

A Guide to QROPS



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QROPS - What is it?

What is a QROPS?

QROPS is the acronym for "Qualifying Recognised Overseas Pension Scheme". QROPS were launched on April 6, 2006, as part of new legislation aimed at simplifying pensions.

A Qualifying Recognised Overseas Pension Scheme is any scheme recognised by HMRC as meeting certain standards and conditions equivalent to a UK pension. This approval allows anyone with a UK registered pension who is living outside the UK, or is intending to leave the UK on a permanent basis, to transfer their pension into more flexible arrangements offshore that reflect a "non-resident for tax purposes" status, with the approval of HMRC. The jargon means:

Qualifying – That the scheme meets HM Revenue and Customs QROPS rules

Recognised – The scheme is regulated by the tax authorities in the country where the QROPS is opened

Overseas – The QROPS is a scheme based outside the UK

Pension Scheme – A scheme giving benefits to someone in the event of his/her:

- Retirement
- Death
- Reaching a particular age
- Suffering serious illness or incapacity

Who can apply for a QROPS?

Anyone with UK pension funds that intends to retire permanently overseas, such as:

- UK taxpayers who intend to or have already moved outside the UK
- International workers returning to their home or another country

Why would someone transfer a UK pension to a QROPS?

While your pension is held in the UK by the pension company, it is subject to various regulations and limitations. QROPS allows you to transfer this pension into a different HMRC approved scheme in a jurisdiction outside the UK. This offshore HMRC approved scheme will still be under UK pension rules and reporting requirements unless you have been a non-resident for 5 tax years or more, at which point the scheme is no longer required to report to HMRC. When you have been a non-tax resident for over 5 years, you obviously have greater flexibility and many of the limiting restrictions and obligations will no longer apply.

Where can a QROPS member live and where does a QROPS have to be set up?

A QROPS can be based in any country outside the UK, providing the scheme follows the rules stipulated by HM Revenue and Customs. One advantage is a QROPS can be set up in one country while the member can live somewhere else. This allows the pension to grow in a more favourable tax jurisdiction while the benefits can be paid out in any major currency in another country with low income tax rates.

QROPS - How Do They Work?

Who is involved in the transfer process?

- Normally a company, specialising in QROPS, will act as the facilitator of the transfer process. Their role is to act on your behalf, provide you with information, advise you on the actual pension transfer process, gather the necessary information, ensure all documentation is completed correctly and sent to the relevant parties, ensure that your instructions are known to both the existing pension provider and the QROPS administrator, monitor progress, and keep you informed. The company may work with a number of QROPS providers located in various jurisdictions enabling them to advise you as to the best scheme for your purposes.
- Your existing UK pension provider and the QROPS administrator are the only bodies involved throughout the whole process that will actually handle your pension monies. This occurs when your existing UK pension provider transfers your pension directly to your new QROPS. The QROPS administrator will then, in accordance with HMRC rules and your instructions, transfer the required cash lump sum to the bank account chosen by you.
- In the case of an occupational scheme your pension may be administered by a specialist financial services firm on behalf of your company. Therefore in addition to your corporate pension administrator a pension company representative may be involved.
- Once your pension has been transferred to the QROPS, you may want to invest your money. The services of an experienced investment advisor will therefore be required.

What paperwork needs to be completed?

In order to obtain the required information and paperwork for a transfer value the client will need to provide the following:

- Signed LOA
- Full name as it is on the pension documents
- Date of birth
- National Insurance number
- Type of pension scheme (private or occupational - N.B. state pensions cannot be transferred)
- Name of UK pension scheme and policy number

Once the transfer value has been received and you have decided to proceed the following additional information is requested:

- Proof of identity (copy of passport)
- Proof of residency (utility bill within the last three months or bank statement)
- A signed statement stating when you gave up UK residency
- Completion of relevant transfer forms from your UK pension provider
- Completion of the relevant application form for your QROPS provider

QROPS - Features and Benefits?

