

COMMERCIAL • PRIVATE CLIENT • PENSIONS & BENEFITS

Supporting structures

Qualifying Recognised Overseas
Pension Schemes (QROPS)

Frequently Asked Questions

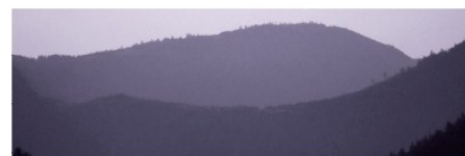


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CAREY GROUP

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Frequently Asked Questions

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Frequently Asked Questions

The following information is for guidance only and does not constitute tax advice – anyone considering a QROPS is strongly recommended to take independent tax advice before proceeding.

1. What is a QROPS?

A Guernsey trust established under the Income Tax Guernsey Law 1975 with approval under S150 and 157A. The trust allows membership of both Guernsey residents and non-Guernsey residents (who benefit from exemptions granted under S40 (ee) of that law)

The scheme has also received approval from HMRC and been granted Qualified Recognised Overseas Pension Scheme status which allows the scheme to accept transfers from UK pension schemes and allows UK schemes to make such transfers.

2. How can I check if this scheme or any other scheme has QROPS approval?

HMRC maintain a website where you can check a scheme's status at:

<http://www.hmrc.gov.uk/PENSIONSCHEMES/qrops-list.htm>

3. Who are the Trustees and Administrators of the QROPS?

The Trustees are Carey Pensions and Benefits Limited and the administrators are Carey Pensions Administration Limited both of whom are licensed and regulated by the Guernsey Financial Services Commission.

4. What is the “5 year reporting rule” and why does it matter?

The Trustees of the QROPS have a duty to report all payments to beneficiaries from the QROPS to HMRC if the Member of the scheme has been resident in the UK during the previous 5 tax years (see *19 below*). In effect this means that (while the scheme is governed by Guernsey pension rules) it will continue to comply with many aspects of UK pensions legislation until you have been out of the UK for a full 5 years.

It should be noted that the payment of death benefits to a member's dependents within the 5 year reporting period may be subject to UK taxation – please see note 31 below.

After 5 years the HMRC reporting requirement falls away.



Frequently Asked Questions

5. Who can transfer a UK pension into a QROPS?

A QROPS is most suited to Individuals who have left the UK or are in the process of leaving and intend to remain outside the UK permanently e.g. for retirement or employment purposes.

UK based individuals may transfer to a QROPS. This is treated as a “Benefits Crystalization Event” and may have benefits for some, although standard UK reporting requirements to HMRC remain (see point 11). It is recommended that any UK residents seeking a QROPS solution take independent tax advice before proceeding.

6. Who cannot join the QROPS?

Carey Group QROPS are not ordinarily open to UK resident individuals and there may be restrictions on participation for certain other countries (e.g. the U.S.A.)

7. What assets can be transferred?

Any UK pension scheme where rules allow transfers, by way of:

- transfer of cash
- Registered pension scheme from a UK SIPP or SSAS and certain other UK pension schemes may permit an in specie transfer of assets, others may not.

8. Is there any pension which cannot be transferred?

- state pension
- guaranteed annuity payments (e.g. from an insurance company)
- some guaranteed rights (usually only if in draw down)

NB Not all pension schemes allow a member to transfer to another scheme - particularly the case for employer sponsored schemes – you should check with the UK Trustee to see if the scheme allows a transfer.



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9. Is the protected rights element of a UK pension accepted for transfer?

Yes, provided the UK scheme rules allow this. The Trustees will need to submit a form to HMRC at the time of the transfer and you will need to confirm in writing that you understand that you are giving up the protection afforded under UK pensions legislation.

10. Can I transfer into the QROPS once I have taken a payment on a final salary scheme?

Not unless the rules of the final salary scheme allow you to. In most cases you may only transfer a final salary scheme pension into the QROPS prior to drawdown. Note that it is not always prudent to transfer final salary benefits and it is recommended you take independent financial advice before doing so.

