QROPS: Time to make a move?

In times like these, when governments are carrying too much debt, there's one thing of which we can be certain: they'll use taxes to try to balance the books.

Back in March, the UK government announced during its annual Budget speech that it would allow people with company or private pensions to opt for a lump sum cash-out on retirement – transforming the current pensions system. The initiative was named *Freedom and Choice in Pensions*. That title may be true but, whilst it has yet to be confirmed, one could assume that the lump sum withdrawn will be subject to UK tax at the marginal rate[1][2], so it could equally be called *A massive tax recoup for the Government*.

In the days of annuity-only pensions, a useful way for non-UK residents who had worked in the EU to claim their pension was to transfer it to a QROPS – an overseas trust, usually based in a low-tax territory, which would pay out an annuity whilst putting the rest of the money to work for you.

Is it still worth transferring pension money to a QROPS?

The advantages of a QROPS may, on the face of it, seem to have been wiped out by the new system. However, that really depends on your own preferences. The main advantage apart from the lump sum, is control: you decide to which of the approved schemes you wish to transfer your money. Thus you can choose to place the fund in a low-tax jurisdiction, with established investor protection laws, such as Gibraltar, Guernsey or the Isle of Man.

Also there many other advantages, for example: in the event of the pension-holder's death, all of the fund passes to the family or estate free of inheritance tax; and up to 30% of the fund can be withdrawn any time after the holder's 55th birthday and that does not automatically kick-start drawdowns from the remaining fund.

A cloudy future

---

[1] HM Treasury White Paper: Freedom and choice in Pensions, March 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294795/freedom_and_choice_in_pensions_web_210314.pdf

[2] HM Treasury White Paper: Freedom and choice in Pensions: government response to the consultation, July 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/332714/pensions_response_online.pdf

The difficulty right now is that, even after the UK government published its post-consultation conclusions in July, it is still not clear where QROPS fits in to all these changes. Changes, such as the rate of tax on death, are now due to be announced in the *Autumn Statement*, which will be made on 3rd December of this year. Hopefully, the Autumn Statement will also clarify exactly where QROPS will stand in terms of benefits and taxation.

On analysing the government White Paper, as it stands today there seem to be four possible scenarios: an outright ban on transfers; transfers taxed; special restrictions imposed; or the *status quo*.

If there were to be an outright ban on QROPS transfers on the basis that the UK government no longer prevents pensioners from taking pension fund capital from the UK, pension-holders would have to cash out and pay tax first.

Alternatively, QROPS transfers may be taxed in the same way as pension redemptions. Both of these scenarios would raise huge questions vis-à-vis the EU's freedom of movement of capital rules and could provoke a pro vs. anti-Europe debate just before a general election – something the UK government may relish.

Another possibility is that QROPS transfers will be allowed to continue, although subject to restrictions that prevent them being cashed in (at least for a period and at least without generating a UK tax charge).

The final foreseeable possibility is that the QROPS system remains unchanged.

What to do

If the first or second scenarios were to happen, it could be worth transferring to a QROPS now, to get in before the door closes or the option becomes more expensive.

The third scenario – the imposition of special restrictions – right now seems to be the more likely. That would also likely favour transferring to a QROPS now, then transferring back to the UK, unless there were a threat of penalties and restrictions for moving pension money back.

The fourth scenario would mean that there was no urgent need to act and you could wait for further clarification; although if any of the other scenarios were eventually to occur, there would be no recourse to change back.

If any changes are finally made to QROPS, the implementation date of the new system will be 6th April 2015. That means there are potentially less than seven months left to take advantage of the scheme's advantages. If you are considering transferring to a QROPS, it's advisable to speak to an independent advisor.

For further details please contact us by e-mail on info@mbmg-investment.com or call +66 2 665 2536.

Disclaimers:

1. While every effort has been made to ensure that the information contained herein is correct, MBMG Investment Advisory cannot be held responsible for any errors that may occur. The views of the contributors may not necessarily reflect the house view of MBMG Investment Advisory. Views and opinions expressed herein may change with market conditions and should not be used in isolation.

2. With investment comes risks. Please study all relevant information carefully before making any investment decision.

3. An investment is not a deposit, it carries investment risk. Investors are encouraged to make an investment only when investing in such an asset corresponds with their own objectives and only after they have acknowledge all risks and have been informed that the return may be more or less than the initial sum.