



QROPS GUIDE

The things you **NEED TO KNOW**
about **UK PENSION TRANSFERS**

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We all know how important it is to plan our retirement in the most efficient and effective way possible. Recent developments in UK pension legislation allow expatriates to do just that through the use 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.



Current QROPS legislation

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:

- Both the individual and the QROPS are in the same country after the transfer
- 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
- The QROPS is an occupational pension scheme sponsored by the individual's employer

Introduction

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 secure, and invested in such a way that 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.

Relocating to another country

In order to transfer your UK pension into a QROPS, it is necessary for the 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.





QROPS – Features & Benefits

- You can take a lump sum of up to 30% of your pension fund free of UK tax on retirement.
- Flexi-access drawdown facility
- 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.
- Retiring outside the UK on a sterling-based pension exposes your fund to unnecessary currency risk. QROPS helps solve this problem allowing you to invest your pension and take income and benefits in a currency of your choice.
- 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.
- QROPS offer a greater choice of investment options, allowing you to access funds managed by any of the world's leading investment groups.

Additional Insights

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 have the intention of leaving 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.

Retiring Abroad

In recent years, British nationals have increasingly been looking beyond the UK both 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 citizen's pension benefits. In the past, many expats chose to leave their UK pension behind them, with a view to re-visiting the situation upon reaching retirement age and claiming the benefits then. The QROPS legislation offers new options to explore in terms of retirement planning.



What type of pensions can be transferred to a QROPS?

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)

Schemes that may not be able to transfer include:

- Certain public sector schemes
- Annuities
- State Pensions

QROPS and UK Inheritance Tax

Tax planning and pension planning go hand in hand. UK expatriates and UK non-domiciled individuals who have worked in the UK have a wide range of tax implications to consider, not least of which is the exposure to Inheritance Tax (IHT) upon death. There are however numerous IHT advantages in transferring your pension to a QROPS.

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.



Reporting Requirements

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.



Q & A

Is there a maximum limit on how much I can transfer to a QROPS?

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 benefits 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 LTA to which everyone is entitled is £1,073,000 for the 2020/2021 tax year. This will be increased in line with the Consumer Price Index each year.

What is the minimum value I can transfer to a QROPS?

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.

Transfer values in excess of £100,000 can be considered as cost effective in terms of charges. Several new providers have recently entered the QROPS market offering competitive cost structures for transfer values of under £100,000.

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

A QROPS can be based in any country outside of the UK, as long as the scheme abides by HMRC rules. One advantage of a QROPS is that it can be established in one country with the member retiring to a second country. In such a scenario, the invested pension could grow in a country with a favourable tax jurisdiction, with benefits being paid out in another country where income tax is at a low rate.

Can I transfer funds and assets from my UK scheme or do I have to liquidate them into cash?

Transfer values from most UK registered schemes are generally paid to the QROPS in cash. Once the funds are received they will be placed on deposit by the Trustees in a designated account for the member. In the case of SIPP's, existing investments may not need to be encashed, and therefore can be transferred directly to the QROPS. This can be done on the condition that the receiving scheme i.e. the QROPS, is able to receive such a transfer.

If you are a resident in a country that does not levy taxes on retirement income, your future pension benefits will be tax free.

Costs

Establishment costs for a QROPS are related to the size of the fund. Generally speaking, the larger the fund, the lower the charges will be. Average establishment charges are circa £650, with trustee annual fees of around £850. Recent growth in the QROPS market have seen the addition of a QROPS Lite version, with reduced fees for pension transfers of less than £100,000.

Q & A

What happens if I return to the UK before taking benefits?

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.

Can I cash -in my QROPS in full?

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 the individual's country of residence. Please note that unauthorised payments to members can result in onerous tax charges.

What happens to a QROPS upon 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 if it is a legitimate QROPS?

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.

An updated list of ROPS notifications is published by HMRC on the first and 15th day of each month. 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 is provided by AXIS Financial Consultants.



QROPS - the UK pension transfer process

Axis Financial Consultants 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:



AXIS Financial Consultants, are a French regulated Courtier d'Assurance (reg. no. 1700 3701) that specialize in QROPS and retirement planning for expats throughout the world. We are also licensed as 'investment advisers' by the Autorité des marchés financiers (AMF) in France.

QROPS continue to be an attractive proposition for expats. As UK pension legislation continues to change, it is important that individuals gain as much information as possible on the particulars of the schemes on offer.

Please let us know if we can be of assistance?

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