Technical

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 is a UK-based pension scheme that was first introduced in 1989.

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?

SIPPS are available to both UK and 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 57 in 2028).

Is it subject to UK IHT?

No.

What is the Maximum Pension Commencement Lump Sum that can be taken?

A maximum lump sum of 25% of the scheme value can be taken. 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 lump sum isn't taken then 25% of each regular payment can be tax free.

What is the tax treatment of benefits if the member is not UK resident?

This will depend on the scheme members country of residence, any Double Taxation Agreement(DTA) in place between the UK and that country and finally, 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 is more appropriate for the scheme member.
- Taxable events must be reported to Her Majesty's Revenue and Customs (HMRC) irrespective of where the scheme member is resident.

QROPS

What is it?

A Qualifying Recognised Overseas Pension Scheme which was introduced in 2006.

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. However, where the scheme member is not going to be resident in the same country as the scheme or one/both are resident in non-EEA countries, a 25% transfer charge may apply.

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.

Is it subject to UK IHT?

No.

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 rules if they have been funded by a UK tax relieved transfer from a UK registered pension scheme.

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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.

QNUPS

What is it?

A Qualifying Non-UK Pension Scheme 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.

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.

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.

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 QNUP 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.

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
- No HMRC reporting
- 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 February 2017.

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.