11. Is there a minimum / maximum amount?

The minimum transfer value which we will accept is usually c. £100,000 or currency equivalent. There is no maximum limit that may be transferred to and / or accumulated within a QROPS. However, a transfer from a UK registered pension scheme to a QROPS will be considered by HMRC as a 'Benefit Crystallisation Event' which must be tested against the individual's lifetime allowance. Tax may be payable on any funds exceeding the client's lifetime allowance at the time of transfer. It is important that all applicants take independent financial advice on this point.

12. Is there any restriction on investments?

All investments are subject to trustee approval but the QROPS allows for a wide range of investments including cash, bonds, equities, investment funds, hedge funds, life insurance, structured products and even real estate (but non-standard investments such as properties involve a lot more work therefore pension administration costs will be higher.)

13. Can I manage my own investments?

No. The Trustees must retain ownership and control over the QROPS assets. They may appoint an investment manager on a discretionary basis. A member cannot be appointed to manage investments directly. The Trustees may consider investment recommendations from a member (or from their IFA on their behalf). And will place the deals.

Yes.



Frequently Asked Questions

14. Can I make further contributions to the scheme?

Yes. The Trustees may need to request further due diligence information on the source of funds.

15. If I am retired and receiving benefit can I still transfer my pension to a QROPS?

Yes, in most cases you can transfer a pension that is already in drawdown, however, if you are receiving a pension in the form of guaranteed annuity payments from a life insurance company it will not be possible to transfer this into a QROPS.

If you have been out of the UK for less than 5 tax years and your pension has not been used to purchase an annuity then you may transfer your pension to the QROPS and continue to receive pension income from the QROPS equivalent to that you were receiving in the UK (based on UK GAD rates). Your level of income may be reviewed every 3 years.

If you have been out of the UK for less than 5 tax years it is important to note that all payments to you will need to be reported to HMRC. If you were to die within that 5 year period there is a risk that the payment of death benefits to your dependants may be taxed. See note 31 below.

If you have been out of the UK for more than 5 tax years and your pension has not been used to purchase an annuity then you may transfer your pension to the QROPS and continue to receive pension income from the QROPS equivalent to that received in the UK (based on UK GAD rates) or alternatively based on an actuarial calculation provided to the Trustees. Under this scenario the level of income you receive may be reviewed every 3 years.

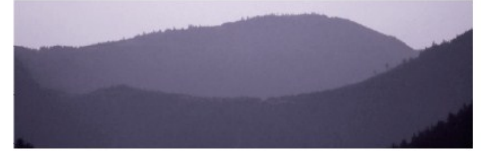
After you have been out of the UK for 5 full tax years or more the QROPS operates entirely under Guernsey tax rules and payments do not need to be reported to HMRC. Payments from the QROPS should not be subject to UK taxation after the 5 year period has elapsed.

16. Do I have to purchase an annuity when I retire?

No, so any residual assets in trust after your death may be distributed to your nominated beneficiaries and not to the annuity provider.

17. Can I take a tax free lump sum when I retire?

Yes. You may take up to 30% of the pension fund as a tax free lump sum on reaching normal retirement age (provided you have not already done so from your UK pension)



Frequently Asked Questions

Therefore for any QROPS approved plan in Guernsey, 70% of the member's plan must be retained to provide an income for life and maximum you can take as a tax free lump sum is 30%.

You must take your lump sum before you start to drawdown your pension.

18. If I have received the maximum lump sum in the UK can I receive a further amount once the pension is transferred to the QROPS?

No.

19. What are the reporting requirements?

To HMRC:

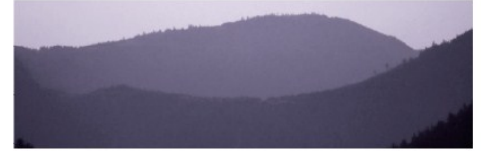
details of all benefit payments made from the plan when a Member is either:

- Tax resident in the UK at the time the payment is made or;
- Although not tax resident in the UK, they have been resident in the UK earlier in the tax year on which the payment is made, or in any of the 5 tax years immediately preceding that UK tax year.

