

QROPS GUIDE

Introduction

If you have a UK pension fund, whether in a personal pension or a previous employer's pension scheme, then unless you have already secured income from the fund by way of an annuity, there are opportunities open to you as an expat which are not available to those who remain in the UK.

The pension fund of the UK resident may be frozen and inaccessible but yours as a UK non-resident could on investigation be de-iced providing you with huge financial benefits such as improving the investment growth, flexibility and future security of your pension.

As mentioned previously, **QROPS** is the abbreviated form of Qualifying Recognised Overseas Pension Scheme. This was introduced after April 2006 when legislation enabled individuals with UK pensions who are, or will become in the future, UK non-residents for tax purposes, to transfer their UK pensions to a **QROPS** and thereby take advantage of the tax savings and investment advantages both directly and upon death. These **QROPS** must be approved by the HM Revenues and Customs. A list of such schemes can be found at the [HMRC website](#). **GlobalPensionPlan.co.uk** will only ever help you transfer to **QROPS** providers that are 100% approved by HMRC. We will advise you as to the best option to enable you to achieve your financial goals.

About QROPS

Whilst many schemes have claimed to be able to move a UK based pension offshore, until now it has not been possible to do this legally and with the permission of the UK tax authorities. This has been primarily because, in return for the tax-relief an individual receives on their pension contributions, the Revenue is expecting to tax the income they receive when the compulsory annuity is purchased; and then take any residual value on their death! Another reason was the Revenue was trying to stop pensioners spending all their money in the first 5 to 10 years of retirement and then relying on receiving benefits from the state.

A **QROPS** is a pension scheme set up outside the UK that

1. is regulated as a pension scheme in the country where it is established and
2. must be recognised for tax purposes in that country where it is established.

A **QROPS** is structured similarly to a UK pension i.e. there is an investment vehicle which is owned on your behalf by a pension administrator (trustee). This trustee must be based outside the UK and approved by HMRC as a **QROPS** administrator. The trustee overseeing the transfer of the UK pension to a **QROPS** must report to HMRC information regarding the taxation of the individual if they were resident in the UK for tax purposes during the previous 5 complete tax years. This information will include:

1. The transfer of the **QROPS**
2. Benefits paid out e.g. lump sum payments, income payments and death benefits.

However, after the pension has been transferred to a **QROPS** and you have been a non-UK resident for 5 complete tax years there will no longer be any obligation for the trustee to report to the HMRC.

QROPS Advice

QROPS is a specialist subject and requires real expertise. There is so much confusing information available and complex pensions law to understand that the key advisory skill is being able to apply it **correctly** to your particular case and with regards to what you wish to achieve. A **QROPS** advisor has to have a wealth of knowledge and experience about all matters relating to **QROPS**. We comply fully with all local and UK regulations in all offshore pension matters. We can show you what is on offer and give you our recommendation but ultimately the choice is yours. We know how important your pension is to you, as you have been saving all your working life for it. Therefore, we take our position as advisor very seriously and always give a professional, reliable and efficient service.

The actual **QROPS** providers are not taking applications direct from clients but only handle applications from independent pension advisors to ensure that the client has taken professional advice. Our advisors have been pioneers in the expat pension industry and this experience has enabled us to select different **QROPS** alternatives based on the varied needs and ages of clients. There are literally hundreds of **QROPS** providers and through research we work with just a few which in our experience offer clients the best security and choice.

The pension market in the UK is extremely tightly controlled and **GlobalPensionPlan.co.uk** work with only specialised UK pension consultants who are regulated in the UK. This means clients will receive unbiased, expert and independent advice to make sure that the pension is only transferred, if it is, in your best interests. We can also provide you with qualified advice and support in picking suitable investments or property for your pension should you decide to transfer it out of the UK. The ability to 'free up' your pension could be a huge benefit to you. Below is an example of what some clients have used these monies for:

- **Repay a mortgage**
- **Free up funds to buy a holiday home**
- **Help your children with university or school fees**
- **Set your children up on the property ladder**
- **Help purchase a 'Buy to Let' property to support you in retirement at home or abroad**
- **Pay medical expenses/operations if you are in poor health**
- **Provide you with a higher income than an existing pension**
- **Give you control of where your pension money is invested**
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QROPS Benefits

QROPS benefits are more attractive to normal UK pensions and SIPPS whilst enjoying living abroad at the same time. In general, there are two separate markets: The short term market and the long term market.

