

# GUIDE TO INTERNATIONAL PENSION TRANSFERS



Chase Buchanan

PRIVATE WEALTH MANAGEMENT

# Guide to International *Pension Transfers*

## Contents:

1. Introduction
2. The basics of pension transfers
3. UK pension transfer rules
4. Benefits and risks of an overseas pension transfer
5. Transferring a UK pension to the USA
6. Transferring a UK pension to Canada
7. Transferring a UK pension to a European country
8. Paying overseas pension income tax
9. Investment alternatives
10. Summary

## Part 1 – *Introduction*

Pension transfers are a complex topic.

If you live overseas and have a UK pension fund or are considering an international relocation, it's vital to seek expert support before making any decisions.

The rules around pension income and transfers vary, so you'll need to think about:

- How pension income is taxed in your new home country, and whether that tax treatment changes if you receive foreign-source earnings from a UK scheme.
- What taxes are payable on a cross-border transfer.
- The type of pension products available in different countries, and whether an alternative investment would be more advantageous.
- Benefits receivable from your existing products and the risk exposure inherent in switching to a different fund.

Throughout this guide, we take a look at all these factors and the tax rates chargeable, type of pension transfer options, and eligibility criteria.

For bespoke advice specific to your circumstances, please contact your nearest Chase Buchanan office to receive tailored recommendations based on your country of residence, aspirations, and retirement plans.

## Part 2 – The Basics *of Pension Transfers*

A crucial point to make is that pension transfers may not be advantageous for everybody.

We'll explore the types of transfer available later, but it's important to clarify that a transfer might not universally be the best option.

Transfers are often marketed as a lucrative option for international expats, but professional advice from a global wealth management expert is strongly advisable.

It is critical to receive an evaluation of your circumstances before proceeding with any pension transfer to any country, whether in Europe or further afield.

Benefits and potential pitfalls of pension transfers include:

- Tax advantages in countries with low pension taxes or zero foreign source income tax, meaning your retirement fund becomes substantially more valuable.
- Significant overseas pension transfer charges cutting out a chunk of your life savings – and the requirement to transfer only to eligible schemes.
- Penalties and financial losses can potentially lose up to 55% of your pension pot in tax charges if the move is considered an unauthorised transfer.
- Opportunities to reinvest your pension fund in higher return products, or benefit from tax-free lump-sum withdrawals as capital, or a reinvestment fund.

There are many pros and cons here, but often no obligation to make an instant decision.

Most British expats can remain resident abroad for up to five years without losing the entitlement to tax relief on pension contributions made to UK schemes, so there is usually capacity to analyse the options and ensure you get it right.

However, having a considered pension strategy is critical since those tax reliefs will cease to apply after five years.

Making sound judgments in good time can also help to take advantage of opportunities that arise with time restrictions.

## Part 3 – UK Pension *Transfer Rules*

The primary way to transfer a UK pension abroad is to select a Recognised Overseas Pension Scheme (ROPS), formerly known as a Qualifying Recognised Overseas Pension Scheme (QROPS).

If you proceed with a pension transfer, HMRC must acknowledge the scheme you choose.

Criteria to qualify as a ROPS include:

- Plans open to citizens and residents in the destination country.
- Tax relief available on member contributions and taxation on outgoing payments or the other way around.
- The scheme is recognised with the tax authority in the country or registered for tax purposes.

ROPS transfers are available to countries with which the UK has a double tax treaty.

Qualifying schemes must provide lifetime pensions from at least 70% of the transferred funds, with payments usually starting at age 55 at the earliest.

There are general advantages, such as applying to HMRC for an increased Lifetime Allowance when making transfers from a ROPS scheme.

Self Invested Personal Pensions (SIPPs) are an alternative product and another common way to transfer a pension overseas. These self-managed schemes are more flexible and act as a pension 'wrapper' to manage your investments until retirement.

There are multiple alternatives. They include international banking options, offshore investments, and savings strategies, offering substantial financial advantages.

A key benefit is a flexibility to access your funds at any point, plus tax efficiencies and higher potential returns – however, as always, global wealth management advice is crucial to evaluating these potential advantages.

You can learn more about both these types of retirement fund in our complimentary SIPPS vs ROPS Guide.

## Part 4 – Benefits and Risks *of an Overseas Pension Transfer*

There are both risks and advantages when opting to transfer a UK pension overseas.

Much depends on the applicable tax rate applied to foreign-sourced pension income – so, depending on the country, your earnings may be higher if you opt to retain a fund in Britain.

