

Have you packed your pension properly? A guide to QROPS

A Guest Article by Simon Bonnett
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Pension plans and The Great Escape

The financial services industry loves an acronym and one of the newest is QROPS, or a Qualifying Recognised Overseas Pension Scheme. More and more people are retiring abroad each year, and if you are thinking of doing the same you need to consider the issues surrounding QROPS.

Although there has always been the facility to transfer UK pension benefits overseas, in the past this was a complex issue requiring individual consideration for each scheme and often a translation of the receiving scheme's rules.

However, since April 2006 the process has become a whole lot simpler with the introduction of QROPS, which are now the only schemes approved by HM Revenue and Customs (HMRC) that allow you to move a UK pension offshore, enabling you to benefit from international pension rules.

Specialist advice is crucial

Since any other type of transfer of pension funds overseas can now be treated as an "unauthorised payment" and taxed at up to an eye-watering 110%, it is crucial for anyone contemplating such a move to seek specialist advice to ensure it is handled correctly.

QROPS accepts transfer of funds from a UK-registered pension scheme, including funds built up from contracting out of the second level of state pension.

It is important to understand that QROPS are subject to the pension legislation in the country in which they are established. Alternatively, they can be established in the European Economic Area (EEA), as opposed to an individual country, as long as certain rules are met. These include:

- At least 70% of a member's fund must be used to provide an income for life.
- Benefits cannot be taken any earlier than normal retirement age.

Who will benefit from QROPS?

So, to whom would QROPS appeal, and why? The increasing number of UK residents who are living and retiring abroad, and internationally mobile employees who intend to retire to another country in the future, are the biggest potential market for QROPS. Non-UK residents who are working in the UK also stand to benefit.

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What makes QROPS attractive is that after the member has five completed tax years living abroad, the QROPS no longer has to report back to HMRC and the pension benefits then become subject to the rules of the QROPS and, more specifically, to the pension legislation in the jurisdiction concerned. If these rules are less strict than in the UK, there could be distinct advantages to the canny QROPS member, such as a greater amount of cash available with little or no tax liability.

Profits and pitfalls

Other potential benefits of QROPS are that you could avoid the type of restrictions imposed in the UK on the amount of income you can take in retirement, although be aware that the principle of using the fund to provide a lifetime income still applies. Nevertheless, it is possible with a QROPS to avoid compulsory annuity purchase and pass your pension fund on to your beneficiaries with minimal liability to inheritance tax.

On the downside, many QROPS impose some restrictions. For example, some unsurprisingly require an individual to be resident, or at the very least to be working, in the country into which they are transferring their pension benefits. In such cases it is important that your residence or employment status is bona fide, otherwise you could find yourself falling foul of the UK tax authorities.

However, other QROPS are more flexible and do not impose these conditions, meaning there is not necessarily any link between where the member lives or works and the geographical location of their QROPS. In such cases members can choose tax-friendly jurisdictions that have more flexible rules for how benefits can be taken.

You also need to consider the tax rules in the country of your QROPS; another reason why it is crucially important to take specialist advice.

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If you would like more information on any of the points covered in this Guest Article, please contact **TCii** on **020 7099 2621**.