

Boal & Co's managing director, Gary Boal, looks at the differences between QROPS and UK SIPPS, and examines the pros and cons of Guernsey versus Isle of Man QROPS. Which pensions scheme is the most flexible and tax efficient to invest in?

In the course of meetings and correspondence with financial advisers all around the world, the questions I am most often asked in relation to QROPS are:

- "I currently use UK SIPPS for my expatriate clients and am happy with these. What makes QROPS better than UK SIPPS?"
- "What is better – a Guernsey QROPS or an Isle of Man QROPS?"

Thankfully, these questions have straightforward answers.

Firstly, some words of explanation as to what a QROPS is. A QROPS, simply, is an overseas pension scheme which satisfies requirements laid down by UK HM Revenue & Customs (HMRC) in relation to: form and timing of benefits; local tax approval; reporting of benefits to HMRC. UK pensions can be readily transferred to an overseas scheme, provided that the overseas scheme is registered with HMRC as a QROPS.

So all of the following types of overseas pension scheme can, in theory, be a QROPS:

- A company (occupational) pension scheme.
- A simple personal pension, such as a basic scheme with a limited in-house fund choice.
- A bespoke personal pension with full investment choice, such as a SIPP.

Most clients and advisers nowadays strongly prefer open architecture investment



Knowing the score

platforms, not tied to any one provider, offering the choice of funds/wraps from any investment house, life company or bank. So, recognising that the full SIPP is the pension product of the day, if you can have a UK SIPP or an overseas SIPP, what are the reasons for the QROPS (overseas) solution?

Overseas advantage

As the score card table on page 5 shows, the benefits of an overseas SIPP over a UK SIPP are quite overwhelming. With UK income tax rates rising as high as 50%, the desire to move expatriate pension funds outside of the UK income tax-net – perfectly legitimately – will only grow.

Some of the items in the above list will be expanded upon below, where we explore the second question:

Firstly, a confession. At Boal & Co, we have QROPS (full SIPPS) in both jurisdictions. So that makes us: a) well placed to judge; and b) completely impartial.

IoM vs Guernsey

The differences between the pension regimes of Guernsey and Isle of Man are subtle in some areas, dramatic in others. Both score well in their recent IMF inspections and were accredited as high quality international financial centres. Both offer huge advantages compared to UK pension rules.

Not surprisingly, Guernsey and Isle of Man are therefore No.1 and No.2 on HMRC's QROPS list, in terms of number of QROPS schemes registered in international financial centres.

For its part, the Isle of Man

KEY POINTS

Both Isle of Man and Guernsey have merits when choosing a QROPS jurisdiction.

Which is favoured will depend on client circumstances, such as where they are moving to.



core

has in its favour:

- A regulated pensions industry subject to the (IoM) Retirement Benefits Schemes Act 2000, with the requirement that all firms (such as Boal & Co) who administer pension schemes are regulated by the IPA (who also oversee the island's huge international life sector).
- In Guernsey, by contrast, pensions is not a regulated business activity.
- Tax law permitting a 30% tax-free lump sum, compared to 25% in Guernsey.
- A growing network of double tax agreements (DTAs) – all new on the scene in 2009 – which permit IoM pensions to be paid tax-free by formal treaty to residents of countries such as UK, Ireland, Australia, Belgium, and so on (for a full list, see www.gov.im/treasury/incometax/

Overseas SIPP vs UK SIPP scorecard

Overseas SIPP		UK SIPP	
Flexible drawdown	3	0	Inflexible annuity/Horrible ASP ¹
Pension paid tax free	2	1	Pension subject to UK tax ²
Funds remain on death	4	0	Funds taxed at up to 82% on death
Up to 30% tax free cash	2	1	25% tax free cash
Flexible currency choice	1	0	£ for £
Regulated providers ³	1	2	Regulated providers
Protected rights/GMP transfers	1	1	Protected rights/GMP transfers
Total	14	5	Total

Notes: 1. ASP = Alternatively secured pension. 2. UK has many DTAs, but not with countries such as Hong Kong, Thailand, UAE, Indonesia, etc. 3. In some overseas countries, eg IoM.

- sections/practitioners/international agreements)
- A very flexible drawdown regime, permitting pensions to be set not just by reference to standard tables, but also by individual actuarial calculation – a long-standing Manx freedom which can be important where investment is in higher returning assets (such as traditionally equities) or for clients where life expectancy is different to the norm.

■ Tax advantages

Guernsey, for its part, has in its favour two tax advantages, one of which is quite major:

- Local tax law permitting pensions to be paid out free of Guernsey tax, anywhere in the world.
- Compared to 18% tax in IoM (or 0% for those countries where a DTA is applicable).
- No tax on the fund remaining on death after retirement/drawdown, compared to a 7.5% (avoidable) tax in IoM.

Conclusion? Well, for us, it all depends on the anticipated country of residence of the client when they begin to draw their QROPS pension. If the country is one of those with whom the Isle of Man has (or will have) a formal DTA exempting pensions from IoM tax (see list above), we believe an IoM solution is, on

balance, marginally the better of the two.

The 30% tax-free lump sum, the more flexible drawdown rules, the formalisation and certainty of tax matters via the DTA, and the regulated nature of the IoM pensions industry, all come into that conclusion. However for the rest of the world, the current 18% IoM pension tax in the IoM means that Guernsey is the right answer.

The 18% pension tax in IoM is officially under review, but until that review leads to change, we suggest IoM for persons retiring to UK/Ireland/Australia/Belgium and so on, and Guernsey for everywhere else.

■ The unthinkable

For international advisers, the expatriate pensions landscape has changed, and overseas SIPPS, such as our Guernsey (Synergy) and Isle of Man (Balley Chashtal) QROPS schemes provide off-the-shelf solutions to a very real financial planning opportunity.

In the same way as it is unthinkable to recommend a UK insurance bond over an offshore bond, it is equally unthinkable to contemplate a UK-taxed and UK-restrictive pension (whether a UK personal pension or a UK SIPP) when more flexible, quality and tax-efficient solutions exist offshore. **IA**



Gary Boal, managing director, Boal & Co

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