Qualifying Recognised Overseas Pension Scheme (QROPS)

This guide is intended as a very quick introduction to QROPS and not in any way as advice, indeed the area is potentially so complex that the only advice we would give is to seek guidance on the subject before considering international transfers. We are equipped to offer such guidance.

The overriding principle that has informed our stance on this market is that compliance of clients and trustees with the word and spirit of the UK HMRC rules is critical and that even after moving abroad the intention of a pension is to 'wholly and completely provide an income in retirement for life'.

With many unregulated advisers operating outside the United Kingdom the potential cost of poor 'advice' to expatriates opting to move their pension fund to a QROPS is demonstrated by the example of Panthera in Singapore, where it turns out that the recipient scheme should never have accepted transfers from personal pensions (which are not allowed by Singapore legislation). The hapless pension scheme members, many of whom never had any intention of 'busting' their pension, are now being served with unauthorised payment notices by HMRC (at 55% of the amount transferred).

We can help you assess whether a QROPS is right for your client and if so, choose the right jurisdiction and an appropriate provider, with access to qualified tax advice to cover the interaction between the offshore jurisdiction and the new country of residence. We can also assist with your report writing.

A QROPS is simply an overseas pension scheme that meets HMRC's requirements to allow transfers of pension funds outside of the UK and has been around since A-Day. A QROPS is generally available to any client resident outside the UK or intending to move away for at least 5 full tax years. A client may consider transferring into a QROPS for the following reasons:

Inter-generational inheritance planning even beyond age 75.
Greater income flexibility and ability to receive that income gross.
Greater tax free cash flexibility allowing a withdrawal of up to 50%.
Earlier retirement than allowable in the UK under certain circumstances.

The main rules that a scheme in a non-EU or EEA jurisdiction must comply with in order to obtain and retain approval with HMRC and so QROPS status include:

Benefits must be subject to local taxation in the country the pension is moved to.
At least 70% of the funds transferred must be used to pay an income for life.
Benefits must not commence before age 50/55 unless ill health applies.
The scheme must be registered with HMRC and provide details of payments from the scheme if the member is UK resident or has been so in any of the last 5 full tax years.

Where a QROPS is established in an EU or EEA jurisdiction there is more flexibility.

The transfer process is as simple as a UK transfer and yet can offer several tax planning opportunities (see below).

QROPS Tax Planning opportunities

1. Income tax planning

Complex interaction between the country the client is moving to and the jurisdiction the pension is moving to (in particular double taxation agreements).
The jurisdiction of the QROPS needs to be tax neutral.
Equally importantly, the benefits need to be structured tax efficiently from the point of view of the taxation regime in the country of residence.

2. The 'five year' rule

After 5 full tax years reporting requirements to HMRC cease.
Unauthorised scheme payments will no longer be reported to HMRC.
Potential to avoid annuitisation at 75 and to transfer members in ASP.
Potential to exceed the 30% maximum Tax Free Cash allowable in certain regimes.
Investment in residential property is allowed by some jurisdictions.

3. IHT and inter-generational planning

After 5 years' non-residency the fund becomes subject to local taxes.
Penal taxes on death, as applied to UK registered pension schemes will no longer apply.
A UK-domiciled individual over 75 will still be liable to IHT on any residual fund on death.
Nevertheless, careful structuring of the pension benefits can avoid UK IHT.