QROPS – Qualifying Recognised Overseas Pension Schemes

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!

However, in April 2006, it was announced that British expatriates could move their pension benefits to a QROPS with the Revenue's approval. The final details of this have only just become clear.

The rules of the scheme must be broadly equivalent in terms of treatment, to a UK registered pension scheme and the QROPS trustee must provide Her Majesty's Revenue & Customs (HMRC) with information on certain "events". They key difference is that a QROPS can be transferred to a pension scheme in a more favourable jurisdiction and once the individual has been offshore for 5 years taking pension benefits via a QROPS can have huge benefits:

Firstly, if the pension is transferred to certain jurisdictions, the individual can take 100% of their pension's value as a tax free lump sum at any time after the age of 50 (this increases to 55 for any transfers which have not been completed by April 2010). This is without the compulsion of purchasing an annuity.

As there is no compulsion to purchase an annuity, the individual is free to do whatever they want with the released benefits. Some may choose to hold the money in a high interest offshore bank account which returns more than an annuity and is tax free whilst they are resident outside Europe. Others may choose to invest the money in an offshore bond or capital protected offshore investment with the view of getting even better returns. Others may use the money to purchase a property with the rental income returning more than an annuity would and with the potential of some capital gain as a bonus! Then, on the individual's death, the value of the bank account/investment/property passes to their loved ones rather than the Chancellor.

What is a QROPS?

A QROPS is a recognised overseas pension scheme that meets certain requirements. The rules of the scheme must be broadly equivalent in terms of tax treatment, to a UK registered pension scheme and the scheme manager must provide HMRC with information on certain 'events'.

However, if the QROPS is administered in a country where there is no stipulation on how retirement benefits are taken, it is possible to transfer the benefits to an international pension where 100% of the pension's value can be withdrawn after the age of 50 (or 55 from April 2010) without any tax liability.

How are QROPS structured?

A QROPS is structured in a similar manner 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.

Through the investment vehicle you can access a wide range of cash, bond, property, hedge funds, equity and commodity funds – and switch between these funds as market conditions change.

Who can move their pension into a QROPS?

Anyone now living overseas and who has a UK 'onshore' pension scheme. As such, this scheme applies as much too any other nationality who has worked in the UK, as to British expatriates.

My pension has a large proportion of Protected Rights – can I move these into a QROPS?

Technically, yes. However, in many circumstances it may be advisable not to. Protected Rights often have far more favourable terms than standard pension benefits so we would strongly recommend speaking to us before transferring Protected Rights. If an individual does decide to transfer Protected Rights, disclaimers will need to be signed to confirm the policyholder understands the potential implications.

When can I take the pension benefits?

Technically, you can take the benefits from the day of transfer. However, virtually all of the investment vehicles will have a minimum term of 5 years (unless you have less than 5 years to retirement). It is important to appreciate 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.

What is the minimum transfer I can make into a QROPS?

There is no minimum level. However, it may not be efficient to transfer a single smaller pension into a QROPS. We can advise you on the most efficient vehicle based on the size of your pension 'pot' and the length of time you have until you retire.

Can I make additional contributions to my QROPS?

Yes – depending on the investment vehicle being transferred into.

Is there any taxation 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.

Anyone with a pension fund larger than the current lifetime allowance who is contemplating such a transfer should obtain specialist advice before proceeding.

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.

What happens if I return to the UK before taking the benefits?

The QROPS administrator will have to report this 'event' to HMRC and the pension scheme will become subject to UK pension regulations again.

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