Key Features

- After 5 complete tax years as a non UK resident, you may be able to completely realise your UK pension benefits
- Usually benefits will be taken between the ages of 55 and 75, but it can be possible to access funds from ages 18 to 75
- There is no obligation to buy an annuity and the amount of income required may be drawn from the fund
- Depending on the chosen scheme there will normally be no tax deduction at source unlike the UK
- It is possible for QROPS to provide access to 100% of the fund as a cash lump sum
- With an annuity the pension fund will cease to exist on the death of the pensioner, unless provision has been made for a widow's pension up to a maximum of 50% (thereby substantially reducing the original pension income). With a QROPS the entire fund will pass onto the nominated beneficiary/ies, forming part of the estate

Benefits Comparison

(Q) No need to ever purchase an annuity or pay UK tax on income

(UK) It is compulsory to purchase an annuity no later than age 77

(Q) May be able to take a tax free lump sum, even if you have already taken 25% from your pension

(UK) Only ever allows 25%. The remainder stays in pension fund or annuity

(Q) Leave all unused pension monies to your spouse or chosen beneficiaries, 100% free of tax at source

(UK) Spouse will suffer 50% loss on death and nothing for the children

(Q) Take income and benefits in a currency of your choice

(UK) Income must remain in pounds, thus suffering exchange rate fluctuations

(Q) Take income from your pension tax efficiently by using an offshore bank account

(UK) Income taxed at source in the UK - 25%

(Q) Greater confidentiality. Total protection against possible future creditors

(UK) Creditors can access your pension for outstanding debts

(Q) Much greater investment freedom; offshore funds, fixed deposit rates, any currency

(UK) Only one currency (£), no investment flexibility as tied to providers

QROPS - Frequently Asked Questions

How do I know if it's a legitimate scheme?

QROPS approved plans that agree to have their details published are listed on the HMRC website. This is updated every fortnight and now numbers in the thousands with many more schemes not published. A UK Pension administrator will confirm a QROPS listing before agreeing to a transfer. If not listed, the administrator will contact HMRC for confirmation.

What Pensions can be transferred to a QROPS?

A QROPS may be used to receive transfer values from any UK registered pension scheme. Typically these will be:

- Occupational schemes (company pensions)
- Additional Voluntary Contributions (AVC)
- Small Self Administered Pension Schemes (SSAS)
- Self Invested Personal Pension Scheme (SIPPS)
- Personal Pensions
- Unsecured Pensions (income drawdown)

Schemes that may not be able to transfer will be:

- Annuities
- State Pensions
- Where there is no transfer value available from the administrators.

What Pension benefits can be taken?

The rules relating to QROPS typically boil down to two categories which the QROPS provider will adhere to:

1. If there is a double taxation agreement in force that contains provisions as to exchange of information and non-discrimination then the QROPS can adopt the rules of that country's Pension or Superannuation legislation. In many cases affording greater flexibility.
2. An agreement that 70% of funds will be used to provide a lifetime income and benefits are not payable before minimum retirement age.

Some jurisdictions opt for QROPS where 70% of funds are used to provide a lifetime income, whilst others adhere to the first category which allows the whole pension sum to be paid as a tax free cash sum.

QROPS - Frequently Asked Questions... Cont.

What age can benefits be taken from a QROPS?

If you have been a non-UK resident for less than five complete tax years then UK Pension rules apply, effectively preventing the taking of any benefits before the age of 55. Any benefits paid before five complete tax years non-UK residency and not in accordance with UK Pension rules will be deemed an unauthorised payment.

An unauthorised payment will be subject to a tax charge at the rate of 40%. The scheme member is liable for this. The unauthorised payments surcharge must also be paid where the level of unauthorised payments made to or in respect of a member exceeds a certain limit in a year. The limit is exceeded if all unauthorised payments made to or in respect of a member in a period of twelve months amount to 25% or more of the value of that member's benefits under the scheme. The unauthorised payments surcharge is 15%. This is paid in addition to the unauthorised payments charge of 40%, so in some cases the member could face an effective tax charge of 55%.

Can I cash-in my QROPS Plan in full?

The legislation covering QROPS does allow for encashment, and is considered as a member payment, which may give rise to a member payment charge, if the member has been a non-UK resident for less than five complete UK tax years. After five years non-UK residency the provisions of the Finance Act 2004 no longer applies and no UK tax is imposed on encashment.

