QROPS: the benefits of retiring in SA for UK expats

As leading economists and governments continue to warn of bleak economic times ahead, financial experts believe that Qualifying Recognised Overseas Pension Schemes, or QROPS, can help UK expatriates be comparatively resilient through tough economic conditions.

By Ross Pennell 9 Sep 2013

Despite the deepening pension crisis and the headwinds prevailing in the Eurozone, the majority of UK expats in South Africa and beyond, can be relatively positive in their outlook. Foreign residents are fortuna in many ways; with the correct financial advice and planning they can use their expat status to their financia advantage and achieve a far greater disposable income compared to their friends and family back home.

QROPS are overseas pension schemes designed to provide a safe and secure retirement income for pension holders living abroad. Since legislation came into force in 2006, QROPS have received over £1.3 in transfers, according to the UK Office for National Statistics. Originally Guernsey was the most popular jurisdiction for QROPS transfers but since the imposition of new HMRC rules in 2012, alternative jurisdictions such as Gibraltar and Malta have become HMRC approved and are attractive to South African residents considering QROPS.

While Guernsey QROPS were delisted by HMRC, Gibraltar and Malta are both members of the European Union, have EU freedom of movement legislation to fall back on and are therefore stable and resilient against such a delisting.

Even though a pension saver may be tax resident in one country, such as South Africa, the pension reside in another country, which is Gibraltar or Malta. Pension funds grow free of both income and capital gains ta provided that the member has been, or intends to be, non-UK resident for at least five complete tax years. QROPS provide a wide range of benefits relative to leaving a deferred pension in a UK scheme:

Increased tax free retirement lump sum

QROPS can pay a tax free lump sum of up to 30% of the value of the fund at retirement age, which can be as early as age 50 in certain jurisdictions. The tax free lump sum limit for UK pension schemes is currently set at 25% and the earliest retirement age 55.

Increased pension

QROPS afford the member greater choice and flexibility in how and when their pension is drawn down, an also allow the member to take a larger annual pension income than currently possible with UK pensions or annuities.

Tax efficient pension income

QROPS pensions, like UK pensions, may be subject to a deduction of tax at source, although certain jurisdictions may offer more favourable tax rates than the UK. A further consideration is the effect of any Double Tax Agreements that may exist between the country where your pension resides, for example Mal and the country of residence in retirement, such as South Africa.

Estate planning

Provided that the member and their nominated beneficiaries are non UK resident for at least 5 complete ta years, on demise of the member, 100% of the residual pension fund can be paid without deduction or liability to any UK tax or recovery charges.

Currency of choice

Whereas a UK pension can only be received in Pounds Sterling, QROPS enables expatriate clients to denominate their pension in the currency of their country of residence, thus mitigating any foreign exchang risk.

It therefore comes as no surprise that the demand for QROPS is soaring as a growing number of foreign residents discover the many qualitative and quantitative benefits, including the substantial tax advantages, arguably the most significant of which is the avoidance of any death taxes on lump sum payments to beneficiaries, which can be as high as 55% in the UK.

Whilst there are obvious advantages to a QROPS scheme it is vital that diligent research is undertaken in relation to any QROPS transfer.

If you are thinking of transferring your UK pension to a QROPS, make sure the QROPS is qualified and recognised by HMRC and is structured in a reputable and valid jurisdiction. An appropriately qualified and experienced independent financial advisor will be able to conduct the necessary due diligence on your behalf and ensure a legal and fully compliant transfer.

ABOUT ROSS PENNELL

Ross is the founding CEO of Advent Wealth. Following a Business, Economics and Finance Honours degree at Loughborough University, Ross qualified as a Chartered Certified Accountant whilst working in Investment Banking in London. Ross' advisory experience covers the full spectrum of financial products and services including, inter alia, Insurance, Brokerage, Private Equity, Real Estate and Tax Structuring.

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