However, there are usually tax efficiencies to be gained, since if you live overseas yet remain a UK tax resident, you will be liable for British taxes on your pension. The exact rate depends on your total income and the applicable taxation bracket.

Non-UK residents don't usually have to pay UK tax on pension income but will instead be liable for taxes in their home country.

Note that civil service pensions are the exception and will be taxed at source in the UK.

Possible Benefits to a Pension Transfer:

- Tax-free lump sum withdrawals, up to 30% of your pension fund.
- Fund growth above the UK Lifetime Allowance.
- Low or even nil-rated income tax on pension income or benefits.
- No income tax charges if the beneficiary passes away before age 75.

- Mitigating risks owing to currency exchange rate fluctuations.
- Broad investment choices (such as SIPPs).
- Tax-free pension income on 10% of the value of a ROPS scheme if moving back to Britain.
- Options to consolidate multiple pensions and take them with you.
- Possibility of increasing the pension of a spouse, similar to a UK defined benefit scheme.
- Reducing tax burdens through pension income drawdowns.

#### Possible Risks to a Pension Transfer:

- HMRC can delist a currently recognised ROPS due to pension regulation changes or if they determine it does not comply with UK tax regimes.
- The loss of guaranteed compensations, or defined or minimum benefits, safeguarded through UK schemes and forfeited after a transfer.
- Increased risk exposure for your spouse if safeguarded benefits are forfeited.

The most significant pitfall with an overseas pension transfer is the Overseas Transfer Charge. This ruling was introduced in 2017 and technically applies to EU countries from January 2021, when the UK left the EU.

While the UK 2021 Budget did not include any changes to ROPS transfer rules and did not specifically implement the Overseas Transfer Charge on European pension transfers, there is a likelihood the government will extend it.

International pension transfers outside of the EU are liable to a 25% taxation charge, applied against the total value of the transfer unless you live in the same country as the location of the ROPS scheme.

This factor is crucial, as if you are an expat living in residence in another country, you may be eligible to forgo that significant tax deduction.

Protections are in place. Suppose you choose to make a transfer valued at over £30,000 and sacrifice safeguarded benefits. In that case, the transaction must be approved by an appropriately registered pension transfer specialist such as the Chase Buchanan team.

## Part 5 – Transferring a UK Pension to the USA

The Internal Revenue Service (IRS) in the United States and HMRC in the UK both have stringent rules about international pension transfers – although it is possible to transfer a pension fund if it proves to be the most beneficial option for you.

America has a double tax treaty with the UK, so ROPS transfers are permitted.

You cannot transfer a British pension to:

- A 401K plan – a defined contribution retirement scheme where US residents save a proportion of their salary, with various tax benefits.
- An Individual Retirement Account (IRA) – also offering tax advantages and the ability to make pre-tax contributions.

HMRC does not recognise either account as a ROPS.

However, you can draw on a UK pension as a US resident with caveats that not all pension funds will make payments into a US account.

In addition, there are currency considerations with the exchange rate between USD and GBP having a potentially substantial impact on the value of your pension income.

## Part 6 – Transferring a UK Pension to Canada

In 2017, HMRC removed all ROPS schemes in Canada from its approved list due to the pension age regulations differing from those in the UK.

Since then, three pension plans have been permitted, but there are restrictions in that you must be 55 or above to be eligible, and there are a limited number of approved schemes to choose between.

Therefore, many British expats relocating to Canada opt for a SIPP pension fund, although a ROPS transfer is possible, within the caveats mentioned.

International SIPP account transfers mean that the funds do not move, and you can usually access similar benefits as a ROPS account.

The crucial difference here is that you won't need to pay the 25% tax charge, since technically the scheme isn't moving jurisdictions, but there are benefits available, such as:

- Flexible investment options depending on your risk appetite.
- The opportunity to hold investments in either GBP or Canadian Dollars.
- Access to pension income and lump sums over age 55.
- No requirement to take an annuity or pension from the pre-existing UK scheme.
- Freedom of choice over your beneficiaries.
- Options to exchange defined benefits for a cash value after the transfer.

As always, expert advice is crucial before deciding whether an international SIPP is right for you – this will depend on your residency status, other assets, financial plans and retirement aspirations.

## Part 7 – Transferring a UK Pension to a European Country

Each country within Europe will have different pension transfer rules. However, it is possible to opt for a ROPS transfer throughout much of the EU.

The exact rules depend on the country you relocate to.

