INTERNATIONAL PENSION COMPARISON

There are three schemes that frequently use an offshore bond as their investment element. The information below details the differences between these schemes and how they would work for a UK resident scheme member.

SIPP

What is it?
A Self Invested Personal Pension (SIPP) is a UK-based pension scheme that can invest in the full range of Her Majesty's Revenue and Customs (HMRC) approved investments. This allows a greater range of investments choices than would be available under a personal pension scheme.

How is a SIPP funded?
It can be funded by a transfer from another pension scheme or directly by the scheme member.

Are there restrictions on the scheme member's residence?
A SIPP is available to both UK and non-UK residents. Some SIPP providers may have restrictions for making regular contributions for non-UK residents.

What if the scheme member holds a SIPP and moves to the UK?
Nothing changes.

When can benefits be taken?
The scheme member can start taking benefits from the age of 55 (this is due to change to age 57 from 2028).

Is it subject to UK IHT?
No. Funds held within the SIPP are treated as being outside of the estate for IHT.

What is the maximum Pension Commencement Lump Sum (PCLS) that can be taken?
The maximum PCLS (or tax-free cash) that can be taken is 25% of the value of the scheme. Depending upon the scheme member's country of residence, this could be tax free.

Is it subject to UK income tax if the scheme member is UK resident?
Following the introduction of Pension Freedoms in 2015, there are various options as to how benefits can be taxed. Ordinarily a regular income from the scheme will be arising income for UK income tax, however, if a PCLS is not taken then 25% of each regular payment could be taken tax free.

What is the tax treatment of benefits if the member is not UK resident?
This will depend on the scheme member's country of residence, any Double Taxation Agreement (DTA) in place between the UK and that country, and which country is granted taxing rights in respect of pension income/ benefits under the DTA.

What else do I need to know about SIPPs?
- Can be transferred to an overseas scheme at a later date where it may be more appropriate for the scheme member.
- Taxable events must be reported to HMRC irrespective of where the scheme member is resident.

QROPS

What is it?
It stands for Qualifying Recognised Overseas Pension Scheme (QROPS). It is a registered scheme with Her Majesty's Revenue & Customs (HMRC) that allows UK pension benefits to be transferred overseas. To achieve QROPS status the Overseas Scheme has to meet certain criteria and give undertakings to HMRC as specified by the relevant regulations. A QROPS differs slightly to the SIPP in that it must have a beneficial owner and trustees.

How is a QROPS funded?
Usually they are funded by a tax relieved transfer from a registered UK pension scheme. Depending on the jurisdiction and the rules of the scheme, it may be possible for the member to make further contributions.

Are there any restrictions on the scheme member's residence?
UK residents, expats and non-UK nationals who have a UK pension can transfer their pension benefits to a QROPS.

What if the scheme member holds a QROPS and moves to the UK?
Whilst QROPS are primarily thought of as pension products for non-UK residents, there is nothing to stop a UK resident from holding one. No changes need to be made to the scheme if the member becomes UK resident.

When can benefits be taken?
If the scheme member is not UK resident then, depending on the pension legislation/rules in the jurisdiction where the scheme is administered, benefits could be taken from age 50. However, if the scheme member is UK resident, 55 is the earliest age (This is set due to increase to age 57 from 2028).

Is it subject to UK IHT?
Generally not subject to IHT for both non-UK and UK resident. A death tax may be applied in the county where the member is resident at death.

What is the Maximum Pension Commencement Lump Sum that can be taken?
Depending on the jurisdiction where the scheme is administered, a lump sum of up to 30% can be taken. However, in most jurisdictions the maximum amount is 25% as they are required to follow UK pension rules if they have been funded by a UK tax relieved transfer from a UK registered pension scheme.

Is it subject to UK income tax if the scheme member is UK resident?
Depending on the scheme rules it may be able to follow the post April 2015 pension freedoms rules.

Does a Double Taxation Agreement need to be in place with the UK?
The QROPS jurisdiction must have an appropriate DTA with the UK or else satisfy certain conditions.