Who can transfer to a QROPS?

QROPS are open to anyone who has a transferable UK Pension fund. For individuals who are still UK residents they will not normally be permitted do so unless they can show that have an intention to become a non-UK tax resident in the near future.

What happens if I return to the UK?

The QROPS provider will continue to report to HMRC annually until you have been a non-UK resident for 5 complete tax years. Therefore the QROPS mirrors UK Pensions legislation until you complete the 5 years rule. Only if you return to the UK after five years are there UK tax advantages that should be discussed with your adviser.

What has the QROPS provider undertaken to report to HMRC in the UK?

The provider has undertaken to provide information to HMRC on all benefit payments made from the plan when a member is either:

- Tax resident in the UK at the time the payment is made (or is treated as made), or
- Although not tax resident in the UK, they have been resident in the UK earlier in the tax year in which the payment is made (or is treated as made), or in any of the five tax years immediately preceding that tax year (UK).

In simple terms; when you have been a non-UK resident for five complete tax years, regardless of your age, the annual reporting by the QROPS to HMRC ceases.

QROPS - Frequently Asked Questions... Cont.

What happens on death to a QROPS?

If a death benefit payment is made during the 5 year reporting period then the QROPS will report the payment to HMRC in respect of the deceased member. Any tax liability will depend on whether benefits have been taken in the form of cash and or income. The Finance Act 2004 details the pension death benefit/lump sum death benefit rules. After five years non-UK residency 100% of remaining funds can be paid to your beneficiaries.

Will a member of the QROPS Plan be liable for UK IHT?

The provisions in Finance Bill 2008 give IHT protection to pension savings which have had UK tax relief and also to funds in QROPS Plans. The Trust is outside of the Member's estate and therefore IHT would not apply. (See HMRC Guidance: RPSM04100060 - Technical Pages: Taxation: Overview: Inheritance tax.) It is possible that the unauthorised payment consequences could occur but this charge is only likely to be applicable during the required reporting period (5 year non UK residency rule). Whilst UK Inheritance tax may be avoided some jurisdictions may impose their own succession taxes either on the member or the recipient beneficiaries.

Is there a limit on how much can I transfer?

There is no limit to the size of funds that may be transferred and accumulated within a QROPS. A transfer from a UK registered pension scheme to a QROPS is a "benefit crystallisation event" (BCE). A test against the individuals' lifetime allowance (£1.8 million for the 2010/11 tax year) will be performed and any excess would be taxed.

What is the minimum amount I can transfer?

There are no minimums on the transfer values. However, if the transfer value is of such a low amount that the costs of the transfer would mean there was little benefit to the client, it may be in the client's best interest not to proceed.

What is the maximum amount I can transfer?

There are no limits on the transfer value.

Is QROPS right for everybody?

No it is not right for everybody. In many cases the arguments are overwhelmingly in favour of transferring UK pension rights to a QROPS. However, in certain circumstances the situation would need careful consideration and advice. One such situation would be if your pension has guaranteed annuity rates set many years ago, when interest rates were much higher. Another situation would be, as mentioned above, if your transfer value is a very low amount.

Important Notes:

All references to taxation are based on our understanding of current taxation law and practice and may be affected by future changes in legislation and the individual circumstances of the investor. In addition, the information provided is also based on our current understanding of the relevant Finance Acts. Pension investment values and income arising from them can fall as well as rise. This information does not constitute advice and we cannot accept responsibility for its interpretation or any future changes to law.

