



UK PENSIONS/EXPAT TAX ASPECTS

Auto-Enrolment (General Principles).

Auto-enrolment obliges employers to enrol all workers who ordinarily work in the UK into a pension scheme and make contributions towards the employees' pension as long as the following criteria applies;

- The employee is classed as a 'worker' who is usually ('ordinarily') working in the UK
- The employee is at least 22 years old, but below the state pension age
- The employee earns at least £10,000 per year

Should the above conditions apply, the total minimum auto-enrolment contribution is 8% (3% of which being employer contributions). These contributions are based on pre-tax earnings, and on the qualifying earnings band which for 2020/21 is pre-tax employment income between £6,240 and £50,000. Tax relief is also received from the government on an employee's pension contributions at the individual's marginal rate of tax.

Employees can decide to opt out of a pension scheme after a month of being enrolled by giving their employer an opt out notice which is typically provided by the pension scheme. Subsequently, all contributions made by the employee must be refunded back to the individual within a month of them opting out.

Pension contributions – UK inbounds

Under the Pensions Act 2008, every employer in the UK must put certain staff into a workplace pension scheme and contribute towards it. Whilst most UK inbounds will fall under these rules, some UK inbounds may however wish to retain their overseas pension contributions. Under certain conditions and depending on the nature of the overseas pension scheme this might be permitted. However, the UK pensions regulator would need to be notified of this arrangement. As with a typical registered UK pension scheme, if this arrangement is approved, it would be possible for the employee to obtain tax relief in the UK, based on the overseas pension contributions made.

Pension contributions – UK Outbounds

The default rule for non-UK residents is that they are not allowed to obtain relief from or make contributions to a UK pension scheme. However, if an individual was UK resident in one of the previous 5 tax years, and at the time of residence, became a member of a UK registered pension scheme, they would be regarded as a UK relevant individual.

The amount of relief available on a UK relevant individual's contribution is restricted to £3,600 gross or 100% of their UK relevant earnings. UK relevant income includes (but is not restricted to), employment income and self-employed income. Rental income, however, is not regarded as a UK relevant income.

Annual Allowance and Pension Charge

From 6 April 2020, the threshold income and adjusted income for pension purposes has been increased from £110,000 to £200,000 and £150,000 to £240,000 respectively. Consequently, individuals with adjusted income of up to £240,000 would be entitled to the full £40,000 annual pension allowance. This is welcome news for individuals with adjusted income in the region £150,000 to £240,000, who under the old rules could have seen their pension allowance tapered down to just £10,000. However, for individuals with an adjusted income greater than £240,000, the annual allowance would be tapered such that £1 of the annual allowance is deducted for every £2 over the adjusted income threshold. The annual allowance can be tapered down this way to just £4,000 for individuals with earnings greater than £312,000. Contributions greater than an individual's annual allowance would trigger a pension tax charge at 45% for the taxpayer.

How we can help.

At James Cowper Kreston, our specialist global mobility tax team can offer a wide range of assistance to ensure your employee population are not only compliant with the UK pension regulations, but also the pension regulations in overseas jurisdictions from both an employer and employee perspective.

We can also assist by reviewing the current pension contribution arrangements for your employee population who could potentially be affected by the legislation change in the annual pension allowance, and assess if these individuals have any unutilised annual allowance which could be carried forward to mitigate against any potential tax charge.

If you would like to discuss your UK reporting obligations in relation to any of the above, please get in touch with your usual contact at James Cowper Kreston or contact one of our Global Mobility Tax team below.

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