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QROPS – What do advisers need to know?

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For clients moving or living abroad, UK pension benefits can be neatly transferred to a tax neutral QROPS in a well regulated jurisdiction, such as Guernsey, although QROPS may not be suitable if their intention is to return to the UK at some point in the future.

QROPS – the benefits

- Simplification of your personal tax position.
- Having been absent from the UK for 5 tax years or more the member should no longer be subject to UK tax on pension payments thus reducing the paperwork related to HMRC reporting requirements.
- Choice of currency for investments and subsequent income drawdown.
- On completion of the transfer members are no longer subject to the UK Lifetime Allowance Charge.
- Increased investment flexibility – a wide range of investments can be used, including cash, bonds, equities, investment funds, hedge funds, life insurance and structured products, although trustees will need to approve specific investment recommendations.
- No requirement to buy an annuity contract at any time during the life of the scheme.
- Potential freedom from inheritance tax.
- Moves a major asset out of the UK – helps establish non residency.

QROPS schemes must be approved by HMRC and since 2006 new legislation has allowed individuals leaving the UK to export their pension savings. Many jurisdictions have approved QROPS schemes, but great care needs to be taken with the selection process.

Jurisdictions

Not all jurisdictions recognise a QROPS; language barriers can make communication channels difficult and there could also be concerns over the credibility of local service providers. As a highly regulated Financial Services jurisdiction Guernsey offers schemes that are well established with English speaking experienced, qualified staff and, under local rules can provide a tax neutral solution to pension needs.

Guernsey is renowned around the globe as a mature, well established international finance centre and has a long history dealing with QROPS transfers rules and regulations

Following a review, prompted by dialogue with Guernsey, HMRC introduced the QROPS rule that a pension must always use at least 70% of the fund to provide retirement income. Certain jurisdictions have abused these rules and 'pensions busting' has been evident, which has resulted in disqualification of these jurisdictions as QROPS providers.

As HMRC have looked more closely at QROPS arrangements in certain locations, Guernsey's tax authorities have maintained an open dialogue with HMRC to ensure service providers follow appropriate rules.

A Guernsey QROPS member must:

- retain 75% of the fund value to provide a retirement income,
- not be able to draw benefits before age 55 and must commence draw down by age 75,
- take a properly valued drawdown, with reference to GAD annuity rates, but with no requirement to buy an annuity, and
- adhere to the investment restrictions set out in Guernsey's published notes on its retirement annuity trust schemes

If funds are transferred into an alternative scheme, that transfer must be either to a scheme which itself has QROPS approval or is bound by rules that meet HMRC requirements.

Transfers can be made in to a QROPS from most UK Pension schemes in cash or through in specie transfers of investments. These transfers are considered a Benefit

Crystallization Event so will be tested against an individual's lifetime allowance at the time of transfer.

Having been non-UK resident for 5 tax years or more, if local pension rules allow, there are certain other flexibilities a Guernsey scheme can offer; one of which is to take the 25% tax-free lump sum allowable in tranches, this will be of a particular benefit to those members who want to ease themselves into retirement over a period of time.

Guernsey tax legislation means that non-residents with a Guernsey QROPS do not have any tax deducted from pension payments. However, members may have to pay tax in their country of residence depending on their personal circumstances and the tax rules of that jurisdiction.

And finally, for non-Guernsey residents who have not purchased an annuity, on death any assets remaining in the pension scheme will be available to:

- Provide a pension for a spouse or dependents, or;
- Pay a lump sum to nominated beneficiaries, or;
- Transfer to an approved pension scheme for the benefit of nominated beneficiaries, or;
- Pay the remaining funds to the Estate.

This offers a considerable degree of flexibility for Guernsey QROPS members to see future value from their lifetime pension savings.

A final reminder

To recap – for those individuals that intend to leave the UK permanently, a transfer of their pension to a professionally administered QROPS offers a wide range of additional benefits and flexibility; BUT beware less reputable jurisdictions and providers – if it looks too good to be true it usually is!

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