



PRIVATE FUND
MANAGEMENT

GUIDE TO QROPS

The important things you need to know about transferring your UK pension fund overseas.

It takes many years of planning, saving and sacrifice to build up a significant pension – and, after all those years, you want to be sure you are making the most of it. This guide is designed to provide you with the basic information you need to start thinking about your retirement opportunities as an expatriate and the options available.

We all know how important it is to plan our retirement in the most efficient and effective way possible. Developments in UK pension legislation allow expatriates to do just that in the form of Qualifying Recognised Overseas Pension Schemes, otherwise known as QROPS. QROPS were originally introduced in 2006 as part of a major overhaul of Britain's pension framework, aimed at simplifying pension transfers to another country.

The legislation was passed by the UK tax authority, HM Revenue and Customs (HMRC), in order to comply with an EU directive that pensions be free to move across Europe's borders. This ruling means individuals, wishing to retire abroad, can now take their UK pension funds with them.

● QROPS LEGISLATION - UPDATE

The Finance Bill 2017 legislated that transfers to QROPS requested on or after 9 March 2017 will be taxed at a rate of 25% unless at least one of the following apply:

- 1) Both the individual and the QROPS are in the same country after the transfer,
- 2) The QROPS is in one country in the EEA (an EU Member State, Norway, Iceland or Liechtenstein) and the individual is resident in another EEA country after the transfer,
- 3) The QROPS is an occupational pension scheme sponsored by the individual's employer.

● WHAT QUALIFIES AS A QROPS?

In order to transfer your UK pension into a QROPS, it is necessary for the overseas pension scheme to be recognised by HMRC. The criteria outlined by HMRC for an overseas scheme to qualify as a QROPS include:

- The pension scheme must be established outside of the UK,
- It must be recognised for tax purposes in the country where it is located,
- It must be regulated in the country in which it is established.

The **QROPS** regime mirrors that of a regulated pension scheme in the UK. Benefits, including lump sum payments, from the transferred funds should not be distributed earlier than the normal retirement age of 55.



● UK PENSIONS

Before we assess the benefits of transferring to a QROPS, we need to review the expectations from your pension fund if you leave it in the UK:

- 1) You will pay 45% in tax, or higher if you have a large fund, depending on the UK Government's income tax rates.
- 2) Your monthly payments will be paid in Sterling which would affect your purchasing power due to currency fluctuations.
- 3) You can only take up to 25% of the fund as a pension commencement lump sum (formerly known as tax free cash).
- 4) If you decide to take advantage of the new pension freedoms and take your fund as a lump sum you will have to pay UK income tax at your highest marginal rate which could be up to 45%. The new pension freedoms are only available to certain types of scheme.
- 5) If you have a small fund (£30,000, for example) you could end up paying 40% of that in tax, which would leave you with just £18,000. Therefore £12,000 would go back to Her Majesty's Revenue and Customs (HMRC).
- 6) If you die after the age of 75 all proceeds will go to your beneficiaries. They will be taxed at their marginal rate of tax, which could be as high as 45%. If you die before age 75 it is tax free.
- 7) When it comes to the range of investment options you are more restricted.
- 8) Unless you suffer from ill health, you can only take benefits from age 55. If you fall ill, the trustees may be able to grant earlier payment of benefit, subject to their discretion.

● RETIRING ABROAD

In recent years, British nationals have increasingly been looking beyond the UK for employment opportunities and a place to retire. Several million UK nationals live overseas. Research by the Institute of Public Policy revealed that one in twelve Britons of UK pensionable age currently live abroad; they predict that this number will increase to nearly one in five by 2050.

An additional survey conducted by the insurance provider RIAS found that almost 10% of the UK's over 50 population are giving "serious consideration" to moving to another country; meanwhile data from the Office for National Statistics suggests that 400,000 people in the over 50 age group are already planning to emigrate.

Moving abroad has a significant impact on a UK national's pension benefits.

Many people who departed the UK shores in the past, elected to leave their UK pension behind them, with a view to revisiting the situation upon reaching retirement age and claiming the benefits then. With QROPS legislation there are many more options to explore in terms of retirement planning.

For those of us who have spent some time working overseas or enjoy the challenges of different cultures, the decision to retire abroad becomes a lifestyle choice. Wherever you decide to retire, you will need to feel sure that you will have sufficient pension income to maintain an acceptable standard of living. It is therefore of great importance that your assets are safeguarded, and invested in such a way that both you and your family are prepared for every eventuality. Unpredictable events that may occur include volatile stock markets, low bond yields, inflationary pressures, fluctuating exchange rates or even death. If you are one of the two million British passport holders who have decided to make a new home abroad, transferring your pension into a QROPS may be the solution for you.

