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It seems like an eternity since QROPS became available back in April 2006. Four years on prospective client now have plenty of schemes and jurisdictions from which to choose.

The choice for most people is from schemes operating in jurisdictions which are open to both residents and non-residents. The main markets for QROPS transfers are:

- Guernsey
- Isle of Man
- Gibraltar
- New Zealand

Malta will soon come on stream as well. We have not included Hong Kong as there are only 10 active schemes on the HMRC list and those are mainly occupational ones.

Here we assess these main jurisdictions and consider:

- benefit flexibility for members who have been non-UK resident for at least five complete tax years;
- investment flexibility;
- taxation;
- costs;
- ease of transfer in and out.

■ Benefits for life

The key advantage of a QROPS when compared with a UK scheme is not having to buy an annuity by age 75. The jurisdictions on our list allow the fund on death to pass to nominated beneficiaries with no UK inheritance tax (IHT) liability.

Maximising benefit flexibility may require an onward transfer to a non-QROPS mirror scheme. This is possible without tax implications if the QROPS is non-investment regulated.

Most Guernsey QROPS have confirmed non-investment regulated status. Gibraltar, the Isle of Man and New Zealand QROPS, as well as those from Malta, generally meet this condition. Guernsey QROPS may allow access before age 50 (55 from 6 April, 2010) as a



Ticking all the

With a number of jurisdictions now offering QROPS, David Piesing and Premier Pension Solutions' look at their respective benefits to reveal which

loan of up to 25% of the fund. Trustees can allow flexibility through a temporary annuity. Full commutation remains possible where the fund is small.

New Zealand schemes are not subject to the 70% income for life rule because of how they navigate the HMRC QROPS conditions. This allows capital payments from the fund. The lump sum from Isle of Man schemes is up to 30% of the fund. Guernsey (currently restricted to 25%) is expected to match this figure soon. Maltese schemes restrict lump sums to 25%, as do Gibraltar's.

■ Investment path

All jurisdictions offer investment flexibility. Member-

directed investment is generally avoided as schemes might otherwise be considered investment regulated with indefinite reporting to HMRC. Some schemes have allowed investment in residential property yet surprisingly still claim they are not investment regulated with no tax charge arising.

For the majority, traditional forms of investment are sufficient. More exotic choices are best delivered in a non-QROPS, such as a Qualifying Non-UK Pension Scheme (QNUPS), having received a transfer value from a QROPS without triggering an unauthorised payments charge after completion of the five-year non-residency period by the scheme member.

IA KEY POINTS

Gibraltar is regarded as expensive.

Malta has potential and a double tax treaty network.

New Zealand has the most flexible benefit regime.



boxes

QROPS, Praxis Fiduciaries' Stephen Ward take a look at which one comes out on top

■ Taxation issues

The fund accumulates free of tax (except tax deducted at source on some dividend income) in all countries on our list except New Zealand. Fund taxation rules in New Zealand are complex, and are made on a comparative-value basis or assuming a 5% pa 'fair return', with the calculation of asset valuations required in NZ\$. But the government is expected to announce it is exempting pension funds.

Isle of Man schemes deduct local tax on pension income, typically at 18%. This creates issues unless the Isle of Man has a double taxation treaty with the country where the member is resident. For example, a Spanish resident can

neither offset nor reclaim Isle of Man tax deducted. On death, it applies a 7.5% IHT charge with a £100,000 cap.

■ The cost of QROPS

There is great variation between schemes and jurisdictions, and between providers within jurisdictions. However, there are two main models:

- A packaged QROPS product with a menu of pre-approved investment funds and management houses. These are available in Guernsey, Isle of Man and New Zealand. Some claim to be fee-free. This is achieved through retrocession commissions which are at best only partially disclosed. In a new era of transparency and commission disclosure, it is hard to see how these schemes will be able to be marketed as such in their current form.

- A transparent one-off setup fee and an annual fee, sometimes accompanied by a service-driven fee menu. This is found in all jurisdictions except New Zealand.

Some Isle of Man schemes can appear to be slightly cheaper than Guernsey ones, but the menu approach requires careful comparison. Some Gibraltar schemes seem comparatively expensive but volumes are currently small.