To the Guernsey Administrator of Income Tax:

- details of all benefit payments made in respect of Guernsey residents,
- deduction of tax from all benefits made in respect of Guernsey residents which must be paid to the Tax authority in accordance with the members coding notice,
- financial statements showing the status of the members pension

All members are responsible for reporting payments received from the QROPS to the Tax Authorities in their country of residence and will be expected to confirm that they understand this and undertake to comply with this requirement. We recommend all members take their own independent financial advice in respect of this.



Frequently Asked Questions

NB If the tax authorities in a member's country of residence require information from the trustee in respect of payments made from the pension scheme we will take advice and where appropriate will provide this information to them – and all costs in relation to this will be borne by the members pension plan.

20. Can I withdraw all of my pension as lump sum after 5 years when the HMRC reporting requirement ceases?

No, definitely not. The QROPS continues to operate as a pension scheme (under Guernsey rather than UK rules) and the intention remains to provide you with a retirement income for life.

21. Can I borrow money from the QROPS?

You may be able to borrow:

- once you have been outside UK 5+ years
- you are not in drawdown
- the Trustees agree
- maximum amount is 30% of the pension assets
- the loan must be a commercial arrangement – interest will be charged at a commercial rate and must be paid at least annually
- the loan is for specific purpose – the trustee will want to know what loan is for and will consider whether it is appropriate
- the trustee will need to take security
- the loan plus any outstanding interest must be repaid in full before drawing a pension

22. Can the Trustee purchase residential property?

HMRC have recently issued clarification on this point – it is no longer possible to hold a residential property in a QROPS.



Frequently Asked Questions

23. When can I take a pension?

You can commence drawdown at anytime from age 55 and must start to take benefits from age 75.

24. If I take my lump sum must I then start to receive a regular pension benefit?

No. Guernsey pensions legislation changed in May 2011 and it is now possible to take your lump sum before you commence drawdown (subject to you reaching normal retirement age).

25. Can I take my lump sum and benefits in tranches?

Yes, you can split your pension sum into a number of tranches and take benefit over a number of years up to age 75.

e.g. your total pension 'pot' is £500,000 you decide to split this into 3 tranches of

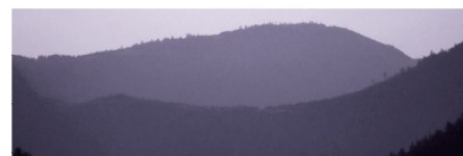
- A £200,000, B £100,000, C £200,000
- At age 55 you decide to draw on tranche A, could receive a lump sum of £50,000 and a pension of £x
- At age 60 you decide to draw on tranche B which is now worth £90,000 you could receive £22,500 lump sum and a pension of £x
- At age 68 you decide to draw the balance of tranche C, which is now worth £250,000 you can take a lump sum of £65,000 and a pension of £x

26. Once I am in draw-down how frequently is the amount I receive as a regular pension reviewed?

The Guernsey rules provide pension payments can be reviewed every three years.

27. How will you calculate my pension?

We will use UK GAD tables to calculate your pension payments, the trustees may use their discretion to make pension payments of up to 100% of the UK GAD calculation if you have been out of the UK less than 5 full tax years or up to 120% of GAD if more than 5 full tax years.



Frequently Asked Questions

28. What pension choices do I have?

You can elect to receive a regular payment for your life (or until the plans' assets are exhausted) this will be based on the options set out in 19, or;

You can elect to purchase an annuity from one of the annuity providers which will then pay you a pension for your lifetime

If you are in a draw-down scheme you can elect to convert this to an Annuity, however once you have elected for an Annuity, it is not usually possible to cease this arrangement. You may not be able to pass any remaining assets on to your nominated beneficiaries after your death if you have purchased an annuity.

