



FIRST CAPITAL
FINANCIAL SERVICES

**QROPS
EXPLAINED:
YOUR STARTING
GUIDE**

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BACKGROUND

A BRIEF SUMMARY OF QROPS

The ability to transfer a UK pension to a Qualifying Recognised Overseas Pension Scheme (QROPS) began in April 2006.

Since then, there have been eight major changes to the laws governing the ability to transfer a pension to either NZ or the UK—or sometimes both!

In other words, what may have been true in previous years, may no longer be relevant now.

Before undertaking any action with a UK pension, it is vital to seek advice from a specialist adviser with experience and expertise in this complex sector.

This update incorporates legislative and UK pension rules up until July 2024.

TYPES OF SCHEMES

Defined Contribution schemes (also known as Money Purchase schemes) and private Defined Benefit schemes (Final salary) can be transferred.

UK Government funded Defined Benefit schemes cannot be transferred overseas (NHS, Teachers, Armed Forces etc.) unless limited circumstances apply. Typically, these schemes will have to stay put until retirement. We originally thought there might be some clause for overseas residents, but this has not been forthcoming.

DEFINED BENEFIT SCHEMES

“Final Salary” schemes, also known as “Defined Benefit Schemes”, can be transferred. This type of scheme is considered highly valuable and should not be transferred without expert advice.

The UK government insists by law that a Pension Transfer Analysis Report is required for Defined Benefit pensions over £30,000 before a transfer can take place. Such reports are prepared by UK regulated advisers at a cost (only UK regulated advisers can prepare such reports). While this adds to the complexity, costs, and time that it takes to complete a transfer, it does mean you receive appropriate information to enable an informed decision.

QROPS IN NZ

If transferring a UK Pension savings scheme to NZ, it must be transferred to a Qualifying Recognised Overseas Pension Scheme (QROPS for short).

Some KiwiSaver schemes previously qualified, however from 6th of April 2015, KiwiSaver schemes were no longer permitted to receive transfers. This is due to the ability to make withdrawals before age 55 in certain circumstances, such as Financial Hardship and Permanent immigration from NZ.

What if you have previously made a transfer to KiwiSaver? No problem, it just continues as before - withdrawals available from age 65.

There are approximately 13 qualifying QROPS schemes in New Zealand. Each one has advantages or disadvantages, different investment options, and different fees. Some may permit investing in different currencies, such as Great British Pounds—a popular choice if you are waiting for exchange rates to improve.



TAX

Transfers from a pension scheme to an NZ scheme are taxable events. In certain situations, you may qualify for a tax exemption. For example, if a transfer is made within the first four years of arriving in NZ, then no tax is payable on the transfer.

After the 4-year anniversary, tax is payable to the NZ Inland Revenue based on a sliding scale and the number of years since the end of the 4-year anniversary. The Inland Revenue fact sheet IR1024 provides more information on this issue.

If you are a returning resident, or have previously lived in NZ, then you may qualify for a general 4-year exemption. It is important to seek tax advice on this issue to avoid nasty shocks. More information is available with the Inland Revenue fact sheet IR1028.

Please see ird.govt.nz and search "IR1024" or "IR1028".

WITHDRAWALS

Since April 2015, UK legislation has permitted 100% withdrawals from a UK Pension scheme directly to the named holder. However, this would be a taxable event and is required to be declared to the Inland Revenue in New Zealand.

Since April 2017, full flexibility has become available for withdrawals from NZ QROPS schemes. Some schemes have instigated exit penalties if withdrawing within a set timeframe, you will need to check with that scheme before deciding to transfer. Not all schemes have exit penalties.

To complicate matters further, the UK Government have a 5-year and a 10-year “member payment provision” or may reclaim UK tax relief. Advice is essential.

Withdrawals from NZ QROPS are currently permitted from age 55 however the age is due to increase to 57 from 2028.

OVERSEAS TRANSFER CHARGE

Overseas Transfer Charge (OTC) – For new transfers from 9th March 2017, investors need to be aware of the OTC. This has been introduced by the UK authorities and is payable in certain situations.

There are some exemptions, including transferring your UK pension to a QROPS that is in the same country that you are living in. For example, if you live in NZ and transfer to a NZ scheme, then the exemption applies.

However, if your circumstances change within 5 years of making the transfer, the OTC of 25% could become payable to HMRC. Transfers made before 9th March 2017 are excluded from the OTC.



This area of financial advice can be quite technical, one question can lead to another and what is right for one person, may not be right for another.

PLEASE SEEK ADVICE FROM A SUITABLE ADVISER BEFORE MAKING ANY FINANCIAL DECISIONS.



ABOUT THE AUTHOR



Since 1999, Dai Eveleigh has provided Financial Advice to thousands of people in New Zealand and the United Kingdom. Working for the Woolwich in the UK before a takeover by Barclays, Dai was an Independent Financial Adviser, completing the Financial Planning Certificate (UK) before returning to New Zealand.

Dai specialises in Financial Advice for UK expats and holds the Certified Financial Practitioner (CFP) designation, an advanced designation recognised globally.

A member of the professional institute, Dai was awarded the Presidents Award in 2011 for leadership of the Canterbury Branch and completed 10 years on the Canterbury executive as well as representing members at National level.

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