

Cut in tax relief a catalyst for UK pensioners to move funds offshore

The announcement by the United Kingdom's Chancellor of the Exchequer, George Osborne, that the amount individuals can save tax-free into pensions has been slashed from £1.25m down to £1m, may be bad news for UK pensioners who keep their pensions in the UK.



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However, this reduction to the lifetime allowance (LTA) for pension tax relief is also an incentive for more to move their British pensions out of the UK.

"The on-going cuts in the lifetime allowance will only serve as a catalyst for expats in South Africa and around the world to move their British pensions out of the UK and into an HMRC-recognised QROPS, an overseas pension in a secure, low-tax jurisdiction," says Nigel Green, founder and chief executive of deVere Group.

South Africa has an UK expatriate population of more than 200,000, of which more than 38,000 are pensioners. And the numbers are growing, attracted as they are by the low cost of living, favourable exchange rate, and a climate suitable for an outdoors lifestyle.

Exempt from limit

"When the pension pot is outside the UK, it will be exempt from the LTA limit - even if the pension pot increases beyond £1m over time. This is significant as the LTA could be cut further in the future," explains Green.

To qualify for a retired person's visa in South Africa, UK citizens need to have assets worth R20,000 a month (approximately £1,100), which can be made up from pension funds, annuities, and other investments. Since being introduced in 2006, the LTA limit has been reduced several times, from £1.5m in April last year following a reduction from £1.8m in 2011.

"Those who transfer their pensions into a QROPS will typically benefit from being able to access flexible high-return investments and have their pensions paid in the currency of their choice, among other advantages," Green says. "It could be reasonably argued that the systematic reductions to the lifetime allowance are precursors to a fully-fledged wealth tax - as that is what these limitations essentially represent."

Green predicts an uptick in the trend for pension transfers. "I fully expect that as the LTA changes bite, an increasing number of pension savers will look for alternatives."

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