



QROPS and QNUPS: A Brief Synopsis on Recognised Overseas Pensions

QROPS (qualifying recognised overseas pensions scheme) are available once non UK resident. QNUPS (qualifying non UK pension scheme) are available to UK residents and non UK residents.

QROPS essentially are for people who intend to move abroad and to transfer their UK registered pension offshore so that when they take benefits they are non UK resident and do not intend to return to the UK. During the first 5 complete tax years of non-residency the scheme will have to follow HMRC reporting requirements (and registered pension rules). Thereafter the offshore trustee will follow the pension laws applicable to their jurisdiction. This can provide flexibility on how benefits are payable.

QNUPS are for individuals who wish to set up an ancillary pension scheme but they do not qualify for tax relief. There are no contribution limits and the accumulated fund is not compared against any relevant HMRC limits tests. Both schemes roll up free of taxes apart from withholding tax.

QROPS

Leaving the UK and living abroad can mean that individuals are penalised on income tax from pensions as UK registered pension schemes have to account for income tax unless there is a double taxation agreement in place with the country of residency. In addition there is the 55% tax deduction on lump sum death payments for crystallised funds. A QROPS scheme can mitigate this position, particularly after the 5 year period of non residency.

The market for QROPS opened on 6th April 2006. The most popular jurisdiction for new schemes is Guernsey and the reason for this is as follows:

- Pension schemes are approved by Guernsey's income tax director.
- Guernsey is proactive in ensuring that their schemes continue to be approved by HMRC.
- Guernsey has been running bespoke pension schemes for over 25 years. It has a global reputation as a reputable jurisdiction for financial structures, including trusts for the administration of pension schemes.

Care needs to be taken when looking at offshore providers as blatantly running a scheme for tax avoidance purposes or abusing HMRC practice requirements has in the past led to the removal of QROPS approval. One member falling foul of the HMRC spotlight will jeopardise the approval of the whole scheme and affect other members. A Guernsey QROPS offers the following features:

- Pension income is paid gross without deduction of any tax. Tax will be paid where relevant in the country of residency.
- Income can be paid in different currencies to remove currency risk.
- No Guernsey taxes within the fund (unless the member is Guernsey resident).
- Increased investment freedom.
- No limits to the size of the fund.
- Tax free lump sum of up to 30%
- No requirement to buy an annuity.
- Leave the residual fund to named beneficiaries.
- QROPS can receive transfers from any registered pension scheme even if in Drawdown.
- After 5 complete tax years of non residency, the HMRC reporting requirements and future legislative changes on pension legislation do not apply.

A list of approved schemes can be found at <http://www.hmrc.gov.uk/pensionschemes/qrops.pdf>

QNUPS

QNUPS are not registered pension schemes but are genuine qualifying pension arrangements which have more relaxed rules on investments than UK registered schemes. They can supplement existing pension arrangements. The scheme receives assets which can be from capital or post taxed income and as they are not registered they do not need to make returns to HMRC. This means that there is flexibility on drawing benefits. The scheme does not receive any tax relief on contributions paid. These are attractive to high net worth UK-domiciled residents or non-resident individuals who have been restricted by contribution limits in the UK. The benefits are as follows:

- Tax free rollup including freedom from capital gains tax on personal assets. Funds are however subject to withholding taxes.
- Contributions can be cash, quoted and unquoted securities, private equity, commercial property, including buy-to-lets. Taxable property is allowable but not a main residence. Tangible moveable property including art, antiques, jewellery, fine wine, classic cars and yachts are also allowable.
- Provide an income from the fund after age 55 and must have an income drawn down by the age of 75. Up to 30% tax free cash is available at the time benefit is taken (25% if UK resident).
- Income is paid gross with tax liability arising in the country of residency.
- Income can be paid in different currencies to remove currency risk.
- Heirs and beneficiaries currently receive funds free of IHT and other taxes (if UK resident).
- Settled property is not deemed “relevant property” for IHT purposes and therefore assets are not liable to discretionary trust charges (periodic and exit).
- No seven year taper period.
- Virtually no investment restrictions.
- No restrictions on individual contributions which are considered to be reasonable.
- No restrictions on the size of the fund or Lifetime Allowance consideration.

Additional notes:

Expats with a QROPS who have been non resident for 5 or more complete tax years may consider transferring to a QNUPS if they are considering returning to the UK.

Loans may be made to members of up to 30% of the fund value for both QROPS and QNUPS which must be made on commercial terms.

QNUPS are pension plans and they may provide opportunities for some individuals to restructure their affairs for retirement planning purposes.

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