

**THE MW IOM INTERNATIONAL SIPP
A SIPP SUITABLE FOR UK EXPATS AND FOREIGN NATIONALS**

Introduction

Several hundred thousand people leave the UK each year. Many of these people have a UK pension fund which they leave behind them. Many of them have large funds (as well as personal wealth) and major issues with annuity purchase Alternatively Secured Pensions and IHT.

It is possible to transfer these funds legitimately under a Qualifying Recognised Overseas Pension (QROPS) scheme

The MW IOM INTERNATIONAL SIPP is based on the Isle of Man and is aimed at:

- a. UK nationals who are or intend to be non-UK resident and non-UK domiciled
- b. Foreign nationals who have UK pensions

You do not have to be resident in IOM in order to use this QROPS SIPP.

We do not give any tax, residency or domicile advice. We strongly recommend full appropriate specialist advice is taken.

Why the Isle of Man?

The Isle of Man (IOM) is not part of the UK, but is part of the British Isles. It has its own parliament – Tynwald – and the power to raise its own taxes.

The tax situation on the IOM is as follows :

- Zero rate Inheritance Tax (IHT)
- Zero rate Capital Gains Tax (CGT)
- No Stamp Duty
- Zero rate Corporation Tax for most businesses
- Income tax at 10% (basic rate) and 20% (higher rate) **but it is capped at £115,000 pa no matter what you earn**
- VAT is 17.5%

The Isle of Man approach to pensions differs from the UK in some important ways:

- No compulsion to buy an annuity at age 75
- 30% tax free cash lump sum (but, please see the following).

- Minimum age at which benefits can be taken is age 50 for non-protected rights, subject to a 5 year reporting period (but the minimum age for drawing Protected Rights funds is 55).
- No tax on death before drawing any benefits.
- If benefits have been drawn, on second death (i.e. of surviving partner) a tax charge of 7.5% is imposed on any fund surplus that is paid out. Thus 92.5% can be passed into the estate of the deceased free of IHT on the Island. Alternatively, 100% of the residual assets could be transferred to another approved pension scheme eg a child's or grandchild's SIPP i.e. no tax is paid if the monies are transferred to another pension scheme. The Family SIPP is alive and well on the Island!
- Monies transferred for expats under QROPS are immediately outside of UK IHT
- Income withdrawal must commence no later than age 75 (between a minimum and maximum)
- Before age 75, minimum income withdrawal is nil, maximum is 120% of GAD rate i.e. as per UK
- After age 75, the minimum is 35% and the maximum 120% of the GAD rate for the actual age of the member i.e. not restricted to age 75. This is considerably less draconian than the UK requirements of a minimum of 55% and a maximum of 90% of the GAD rate applicable for a 75 year old.
- Protected Rights are outside QROPS.

The way investments are treated is also different to the UK. There will be no 'approved or disapproved' investments. All investments are subject to 4 tests. Although the Assessor of Taxes on the IOM is willing, in certain circumstances, to allow a SIPP to invest in genuinely "buy to let" residential property, HMRC requirements mean that monies transferred from the UK **cannot** ever be so invested..

Clearly, compared to the UK situation post age 75, regarding annuity purchase or Alternatively Secured Pension (ASP) and the IHT implications, this may be an attractive regime to some expats who have UK pensions who may wish to transfer them to the Island. **To take full advantage of it, specialist tax advice is necessary in respect of any transfers from the UK.**

What is QROPS?

It is an acronym for Qualifying Recognised Overseas Pension Scheme, to cover all approved transfers of UK pension funds out of the UK. It was introduced by HMRC as a method of controlling such transfers, as there may have been significant tax allowances already given within the UK.

To qualify as a QROPS scheme, a scheme must (amongst other things):

- a. be in a recognised jurisdiction
- b. guarantee that at least 70% of the fund must be available for paying a pension
- c. mirror the UK re the minimum age at which benefits can be taken from certain transfers
- d. be open to the local (IOM) population (so membership of our IOM SIPP is open to both IOM residents and non-IOM residents)
- e. agree to report to HMRC any significant scheme events for a period (currently 5 full tax years after you cease to be a UK resident). ***However any investment in Taxable Property eg residential property must be reported to HMRC even after that 5 year period i.e. there is no time limit applying to such reporting***

The MW Self Invested Personal Pension, which is the underlying scheme, is a registered QROPS scheme and can be seen on the HMRC website.

What happens if I transfer under QROPS?

A QROPS transfer is treated by HMRC as a Benefit Crystallisation Event by HMRC. This can have serious tax implications if you have a fund bigger than the Lifetime Allowance, for example.