- **Short term market** - is often, but not always for those with smaller pension funds from as little as £10,000. Sometimes these clients are people who are desperate to release capital from their pension fund to tie them over a difficult financial period. This market takes us to the New Zealand **QROPS** which are nearly always misrepresented and misunderstood by other advisors. Our advisors have read the relevant UK and New Zealand law, met the providers there and their legal advisers and have been instrumental in having discussions opened up between the New Zealand authorities and HMRC. The New Zealand Government Actuary, David Bension, received written advice from the HMRC that KiwiSaver schemes can accept **QROPS** transfers. The UK tax department's written advice says: "As contributions by members to New Zealand pension schemes do not attract tax relief I confirm that we do not need to add a regulation, such has been necessary in Australia, for pension schemes in New Zealand (both KiwiSaver and Superannuation schemes) to meet the conditions to become **QROPS**." Therefore, New Zealand schemes have had their **QROPS** status confirmed again by HMRC.
- **Long term market** - this is generally for those who have substantial pension funds exceeding £150,000. Often their objective is to have more control of their pension so they can have a say in where the money is invested. Clients are also keen to use a QROP to save income tax and to be able to leave their pension when they die to their families rather than the insurance company or government. A QROP can also help with Inheritance tax planning and is ideal for clients if they have any health issues as it protects the value of the pension for any spouse or children. This market takes us to Guernsey schemes and the Isle of Man.

Benefits include:

- **A tax free lump sum may be available.**
Depending on the jurisdiction of the **QROPS** you choose, it is possible to access 100% of your pension as a one off lump sum and avoid the need to buy an annuity. This is often for those who are near desperate with smaller pension funds. Releasing capital from their pension fund may enable them to pay off mortgage arrears, clear credit card debt or even have their electricity switched back on in one client's case.
- **There is no compulsion to purchase an annuity before the age of 75.**
These annuities are very unpopular in the UK with both pensioners and the press as they offer poor value and no real returns on what the pension had to invest. Also, this income is taxed in the UK even if the pensioner does not reside there. However, by transferring your pension into a **QROPS**, there is no need to purchase an annuity or Alternatively Secured Pension which leaves the individual free to explore all the options with the released benefits.
- **There is no lifetime charge to pay.**
There is a limit on the value of retirement benefits that you can draw from approved pension schemes before tax penalties apply. That limit is called the Lifetime Allowance. The Lifetime Allowance is £1.8m in the 2010/11 tax year. Therefore if the value of the retirement benefits is in excess of £1.8m in the 2010/11 tax year, then a recovery or tax charge would be due on the amount of the excess. The Lifetime Allowance has been reduced to £1.5m for the 2012/13 tax

year so it may affect more pension holders. However, **QROPS** are exempt from LTA charges and any penalties from breaching the threshold.