Note that the specific pension scheme you choose must be recognised as a ROPS by HMRC. If you make a transfer to an unrecognised plan, the UK pension provider may refuse the transaction, or you can be liable for 40% tax charges – or higher.

Now that the UK is no longer part of the EU, the 25% Overseas Transfer Charge may apply.

It remains a grey area. The UK government did not include specific amendments to extend the charge to European countries in the 2021 Budget. Hence, it is vital to seek professional guidance before assuming this tax will not apply.

Some EU countries do not have any current pension schemes on the HMRC approved ROPS list. That includes Spain, Portugal, France and Cyprus.

However, you could opt for a transfer to an approved programme in another EU country and then be liable for taxes based on the regulations in your host country.

There are benefits to opting for a ROPS transfer – although much depends on your tax position, residency status and the pension income tax rules in the country where you live.

Funds held in a ROPS account are not liable for UK tax on income or gains and do not count towards the UK Lifetime Allowance, set at £1,073,100.

If you transfer a pension pot above that limit, you will be subject to a 25% tax, but only on the excess above the threshold.

## Part 8 – Paying Overseas Pension Income Tax

While we've looked primarily at the transfer process, and the options available, it's also crucial to analyse the tax liabilities payable on pension income received in another country.

The exact tax charge will depend on the regulations in your new country of residence.

We've summarised the main pension taxation rules in the most popular relocation destinations below:

## USA

Pension income tax depends on whether you are a permanent resident and whether you receive social security pension payments.

The IRS categorises income as earned and unearned. Unearned income includes pensions, annuities and investment earnings. These types of revenue are usually liable for income tax, although that also depends on the source of the funds.

As a resident, you can claim deductions (equivalent to a personal allowance in the UK), set at \$12,550 for individuals in 2021, or \$25,100 for joint tax filings submitted by married couples, and \$18,800 for heads of households.

Income tax brackets for 2021 are as below:

Tax rate	Married couples submitting joint returns (USD)	Individuals (USD)	Heads of households (USD)	Married couples submitting separate returns (USD)
10%	Up to \$19,900	Up to \$9,950	Up to \$14,200	Up to \$9,950
12%	\$19,901 – \$81,050	\$9,951 – \$40,525	\$14,201 – \$54,200	\$9,951 – \$40,525
22%	\$81,051 – \$172,750	\$40,526 – \$86,375	\$54,201 – \$86,350	\$40,526 – \$86,375
24%	\$172,751 – \$329,850	\$86,376 – \$164,925	\$86,351 – \$164,900	\$86,376 – \$164,925
32%	\$329,851 – \$418,850	\$164,926 – \$209,425	\$164,901 – \$209,400	\$164,926 – \$209,425
35%	\$418,851 – \$628,300	\$209,426 – \$523,600	\$209,401 – \$523,600	\$209,426 – \$314,150
37%	Over \$628,300	Over \$523,600	Over \$523,600	Over \$314,150

## Canada

Your pension income tax in Canada will depend on your residency status. If you receive pension income as a non-resident, you will be liable to a 25% withholding tax calculated against the gross income received.

Residents can claim up to \$2,000 tax-free if the income comes from an annuity, pension, or superannuation plan.

One of the advantages of the Canadian tax system is that you can choose to pay your liability in instalments rather than as a lump sum. The Canadian Revenue Agency (CRA) requires instalment payments if you owe more than \$3,000 in federal income tax or \$1,800 in Quebec.

There are also age credits, calculated based on the lowest federal income bracket – which is 15%.

Note that exact taxes payable on income depends on where you live. Canada sets federal nationwide tax rates as below – you need to add the provincial tax rate to arrive at the total payable.

Canadian federal income tax band (CAD)	Tax rate
Up to \$49,020	15%
\$49,021 – \$98,040	20.5%
\$98,041 – \$151,978	26%
\$151,979 – \$216,511	29%
Over \$216,511	33%



## Europe

The tax payable on pension income varies throughout Europe.

Some countries offer flat rate low tax rates on all pension earnings. Others have beneficial schemes for expat residents receiving foreign-source pensions, and others apply income tax rates according to your band.