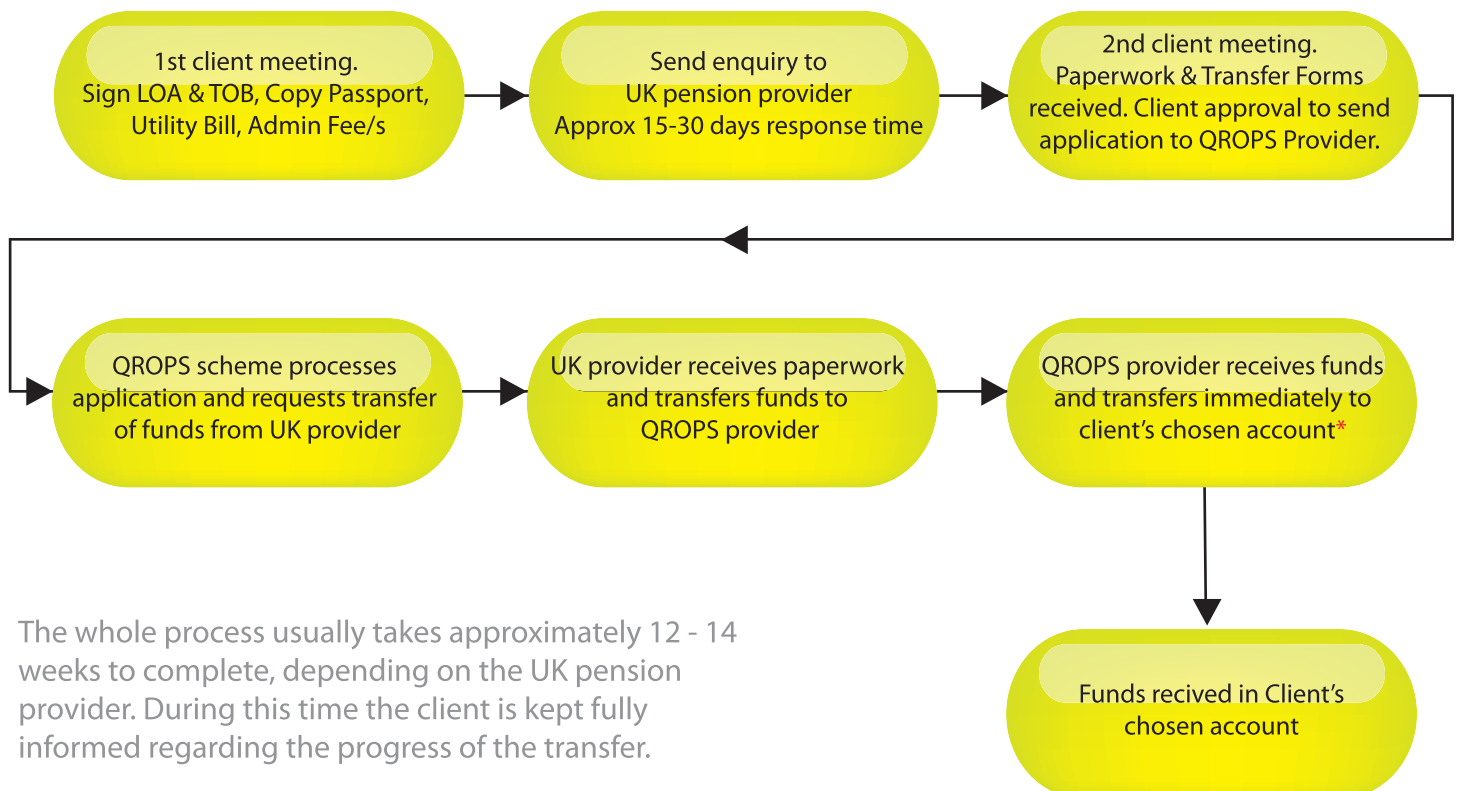
QROPS - Summary of the Process

How Does it Work?

The process is quite complex, as you would expect when dealing with all the legal and security aspects involved with the transfer of large sums of money and can sometimes take several months to complete. Once you have agreed to change provider, as a first step, we would require:

1. A signed letter of authority (LOA) allowing us to obtain the relevant information from your current pension administrator regarding your pension benefits and the current transfer value
2. A signed terms of business letter (TOB) confirming the date you left the UK
3. Proof of identity (copy of your passport)
4. Proof of residence (a recent utility bill less than 3 months old, or a bank statement)

The Process



The whole process usually takes approximately 12 - 14 weeks to complete, depending on the UK pension provider. During this time the client is kept fully informed regarding the progress of the transfer.

The transfer of funds takes place between the UK pension provider and the QROPS provider only. No other parties involved in the entire transfer process handle the client's funds at any time.

* Assuming you have completed 5 full tax years as a non-UK resident

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