1.0731m

Source: https://www.pruadviser.co.uk/knowledge-literature/knowledge-library/lifetime-allowance

What can you do now?

- It is complex, no one size fits all. Modelling can bring everything to life mapping out the best route to achieving a great retirement.
- Just because it's not possible to transfer to Australia prior to 55 there are a number of areas to consider: Investment strategy, currency mitigation strategies, reducing costs etc
- Start by understanding your position
- SIPP

Things to consider

- State Pension Forecast:
- Born prior to 5th April 1970 SPA 66 and between 67-68 for those born after this date, full entitlement is currently over £9300/$17,600 p.a. per individual
- 4 years of NI contribution prior to leaving the UK to top up and need 10 years for pro-rata entitlement
- If employed in Australia, entitled to purchase class 2 contributions (limited window) £157 p.a. generating £265 p.a. lifetime income
- Retrospectively purchase up to 14 years of contributions (£2,198) generating £3,710 annual lifetime income. From April 2023 the number years that can be retrospective purchased will be 6
- A full UK SP is nearly equivalent to the level of assessable income in Australia before you start paying income tax ($18,200)
- Indexed in deferment – currently triple locked i.e. the higher of 2.5%, wage inflation and CPI annually
- For Australian residents indexed prior to reaching SPA, when indexation will cease i.e. no indexation from SPA

Next Steps

- Establish what you have, when how those benefits can be accessed
- Consider tax implications as an Australian resident- tax free in the UK isn't necessarily tax free in Australia
- Is your investment strategy appropriate – Asset allocation will drive 80-90% of your return profile
- Cost of current pensions

Contact us

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Q&A

Thank you