International pension planning using QROPS

Left the UK without your pension?

If you have a UK based pension and have either left the UK or are planning to permanently leave the UK, you might want to consider transferring your UK pension into a Qualifying Recognised Overseas Pension Scheme ('QROPS').

What is a QROPS?

Before 6 April 2006 (known as 'A-Day') individuals leaving the UK could only transfer their UK pension scheme to another jurisdiction if a reciprocal pension transfers agreement existed. However HMRC now permit UK pensions to be transferred to a scheme based in another jurisdiction provided that scheme has applied to HMRC for QROPS status.

Why are QROPS attractive?

The key attraction of transferring to a QROPS is that, for UK expatriates and UK non-domiciles, the restrictive 5 year requirement that the QROPS must mirror certain characteristics of a UK pension scheme generally fall away. After that period has elapsed, the pension fund generally becomes subject to the full (and potentially more relaxed) laws of the overseas jurisdiction.

Why initiate a QROPS transfer?

Following A-Day, UK expatriates and UK non-domiciled individuals who have worked in the UK have to consider potential exposure to specific pension scheme sanction charges and other fiscal penalties that may be applied to a UK pension scheme.

In addition to these penalties UK inheritance tax ('IHT') can also apply to any funds left in a UK registered pension scheme on death. Perhaps more importantly, IHT and penalty charges may be applied upon death after the age of 75 and, if you have elected not to purchase an annuity, can add nearly 82% additional tax to your residual pension fund.

What else must you consider?

– Not all transfers to overseas or offshore schemes are QROPS transfers and it is essential that you check that the scheme receiving your UK benefits is on the HMRC approved QROPS list. Penalties might apply where these conditions are not met.

– A QROPS must behave as if it were a UK scheme for those QROPS members who were resident in the UK at any time in the previous five tax years. QROPS also have to report certain trigger events to HMRC for at least the first 5 years following your departure from the UK.

– A transfer to a QROPS will be a Benefit Crystallisation Event and may give rise to a UK tax charge if the amount transferred exceeds your unused lifetime allowance ('LTA'). The current LTA is £1.65 million in the 2008/09 tax year, rising to £1.8 million from 2010.

– At the outset a QROPS scheme must not allow benefits to be paid before the UK's minimum retirement age (50 now but 55 from 2010). If you are in the position of having been non UK resident for at least five tax years then you can usually retire at a date that is appropriate under your expatriate jurisdiction.

If you would like us to assist you with transferring your existing UK pension scheme offshore, or would like to know more about your options, please contact us at info@milestonetax.com

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