

Press release

HMRC increases the spotlight on potential abuse of overseas transfer system

08/12/2011

The Government has revealed a series of new measures to highlight any potential abuse of the QROPS (qualifying recognised overseas pension scheme) system which allows pension savers to transfer their pension schemes overseas. The new rules will come into force from 6 April 2012.

The QROPS system was designed to allow individuals permanently living overseas to transfer their UK pensions to a pension based in their new country of residence. It was meant to limit individuals to lump sum and pension benefits which are broadly equivalent to the benefits that would have been available to them had they left their pension in the UK.

Since the system was introduced some QROPS arrangements have been promoted as an opportunity to avoid tax with alleged promises of access to 100% of the pension scheme as a tax free lump sum.

The changes announced by HMRC include requirements for:

- The transferring saver to provide more detailed information ahead of the transfer, including a declaration that they understand the potential for significant tax penalties.
- The UK scheme to pass this information, and more, to HMRC inside 30 days of the transfer taking place. Under the old rules only limited information was reported to HMRC and it could be up to 21 months before HMRC were notified of a transfer.
- The overseas scheme to report all lump sum payments made from their scheme in the 10 years following the transfer. The old rules only required reporting if the individual had lived in the UK in the last 5 tax years. If an individual had left the UK over five years before the transfer took place there was no requirement to make any report to HMRC.
- The overseas provider to provide more information about their scheme and the individuals running the scheme. HMRC will now be able to, for example, request the names and addresses of the directors of the QROPS provider.

In addition, the QROPS itself must comply with new requirements to receive HMRC approval. Any tax exemptions offered by the QROPS to non-residents must also be available to residents.

Gareth James, Technical Marketing Manager at A J Bell, said "HMRC has made it clear that it intends to introduce these rules to deal with abuse of the QROPS system. The new reporting requirements will provide HMRC with the granularity it needs to immediately identify transfers it suspects are being made for what it considers inappropriate reasons.

James continued, "It will be interesting to see how the new rules impact on the number of QROPS transfers. If we see a significant reduction it will provide HMRC with an idea of the number of transfers which have been made in line with the Government's original intentions for the QROPS regime, and also the extent of the abuse of the system since it was introduced in 2006."

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Please note this document is intended for trade and national press individuals.

Notes for Editors

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