

# QROPS

If you were a United States tax resident who was persuaded to transfer your pension to a QROPS this FREE brochure will explain what you should do now.

## USA tax residents and the

### Know the **FACTS!**

1. The SEC agreed a voluntary settlement of \$8 million dollars with one of the largest financial advisory firms in the world for advice linked to British pensions and Defined Benefit schemes being transferred to QROPS.
2. The IRS say, "if the transfer were to a pension scheme established in a third country, instead of to another pension scheme established in the United Kingdom, the transfer could be treated as a distribution" that could be subject to taxation as income of the individual.\*
3. QROPS are always in third countries.

\*The US-Malta Double Tax Treaty will not prevent this tax.

# QROPS debacle

## What went wrong?

Holders of British pensions, living in the USA, were told to transfer their Defined Benefit schemes into a QROPS- usually in Malta.

Advisers put their clients' funds into expensive commission driven insurance bonds that heavily impact on their funds and income in retirement, and...

Some clients were not advised to obtain confirmation, from a US registered Tax Advisor, that they had sufficient Foreign Tax Credits to allow a non-taxed transfer to a QROPS.

**What should you do if you were persuaded to move your British pension (Defined Benefit or Defined Contribution scheme), while resident in the USA?**



Expatriates were told (and continue to be told) that they should take control of their pension pots by transferring to a QROPS or SIPP utilising an Insurance Bond for holding the investments.

# Why?

Salesmen must sell a product, as they only earn a commission (often hidden) by encouraging pension transfers. However, there are ways of taking advice for much lower fees that are not contingent on you having to transfer!!

## Advisers might not always tell you...

Best advice is often to leave the pension funds where they are, and consider other cheaper options to meet objectives (Example, life cover for death benefit transfer).

When considering a transfer of a pension to a SIPP, ensure investments are “directly” held and do not have an UNNECESSARY commission driven insurance bond inside.

The transfer may not always be free from tax.

HMRC rules, and Double Tax Treaties between countries often negate “advertised” tax advantages of a transfer from a pension to a QROPS.

That an insurance bond is not suitable for a pension as an underlying holder of assets.

Within an Insurance Bond subsequent changes may have high penalties.

Structured notes are not suitable for the vast majority of pension arrangements.



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Using a transparent, regulated, fee-based adviser will increase your chances of having a larger net income in retirement. Paying taxes is not optional, but a fee based adviser will assist you in helping to choose where you pay taxes to reduce them (perhaps to zero). Fees can be quickly offset by the improved income received! Fees are a lot lower than commissions and will not damage your investments.



Most “expat IFA advisers” you are speaking with are nothing more than salesmen. Even though the firm they represent may be regulated in the USA, they are selling non-US products including insurance bonds based in places like the Cayman Islands or Isle of man, meaning you have no come-back. They have a vested interest in getting you to move your pension or assets out of the UK, often making unsubstantiated claims and warnings of losses if you do not. They have had hidden commissions paid to third parties who they are connected with outside the USA and do not declare them other than mentioning there is a “1%” ongoing additional charge.

**KEY POINT:** There is a straightforward procedure required when giving advice on British Pensions, SIPPs and Defined Benefit transfers. The FCA published a paper in April 2018 outlining who should be considering reviews and when.

## Take advice **1...2...3** straight forward steps

# 1

If you already hold a QROPS or an Insurance Bond from countries such as Malta, Gibraltar, Isle of Man or Caribbean, then obtain legal representation in the USA.

# 2

Tailormade can introduce you to a US tax specialist to inform you of any potential tax and, importantly, any obligations you may have to report to the IRS - No one likes to pay IRS penalties, especially having been told the transfer was tax-exempt.

# 3

Tailormade can review the pensions and investments, with a view to providing a more cost effective solution that may help negate some of the effects of Step 2.

As is clear from a recent SEC ruling, with the firm in question having to settle a \$8 million penalty, commissions were still taken from UK pensions on transfer to QROPS. We have been informed that in the coming years many clients may now find they have a liability to the IRS for taxation that they were assured would not be payable. You must obtain local tax advice and legal representation. Tailormade can assist with obtaining a better future outcome linked to ongoing charges and investments. The SEC continues to prosecute individuals in connection with this matter.

## Talk to us!

We are SEC registered and FCA regulated and have advisers qualified to Certified and Chartered status, with the relevant specialist pension qualifications to review the advice given to help reduce the costs of your current arrangement. We can assist you in getting that much needed tax and investment advice.

**To see how we can help, contact our team of advisers**

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