

## The New UK Pension Regime and Expatriates in France

by David Hardy

The new UK pension regime is just around the corner, coming into effect from 6th April. This is a major change for retirees, with the restrictions on how much income and lump sum you can take being removed for defined contribution schemes.

Whether you are resident in the UK or France, everyone should review their pension holdings now to establish how they can best be utilised for their personal circumstances and objectives. This does not necessarily mean that you should make major changes though; it all depends on what you are hoping to achieve, how much risk you are in a position to take, what other assets and income you have and the tax implications. If you are, or will become, tax resident in France, then you need to understand the French tax rules, and the tax traps and opportunities.



If you have a defined contribution scheme and are aged over 55, you are now free to choose how to access your funds. You could continue with income drawdown, so that you receive regular income each month and the balance remains invested. If you have not started drawing your pension, you could start by taking the 25% 'tax free lump sum' (though note that this is not tax free in France), and then start drawdown in the future. You could also choose to make withdrawals as and when you want, of any amount. For those who prefer to take a secure regular income through an annuity, this option remains available.

As previously, you can also transfer into a Qualifying Recognised Overseas Pension Schemes (QROPS), if this proves to be the best move for you. It is also possible to withdraw the whole fund in cash at one go, with no restrictions on what you do with the funds. However, this is a major decision and needs very careful consideration; you do not want to risk your long-term financial security.

Do not forget that every pound you take out of your pension is a pound less sitting in your pension fund which could enhance or protect your future pension income, so think carefully before taking lump sums out to treat yourself.

You should be aware that if you still plan to contribute to your pension, if you use the new flexi access, unless your pension is worth £10,000 or less your annual allowance will fall from £40,000 to £10,000.

This pension freedom does not apply to defined benefit (final salary) schemes. There is an option to transfer to a defined contribution scheme, but this would mean losing valuable benefits.

Another element of the pension reform is that the 55% charge on death is abolished from 6th April. If you are under age 75 when you die, your beneficiaries do not need to pay any tax on the pension funds they inherit from you, whether they take it as a lump sum or income. They will pay tax if you are over 75, either at 45% if they take a lump sum, or at their marginal rate of tax if they take income. The government is considering applying the marginal rate of tax for lump sums too in the future.

This also applies to annuities, but not to final salary schemes.

In France, your pension income is generally added to your other income for the year taxed at the scale rates of tax, so at rates of up to 45%. The first €9,690 is tax free, and private pensions also receive a 10% deduction, with a maximum of €3,707.

You also pay social charges of 7.4% on top, but this is waived if you do not yet have access to the French health system or if you have EU Form S1.

UK government service, civil and military pensions are an exception, as they remain taxed in the UK. They are not directly taxed in France, but you still need to declare the income. It is included in the calculation of your taxable income and a credit equal to the French income tax and social charges that would have been payable is given.

Large one-off lump sum payments from overseas pension funds are now generally taxed at 7.5% in France, plus the 7.4% social charges (unless you have Form S1 or if you do not have access to French health system). This is a relatively low rate of tax, and is of particular interest now that the UK pension regime gives you freedom to take large lump sums. This can present tax planning opportunities, but it is a complex area and you need to take personalised, specialist advice.

This applies for all your pension options. Since for most people your pension savings are essential for your long-term financial security, it is really important that you explore all the available options now and understand how they affect you personally, before you decide what the best route is for you.

Pensions are a highly specialist and complex area, with different rules for different types on pensions, so professional guidance is essential.

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