



Batten Down The Hatches

Why now's a good time to consider your pension plans

QUALIFYING NON-UK PENSION SCHEMES CAN BE A HIGHLY TAX EFFICIENT WAY FOR EXPATRIATES TO MANAGE THEIR FINANCES, BUT IT'S IMPORTANT TO SEEK QUALIFIED PROFESSIONAL ADVICE.

ONE MAJOR CONCERN affecting the global economy is the budget deficit that, in certain European countries, is threatening to destabilise the euro zone. All European countries are looking to reduce their deficits – or national overdrafts if you will – by taking whatever steps are required.

European Union (EU) governments are urgently scaling back their budgets to alleviate the dire straits in which many find themselves. For the foreseeable future, national administrations will be looking to cut costs wherever possible and across Europe there are already a number of proposed public sector spending cuts.

Large-scale infrastructure projects, such as new roads and airports, may be symbols of national pride but when the going gets tough, are relatively easy to postpone or cut. But governments in Europe know that this isn't the whole story. In order to bring about a future of more balanced government debt compared to revenue, much more fundamental – and politically controversial – change will be required. But what will this mean for the ordinary citizen?

Essentially there are two ways that the financial crisis is going to affect residents of countries where substantial deficit reduction programmes are a necessity. Government spending cuts will mean a reduction in benefits for many, and although this is really only the other side of the same coin, taxes will almost certainly have to increase for most citizens. Rising taxes are never popular, but

when combined with serious reductions in public spending, we can expect to witness a public backlash when the harsh reality begins to bite. Politicians across Europe are going to need nerves of steel as they confront an increasingly uneasy electorate.

Another tactic already announced or being actively considered in some countries - the UK, France and Greece for instance – is to increase the official retirement age. This has long been debated as a necessary response to shifting demographics and ageing populations, but governments are now being forced to act far sooner than had been predicted. This will be deeply unsettling for the millions of people who suddenly find their long-term plans disrupted, but is there anything that individuals can do about it?

“People can no longer rely on any government to provide for everyone's financial security in retirement.”

“Adequate provision for retirement should be a must do as soon as possible rather than an I’ll get round to this one day.”

In a word – pensions. For all those fortunate enough to have made some provision for their future financial security, now might be a good time to review those arrangements to ensure that you’re maximising the opportunities. Given the present state of the stock markets and their recent history, you should ask yourself if your future material comfort is still as assured as it was on the day that you first made those plans.

It’s against this background that now, more than ever before, adequate provision for retirement should be a “must do as soon as possible” rather than a “I’ll get round to this one day”. People can no longer rely on any government to provide for everyone’s financial security in retirement.

Qualifying Non-UK Pension Schemes (QNUPS) are potentially highly tax efficient schemes suitable for expatriates and high net worth individuals.

QNUPS were the UK government’s response to the fundamental EU principle of free movement of capital, which is enshrined in the EU Pensions Directive. The directive requires the equalisation of pension treatment for non-domestic pensions compared with domestic pensions and the UK is one of the first countries to follow this particular set of EU rules.

The legislation, or underlying concept, isn’t entirely new, as the requirements of the QNUPS regulations are substantially the same as those for a pension scheme to be a recognised overseas pension scheme (ROPS).

Before April 2010 such schemes weren’t afforded any special inheritance tax (IHT) treatment and so the pension fund potentially formed part of the member’s estate for IHT purposes. This would be the fund value immediately prior to death and could result in a 40% IHT charge - to the extent that the pension fund and his other assets exceed the value of the nil-rate band on death. These provisions were obviously discriminatory against the overseas schemes compared to their UK equivalent, hence the change to the relevant legislation in 2010.



However, since the legislation was announced, there have been many articles advising that the use of a QNUPS is a simple way to avoid IHT, but this is bad advice.

QNUPS are an attractive retirement benefit-planning tool that avoid some of the constraints otherwise imposed by an equivalent UK domestic pension. Examples include allowing a greater choice of assets that may be held in the pension and more flexible rules on taking an income from it. Moreover, there is no cap on the level of contributions that can be made to the pension. Upon death, any residual value is paid to beneficiaries chosen by the member. Members are able to borrow from their QNUPS fund to purchase personal assets rather than having the constraints of trying to borrow from a bank; something that can be very attractive in the current economic climate. Naturally this area is subject to strict conditions.

However, there are dangers arising if an advisor simply sets up a QNUPS to avoid UK IHT for their client where there’s no other motive for doing so. The chances are that upon the member’s death, HM Revenue and Customs (HMRC) will look at the arrangement and view it as an IHT avoidance tool. UK anti-avoidance legislation could be used to see through the arrangement and assess the member’s estate as if the assets were still in the member’s personal name, and the appropriate tax would be charged.