Whether you are living in the UK and considering an overseas move in search of a warmer climate, or you are a long-term expatriate nearing retirement, establishing a QROPS may be an effective means of increasing the flexibility of your pension, while at the same time reducing your Income tax burden.

● QROP PENSION BENEFITS

On comparison, the benefits of transferring your UK pension fund to a QROPS are:

- 1) In most cases, you can take a lump sum of up to 30%, tax free at source.
- 2) Flexi-access drawdown facility.
- 3) As of April 2015, individuals now have access to 100% of their UK pension fund after the age of 55. The full encashment of pensions is not recommended however, as this can result in higher taxes on funds withdrawn.
- 4) You can receive your pension benefits in the currency of your choice.
- 5) You can take income from your pension in a more tax efficient way.
- 6) You do not need to purchase an annuity or pay a UK tax charge upon death.
- 7) Assets held in a QROPS fall outside of your estate for UK Inheritance Tax purposes if you die while living overseas. This means your wealth is protected for future generations.
- 8) There is potential protection of the fund from any creditors.
- 9) If you have a fund over £1 million there is no lifetime allowance tax charge which is 55% in the UK on anything over £1 million.
- 10) The anti-avoidance rules in place where non-residents may have to pay UK tax if they return to the UK within 5 years of leaving. These rules are known as 'temporary non-residence' and apply if you dispose of an asset during the 5 year period of absence. Therefore, one would be deemed by the HMRC as having never left the UK.

● ELIGIBILITY

In order to be eligible to transfer existing and frozen pension plans out of the UK into a more appropriate retirement vehicle, you must have already left the country for tax purposes, or be intending to leave in the near future. Once tax resident abroad, you can transfer your pension fund into a QROPS in the same way that you would transfer between pension providers within the UK. Individuals eligible for a QROPS pension transfer include:

- A UK national moving overseas
- Any national who has built up a UK pension

The UK Government allows transfers to QROPS to be made free of UK tax. Their aim is to simplify the affairs of individuals leaving the UK on a permanent basis and to encourage them to continue saving in order to provide an income when they retire.





● THE TYPES OF PENSIONS THAT CAN BE TRANSFERRED TO A QROP

A QROPS may be used to receive transfers from any UK registered pension scheme. These include:

- 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).
- Pension schemes that may not be able to transfer include:
- Annuities.
 - State Pensions.

With the new pensions framework, UK expatriates and UK non-domiciled individuals who have worked in the UK, now have wider tax implications to consider, not least of which is the exposure to Inheritance Tax upon death. There are however numerous advantages in transferring your pension to a QROPS.

● QROPS AND INHERITANCE TAX

Tax planning and pension planning go hand in hand. Assets held in a QROPS fall outside of your estate for UK Inheritance Tax purposes if you die while living overseas.

Under the QROPS regime, investors are not obliged to purchase an annuity with their pension fund. Traditionally, an annuity would cease to exist on the death of the pensioner, unless provision has been made for a widow's pension. Opting for a transfer to a QROPS rather than purchasing an annuity allows 100% of the pension fund to be passed on to nominated beneficiaries upon death. This means that your wealth is protected for future generations.

● COMPLIANCE & REPORTING

The HMRC should be notified by the QROPS provider if a payment is made within the first five tax years of a member becoming non-UK tax resident. Any benefits paid before five complete tax years of non-UK residency and not in accordance with UK Pension rules will be deemed an unauthorised payment.

The scheme manager does not have to notify HMRC if the payment is made 10 or more years after the day of the transfer, provided that the person is non UK resident for the duration of that period. This 10 year 'bracket' for reporting payments took effect as of 6 April 2012.

Trustees of the QROPS cannot be held responsible for any penalties, fees or charges levied by HMRC should you elect to take your benefits in a way that is not compatible with the QROPS rules.

Your QROPS becomes fully domiciled in the jurisdiction in which you

establish it, and is therefore subject to the laws of that jurisdiction. It is important also to note that the benefits you take from your QROPS will be subject to the taxation laws of the country in which you reside at that time.

● IS THERE A MINIMUM TO CONSIDER

There is no official minimum amount that can be transferred into a QROPS. However, the costs of using such a vehicle for the transfer of your UK pension need to be carefully weighed against any benefits. Most QROPS can be considered as cost effective in terms of charges, with transfer values in excess of £100,000. In recent times, new providers have entered the QROPS market with competitive cost structures for transfer values of under £100,000.

