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Creating the perfect QROPS scheme

Having effectively changed the law in his quest to provide the perfect QROPS, Gary Boal argues that the Trinity scheme is the Holy Grail of QROPS

If advisers were asked to list five things they would wish for in a perfect QROPS scheme, I imagine the list might be as follows:

- Pension paid gross, that is, not subject to tax other than in a client's country of residence.
 - Maximum lump sum – right up to the absolute maximum permitted by HMRC QROPS rules (and more than 30% of the fund, if legitimately possible).
 - Pension flexibility – the ability to operate a personalised rate of pension draw-down tailored to the client's own situation (investment strategy, health, income requirements) rather than a pension linked to annuity rates. Additionally, the ability to defer taking a pension indefinitely, if not required, even beyond age 75.
 - Inheritance of pension fund – that is, the ability to bestow the pension fund to the (UK non-resident) member's family and beneficiaries on death, without tax.
 - A fully regulated offshore environment, where the QROPS provider is regulated by a pensions authority, is subject to detailed obligations laid down in a pensions act, and is covered by a comprehensive financial ombudsman scheme.
- If you think a QROPS offer-

ing all of these things sounds too good to be true, then Christmas may just have come early – because pension schemes established under the Isle of Man's brand new 50C legislation offer all of these things, and more.

■ QROPS quest

At Boal & Co, when we considered at length what we wanted in an ideal QROPS – for we already have QROPS in both Guernsey and Isle of Man – we could see that neither currently satisfied our ideal requirements.

Isle of Man schemes (so far) did not fully tick points one and four above, while Guernsey schemes do not deliver on two, three and five. Neither regime met all of our desires for the ideal QROPS.

We therefore embarked on a quest to find the perfect QROPS regime, something that would deliver 100%, on all five of our requirements. Nothing less than the Holy Grail would suffice. Not surprisingly, our quest was difficult: it involved changing the law, and creating a new type of pension scheme, approved under new tax laws.

But we are delighted to proclaim that our quest is now complete. The Isle of Man's new 50C pensions legislation delivers everything we have

asked for, and Trinity – our new QROPS launched 1 Nov '10 – is nothing less than the Holy Grail of QROPS. You and your clients could not ask for more in a QROPS pension transfer scheme.

What has changed? Well, the Isle of Man parliament Tynwald, passed new pensions tax law into force on 22 Oct '10. Trinity (our new scheme) was tax-approved under the new law on the same date. The law creates a new TEE type of pension scheme, approved under s50C of the Income Tax Act 1970, open to both residents and non-residents, under which authorised payments (that is, benefits paid to or in respect of members in accordance with the scheme rules) are payable without deduction of IoM tax; the investment return is free of IoM tax, in the usual way; and there is no IoM tax relief on contributions to the scheme.

■ 50C explained

In pension scheme terminology, the new 50C legislation operates on a TEE basis, (whereas all IoM QROPS approved to date have been EET*). This means that a 50C scheme such as Trinity quite clearly satisfies one of the fundamental QROPS tests.

Being open to IoM residents (and incidentally quite

* A pension scheme can be taxed (or subject to no tax relief) or exempt in relation to contributions, investment return and payments respectively. A scheme (such as a UK pension) which exempts or relieves contributions and investment return, and taxes pension payments, is described as EET. A scheme which gives no tax relief on contributions, and does not tax investment return or pension payments, is TEE.



attractive to IoM residents), the 50C scheme equally satisfies a second of the fundamental QROPS tests. Being tax-approved (under 50C) and regulated (by the IPA) it wholly satisfies the conditions of being “recognised for tax purposes” under the definitions laid down in the UK Finance Act 2004.

Conditions for IoM approval under 50C contain the familiar requirements that benefits must not commence before age 55 (other than in ill-health), and at least 70% of the tax-relieved fund must be used to provide a pension for life.

The key to 50C, though, is that (other than the requirement for trustee and administrator to be IoM-resident) the 50C approval rules introduce no additional constraints. Thus:

■ There is no requirement for

benefits to commence by a certain age; and, even better

■ There is no locally imposed 25% or 30% limit to the retirement lump sum.

■ Cast study

To illustrate, let us look at a client, John, who is aged 45, is resident in Hong Kong and has a UK pension transfer value of £200,000 (this is his tax-relieved fund).

If we assume that with cautious investment management, his adviser is able to grow that fund at 5% pa, then by age 65 John's retirement fund is worth £530,000. Under Trinity rules, John has to set aside at least £140,000 (70% of his UK tax-relieved fund) to provide his pension. But he is free to take the rest, that is £390,000, as a lump sum. In other words, his


Trinity lump sum (in this example) is more than 73% of his retirement fund. By any measure, an excellent result for John, (compared with a lump sum of only £132,500 under UK or Guernsey rules)!

■ Transfer now

One of the most common questions we get asked by advisers is – why should I transfer my client to a QROPS now, instead of using a SIPP and maybe transferring to a QROPS ahead of retirement? Well, with the arrival of 50C, and Trinity (the first scheme to be approved under 50C), that question becomes superfluous. When 100% of the QROPS investment return, plus 30% of the initial transfer value, can be taken as a lump sum, an urgent transfer is clearly in your clients' best interests. Time is very much of the essence.

Similar issues apply too in relation to any clients who have already transferred out to a Guernsey or other QROPS, which are restricted – because of local tax rules – to a lump sum of only 25% (or at best 30%) of the current fund value. Advisers with clients in such schemes will need to give urgent consideration to their clients' financial interests, now that they can turbo-charge their clients' lump sum benefits by transfer to an Isle of Man 50C scheme.

Isle of Man 50C schemes are now open to business. At Boal & Co, our quest for the QROPS Holy Grail has been fulfilled. For your clients, a final, ultimate QROPS destination awaits.

Whether your client's pension is still in a UK pension scheme, or is currently in another QROPS scheme, Isle of Man 50C schemes now completely re-define the QROPS landscape. Welcome to a new world order – QROPS, maximised. 

IA KEY POINTS

The Isle of Man's new 50C pension regime appears to offer investors a far greater degree of flexibility regarding pension lump sum payments.

According to Boal & Co, 50C rules mean investors could take lump sums of effectively more than 70% in some circumstances.

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