Transferring UK Pensions Abroad

Until April 2006 it was very difficult to legitimately move UK pension benefits, built up during a working lifetime, outside of the UK. With the introduction of Qualifying Recognised Overseas Pension Schemes (QROPS) all that has changed. QROPS are offshore pension arrangements which meet the rules of the jurisdiction in which they are located and authorised in that jurisdiction as pensions.

HM Revenue and Customs (HMRC), backed by primary legislation, have put in place a pre-approved system whereby UK pension rights can be transferred outside of the UK into a QROPS at the member's request.

To obtain QROPS status, a QROPS provider must meet a number of HMRCs rules relating to how and when benefits can be taken, together with reporting requirements for five complete tax years after the member has left the UK. Not all overseas pension schemes qualify as QROPS and therefore attempting to transfer into unauthorised schemes should be avoided at all costs. It is important to seek professional qualified and authorised advice.

In order to transfer UK pension rights to a QROPS, the member must have left or intend to leave the UK for tax purposes. In this case, UK pension rights can automatically be transferred outside of the UK into a QROPS in the same way as a pension can be transferred between approved providers within the UK. When benefits are transferred to a QROPS they do not suffer a UK tax charge.

UK pension rights may be transferred outside of the UK into a QROPS either before the member commences benefit or once they have come into payment. This includes most types of pension including income drawdown currently in payment and protected rights, which are pensions which have accrued as a result of UK national insurance rebates. However it is not possible to transfer an entitlement to the basic UK state pension into QROPS, or to make a transfer after an annuity has been purchased or Final Salary Schemes are in payment.

Many QROPS impose some restrictions, to the extent that an individual must be resident in the country into which they are transferring their pension benefits. However, certain QROPS do not have this restriction and so there is no link between where the member lives and the geographical location of a QROPS. In this case the member is able to choose tax friendly jurisdictions that have more flexible rules for how benefits can be taken.

A significant benefit for those who are not UK resident at the time they start drawing their pension benefits is that payments from QROPS will not suffer any UK tax. Their location of tax residence may impact in terms of local taxes but with careful planning and specialist advice this can be minimised.

Those who choose to be fiscally nomadic on leaving the UK may transfer their UK pension rights to a QROPS and in so doing remove the income stream from UK taxation. In addition individuals in this situation will also not be liable for tax in any other country. This could be important because once a UK resident pension comes into payment; the UK tax authorities will automatically tax the pension in the UK until the member establishes a new tax residency or moves the benefits offshore. For fiscal nomads i.e. those who leave the UK but are not established in a non-UK tax system, QROPS are very attractive.

Once someone has been resident outside of the UK for five or more complete tax years and has transferred their pension rights to a QROPS, the reporting requirements to HMRC cease. This means that contingent on the rules relating to the individual QROPS, more flexible ways of taking benefits can be introduced. The main benefits include:

- Never having to purchase an annuity
- Being able to leave the remainder of your pension fund to your heirs on your death
- Having more flexibility in terms of how and when you draw down your benefits
- Being able to plan more effectively in terms of how your benefits are taxed in the country in which you reside

Pension rights transferred into a QROPS are also now protected from UK inheritance tax (as introduced in the October Pre-Budget Statement).

By moving UK pension benefits to a QROPS, assets are effectively removed from the UK tax net and introduced to a new tax environment depending on the member's new residence. For many expatriates the avoidance of UK taxes on pension income and the dangers of additional pension tax levies are an important planning consideration.

If you are interested in receiving more information about International Pensions please contact John Hebblethwaite at:

jch investment management limited
1 Henley Way
Doddington Road
Lincoln
LN6 3QR
t. 01522 697310
f. 01522 697350
e. enquiries@jchim.co.uk

jchinvestmentmanagement