As a few examples:

- Spanish pension tax is charged based on your income tax band. This charge varies depending on the municipal rates in the region you live in. The highest tax charge is 54%.
- Malta has beneficial tax rules and is the location of many international pension schemes. Income tax rates extend to 35% on the highest tax band, but there are special tax status schemes with flat-rate 15% tax charges.
- Portuguese NHR expats can qualify for a low flat rate 10% pension tax, depending on whether they have transferred their pension to a ROPS scheme in a neighbouring EU country or are receiving UK pension benefits.
- France taxes pension lump sum withdrawals at a low 7.5% tax rate. You can withdraw all of your pension fund with few limitations – although the scheme itself may have limits.
- Cyprus offers beneficial 5% tax rates for overseas pension schemes. If you have transferred a plan to an EU ROPS scheme, you have an exemption up to €19,500. Above that, tax rates depend on your bracket. The first band starts at 20% with the highest rate of 35% for income above €60,000.

## Part 9 –

### *Investment Alternatives*

Deciding whether to transfer your UK pension scheme overseas, claim the earnings as foreign income, or opt for an alternative investment can have long-term financial ramifications.

So much depends on the tax rules in your chosen country – and whether those taxes are more advantageous to schemes held domestically.

If you become a resident or citizen of a different country, your tax liabilities will also change. We've explored a range of tax regimes, and generally, you will pay income tax on pension income depending on your age, location, and the value of the fund.

As a UK national living abroad and receiving earnings from a British scheme, you will usually pay pension income tax at the source. However, the regulations vary substantially between countries.

Some offer advantages to foreign expats, with zero or minimal tax rates on overseas income. Others will charge significantly higher flat rates, regardless of your income tax band.

It is also essential to recognise that a ROPS transfer is just one of many options.

Earlier in this guide, we talked about SIPP, which are another way to gain investment freedom without being subject to higher transfer taxes.

The correct option for you requires professional advice, assessing your circumstances, plans and total retirement assets to make the most beneficial decision. Professional guidance is crucial before making lump sum withdrawals.

## Part 10 – *Summary*

As we've seen, migrating a retirement plan from the UK to another country comes with multiple considerations.

Chase Buchanan recommends you seek expert advice when deciding whether to:

- Leave your pension in the UK.
- Transfer your pension benefits overseas.
- Combine the two with a partial lump-sum withdrawal.
- Opt for an alternative investment strategy.

While we can't cover the tax rules in every destination in this guide, it's vital to understand the transfer regulations, and whether your new country has any recognised ROPS schemes – or whether a SIPP plan would be a more viable solution.

Benefits paid on retirement can have a profound impact on your quality of life, so it's crucial to explore all the options before making any permanent financial decisions.

Pension transfers don't only impact your ability to make lump-sum withdrawals and the amount of tax you pay but also affect your succession planning.

In some countries, your pension benefits may transfer to a recipient if you pass away. Still, in others, any income you have drawn from a pension will be liable to inheritance tax depending on the time between withdrawals and the estate being distributed.

The legislation also changes, in some cases rapidly. The Overseas Transfer Charge is one example, and the potential extension of this levy will make a big difference in deciding whether to opt for a pension transfer in the future.

If you would like to receive bespoke advice regarding your pension transfer options and expert guidance to help weigh up the pros and cons of each, please contact the Chase Buchanan team.

## MISSION STATEMENT

Chase Buchanan differentiates itself from our local and global competitors by establishing a truly professional organisation that continues to push the boundaries in forward thinking international tax and wealth management solutions.

Chase Buchanan consistently provides world class, international financial solutions and standards of advice and service to our clients. In respect of our approach to client relationships we seek to advise and not simply sell a product. Our aim is to take on each client for the long term and manage their wealth effectively. It is our hope that by doing so we will continue to operate in niche markets and to compete on an equal basis with the larger private banking groups for the attention of wealthier clients.

### THE SERVICES WE OFFER

The primary services we offer are:

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Investments and portfolio management

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Retirement and pension analysis

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UK pension advice including SiPPs/QROPS/ QNUPS

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Stocks and shares analysis

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Savings

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Bespoke specialist tax planning and repatriation planning

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Life, medical and critical illness insurance

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Wills and estate planning

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Property and mortgages

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# Trusted advice made simple

TALK WITH AN ADVISER

+44 (0) 1252 852 045

[info@chasebuchanan.com](mailto:info@chasebuchanan.com)

Chase Buchanan Ltd  
Head Office  
Office 2  
6th Floor  
Panagides Court  
Chrysanthou Milona 1  
Limassol 3030  
Cyprus

T: +357 2501 0455  
E: [info@chasebuchanan.com](mailto:info@chasebuchanan.com)  
W: [chasebuchanan.com](http://chasebuchanan.com)

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