● IS THERE A MAXIMUM TO CONSIDER

There is no limit to the amount of funds that may be transferred to a QROPS. However, a transfer from a UK registered pension scheme to a QROPS is considered to be a Benefit Crystallisation Event (BCE), and as such may result in a UK tax charge if the amount transferred exceeds your lifetime allowance (LTA). The LTA is the maximum amount of pension saving you can build up over your life that benefit's from tax relief. If you build up pension savings worth more than the lifetime allowance you will be obliged to pay a tax charge on the excess. The lifetime allowance was introduced in 2006 at a level of £1.5 million. It then increased each year to 2010, when it reached a level of £1.8 million. Since 2010, there have been a number of pension reforms which have led to the lifetime allowance being reduced. Its current level, since 6th April 2016, is £1m having been reduced from £1.25 million.

● WHAT HAPPENS ON REPATRIATION TO THE UK

The member is obliged to inform the QROPS provider if they have returned to the UK. If the member then transfers their funds, or takes benefits from the QROPS, the scheme has to report the payment to HMRC regardless of how long the member was non-UK resident previously. Failure by the scheme to report the payment may result in their QROPS status being removed.

● WHAT HAPPENS ON DEATH

If a death benefit payment is made during the 5 year non-residency cut-off period, the QROPS provider is required to 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 complete and consecutive years of non UK residency, 100% of funds held in the QROPS should be available to nominated beneficiaries free of UK tax.

● HOW DO I KNOW A QROP IS LEGITIMATE

When transferring your UK pension to an overseas scheme, it is important to check that it meets the conditions outlined by HMRC to become a Qualifying Recognised Overseas Pension Scheme. In the first instance it must be classified as a Recognised Overseas Pension Scheme (ROPS) and provide benefits in respect of retirement, ill health, death or similar circumstances. If it meets these requirements, the scheme must take certain additional steps to qualify as a QROPS as defined by the legislation.

This list consists of pension schemes which have informed HMRC that they meet the conditions to be a ROPS and have requested to be included on the list. It is important to note that the list is self certified by QROPS providers; HMRC do not have an official approval system for ROPS. It is therefore the responsibility of the individual to find out if there is tax to pay on any transfer of UK pension savings. Specialist advice on this area.

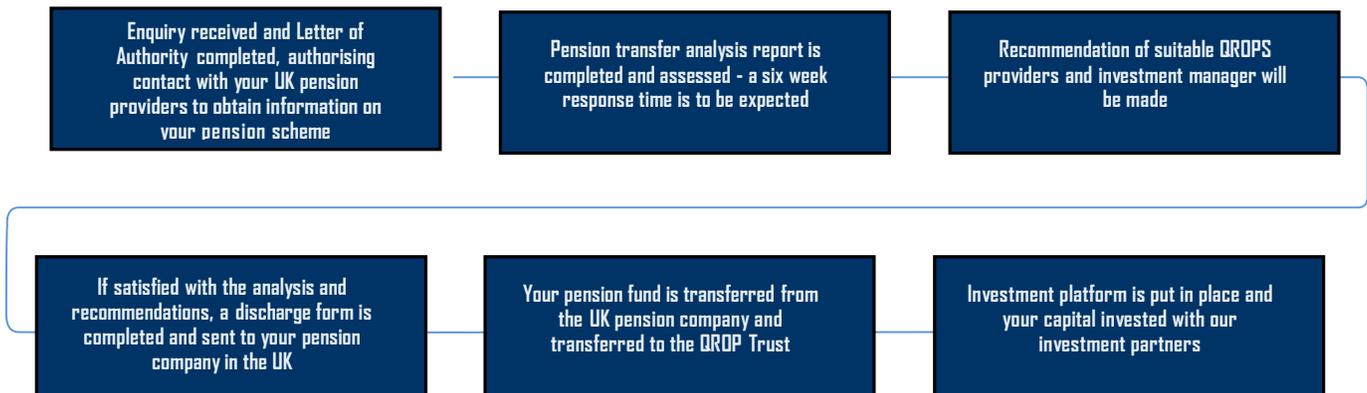
● CAN A QROP BE FULLY ENCASHED

The rules relating to access to funds in a QROPS have changed in line with UK legislation on pensions. There is no longer a limit to the level of withdrawals that can be taken by members provided that the member has been a non-UK resident for more than five complete tax years.

Qualified advice should be taken with regards to the jurisdiction of the QROPS provider and also on an individual's country of residence, in order to ensure that members are not taking unauthorised payments which may result in onerous tax charges.



Private Fund Management will act as your facilitator during the QROPS transfer process. Our role is to act on your behalf in terms of gathering the necessary information, administering the documentation and monitoring the progress of the transfer. The process involves the following tasks.



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