- **All unused pension funds can be left to your heirs after death without any tax being deducted.**
As there is no requirement to purchase an annuity with your pension fund, when you die or your spouse dies, the remaining fund/investment can be passed on to dependents free from taxation (depending on the tax rules that apply in your country of residence) rather than to the UK government. There are huge advantages to be made with regards to Inheritance Tax Planning (IHT).
- **If the country where the QROPS has been established taxes pensions at a minimal rate then this can be more tax efficient.**
As the scheme does not have to be established in the country where the pension holder lives, the low tax rates (typically under 2.5%) of the country where the scheme is established is favourable to pension fund growth. This also means that the pension holder may move from country to country without having to transfer the pension. As pension benefits are counted as income in your country of residence at the time of receiving it, you may be liable to income tax.
- **More freedom in the type of investment of your pension.**
As there is no compulsion to purchase an annuity, you have the choice to invest the money in an offshore bond, a capital protected offshore instrument, commodities or even to purchase property with the rental income providing a possible higher yield than you would obtain from an annuity and an opportunity of a capital gain as well. Some types of investments are still subject to HMRC rules, so you need expert advice regarding the possible investments.
- **Income and benefits in the currency of your choice.**
The **QROPS** can be set up in one country while the holder lives in another country thereby allowing the pension to grow in a low tax jurisdiction but the benefits to be paid out in the currency of your choice in another country with low income tax rates.
As the pension income is paid gross in the currency of your choice, there are no currency exchange rate fluctuations to contend with thereby allowing your income to have the same spending power.
- **Minimum age benefits can be taken is 55.**
Since April 2010 the legislation has changed so that the minimum age that benefits can be taken is 55 (previously it was 50) providing that you have been a non-UK resident for a minimum of 5 complete years. However, it is possible in certain circumstances to take benefits before you reach this age.

About Taxation

Transferring your UK pension to a **QROPS** can mean a tax-free pension and tax-free payments depending on the taxation jurisdiction. This means that no UK income, capital gains, inheritance or death duty tax will apply.

- **Tax free lump sum**
25% of your total pension fund is available tax free, subject to the taxation rules of your country of residence. Benefits such as the release of a capital sum may be available before the age of 55. This is due to the fact that once the **QROPS** member has been a non-UK resident for more than

five complete tax years, then the income may be available at more beneficial levels subject to the discretion of the **QROPS** trustees.

- **Income Tax Liability**

A UK private pension allows an individual to take up to 25% lump sum of the total fund from the age of 55 and then a monthly or annual payment of between 0% and 120% of the limit set by the Government Actuaries Department (GAD). This is normally 120% of the equivalent annuity. A UK Company pension takes the form of a set monthly income once the lump sum has been taken. This income will normally have some degree of inflation linked increases and a reduced pension payable to the surviving spouse or dependant of the scheme's member following their death.

In the UK the 25% lump sum is tax free **but the pension payments are taxable as earned income.**

By transferring your UK pension to a **QROPS** through **GlobalPensionPlan.co.uk**, we can ensure that if there is any income tax liability on your pension income, then it will only be due in your country of residence. Residents of Spain and Portugal receive a beneficial tax treatment of that income for example. However, **in most cases, it will qualify as a tax-free pension** as no tax is payable in those countries where a double taxation agreement has been established with HMRC. This then avoids a double taxation issue which will only apply should you return to the UK as a resident. You therefore need expert advice with regards to the taxation laws in your country of residence and the subsequent impact on your taxation issues. These can be clarified when discussing your pension transfer and tax-free pension issues.

- **Capital Gains Tax Liability**

There is no capital gains tax liability on any gains made through your **QROPS**.

- **Inheritance Tax Liability**

If the UK private pension scheme member dies before the age of 75, leaving this fund for the benefit of a surviving spouse or dependant, then the fund is treated in one of two ways:

1. If the fund has not yet been used to trigger benefits, the surviving spouse or other dependant (or any other person who has been nominated to receive the fund by the deceased scheme member) receives the fund with no UK tax to pay.
2. If the fund has been used to trigger benefits, the surviving spouse or other dependant has the following choices:
 - a) purchase an annuity:
 - b) continue with the existing arrangement:
 - c) or take the entire fund as a lump sum less a 35% tax charge which cannot be avoided.

If the UK private pension scheme member dies beyond the age of 75, then the surviving spouse or dependant (where an annuity has not already been secured) has two options:

1. To buy an annuity or
2. To continue with the existing arrangement and draw an income from the fund.

Following the death of the surviving spouse or dependant:

- If an annuity had been secured by the survivor, then this will die with them.
- If the surviving spouse continues with the existing arrangement and subsequently dies prior to age 75 and the fund is inherited there would be a tax of 35%.

