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INNOVATION IN PENSIONS

Press Release

International Adviser Feature - "HMRC crackdown on QROPS"

Following an industry-wide crackdown on abuse, it comes as little surprise that HM Revenue & Customs has recently turned its attentions to qualifying recognised overseas pension schemes with last month's publication of its proposed changes to the regulations surrounding QROPS.

Designed to tighten up on the reporting requirements for scheme managers, these new proposals follow on from an announcement originally made by the Chancellor in his 2012 Budget, where he warned that reporting requirements for QROPS managers would be coming under the spotlight.

What do these rules entail?

In a bid to stem growing fears of misuse within the marketplace, these new proposals will see all UK scheme managers expected to notify HMRC of the date that any QROPS member's principal residential address falls outside of the UK, and even former QROPS will be required to follow these new rules, or run the risk of incurring a hefty fine.

QROPS are already expected to report any payments made out of all funds transferred from UK pension schemes, but under the new rules they will still be expected to do so even if they are no longer considered to be a QROPS; and with HMRC having already agreed that this data can be reported electronically, providing HMRC with the information they require should prove to be far simpler and less burdensome, thus leaving no excuse for non-compliance.

Those who do fail to notify HMRC of any reportable fund changes within the revenue's specified time limits will be at the mercy of a new penalties regime which, frankly, should ensure that all the activities of any schemes that may have already been struck off can still be tracked, and that the whereabouts of those clients' pension funds are known at all times.

This tightening up across the QROPS industry as a whole comes in the face of its growing popularity, as increasing numbers of expatriates are exploring their overseas pension options and the benefits of QROPS are becoming more widely recognised.

The beauty of a QROPS

The beauty of a QROPS lies in its ability to allow expats and emigrants to have their pension fund payments taxed in the jurisdiction in which they are resident rather than still be subject to UK rules. For example, one of the main drivers for those clients who have been non UK resident for more than 5 tax years preceding death, is that any lump sum death benefit can be paid without the UK 55% 'death tax' together with the fact that any payment will fall outside of any liability for UK inheritance tax.

Recent figures from the Office of National Statistics have revealed that of the 352,000 citizens who emigrated last year, over 239,000 left for non-work related reasons. It's a fair assumption that many of these were retirees, in search of a higher standard of living. Where this was in fact the case then undoubtedly any UK pension funds have the potential to be transferred with them.

It has also been estimated that of those British expats who are planning to move abroad upon their retirement, over three quarters will be reliant upon an income coming from an alternative source to that of future paid employment;

and of these, nearly 10% have indicated a planned sole reliance upon their UK pension.

Reports of expats that have been living in Spain for a number of years now having to consider returning to the UK has been widely covered. One of the main factors for this is the fact that these expats have seen an erosion of disposable income following the currency fluctuations of the Euro against the pound over the last 10 years. Little wonder then that QROPS have increasingly become the obvious choice for those who qualify, and who wish to have their pension fund denominated in a different currency to mitigate any currency risk.

The very fact that HM Revenue & Customs has now revealed the scope of their new regulations to tighten up the management of QROPS, just further goes to demonstrate how mainstream and increasingly popular they have become for genuine expats. Indeed, if transfers from UK-based pension schemes into QROPS continue at their current rate, it has been estimated that the market size is set to increase from its current level of approximately £5bn, to £10bn over the next 3 years.

Strike a balance

HMRC has now given those who manage QROPS up until 21st June to put forward their thoughts concerning the latest proposals, and it's a debate that will doubtlessly ruffle some feathers. However, in our opinion, these new proposals are certainly a step in the right direction and provide welcome clarity.

One of HMRC's greatest concerns has been what happens to a pension pot that has been transferred out of the UK into a QROPS scheme, should that scheme subsequently close. After all, we've already played witness to several schemes, based within the tax havens of Guernsey and Cyprus, which suddenly de-listed last year.

Not all transfers of UK schemes go smoothly with some members having either lost some, or in extreme cases all, of their pension funds through a combination of steep charges and / or blatant fraud; and it is for this reason that HMRC now wants all QROPS managers, no longer accepting transfers but still administering funds, to provide them with regular updates going forward.

While some may argue that these new requirements are too stringent, we should not forget that there are around 350 schemes that currently fall into this category, and which need to be protected.

QROPS are, on the whole, generally used for the purpose for which they were intended - that is as an overseas pension scheme for those British subjects leaving UK shores to permanently emigrate or retire abroad; and we believe that this new legislation spells good news for the QROPS industry, as it will help provide clarity and stability to the market place.

Once it has been granted HMRC's seal of approval, an individual QROPS scheme will be able to receive a transfer of UK pension benefits without being hit by the steep penalties associated with unauthorised transfers. Furthermore, where HMRC finds abuse of the QROPS rules they will undoubtedly, as has been seen in recent times, simply remove the QROPS in question from their approved list at the earliest possible opportunity.

QROPS jurisdictions of choice

But despite these proposals going a fair way towards illustrating that HMRC means business, and that any abuse will not be tolerated, we would be naive to think that the future will be problem free. By their very definition, QROPS financial centres are located "offshore", and as such many will fall outside of the jurisdiction of the British courts.

However, most financial advisers are by now hopefully beginning to realise the long term benefits of using a QROPS; especially when coupled to the added security that the selection of a QROPS jurisdiction and QROPS provider which offers both UK-lookalike regulation and scheme governance can provide.

We believe that in future it will be those QROPS providers offering familiar brand names together with a UK presence that will be best placed to offer the reassurance of UK-lookalike scheme governance and regulation that financial advisers will be looking for, and which in turn will translate into added peace of mind for their clients.

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Notes to Editors

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