29. Is tax deducted at source on any pension payments to me?

Provided you are not resident in Guernsey no tax is deducted at source.

30. Is the QROPS subject to Guernsey tax

No. Under current legislation, provided you are not resident in Guernsey, the QROPS is exempt from Guernsey taxation.

31. Will my beneficiaries pay UK inheritance tax?

- If you have been out of the UK for more than 5 tax years then, no, the QROPS is subject only to Guernsey tax legislation. However it should be noted that any recipient of a distribution from the QROPS may have to pay tax in their country of residence depending on their personal circumstances. It may be possible to avoid this by a transfer to a QNUPS (Qualified Non-UK Pension Scheme) after 5 full tax years (please refer to Carey Group QNUPS brochure for further information)
- If you have been out of the UK for less than 5 full tax years then it is important to note that there is a risk that death benefit payments to your dependants from the QROPS may be taxed in the UK.
- If you die while in drawdown those death benefit payments may be subject to an HMRC tax charge of 55%. **It is therefore very important that you take independent tax advice before proceeding.**



Frequently Asked Questions

32. Is the QROPS subject to the EU savings tax directive (for European citizens)?

No. A QROPS Pension transfer is currently exempt from the EU Savings Tax Directive.

33. Must I take a pension at some time?

Yes by age 75 years you must be in receipt of a pension.

34. Can I take a lump sum after I have commenced taking pension benefits?

No – the option to receive a lump sum is only available at the time you first take your pension benefit, unless you have elected to take benefits in tranches as set out in 25 above (in which case your lump sum may also be taken in tranches).

35. What happens on my death?

For non-Guernsey members, and provided you have not opted to purchase an annuity, if you die any assets remaining in your pension scheme will be available to:

- Provide a pension for your spouse or dependents, or;
- Pay a lump sum to your nominated beneficiaries, or;
- Transfer the remaining funds to an approved scheme for the benefit of your nominated beneficiaries, or;
- Pay the remaining funds to your Estate.
- It is important to note that if you had been out of the UK for less than 5 full tax years at the time of your death then those death benefit payments to your dependents may be subject to UK taxation (see note 31 above).



Frequently Asked Questions

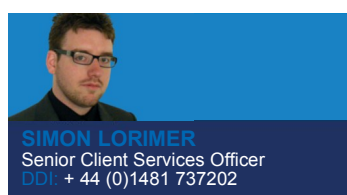
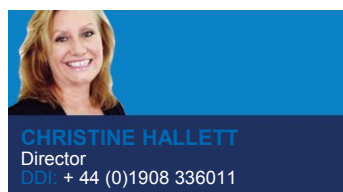
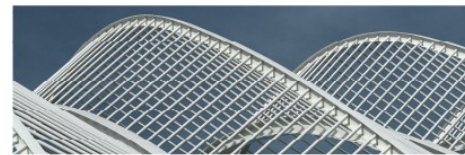
36. What happens if I return to the UK?

If you are returning to the UK to work within 5 tax years, then you will need to report your QROPS to the HMRC and, although it can remain offshore, it will fall under UK tax rules and regulations. This is not a problem if you are just returning for a holiday. If you intend to return to the UK permanently we may recommend that you transfer your QROPS pension back into a UK SIPP or alternative UK pension scheme.

37. Why choose Guernsey?

Guernsey benefits from low tax environment and has a reputable, well regulated and politically stable jurisdiction with good communications, excellent infrastructure and access to professional services firms that specialise in pension administration and trustee services. QROPS schemes have been administered in Guernsey for a number of years and Guernsey is the home for a substantial number of international pension plans for individuals all over the world.

MEET THE PENSION & EMPLOYEE BENEFITS TEAM



For further information on QROPS or any of our other schemes please contact one of our team, seen above, who will be pleased to answer any of your questions. Alternatively please contact our main number below:

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These schemes are established on the basis of current UK tax legislation regarding transfers of UK pensions overseas. All applicants should be aware that tax legislation may change in the future and that this may adversely affect the advantages offered by the scheme.

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