LONDON & COLONIAL
INNOVATION IN PENSIONS

Press Release

Commissioned Article for Pensions Age: London & Colonial's Adam Wrench looks at some of the options for Expats returning to the UK.

It would be a fairly natural assumption for someone who has been living and working overseas, and who has built up funds in a Qualifying Registered Overseas Pension Scheme, that all they have to do upon their return to the UK is to transfer those funds into a UK scheme. Simple. Job done.

Yet, as with almost any area of personal financial planning, each and every individual will be different. As each will have their own specific needs and circumstances it is essential that they receive expert, and tailored, professional advice.

Some returning may be advised to do nothing at all and remain invested in their QROPS, or perhaps transfer to an alternative UK pension fund or maybe even to take out a UK SIPP. If they own overseas property, this adds an additional level of complexity which will also need to be considered.

However there is a compelling case for remaining in a QROPS, even for a newly returned UK resident.

A very important factor worth considering is that as a QROPS is not a UK registered scheme it remains unaffected by the UK Lifetime allowance. As such the fund can grow in excess of the 2014/15 LTA limit of £1.25m without the same tax consequences that would apply to a UK scheme (i.e. the incurrence of a tax liability of 25% or 55%).

Furthermore, in the event that death occurs before taking any benefits, then 100% of the fund would be available as a tax-free lump sum in the same way as would be the case with a UK pension.

The ability to retire at the same minimum retirement age of 55, as with a UK pension, is also available and 25% of the fund value could still be paid out as a tax-free pension commencement lump sum, in exactly the same way as is currently permissible under UK pension's legislation.

The remaining 75% of the fund however must be used to take an income in retirement, with this income derived from either an annuity or more commonly these days by way of income drawdown. The same 150% GAD maximum basis calculation is used as with a UK pension.

The income tax treatment of any retirement income can also be beneficial for a UK resident member of a QROPS scheme. If an individual has a Gibraltar based scheme, then income tax at source is deducted from any income payment and at the Gibraltar rate of just 2.5%. However, a UK member of such a scheme would still have to declare this income to HMRC via self-assessment.

Having said that, as the income is coming from a foreign pension scheme, and not a UK one, under S575 of ITEPA 2003 only 90% of this income would be liable for UK income tax (essentially 10% of the income is therefore free from UK income tax and with the personal allowance still available in the usual way). The subsequent tax bill would then be reduced by way of a tax credit in respect of the 2.5% Gibraltar income tax borne at source, by way of unilateral tax-relief.

In the event of the policyholder dying after the commencement of benefits there is another advantage (aside from the unfortunate event of their demise) to be had for a UK member. Instead of the full fund value suffering the 55% tax deduction for lump sum death benefits, it is only the original transfer value from the UK scheme that would be subjected to this charge. Therefore, all investment growth achieved since the original transfer would escape fully the 55% tax usually applied to lump sum death benefits.

Should the spouse of a policyholder not require a lump sum upon their death, then as with a UK pension the fund can be transferred over to them where they will be able to continue to draw an income from it for the remainder of their lifetime.

In order to avoid creating an IHT problem for the named beneficiaries of any lump sum death benefits (either paid out upon a member or member spouse's death) it may also be advisable to set up a Spousal By-pass trust, to allow any UK domiciled beneficiaries to receive the lump sum in an IHT efficient way.

In the past a QROPS used to be a high fee solution (commonly costing between £1250-1750 per annum), and so it was a question of maths as to whether the benefits justified the fees associated with accessing them. However with their popularity having grown considerably over more recent years, and with the increased competition associated with such growth, it is now possible to find very costs effective solutions. With annual fees as low as £475 pre-retirement and £650 post-retirement, this now brings them into line with many of the fees associated with SIPPS.

So to summarise, for Expats returning to the UK it really can make sense to remain invested in a QROPS, as they provide access to more tax efficient income (and enhanced death benefits) that UK SIPPs simply cannot match.

-ENDS-

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Notes to Editors

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