

## Having the Best of it Overseas.

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Gary Boal discusses how advisers can ensure expatriate clients can get the best from their SIPP arrangements.

Many financial advisers use SIPPS as part of their financial planning solutions for British expatriate clients (and equally for other thirdcountry nationals who may have built up UK pensions during previous UK-residence). The potential benefits of aggregating numerous smaller pensions into a single, larger scheme – with the added benefit of openarchitecture, personalised investment choice – are often compelling, subject of course to the usual cost/benefit analysis. Advisers can choose from a multitude of SIPP providers. But if – like some advisers – they are still using UK SIPPS for expatriate clients, are they really making the right choice? Are UK SIPPS consistent with best advice for expatriate clients? In many cases, we believe not.

### Location location

Any overseas SIPP registered with HMRC as a Qualifying Recognised Overseas Pension Scheme (QROPS) can be used for UK pension transfers. So finding the right offshore SIPP for an expatriate client first means finding the optimal offshore location. Analysis of HMRC's QROPS list (29 May 2009) shows the following numbers of QROPS schemes – see table one.

These figures include occupational schemes, as well as SIPPS, and it should also be remembered that one SIPP can be an individual bespoke scheme, ie one member, or a master trust scheme with hundreds or even thousands of members. But nonetheless, it is a clear fact that there are two preferred locations – Guernsey and the Isle of Man (IoM) – when it comes to establishing an offshore SIPP.

Table one:

Barbados	4
Bermuda	4
Cyprus	4
Gibraltar	10
Guernsey	154
Hong Kong	5
Isle of Man	108
Jersey	73
Mauritius	1
Singapore	0

The comparisons between the two locations reveal some subtle differences, and some not so subtle. When both are compared to the UK however, ie a UK SIPP, the advantages of an offshore SIPP (for an expatriate client) are overwhelming.

Firstly, in relation to the maximum tax-free lump sum, the comparison is as follows – see table two.

Table two:

\*25% for protected rights

	UK	IoM	Guernsey
Lump sum	25%	30%*	25%

It should be added that to avail of the full 30% lump sum in the case of the IoM SIPPS, the client should be UK non-resident at the time of receipt (otherwise the extra 5% would be considered by HMRC as an unauthorised payment). Indeed, it should also be understood that the full benefits of overseas SIPPS arise in situations where the client is not just abroad for five years or more, but intends to retire abroad too.

### Drawdown

The main advantages of offshore SIPPS though are in relation to the rules which govern pensions at retirement, and on the use of funds on death. Taking firstly the pension at retirement, then assuming the member does not wish to go down the annuity route, the alternative drawdown regimes pre and post age 75 are summarised in table three.

The alternatively secured pension (ASP) is a nightmare creature which, fortunately, does not exist beyond the shores of the UK. What this means is that, after the UK pension has been transferred overseas, the ASP nightmare goes away. The member's overseas SIPP is used to provide a drawdown pension instead on the basis of the drawdown rules applicable in the offshore location; in the case of Guernsey and, particularly, the Isle of Man, these drawdown rules are considerably more attractive and flexible than in the UK. The ability to drawdown based on individual actuarial calculation also allows for important differentiation to be made, for example depending upon the investment policy and associated target investment return, or the life expectancy of the client (if significantly greater or less than the average person).

The same fundamental rules of course apply to an overseas SIPP in relation to the timing of retirement (not earlier than age 50/55, and not later than age 75) and to the principle that the retirement fund (after payment of the lump sum) is used to provide a pension for life. But the fact is that there are far more flexible ways of meeting these basic principles through an overseas SIPP than a UK SIPP.

Table three:

	UK	IoM	Guernsey
Pre 75	✓ 0-120% GAD	✓ 0-120% GAD or Actuarial calc	✓ 0-120% GAD
Post 75	ASP 55-90% GAD	✓ 35-120% GAD or Actuarial calc	✓ Annuity quote or Actuarial calc

## Taxation of pension

The UK may have in place over 100 double tax agreements (DTA) with international countries, but it is a fact that key countries are missing from that DTA list, and it is equally a fact that pension income is excluded from many of these treaties. The list of countries falling into one or other of these DTA black holes includes:

- Hong Kong,
- Indonesia,
- Thailand,
- UAE.

All of which are important retirement locations for British expats. What this means is that an expatriate with a UK SIPP could have their pension in the Middle East or Far East taxed at source at up to 50% irrecoverable UK tax, even though the person concerned is no longer UK tax-resident and/or has no liability to local tax on such foreign pension income.

In stark contrast, an overseas SIPP based in Guernsey has no tax deducted at source. And even though there is an 18% tax deducted on pensions payable from IoM SIPPS, a recently improved network of IoM DTAs now eliminates that IoM tax on pensions paid to residents of Australia, Ireland and the UK (a list which is due to grow). So an overseas SIPP can bring substantial savings on irrecoverable and unnecessary UK tax associated with UK SIPPS.

## Death - the greatest divide

**Table four:**

	UK	IoM	Guernsey
Pre retirement	Fund	Fund	Fund
Retire pre 75	Fund - 35% tax	Fund - 7.5% tax	Fund
Retire post 75	Fund - up to 82% tax	Fund - 7.5% tax	Fund

The greatest divide between UK and overseas SIPPS however can be seen in relation to the final tax on death. Whereas UK authorities are zealots in the belief that pensions must not be handed down on death, others are fortunately more liberated. Table four compares how much of the retirement fund ('Fund') remains for final beneficiaries on wind-up after death.

So whereas a UK SIPP can return as little as 18% of the fund on death (because of a combination of 70% unauthorised payment tax charge and 40% inheritance tax charge), a non-resident/non-domiciled individual (ie the classical long-term expatriate) can perfectly legitimately utilise an overseas SIPP to hand down up to 100% of the fund on death. If the client is no longer UK-resident, why should they pay UK tax on their pension or on their pension estate?

## Killing the myth

Faced with such a strong list of 'reasons why', some advisers may well wish to re-consider their use of UK SIPPS for long-term expatriate clients.

It is true that, in the initial months after A-Day, overseas schemes were subject to abuse, with some rogue providers promising benefits wholly incompatible with QROPS rules. It is equally true that QROPS schemes were being offered by firms with no pensions pedigree or experience, and again advisers were right to be sceptical.

For international clients, the pensions landscape has changed, and overseas SIPPS – not UK SIPPS – are without question the best advice answer in many cases. In the same way as it would generally be unthinkable to recommend a UK-taxed insurance bond for an expatriate client, it should be equally unusual to contemplate a UK-taxed and UK-restrictive SIPP for such a client, when more flexible, quality and tax-efficient SIPPS exist offshore. The fact that such schemes are typically referred to as QROPS rather than offshore SIPPS should be no deterrent!