- If the surviving spouse or other dependent continues with the arrangement without buying an annuity and subsequently dies after age 75 and the children (say) inherit the fund there would be "unauthorised payment" charges (in simple terms tax) at the rate of 70%.
- The balance of the fund would, where applicable, be subject to UK inheritance tax bringing the total tax take to up to 82%.

In the case of a **QROPS** there is simply no 35% or 70% tax charge as would otherwise be applicable. The whole fund can be passed on tax free, and in addition the fund is not subject to UK inheritance tax. The fund can be paid as a lump sum on death to the surviving spouse or other dependent or be used to provide an income. The key point is that whatever method is used to provide benefit following death no UK tax liability arises. For many this is the single key point that makes a **QROPS** so overwhelmingly attractive for the long term expat as compared to a UK pension scheme.

About Investments

UK private pensions are subject to various investment restrictions. However, after five complete tax years of being a non-UK resident, the QROPS will be subject to lesser restrictions and in some jurisdictions effectively no restrictions at all. So it is possible to obtain much more investment freedom than is available with a UK private pension. For example it may enable the purchase of residential property with the QROPS fund.

GlobalPensionPlan.co.uk will give you advice on how and where to invest your funds for the best to maximise your return through your overseas pension. There are many placement options open to you and your advisor will ensure the best return for you through the various trusts, portfolios and investment platforms available. Some investment options available are as follows:

- Cash accounts.
- Gilts and bonds.
- Shares (equities).
- Unit trusts, Investment trusts, OEICs, Exchange traded funds, etc.
- Life Company Offshore Bonds
- Investment Property
- Discretionary Investments (where you have already decided on the investment allocation)

Frequently Asked Questions

Who may apply to transfer their pension into a QROPS?

Anyone who has been living overseas for 5 years or more and who has a UK onshore pension scheme may apply. Individuals who have not been offshore for 5 years can also apply for a QROPS if they are sure they not going to return to the UK within 5 full tax years of leaving. Most of the schemes are not available to US citizens and there can be problems with US residents. However, any other nationality may apply.

How do I know if it is a legitimate scheme?

You may check it is recognised on the HMRC website.

When can I take the pension benefits?

Technically, you can take the benefits from the day of transfer. Usually, benefits will be taken between the ages of 55 and 75 but it can be possible to access funds before or after these ages. However, virtually all of the investment vehicles will have a minimum term of 3 years. It is important to point out at this point that the money being transferred has been set aside for your retirement and we would strongly recommend leaving the money in the QROPS until you reach retirement.

Are there any taxation implications on the transfer?

A transfer of a registered pension scheme to a QROPS is a Benefit Crystallisation Event (BCE). This means it will give rise to an additional income tax charge where the transfer exceeds the individual's lifetime allowance. Currently, this allowance is set at £1,800,000.

Can I return to the UK after taking the benefits?

Yes, you can return without prejudice. However, to ensure there is no taxable event, we would recommend staying offshore until the next tax year begins.

How long will a transfer to a QROPS take?

Most transfers can take 3 months.

Are there any circumstances in which I shouldn't transfer to a QROPS?

Yes, there are. If you have guaranteed annuity rates set many years ago when interest rates were much higher, this may be one situation that would need careful consideration. Our advisors can advise you if it is not beneficial to transfer to a QROPS.

Can I organise a QROPS myself?

No. QROPS providers will only take pension transfers through their appointed intermediaries.

Can I make additional contributions to my QROPS?

Yes, depending on the investment vehicle being transferred to.

I am interested in transferring my UK pension to a QROPS. What do I do next?

The process is initiated by completing and signing an "Authority Letter" enabling us to request information from your current pension scheme provider and providing us with some information so that our advisors are able to give you the most appropriate and accurate advice to your personal situation. Either complete our enquiry form on the website or email info@globalpensionplan.co.uk.