

## **QROPS TRANSFERS FOR ISLE OF MAN RESIDENTS: TRANSFERS FROM UK SCHEMES TO AN IOM PENSION SCHEME**

### **Introduction**

Many IFAs have clients who were, prior to relocating to the island, a member of a UK pension scheme. Many of these clients want to consider transferring their UK pension assets to the island, partially to consolidate them all in one pot and partially to avoid being liable for UK Inheritance Tax.

### **Basic Principles**

Since 6<sup>th</sup> April 2006, HMRC in the UK changed the process of transferring monies from UK pension schemes to an IOM pension scheme. They have introduced what are called QROPS – Qualifying Registered Overseas Pension Schemes. If an IOM pension scheme meets certain criteria, it can apply to become a QROPS. The main conditions that a scheme needs to meet in order to apply to become a QROPS are:

- a) Be established in the EU, Norway, Liechtenstein or Iceland, or a country with which the UK has a full double taxation agreement
- b) it must be open to local residents
- c) at least 70% of the transferred funds must be used for income benefits for life
- d) benefits in respect of the QROPS transfer must commence no earlier than age 55
- e) must notify HMRC of certain events (the main ones are explained later in this leaflet) and disclose certain information to HMRC

Our MW IOM SIPP meets these requirements and is registered as a QROPS with HMRC (it is listed as such on their website). Our MW Acorn SIPP is also a QROPS, as it is based on the same legal structure as the full SIPP.

### **How does a QROPS work in practice?**

It's like any other transfer – the client agrees with his IFA that he wants to transfer his UK pension assets to his MW IOM SIPP.

When we receive the paperwork, we apply to the insurer for the transfer in the usual way. The monies then come from the UK insurer to the MW IOM SIPP.

### **What about Protected Rights?**

The MW IOM SIPP can accept Protected Rights, from October 2010. However these transfers are not treated as QROPS but as domestic transfers. The treatment of these is different on IOM from non Protected Rights when it comes to drawing income. The transfers are not reportable to HMRC, but to the DHSS on the island

### **A QROPS is a “Benefit Crystallisation Event”**

The transfer is not treated as a contribution to the MW IOM SIPP – in that regard it is treated exactly as any other transfer received.

However, as the monies are leaving the UK, HMRC classes a QROPS as a “Benefit Crystallisation Event”. This means that the member's **total** UK pension assets are compared with the Lifetime Allowance of £1.8M reducing to £1.5M from 6.4.12..There will be a tax charge on the excess (unless they have applied for Protection). However, the rate of tax is 25%, rather than the usual penal 55%,

### **Is the QROPS reported to HMRC?**

Yes, your existing administrator will report the event to HMRC and that the QROPS transfer has taken place. This is just so that they can record this in their files. There are also certain events after the transfer which may also be reportable.(see below)

### **What if the member is currently receiving income drawdown from their UK pension scheme?**

A QROPS will be allowed, provided the benefits in the IOM scheme is on a “like for like” basis. The appropriate test against the Lifetime Allowance will also apply.

**What reporting to HMRC is required when benefits are taken?**

We as administrator undertake to advise HMRC when a payment is made from the MW IOM SIPP but this is required **only if** at the time the payment is made the member:

- a) is resident in the UK, or
- b) has been resident in the UK earlier in the tax year in which the payment is made or in any of the 5 tax years immediately preceding that tax year.

So if the member has not been UK resident for 5 tax years, no reporting to HMRC is required.

**Are there any investment restrictions?**

They can be invested as normal IOM SIPP assets, with the sole exception that no monies that relate to a QROPS transfer can ever be used for investment in residential property, such as “buy to let”. This applies even if the investment were to be made after the end of the 5 year reporting period.

**When can benefits be taken?**

If a payment is made that is reportable to HMRC, the minimum age at which a benefit can be taken in respect of a QROPS transfer is 55. If the 5 year reporting period does not apply, the minimum age is 50, other than for Protected Rights, where the minimum age is 55.

**What tax free cash sum can be paid from the MW IOM SIPP in respect of the QROPS monies transferred?**

Up to 30% of the assets relating to the QROPS transfer can be taken as a tax free lump sum This will be 25% in the 5 year reporting period and always for Protected Rights.

If more than 25% of the assets in respect of the QROPS transfer are taken as a tax free lump sum, within the 5 year reporting period, then as this is a reportable event to HMRC, they will treat the excess as being an Unauthorised payment and will tax it (penally) accordingly. However, if the QROPS derives from an occupational scheme it may be that the member has entitlement to a higher tax free cash sum than 25% or even 30%. If so, subject to the agreement of the Assessor, they should be able to carry that higher entitlement across to the MW IOM SIPP, but in respect of that element of their benefits only. It will be important that the assets underlying the transfer can be continually identified.

Protected Rights transfers will always be limited to a 25% cash withdrawal

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