

## Retiring to Australia - Tax, Property, and Pensions



**This is the third part of a series looking at the rules and tax implications of retiring abroad post-Brexit, following earlier articles about Spain and France.**

It covers all the latest advice on retiring to the land of Oz, and why you might lose that 25% tax-free pension cash.

There are thought to be some 1 million British expats in Australia, of which several hundred thousand are pensioners.



Australia has been a long-time favourite for Brits planning retirement in the sun. The weather, sandy beaches and barbecues and generally relaxed lifestyle has attracted over 230,000 British pensioners to Australia, as well as plenty of other nationalities.

Some 7.6 million (in 2020) residents of Australia were immigrants. That is almost 30% of the total population.

Its zero income tax policy on local pensions sounds attractive, but expats need to be aware their UK state pension would be frozen at its level on arrival in Australia (or when payments begin) and income from any overseas tax-efficient investment products like ISAs will be taxed in Australia.

There are a number of requirements to meet before making the move to Australia. Here are a few pointers, from taxes and visas to pensions and property prices.

## **Pensions**

Brits moving across the world can keep their UK pensions in the UK, and still draw on them in Australia.



However, pension providers often have restrictions for non-UK residents, which can be problematic. Many will only pay income into a UK bank account, or they may not allow you to change your contract into a flexi-access drawdown plan.

Not all providers have these rules, so it is worth checking before making any big financial decisions. It is likely that HM Revenue and Customs taxes the pension at source in the UK, which would need to be claimed back.

Tax is due on UK pension money at the marginal rate of income tax in Australia, which is 19% up to \$37,000 AUD (£19,700) and jumps to 32.5% on income above that threshold.

However, Australian pensions are tax free and the only tax owed could be on the investment growth of a pension pot.

Those who plan to spend a long time in Australia can consider transferring their British pensions to Australia. This can also help reduce currency risks and losing money to the exchange rate.

But if done wrong, this can be costly and pensioners can be hit with a 55% UK tax bill, so care is needed in selecting an Australian pension scheme acceptable to the UK's HMRC. These acceptable schemes are known as QROPS (Qualifying Recognised Overseas Pension Scheme).

There is a limit on how much you can transfer and those moving their pension must be between age 55 and 75.

Most people can transfer \$110,000 AUD (£58,000) each tax year, and those under age 65 can use the next two years' worth of allowance, bringing the total to \$330,000 AUD (£175,000).



Similar to Britain, the Australian system has a 'lifetime allowance' limiting how much you can have in your pension tax free. It is lower than in the UK, capped at \$1.7m AUD (£930,000). Exceeding this can hit you with large tax bills.

As mentioned earlier, be aware that the British state pension would be frozen from the time of the move to Australia.

The state pension rises every year in the UK by the higher of wage growth, inflation or 2.5%, under a policy called the 'triple lock'.

But this does not apply to those overseas in Australia. (At the time of writing, [8th September 2021] the triple lock has been scrapped for the 2022 year by removing wage growth from the calculation).

The fixed pension amount can have a drastic impact on the value of the state pension as prices increase over time, eroding the pension's value.

## **Getting Your Visa**

There are several visas that British pensioners can apply for to move down under, but the main 'retirement visa' has been closed to new applicants.

The three other options are the 'skilled stream', the 'family stream' and the 'special eligibility' visas.



Anybody with immediate family in Australia can migrate permanently, as the resident can act as a sponsor. This includes a parent visa, age dependent resident visa, carer's visa or remaining relative visa.

They must be able to show they have enough savings or retirement income for their needs. This is in the range of AUD5,000-10,000.

The 'parent visa' permits those with children in Australia, who have Australian nationality, to move there. However, this visa is currently unavailable, but expected to reopen to retirees in 2022, and it can be quite expensive. The application fee is \$4,350 AUD (£2,330), with additional fees of \$2,175 AUD (£1,166) and a second instalment of \$2,065 AUD (£1,107).

High Net Worth individuals can opt for special investment visas, which require applicants to have at least AUD2.5m, (£1.34m) in personal assets and have managed or ownership in a business.

## Australian Tax Rules

As discussed in the France and Spain notes, anyone moving abroad who has not yet taken their UK pension tax-free cash may lose out.



In Britain, the 25% tax-free cash is one of the most popular pension rules, but many overseas countries, including Australia, do not recognise the tax-free status. This also applies to the 30% tax-free cash available within most QROPS.

Australia taxes growth and income on investments. Those who do not plan to return home should consider whether it makes sense to continue holding any tax-free UK savings such as ISAs, or sell the investments before relocating.

Australia does not have any death duties or inheritance tax (IHT) but British expats are likely to be subject to British rules, based on their UK domicile.

Anyone who is a “domicile of the UK” is subject to inheritance tax on their assets worldwide, regardless of residence. It is possible to choose a different country of domicile, which involves giving up all ties with the UK, but it is a difficult process.

## **Health Insurance**

The Australian healthcare system works differently to Britain's, and you will have to take out private cover in order to meet visa requirements.

A recent estimate suggested private medical insurance would cost retirees between \$170 AUD (£90) and \$360 AUD (£190) per month, depending on the level of cover.

Medicare, the universal medical cover in Australia, is contributed to by taxes and all British citizens travelling are protected. But the cover only applies to about 75% of primary care charges.

## **Property**

Housing is generally of a high standard and comfortable, but there are lots of older style flats, particularly in the cities.



Typically, there is a wide choice of accommodation.

You can choose from a plot of land ready for a builder to put up a brand-new house, through to older properties in need of renovation (and everything in between).

You need to bear in mind that Australia is a vast country and costs will vary dependent on your chosen location, so it makes sense to try to understand the market and pricing in your chosen area at an early stage.