A place in the sun

The promise of adventure and a warmer climate are, all too often, matched by the number of complications that come along with retiring abroad, warn *Tim Adams* and *Edward Nice*

Moving abroad can be an exciting affair but it is not short of complications. Where you move will be a key factor in your planning. The most popular destination for aspiring expats will no doubt be the warmer climates of Western Europe, and while these countries have identifiable legal, tax and welfare structures, they can differ hugely from one another.

So what are the areas to consider?

State pension

If you relocate to a country with a reciprocal arrangement with the UK, you will continue to receive your state pension with inflation-linked increases. This will apply if you move to another EU country (or the US), but it will not be the case if, for example, you move to Canada or Australia. Your state pension will remain frozen at the rate which applied when you left the UK.

Remember that changes in exchange rates could impact upon your state pension income, which will continue to be paid in sterling.

Private pensions

If you have built up 'money purchase' pensions, either personally or through employers, these can remain in the UK, and will continue to grow in a tax-efficient environment. You can now continue making contributions to the pension once overseas, but without UK registered earnings, may not be able to claim tax relief on further contributions.

In the case of larger pensions, it is worth considering transferring into a QROPS (Qualifying Recognised Overseas Pension Scheme) in the new country. In some cases, this can provide even more attractive features than the original UK pension, but the receiving scheme must be approved by HMRC. This can be a particularly complex area of pensions, with the cost of advice reflecting this, made even more complicated when HMRC reduced the number of authorised schemes by more than 80 per cent earlier this year. A transfer to an unauthorised scheme can result in a tax charge of 55 per cent.

Many pension providers won't pay benefits into overseas bank accounts, meaning that you may need to retain a UK account. Again, payments in sterling may be negatively impacted by exchange rates fluctuations and charges.

Alternative investments

After pensions, the most common tax-efficient investment vehicle is an ISA (Individual Savings Account). Once resident overseas, you won't be able to make new contributions, though you can retain those that you have already accrued and they will continue to benefit from the favourable income and capital gains tax (CGT) treatment. Some investment providers may limit the range of investment funds available to investors that have moved overseas.

'Offshore' investment bonds, which may be based in such locations as the Isle of Man and the Channel Islands, are becoming a more mainstream investment tool. However, while UK resident, investors enjoy certain tax breaks, this may not be the case in other

countries, and may result in unintended tax charges on income and asset growth.

For all types of investment, it is important to first check on the local tax rules.

Health care

In the UK we can often take for granted that medical treatment will always be provided when we really need it. Across much of the EU, you can usually access the same basic treatment as the local citizens. Outside the EU however, you may find things a great deal more difficult. The key thing, of course, is to investigate the services that are available to you in your chosen country and be prepared to take out health insurance.

Capital gains tax

If you move abroad to live permanently, then you are likely to become non-UK resident for tax purposes. This will impact on income tax and CGT issues. If the country you have moved to has a double taxation agreement with the UK, then in most cases you will pay tax in the country where you live, rather than UK tax. However rental income derived from a UK property is always subject to UK tax.

The tax loophole that allowed non-UK residents to avoid paying CGT on the sale of residential property has been closed. The new provisions came into effect on April 6 2015, and apply to non-UK residents with UK property, especially those with buy-to-let properties. This new rule will mean that the sale of a UK property, which currently attracts no UK CGT, will incur a UK CGT bill on any gains made after April 6 2015. In order to qualify for CGT main residence exemption, you need to have lived in the property for at least 90 days in any one tax year.

It used to be the case that by leaving the UK for a complete tax year, and then disposing of assets during that year could relieve you of the burden of CGT. However, one year is no longer a sufficient length of time. An individual now has to be non-resident for a minimum of five complete UK tax years to take advantage of this rule.

Inheritance tax

An individual who is UK domiciled (even if non-resident) will be liable to UK inheritance tax (IHT) on their worldwide estate. A 'non-dom' will only be liable for UK IHT on their UK based assets. Losing your 'domicile of origin' is difficult and simply moving abroad will not automatically make you non-UK domiciled.

You have to intend to leave the UK permanently and even if you have this intention, you will not lose your UK domicile for IHT purposes for the first three years after you have left. Also remember that you will be deemed UK-domiciled for IHT purposes if you are resident in the UK for any part of 17 years in the last 20. The 2015 Summer Budget budget has proposed that from 6 April 2017, deemed domicile will apply if you are resident in the UK for any part of 15 years in the last 20.

Bear in mind that you may also be liable to pay death duties in your new country of residence. If there is a double taxation treaty in place with the UK, this will decide how tax is charged, but as a last resort, the UK will give a unilateral tax credit where you pay tax in your new country.

In the UK, there is no IHT payable when property passes between spouses, on death or otherwise, although a different rule applies where assets pass from a UK domiciled spouse to a non-domiciled one. However, in many countries, there is no such spouse exemption, so care needs to be taken when arranging one's affairs.

Wills

The advice for many years has been that a separate will is required for every individual country where assets are owned. From 17 August 2015 however, we have had the EU Succession Regulation, known as Brussels IV, take effect. The idea is that it should be possible to make a will in one EU member state, which will then apply in all other member states. The UK has so far chosen (along with Ireland and Denmark) not to opt in.

The general rule is that the courts of the member state in which the deceased was habitually resident at the time of their death, have jurisdiction over succession matters. This might include forced heirship provisions which are commonly found in other European countries.

Under Brussels IV however, an individual can now choose that the law of their nationality should be the applicable law. In theory, an English national living in France can make a will leaving their estate as they wish, rather than in accordance with French succession rules. It is not a simply transferable and uniform process however. For example, a French national living in the UK is in a more complex position.

It is not yet known how this will work in practice. A Brussels IV state may refuse to apply the law of another state if that would be 'manifestly incompatible with the public policy' of that state, and for the time being, until the situation is clearer, it may be better to keep the notion of separate wills for separate jurisdictions.

Advice

The interaction of the rules and laws of different countries is a highly complex area and before committing to a proposed move abroad, one should investigate all of these issues and take advice. ■

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