by Roger Berry (FCCA), managing director, Concept Group

Overseas savings

Thinking of moving abroad? Moving your pension plan out of the UK could give you much greater flexibility and a range of enticing tax breaks

The number of British citizens emigrating from the UK continues to rise. The appeals of a warmer climate, a more relaxed lifestyle and a seemingly better quality of life are understandable motives for such a move. Clearly, a review of their financial planning position is an important consideration, but why is pension planning something that should be on the tick list of things to do?

A client moving abroad and breaking their UK tax residence needs to reduce their links back to the UK to a minimum. Recent tax cases have shown that HMRC do not simply look at how many days a person has been out of the UK – they look at what is really happening.

Break for the border

One of the ways you can help to demonstrate a break of UK residence is to move personal and occupational pensions out of the UK. Fortunately, in the UK, there is a system to allow transfers in an approved way to certain recognised overseas pension schemes. The transfers can be made without incurring tax charges in the UK and open up a variety of potential benefits to those who are leaving or have already left the UK.

The system that provides for these transfers requires the receiving offshore scheme to meet certain requirements laid out by HMRC. If those undertakings are met, the scheme is called a Qualifying Recognised Overseas Pensions Scheme, or QROPS.

It has technically been possible to transfer to a QROPS since A-Day (April 2006). However, the QROPS market has only really gathered pace over the last few years. Advisers now tend to have a far clearer understanding of this structure and are more confident about making recommendations to suitable clients.

Transferring UK pension assets into a QROPS arrangement does not mean the QROPS scheme must be in the the country an individual plans to emigrate to. In fact, many QROPS arrangements are administered from the offshore finance centre of Guernsey.

Guernsey gains

Having been in the market from day one, Guernsey has arguably established itself as the QROPS 'centre of excellence'. Established QROPS providers now provide intermediaries with excellent technical and administrative support. Guernsey providers have generally adopted a cautious approach towards QROPS business, operating within the spirit of QROPS and the intentions set out from HMRC.

Guernsey, located in the Channel Islands, has recently launched a Code of Practice for QROPS providers. I was fortunate to chair this committee. The voluntary code sets out the standards expected from providers when conducting QROPS business.

This should help to provide harmony for users of Guernsey QROPS and keeps Guernsey on the leading edge of QROPS development and regulation.

The local pension legislation in Guernsey cements its role as an attractive jurisdiction in which to administer QROPS. After five complete tax years of non-UK residency, a member of a Guernsey QROPS will be entitled to take up to 30% of their pension fund as a pension commencement lump sum (PCLS).

Furthermore, income is also paid gross and no tax is deducted in Guernsey after the death of a member, meaning the residual fund would be passed on in full to the nominated beneficiary of the member.

Compare that with a UK-registered pension such as a SIPP, where a 55% charge falls due on death if the pension is in payment or the member is 75 or over.

Cheap as SIPPs

There has seemingly never been a better time to transfer a UK pension into a QROPS. With market developments and the increased volumes that a select few providers now possess, the fees are lower than they have ever been.

Concept Group is the provider of the Aurora QROPS plans, offering transparent and low-cost solutions within the QROPS marketplace. Concept Group pioneered the development of QROPS in Guernsey and its success has provided significant economies of scale.

This has enabled the firm to reduce the fees across its Aurora Quantum and its Aurora Libertai schemes, allowing it to offer what are believed to be the best-priced open architecture QROPS solutions available in the market today.

With a fee structure that now resembles a UK SIPP, rather than a bespoke offshore pension solution, clients can benefit from all-inclusive fixed price annual fees as low as £845pa. With no add-on costs for time or percentage fees based on values, and the ability to take on a second 'spouses' scheme for only £500pa, the Concept Group is confident that the Aurora QROPS range will continue to offer the most competitive QROPS solution for clients.

Even compared with UK SIPP prices this is competitive, and with the recent reduction in maximum drawdown by 20% in SIPPs (which can be avoided in a QROPS) there has never been a better time to consider a QROPS if a client is leaving or has left the UK.

Hidden costs

Some providers may offer a seemingly low 'headline' formation fee. However, this fee may actually cover very little. Each transfer-in will then incur a separate fee. There are also instances whereby funds of a higher value are penalised with ad-valorem-based charges. Ensure you understand the total overall cost for transferring UK pension assets before proceeding.

It is also important to check to see if there will be any additional fees for actions such as taking a PCLS or drawing benefit. Add-on fees for these simple transactions are commonplace from many providers and cause frustration for advisers and clients alike.

Make sure there are no time-spent fees for talking to the provider. The fees for the Aurora plans include all the costs one would expect to be covered for a pension scheme. They include general administration fees through to technical and business support.

In summary, moving a UK pension plan, even if in benefit payment, can provide significant financial benefits. Doing so also helps demonstrate a break of UK tax residency, and the transferred plan is likely to be more flexible than its UK counterpart. But make sure you take proper advice on the transfer and locate a scheme that acts well within the rules. IA

IA POTENTIAL BENEFITS OF A QROPS

LESS THAN 5 COMPLETE TAX YEARS AS A NON-UK RESIDENT

- Ability to manage investments
- Consolidation of multiple pension funds
- Income paid gross
- Remove pension pot from UK control and ever-changing rules

MORE THAN 5 COMPLETE TAX YEARS AS A NON-UK RESIDENT

- Leave residue of pension on death to loved ones
- No tax deducted on death, in UK or Guernsey
- Flexible income options, taking into account the circumstances of the member
- Loan facility available up to 30%, prior to taking benefits
- 30% pension commencement lump sum available
- Ability to manage investments
- Consolidation of multiple pension funds
- Income paid gross
- Remove pension pot from UK control and ever-changing rules

IA KEY POINTS

When moving abroad with the intention of breaking UK tax status, an individual needs to reduce their links back to the UK to a minimum. This may include transferring your pension to a QROPS.

Following the recent publication of its own QROPS Code of Practice, Guernsey has further enhanced its reputation as the QROPS 'centre of excellence'.

Pricing transparency continues to be an issue with QROPS. It is very important to check all associated fees before transferring your pension.

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