Boal & Co
Actuaries & Consultants

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UK Pension Transfers

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Introduction

Imagine a SIPP:

- Which can invest directly in buy-to-let residential property (at home and abroad)
- Whose benefits can be taken through flexible drawdown, with no annuity requirement – ever
- Which pays 30% of the fund at retirement as a tax-free lump sum
- Which can accept pension transfers from the UK (including protected rights)
- With potential tax savings in retirement, compared with the UK.
- With only a 7.5% tax on death (after which funds are paid out to nominated beneficiaries or the member's estate)
- Based in a AAA-rated international financial centre, operating on a *bona fide* basis, in a properly regulated environment.

Imagine no more. Welcome to the wonderful world of pensions - Isle of Man style.

Available to All

Isle of Man pension schemes have for many years provided a flexible tax-efficient shelter for well-heeled local residents, including those taking up residency from the UK. Trust-based SSASs and SIPPs have no annuity requirement, and so enable a flexible approach to pensions in retirement, including the possibility of preserving funds for the next generation.

The bad news prior to UK A-day was that, to avail of the flexibility, an individual had to be IOM-resident. The good news is that all of that has now changed, and Isle of Man SIPPs and personal pensions are now available to all. Isle of Man schemes offer particular financial planning opportunities for UK expatriates and other UK non-resident individuals with pensions left behind in the UK, the subject which is the focus of this article.

At Retirement

Benefits from SIPPs and other IOM personal pensions are taken at retirement in the normal way, ie a combination of taxable pension and tax-free lump sum. The taxation regime from April 2008 enables **30%** of the fund to be paid as a lump sum (compared to 25% in the UK). The residue has to provide a pension, which can be at any time of choosing between taking of the lump sum and age 75.

The same IOM tax legislation [the Income Tax (Pensions) Bill] which increases the tax-free lump sum from 25% to 30% also removes the annuity requirement from personal pensions, so now any kind of personal pension (not just SIPPs) whose rules permit it, can provide pension through drawdown. Furthermore, unlike in the UK, drawdown operates seamlessly before and after age 75; there are no separate rules for pre and post age 75. Added to which, where drawdown is operated on an actuarially certified basis (like SIPPs), there is considerable flexibility as to the rate of drawdown.

Pensions, when paid, are taxed at low Isle of Man rates (ie 18%), which offers potential savings compared to UK taxation. The UK/IOM double taxation treaty operates for individuals who return to the UK in retirement. When the scheme winds up on death, the amount (net of IoM tax @ 7.5%) can be paid to the member’s nominated beneficiaries or personal representatives.

Contributions can be made to IOM schemes at a high rate – up to £300,000 pa, if earnings permit. For non-residents, local tax relief in their own country on contributions made to an overseas scheme will generally not be available, though, so the main opportunity for use of IOM schemes is in relation to transfers of mature or accumulated pension funds left behind in the UK.

Investment Flexibility

IOM SIPPs can avail of a very wide range of permitted investments. The regime is principles-based, with four common-sense tests:

i) Sole purpose - ie the member derives no non-relevant benefits

ii) Assets are commercial and made on an “arms length” basis

iii) Assets can be readily valued on an independent basis

iv) The investments must be consistent with a duty of care on the part of the administrator.

Notably, the principles are consistent with investment in buy-to-let residential property, for example.

Ordinary personal pensions (ie below SIPPs) can invest in assets such as private portfolio bonds, other single-premium insurance bonds, and bank deposits. At Boal & Co, our own range of schemes covers all of these options, with considerable investment opportunities therefore for the IFA/adviser.

Transfers - QROPS

Prior to UK A-day, pension transfers from the UK to the Isle of Man (along with other overseas countries) operated under a long-standing reciprocal agreement, which relied upon the person's tax residence having moved from UK to IOM. The effect of A-day was to tear up all such reciprocal agreements and replace them with the current QROPS regime. Any pension transfer can be made from a UK scheme to an overseas scheme at any time, provided only that the latter is registered with HMRC as a Qualifying Recognised Overseas Pension Scheme (QROPS). At Boal & Co www.boal.co.uk we have many such IOM schemes which now hold QROPS status.

QROPS conditions impose reporting and other obligations on the overseas administrator to HMRC. However these and some other conditions (eg Member Payment Charges) fall away after 5 years of UK non-residence: once the overseas transfer has happened, if the member has been UK non-resident for 5 years [and is non-resident when the pension is paid] there are no HMRC reporting requirements.

IOM personal pensions can obtain contracted-out approval, and at Boal & Co we now have a choice of master trust-based personal pension arrangements to which UK protected rights can be transferred. As with the main pension fund, protected rights can also operate on a drawdown basis in retirement.

All in all, the UK-> transfer arrangements are therefore open and liberal, provided the IOM scheme is bona fide, registers as a QROPS with HMRC, and honours the specified reporting requirements to HMRC.

Although the focus of this article is UK expatriates and other non-residents, a few words of caution are appropriate in relation to UK-residents. Whilst there are no barriers in the way of UK->IOM QROPS transfers for UK residents, the applicable UK taxation/benefits regime continues to catch their overseas pension scheme (unless they achieve a 5-year non-residence break). So UK rules in respect of member payments and UK tax on events such as increased pensions, or re-allocation on death, continue to apply to the overseas scheme as if it was a UK scheme. For this reason, whilst there is considerable scope for UK non-residents, the opportunities for UK-residents are much more limited.

A Fully Regulated Environment

Isle of Man pension schemes operate in a well regulated environment introduced by the IOM Retirement Benefits Schemes Act 2000 and subordinate Regulations. Scheme administrators and trustees must be authorised by the Insurance and Pensions Authority (IPA) www.gov.im/ipa, the same regulator as for the Island's highly successful offshore life assurance sector.

The Isle of Man Treasury (www.gov.im) has high hopes that its offshore pensions sector will emulate the success of the offshore life sector which, after 25 years of expansion, now boasts funds under management of more than £35bn. Given the opportunities that the Island's pension framework provides – most particularly for moving non-residents' UK pensions to a more flexible, tax-efficient environment - and given the professional expertise and range of schemes now available, IOM Pensions plc is now very much open for transfer business.