It has further implications during the five year reporting period. If during this reporting period you take a higher benefit than the maximum which would be allowed under UK rules, the excess will be treated by HMRC as an Unauthorised payment and be subject to penal taxes. For example, if you take 30% tax free cash instead of 25% the difference would be taxed heavily.

If at any stage, even beyond that reporting period, an investment is made that includes Taxable Property, eg “buy to let”, it would result in very penal UK taxes. Advice should be sought on this from your financial advisor to establish individual issues.

When somebody has resided abroad for 5 full tax years or more, the reporting requirement ceases, other than for reporting a Taxable Property investment.

Does it matter where I am living?

For the purpose of this scheme, it does not matter where you are currently living or indeed where you will live in the future, provided it is **not** the UK, if tax is an issue for you.

This is unlike many QROPS schemes which are specific to a country. The main issue is that you have a UK pension fund and wish to transfer it out of the UK

Will I be liable for IOM tax?

When you start drawing a pension you will be liable for IOM income tax as a non-resident, which is currently 20% with no allowances.

You do not need to start drawing pension until age 75, (remember, there is no need to purchase an annuity). The rate of drawdown is subject to a minimum and maximum. The minimum rate is 35% of the GAD rate at age the actual age. At age 75 this will equate to a tax bill of about £7,000 per annum on a fund of £1M. But remember that if you are in the 5 year reporting period you will be subject to taking the minimum required by UK legislation i.e. 55% of the pension calculated using the age 75 GAD rate. If you take a lower pension, HMRC will impose penal taxes.

The minimum income withdrawal before 75 is nil.

Will I be liable to local tax where I live?

It is likely that tax will be payable where you live. You should take advice to see if any taxes that you pay on the IOM can be offset against local taxes.

Will I be liable for UK IHT or other death taxes on any pension assets remaining on my death (or on the death of my surviving spouse)?

You should take careful advice on this to ensure that this aspect is covered properly and to avoid future shocks for yourself or your descendants, We are not qualified to advise on such things as tax, residency and domicile.

You should also take advice on any potential death taxes in the country in which you intend to live.

Will I have any UK tax liabilities?

Again this is not our area of expertise, but it is basically the same answer as for the previous question: take advice from a suitable professional

Is it open to UK residents?

Yes it is open to UK residents, but advice should be sought for tax, residency, domicile and other matters. We are not qualified to give such advice.

What if I am not a UK national?

If you have a UK pension and do not intend to draw it in the UK, this may well be an appropriate way for you to transfer your pension to a more tax efficient environment.

What if I am planning to emigrate from the UK?

This is a good opportunity for proper planning and taking good advice. If you have time it may suit you to open a UK SIPP – we can help you with this – and take advantage of the available tax relief on contributions made to a UK SIPP. When the time comes you can transfer your UK fund to the IOM as you emigrate to your chosen destination. Take advice as soon as possible.

Can I move to IOM?

Yes, many people do each year, but to take full advantage you need to take appropriate advice.

If you become resident on IOM, you will be subject to local IOM income tax on your income withdrawals from your SIPP. Local income tax is lower than the income rate applicable to many non-IOM residents.

What if I am 75 or over and currently in ASP?

You can join the MW IOM INTERNATIONAL SIPP and take advantage of the lower minimum and higher maximum drawdown rates – but take advice as to whether you can offset the IOM 20% tax against any local taxes you may be liable for.

Why should I use this scheme?

We offer a simple SIPP structure that works both to the rules and the spirit of the rules, both on the IOM and in the QROPS system run by HMRC. We are not into “pension busting” or obscure “residency” schemes – we work with the authorities in both the UK and IOM and aim to facilitate legitimate transfers of pension fund monies from the UK.

There is little doubt that there is a potential for tax planning in certain circumstances if the correct advice and steps are taken. We are not qualified to give this advice but are aware that it is available if needed.

Our scheme is not tied to one country or location unlike many other QROPS schemes which are typically only valid in one country. The only criterion needed is that you have a UK pension fund, no matter where you may live currently.

The fees are transparent and simple. There is no small print.

What does it cost?

The initial fee is 1%, with a maximum of £10,000 and a minimum of £2,500. The annual fee (in advance) is 1% with a maximum of £8,500 and a minimum of £2,500. VAT is additional on all fees

We do not give financial, tax, residency, domicile or any other advice and no comments here are intended as such. Before taking any action you should consult a suitably qualified adviser.

**MW SIPP Administration (IOM) Ltd
1 Athol Street
Douglas
Isle of Man IM1 1LD
Tel: 01624 619846 Fax: 01624 619856**

Website: www.mwpensions.co.im Email: admin@mwpensions.co.im

Authorised by the Isle of Man Insurance and Pension Authority