

## Retiring to America: Tax, Property and Pensions



**America is already one of the most popular retirement destinations for Brits as well as many other nationalities.**

From the beach resorts of the West coast and Florida, to the deserts of Nevada and the ski villages in the Rocky Mountains, the 50 states seem to be able to cater to all needs and retirement dreams.

Hundreds of thousands of British pensioners have already settled in the US, with 128,108 expats receiving the British state pension while living in America as of May 2020, according to a House of Commons brief. Only Ireland and Australia are home to more British expats.

Simple visa requirements, advantageous state pension agreements and attractive house prices make it attractive for adventurous retirees. The tax system is complex, though, with federal and state rules often conflicting.

Here are some things you need to know about relocating to the United States of America, from taxes and visas to pensions and property prices.

## Visas

There are several different types of American visas that Britons and other Europeans can apply for, from the easy to secure to stubbornly difficult and expensive.

Anyone hoping for a successful move should be clear on how long they plan to stay in the country before selecting which visa to apply for.

By far the easiest to get is the tourist visa, the 'B-2', which allows Brits to retire there for up to six months of the year.



This is the most straightforward, least expensive and quickest way to retire for those who want to escape miserable Northern European winter for six months every year.

Successful applicants must prove they have sufficient funds to prove that they would not become a burden on the state or look for employment. The embassy will want to see money in a current or savings account sufficient to cover all living costs for the duration of the stay. This is not a set monetary amount and varies depending on how long the applicant plans to stay, and whether they own a home outright or would be paying rent.

However, those who do make use of this visa should be aware that it means they will not be eligible for a social security number. This can make everyday things like opening a bank account, or obtaining a driver's license difficult.

The second type of visa is known as the 'E-2 Treaty Investment Visa', is for those planning to invest and want to stay more active in retirement.

This type of visa is not a permanent retirement plan, unless the person aims to own and run a business into old age. As the owner, you would need to supervise the existing business, which could still allow time to relax and play golf. It is a good option for you to remain in the US longer than six months and test the waters prior to committing to permanent residency.

There is no fixed minimum amount that must be invested. The business is measured against its industry and the company's ability to operate. The amount is usually in excess of \$50,000 (£36,000) and the business must be profitable.

People on this type of visa can stay for as long as they are employed by the business and it is necessary for them to be there, and they would receive a social security number.



Those looking for permanent residence will eventually need to get a green card. Unless there are other options for obtaining this (such as having children who are US citizens) one way to secure the card is via the 'EB-5 Investment Visa Green Card'. This is, however, very expensive.

This visa requires an investment of at least \$900,000 in a commercial enterprise or a 'federally designated regional center'. If the business is not within a targeted employment area the minimum investment jumps to \$1.8m and it must create or preserve at least 10 full time jobs for American workers.

This can be a lengthy process, and, I suspect, for most, it is not really a feasible option.

## Pensions

The British state pension is indexed for those living in the US, thanks to a social security agreement between the two countries. The UK state pension will continue to increase in line with the pensions paid to Britons under the 'triple lock' mechanism (except for this year only, of course, according to Boris and Rishi).

When it comes to private pensions, the degree of flexibility pensioners have will depend on their provider. Some can be very restrictive with the retirement options that they offer, with many not allowing a US resident to go into drawdown.

This may mean being forced into an annuity, or transfer to a more accommodating provider.



Draw-down is currently the most flexible route to UK pension access, so this needs careful consideration before relocation to the USA.

Most British providers will not accept a transfer for a US resident.

Those who do offer drawdown for US residents and permit payment into a US bank account are likely to have more expensive fees and charges. Obviously, retirement in the USA also suggests a US dollar denominated portfolio, to mitigate currency risk.

This is easy enough within SIPPS or QROPS, but you might find it a bit more difficult within onshore UK-based personal pensions, or employer-sponsored schemes.

### **Taxation on Pension Income**

The amount of tax due on private pension withdrawals will depend on when, how and where it is withdrawn.

Taking a regular income will incur different taxes than drawing a pension as a lump sum. Taking a significant sum of pension cash in one go tax is payable in the country where the pension plan is active, which would mean a British pension would be liable to charges in Britain.

However, regular income from a pension is liable to be taxed in America. This also applies to annuity payments, which are taxed at the usual marginal rate of federal income tax.

Tax bands run from 10% for income under a \$9,875 (£7,135) a year threshold, rising to 12% on earnings up to \$40,125, all the way up to 37% on income in excess of US\$500,000 per year.



Planning the timing and type of withdrawals can be useful. It might, for example, be preferable to delay a distribution until US tax residency starts as US income tax rates can be lower than in most European countries.

Planning your retirement from your last posting in Asia might be somewhat different, though!

The 25% tax-free cash from UK pensions (30% from QROPS) may be at risk if you move to the USA before you have taken the pension. Some US tax advisers rely on the US/UK Income Tax Treaty to exclude the 25% lump-sum distribution from US tax entirely. Others have argued that the pension money is taxable in the US, but that excess foreign tax credits can be claimed to help eliminate or reduce the bills.

The position should be discussed with an adviser, so you know what the taxation landscape looks like, before retirement in America.

### **Inheritance Tax**

American inheritance taxes can be surprisingly costly when they are not planned for. The first \$11.7m of an estate is exempt from death duties, but only for those who are considered US-domiciled for federal tax purposes.

The generous upper limit becomes only a \$60,000 exemption for anyone who is not officially US-domiciled, and this catches many people out. A US advisor's help should be sought to clarify domicile.

US citizens and green card holders are always domiciled, the view being that America is now their permanent home.

This is assessed using a range of factors, including the amount of time spent in the country, whether or not they intend to stay indefinitely in America, and the location of main residence.

## Buying a US Property

The cost of living varies widely across America. States like New York and California have the highest living costs in the country but also some of the highest taxes.

American property is marginally more expensive than Europe, with the average home selling for \$378,700 (£273,000) compared to the average British house price of £266,000 according Knight Frank Property Agents.

As you might expect, prices vary by region.



The most costly in 2020 were Hawaii (average property costing \$608,900), the District of Columbia (\$575,700) and California (\$524,400), according to real estate website Zillow. However, Arkansas (\$156,800), Oklahoma (\$154,900) and West Virginia (\$145,400) were among the cheapest.

The USA is a popular country to retire to and for the good reasons already mentioned, but as with retiring to any country, it pays to do your research first, understand the rules and visit the area you plan to retire to on a number of occasions in order to gain all the facts before making the commitment. In that way you can have the retirement you aspire to.