AN EXPATRIATE'S GUIDE TO THE **SELF-INVESTED PERSONAL PENSION**

deVere GROUP

Introduction

An increasing number of professionals of all nationalities have been moving and working abroad in the last decade. Whether a young executive or a high net worth individual with a diversified portfolio of global assets, investors have specific financial requirements and objectives, and need to structure their portfolios accordingly. As a result of employment patterns changing in recent years, many expatriates have built up UK pension benefits across several schemes and structures, which may not be suited to their specific retirement needs and objectives.

In this guide, our aim is to provide you with information for effective retirement planning as an expatriate, and detail how a Self-Invested Personal Pension (SIPP) may be beneficial to your retirement needs.

What is a **SIPP**?

A SIPP is a UK registered pension scheme regulated by the UK Financial Conduct Authority, and allows investors to take additional control of their pension, with the added benefit of greater flexibility when compared to standard pensions.

Different forms of SIPPs have been around since 1989, but in a change of UK regulations in 2006, pensions became less complex – therefore making it easier for investors to decide on their own form of retirement plans. SIPPs work in the same way as other personal or stakeholder pensions in terms of tax benefits, contribution limits and retirement options. However, two key advantages of using a SIPP are access to much wider choice in investments and flexibility of income in retirement.

How does a **SIPP** work?

Funding a SIPP

As an expatriate investor, your SIPP will most likely be funded by transferring your existing UK pension benefits. UK residents can add new money to a SIPP and receive tax relief on contributions, albeit within certain limits, depending on earnings. Although the amount of contributions to a UK scheme is limited by earnings, a non-UK resident can contribute up to £2,880 per annum into a UK pension scheme if they were resident at some point during the previous five tax years, and were UK resident when they became a member of the pension scheme. Tax relief at 20% brings the total contribution to £3,600.

Your Options at Retirement

Up to 25% of the fund value can be taken as a Pension Commencement Lump Sum which is not taxable in the UK, and can be phased between the ages of 55 and 75. There are several ways to generate an income from a SIPP, with the most popular being flexi-access drawdown as this provides full flexibility in terms of the amount taken.

With flexi-access drawdown the amount withdrawn is variable along with the frequency of payments. Some investors prefer a monthly income, comparable to receiving a salary, whereas others prefer ad-hoc lump sum payments. Choosing to take an income through flexi-access drawdown allows the remaining funds to stay invested in the markets. Typically, investors favour a higher income in the earlier years of retirement when expenditure on holidays and luxuries may be higher, and in later years when less active, decide to reduce their pension income, and this is possible with a SIPP, subject to the fund size.

The Investments within a SIPP

The investments within a SIPP grow free of capital gains tax and no tax is payable on any dividends* or income produced by the investments. It is therefore possible to buy and sell investments or flee to cash with no tax liability. A wide range of investments can be held in a SIPP, and the main categories appealing to expatriate investors are as follows;

- Cash and deposit accounts;
- Fixed interest securities including government bonds;
- Collective investment funds;
- Investment trusts;
- Stocks and shares;
- Structured products.

* aside from any irrevocable withholding tax.

What Happens on Death?

If you die before the age of 75, your entire SIPP can be passed onto your beneficiaries free of UK taxes. If you die after the age of 75, the pension would be taxable at the beneficiary's marginal rate of income tax. It is possible to change the nomination of death benefits during your lifetime. A UK pension does not form part of your estate for inheritance tax purposes.

What are the **Tax Advantages** of a **SIPP**?

- There is no tax when transferring existing UK pension benefits into a SIPP;
- The pension grows free of capital gains tax and income tax (aside from any irrevocable withholding tax);
- Up to 25% of the value can be taken as a Pension Commencement Lump Sum (subject to the Lifetime Allowance);
- The income drawn from the SIPP is taxable in most jurisdictions, with the tax rate depending on local rules;
- Potential ease of administration by using the double taxation agreements between the country of residence and the UK;
- For death after age 75, the benefits drawn are taxed at the beneficiary's marginal rate of income tax;
- A UK pension is free from UK inheritance tax.

For investors who retire outside of the UK, tax is usually paid in their country of residence, but this depends on the double taxation agreement between the two countries (if one exists). A double taxation agreement divides the taxing rights between the two countries involved and the UK has double taxation agreements for income tax with over 130 countries.

There are certain jurisdictions where pension income is taxed favourably for expats, and tax residents of these places can access their UK pension benefits free of tax or by paying low tax rates. Examples of these jurisdictions are Portugal, the UAE, Qatar, Malaysia, and South Africa.

Investors should also consider the Lifetime Allowance, which is a cap on UK pension benefits which can be drawn without incurring a further tax charge. As the Lifetime Allowance has fallen from a high of £1.8m (2011/12 tax year) to £1.055m in the 2019/20 tax year, several protections have been offered, some of which can still be claimed. If you are likely to be affected by the Lifetime Allowance Tax Charge, you should speak to a Financial Adviser.

Non-Tax Advantages of a SIPP

- Fully accessible from age 55 (57 from 2028);
- Allows existing pensions to be consolidated into one arrangement;
- Flexible currency options to suit retirement needs;
- Investment freedom with a wide range of investment options;
- Flexi-access drawdown can be used to generate a flexible income, with no restrictions on the amount withdrawn, this can be from 0% to 100% of the fund;
- The ability to pass on pension funds to beneficiaries upon death (does not have to be to financial dependents).

Transferring a Pension into a SIPP

If you have several pensions that you wish to consolidate into one scheme, a SIPP may be used to reduce ongoing administration and simplify performance tracking. If transferring to a SIPP from a defined benefit scheme, you will need to think about the income which you are giving up in exchange for the cash equivalent transfer value, and if you are transferring from a defined contribution scheme such as a personal pension, occasionally schemes have guarantees which would be lost upon transfer. Your Financial Adviser will analyse your pension benefits before providing a recommendation.

Is a **SIPP** right for you?

SIPP Suitability

A SIPP is suitable for investors who are looking to grow their pension fund throughout their lifetime and invest into a wide range of investments which suit their appetite for risk. As well as the flexibility of income, investors use a SIPP to have control over their retirement fund and be able to consolidate existing pension schemes into one.

Depending on the investor's circumstances and residency status, it may be possible to transfer the SIPP into a Qualifying Recognised Overseas Pension Scheme (QROPS), should the investor wish to remove their pension fund from the UK. Furthermore, some investors decide to fully withdraw their pension funds when resident of a jurisdiction which does not tax pension income, and use the extracted fund as a capital asset.

The Best Solution for you

If you are an expatriate who has worked in the UK and contributed to a pension, we recommend you take financial advice, and consider whether a pension transfer to a SIPP achieves your objectives. Effective planning for your retirement can make the difference between just being able to live and living comfortably.

If you would like to speak to a professional financial consultant regarding your pension, please contact us.

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