In order to be a QNUPS, certain conditions must be fulfilled by the scheme. These include setting the same retirement age as in the UK; providing an income upon retirement; opening the scheme to the local population in the jurisdiction where it’s established (resident) and that it’s recognised for tax purposes in that jurisdiction.

All of us are getting older and we should all be concerned about pensions – be it a government or state pension, a private arrangement or perhaps a combination including the use of QNUPS as described above. The way that governments tackle the present financial problems – and the results of these actions – are going to be of fundamental importance. So stay abreast of the news and, if you have any cause for concern, seek professional advice at the earliest opportunity.

Rob Shipman is Managing Director of Sovereign Trust (Channel Islands) Limited
ci@SovereignGroup.com

Sovereign Trust (Channel Islands) Limited recently launched a free pension technical support scheme for all its pension solutions (QROPS or QNUPS) in conjunction with Pentech, an independent actuarial firm based in the Isle of Man.



make the right choices



As an international financial advice and investment management group, we are here to empower you to achieve your financial and lifestyle goals.

ipac's UK team is Hong Kong's pre-eminent provider of professional and progressive financial planning advice to expatriate Britons. The team is highly skilled, genuinely enthusiastic and wholly dedicated to providing you with first-class financial planning advice that integrates both International and UK domestic issues, such as taxation, QROPS, property, estate planning, educational funding and insurance.

Join this seminar to learn more!

coming, going or staying for Brits - 29 September 2011



Highlights:

- ~ how to avoid the worst mistakes made by expats!
- ~ all about QROPS and the important changes to your pension post 6th April 2011
- ~ how the introduction of a statutory residence test affects you
- ~ what are the implications of capital gains tax and inheritance tax
- ~ how you can maximise your wealth and ensure that your time in Hong Kong is wisely spent

To register, email events@ipac.com.hk or call 2285 2639. Visit our events webpage for the latest details: www.ipac.com.hk/upcoming-events
* Complimentary for *britoverseas* readers *

Don't miss out other upcoming seminar



To QROPS or not to QROPS?
20 October 2011

ipac financial planning Hong Kong limited
Suite 5101-03 & 5113 51/F The Center 99 Queen's Road Central Hong Kong
t: 2285 2888 f: 2285 2899 w: www.ipac.com.hk
Licensed by the Securities and Futures Commission, CE No. AANG41; a member of Professional Insurance Brokers Association
The seminars are of a general nature only. The application of the contents will depend on an individual's own personal circumstances.

Lowest Airfare Guarantee

Ask us how we'll beat any airfare quote.



Christmas Airfares

London

Economy return from **5,780***

Business return from **25,700***



Sydney, Melbourne Brisbane & Adelaide



Economy return from **6,900***

Premium Economy return from **12,340***

Business return from **32,900***

Amsterdam, Frankfurt, Paris & Rome



Economy return from **6,300***

Business return from **37,300***

Amazing Airfares

	Economy return from	Business return from
Abu Dhabi	5,030* CX	23,900* QR
Auckland	4,830* MH	32,780* CX
Barcelona	5,080* AY	23,830* LH
Hanoi	2,510* HX	5,150* HX
Hawaii	5,810* DL	22,830* DL
Kuala Lumpur	2,040* CX	7,220* MH
Langkawi	2,540* MH	7,750* MH
Los Angeles	5,710* KE	29,000* KE
Milan	6,300* CX	39,600* CX
Osaka	3,490* CX	8,500* HX
Phuket	2,460* CX	5,000* HX
Sanya	1,610* KA	3,860* HX
Shanghai	2,190* HX	4,000* HX
Sydney	6,240* QF	17,400* MH

CNY Holidays

	Economy return from
Bali INCLUDES Return airfare + 4 nights accom at W Retreat & Spa Bali, daily breakfast and travel insurance.	12,290* CX
Cebu INCLUDES Return airfare + 4 nights accom at Alegre Beach Resort, daily breakfast, return airport transfers and travel insurance.	6,350* CX
Kota Kinabalu INCLUDES Return airfare + 5 nights accom at Shangri-La's Tanjung Aru Resort & Spa, daily breakfast, return airport transfers and travel insurance.	8,830* MH



Paul

Paul Jeffels has joined our team as a Senior Travel Consultant. Transferring from our London office and with over 7 years of experience in the travel industry, Paul is an excellent contact for your next overseas trip or just a short break out of town.



FLIGHT CENTRE *Unbeatable*

2830 2866

flightcentre.com.hk

Terms and conditions apply, visit our website www.flightcentre.com.hk for full details. *Travel restrictions and conditions apply. Prices are per person in Hong Kong dollars and subject to availability. Prices are correct at time of print and subject to change without notice. Travel Agent licence no. 350062