What else do I need to know about QROPS?
It is not possible to transfer a QROPS to a QNUPS, however, it can be transferred to a SIPP.

On 9 March 2017, HMRC introduced an overseas transfer charge of 25%. The charge is a flat rate and applies to the original transfer value from the UK registered pension scheme to a QROPS, or from a QROPS to another QROPS. The following are exempt of the overseas transfer charge:

1. the scheme and the member are resident in the same jurisdiction;
2. the scheme and member are both in an EEA country;
3. the transfer is being made to an employer sponsored scheme (there is no restriction on where the QROPS is located or the member resident);
4. the transfer is made to a scheme set up by an international organisation and at the point of transfer the member was an employee; or
5. the transfer is made to an overseas public service pension scheme and at the point of transfer the member was an employee of the employer which participates in the scheme.

If the member's circumstances change within the first 5 years following the transfer so that the exemption would no longer apply, the overseas transfer charge would apply at that time.

NB: The overseas transfer charge is in addition to the test against the available Life Time Allowance (LTA) where the excess is taxed at 25%.

NB: The Isle of Man is not part of the EEA. Therefore a transfer to a QROPS registered in the Isle of Man would be subject to the overseas transfer charge unless the member is also a tax resident of the Isle of Man.

QNUPS

What is it?
It stands for Qualifying Non-UK Pension Scheme (QNUPS) which was introduced in 2010. Unlike a QROPS, a QNUPS does not have to be registered with HMRC.

How is a QNUPS funded?
It is funded by the scheme member as either a lump sum or a series of regular payments. UK tax relieved pension funds cannot be transferred to a QNUPS.

Are there any restrictions on the scheme member's residence?
No. A QNUPS can be held by both UK and non-UK residents.

What if the scheme member holds a QNUPS and moves to the UK?
Like QROPS, QNUPS are generally used by non-UK residents looking for an international pension scheme. However, they are also used by UK residents who wish to hold more esoteric assets in their pension fund or who have already reached the limit of their lifetime allowance. No changes need to be made to the scheme where the member is a UK resident.

UK resident members, and those returning to the UK should avoid holding assets that are considered highly personalised if the underlying investment is a portfolio bond.

When can benefits be taken?
If the scheme member is a non-UK resident then, depending on the pension legislation/rules in the jurisdiction where the scheme is administered, benefits could be taken from age 50. However, if the scheme member is UK resident, 55 is the earliest age (this is due to change to age 57 from 2028).

Is it subject to UK IHT?
Providing it is structured in the correct way then no, it is not subject to UK IHT.

The amount placed in the QNUPS must generally be sufficient to

provide the income or additional income required in retirement. If assets well in excess of this amount are held then HMRC have intimated that the IHT protection of the scheme could be investigated.

Maximum Pension Commencement Lump Sum
Depending on the jurisdiction where the scheme is administered a lump sum of up to 30% can be taken. However, in most jurisdictions the maximum amount is 25%.

Is it subject to UK income tax if the scheme member is UK tax resident?
As per the other two schemes mentioned, depending on the scheme rules it may be able to follow the post April 2015 pension freedoms rules.

Income is taxed in the UK as normal pension income. Depending on the jurisdiction of the QNUPS, there may be further taxation of the underlying investments when realising funds to provide pension income.

Does a Double Taxation Agreement need to be in place with the UK?
No.

What else do I need to know about QNUPS?
- No limit on contributions, or lifetime limits on the fund size.
- As not registered with HMRC, no reports have to be made regarding benefits given to the holder.
- Depending on the scheme it may be possible to hold physical property.
- There is no UK tax relief on the amount invested.
- There is no HMRC reporting required as the scheme is not capable of receiving UK tax relieved funds.

IMPORTANT NOTE

The information contained in this document is based on RL360's understanding of HMRC legislation as at March 2021.

Whilst every care has been taken, RL360 cannot accept responsibility for its interpretation or any subsequent changes. This information is not intended as a substitute for legal or tax advice.