Maltese schemes are expected to be priced at Guernsey levels. In New Zealand, where the fund remains in place for the longer term, scheme pricing can involve an annual charge of around 1.65% but no setup charge.

■ Ease of transfer

A look at both directions of transfer is important because personal circumstances can change. UK schemes give members the right to transfer, while overseas schemes do

not. The transfer experience can vary from simple to horrific, although whether that is down to the jurisdiction or the provider is arguable. UK schemes can be freely transferred to any overseas scheme which is registered with HMRC as a QROPS.

QROPS providers in all countries generally deal well with the transfer process, which takes anything from a few weeks to several months. Transfers out of QROPS can be expensive. Some schemes apply seemingly punitive exit fees even though their service may have fallen short.

In addition, some QROPS do not state at outset a freedom to transfer out to QROPS in other jurisdictions, even where such transfers are expressly permitted by local law and by the tax authority of the existing scheme, and the new scheme is able to accept the transfer.

■ Conclusion

So which is the best jurisdiction for QROPS? Gibraltar is regarded as expensive, while the jury on Malta – a brand new entrant to the market – is still out, though it has considerable potential and an excellent double tax treaty network.

New Zealand has the most flexible benefit regime, but distance complicates the transfer process and the fund is taxed in a way which includes exposure to currency risk. The Isle of Man can be relatively low cost, but has an irritating exposure to local taxation which has deterred many potential users.

Guernsey ticks all the right boxes, and has sought HMRC input and guidance to prevent potential abuse by its sizeable community of QROPS providers. Ongoing dialogue with HMRC has benefited its status as arguably the world's leading QROPS jurisdiction. **IA**

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Guernsey is a leading jurisdiction for the provision of QROPS and enjoys a number of advantages that make it a key location for taking out such a scheme

A closer look at Guernsey

No matter whether you are advising expatriates, those considering moving abroad or it is your personal position, then it will be well worth considering the advantages of QROPS and in particular the specific benefits that schemes from providers in Guernsey can offer.

What is a QROPS?

Her Majesty's Revenue & Customs (HMRC) introduced a series of changes to the UK pensions system from 6 April, 2006 – known as 'A Day'.

The overhaul included withdrawing the existing agreements for the transfer of UK pension rights to overseas schemes and meant that, in effect, this would only be possible if the receiving scheme was recognised by HMRC as a QROPS.

While an individual is resident in the UK or has been for any of the past five complete tax years, the QROPS rules require benefits to be paid in line with those which could be paid if funds were still held in the UK scheme. But once a person has migrated and ceased to be a UK tax resident for five full UK tax

years, then it is the rules of the QROPS in its place of registration that apply.

Guernsey QROPS

What does a QROPS in Guernsey offer?

- Pension income paid gross without the deduction of Guernsey income tax.
- No Guernsey income or capital gains tax on the assets within the scheme, i.e. gross roll up.
- Increased freedom of investment choice.
- No limits to the value of the fund which can be accumulated.
- Optional lump sum – up to 25% and tax-free.
- Flexibility of benefit drawdown.
- No requirement to purchase an insurance-based annuity (although may do so).
- Ability to avoid potential negative financial implications of an alternatively secured pension (ASP) or an unsecured pension (USP).
- Ability to leave residue of fund to named beneficiaries.
- Able to receive protected rights from UK-registered

pension schemes.

- May be used to receive transfer values from any UK-registered pension scheme even where it is in drawdown, subject to certain conditions.

Offshore leader

Guernsey is a leading jurisdiction for the provision of QROPS.

- Offers security by being proactive in ensuring that its schemes continue to be approved by HMRC.
- Bespoke personal pension regime – including retirement annuity trusts (RATS) – for 25-plus years.
- Pension schemes are approved by Guernsey's income tax director.
- Experienced service providers offer a variety of investment models with some providing for a choice in investment manager and/or an open architecture that allows the most diverse of investment choices.
- Trust practitioners that are well regulated by the Guernsey Financial Services Commission (GFSC).
- Features on the OECD 'white list' published at the conclusion of the G20 summit in London in April 2009.

International pensions

Guernsey is also a natural home for international pensions. The island hosts many experienced service providers offering attractive products in this market.



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