SOVEREIGN

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Pensions Update

May 2013

Sovereign's monthly pensions newsletter

Sovereign launches Malta QNUPS

Sovereign has recently announced the launch of its Malta Qualifying Non-UK Pension Scheme (QNUPS) in Malta. The Rinella Retirement Benefit Scheme has been approved by the Malta Financial Services Authority (MFSA) and complements Sovereign's highly successful QNUPS offering in Guernsey.

Unlike Guernsey where individual bespoke trust deeds are required for each scheme, new members join the Rinella scheme by executing a Deed of Adherence. As with QROPS, Sovereign now offers clients the choice of both excellent jurisdictions. A full EU member, Malta offers distinct advantages to certain clients whilst Guernsey will be the chosen option in other cases depending on individual circumstances. In Malta's case, clients may benefit from the terms of over sixty double tax agreements with other countries.

Stephen Griffiths (Sovereign's Head of Operations in Malta) is delighted by the news. He pointed out that the launch of the Rinella scheme comes just months after the highly successful Centaurus QROPS product. He went on to say that the development not only extends Sovereign's suite of products but also demonstrates the group's commitment to Malta. The staff complement has already been increased in order to manage the new business and enquiries are flowing steadily.

More information on the Rinella scheme can be found online at www.SovereignGroup.com or by contacting your closest Sovereign consultant, details of which may be found overleaf.

Guernsey remains a very active QNUPS jurisdiction. The choice of which to use should be made having taken advice but will generally depend on the residency of the pension holder. Withholding tax can be eliminated in Malta by using a suitable tax treaty; Guernsey pension income payments made to non residents is not taxed at source but of course taxation in the pension holder's home jurisdiction must be considered.

Pensions seminars

The recent pensions seminars in Shanghai and Hong Kong attracted over fifty IFA's from the region to hear industry experts from PenTech, Royal London 360, Royal Skandia and Sovereign Trust discuss the technical aspects of both QROPS and QNUPS as well as succession planning and domicile issues. Participants at the events spoke afterwards of the level of detail and insight that the speakers were able to give to their relevant subjects and how beneficial they would be for them going forward. Forthcoming events will of course be featured in future editions of this newsletter.

The Sovereign Art Foundation

The image at the top of this newsletter: "Child in Red" by Haris Purnomo, 2007 Sovereign Asian Art Prize Public Vote Winner
A charity raising money to help disadvantaged children using the arts as rehabilitation, education and therapy. www.SovereignArtFoundation.com

Note from the editor - Brian T Richards

Welcome to the second edition of *Pensions Update* – Sovereign's monthly digest of international pensions news.

Of particular interest this month is the launch of the Rinella QNUPS scheme in Malta; your attention is also drawn to the fascinating contribution from Peter Davis of PenTech. We urge professional advisers who have not yet signed up to the 'IFAS Programme' to consider the benefits of doing so.

Comments on the newsletter are welcomed as are suggestions for news items for future editions.

Contact me at brichards@SovereignGroup.com

Life bonds - caution required when considering lives assured

The industry is becoming more alive to a potential issue where a pension holder who maintains investments through a life bond is considered to be a UK resident for tax purposes at the time of death.

It can be a weak proposition for just one life to be named in such cases. In the event of death, a chargeable event is triggered where the pension holder is the sole life assured leading to a potential charge to UK Income Tax on any growth in value of the underlying bond investment. Hence, advisers should exercise extreme care when discussing with clients details of the life, or lives, to be assured.

Naturally this is of concern where a British expatriate pension holder returns to the UK but could apply elsewhere. Including a second life assured with an insurable interest, such as the member's spouse or child, may well eradicate the problem, assuming the second person survives the member. This is a complex area and professional advice should be taken in cases where clients may be affected.

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PCLS

A Pension Commencement Lump Sum should be administered just as it is described, as a **lump sum** benefit paid to a member prior to the **commencement** of **a pension** (income). In accordance with well-established pension practice and procedures, any un-paid PCLS is forfeited when Capped Drawdown (income) commences or the member purchases a pension annuity.

As such, the process of phased lump sums with the PCLS paid over a period, sometimes up to 5 years and often in conjunction with the payment of drawdown income, is potentially fraught with problems and is a practice which should be avoided at all cost (usually a cost to the member!). HMRC and indeed local regulators in the jurisdiction in which the scheme is based, may well perceive this as 'income' rather than PCLS and tax accordingly. Likewise, if it is considered as income, it effectively reduces the member's annual drawdown availability by the phased amount received, seemingly as a lump sum but not ultimately considered as such.

The correct way of providing phased PCLS would be from a segmented pension which consists of a number of identical segments which would enable individual segments to be 'crystallised' with PCLS and/or Capped Drawdown available from individual segments, leaving the others intact for future crystallisation.

The establishment and on-going administration of a segmented pension is potentially costly as each segment is treated as a separate scheme to facilitate phased benefits. We have therefore considered this at length and rather than potentially expose our pension members to the wrath of HMRC or local regulators, we will only permit PCLS to be paid over a maximum of 12 months by up to 4 equal quarterly payments and prior to the commencement of drawdown income. The possibility of introducing a segmented plan is being considered as an available option.

Corporate QNUPS available from Sovereign

Readers will note the story overleaf relating to the launch of Sovereign's Malta QNUPS. As an extension to individual pension plans, Sovereign is also able to assist companies, based in the UK or overseas, who wish to establish a corporate sponsored pension plan for their employees. The corporate QNUPS will be set up as a Guernsey pension and administered from Sovereign's Guernsey office. Similar in many respects to a traditional Employee Benefit Trust (or EBT), such schemes can invest in assets of almost any class including residential property. The final decision on the suitability of proposed investments will always be a matter for the trustees but discussion with the employer company will be considered.

These are bespoke arrangements and will be managed from the outset by your Sovereign consultant together with the group's in-house tax counsel. Naturally the views of the company concerned and its professional advisers will be paramount.

In order for an effective structure to be maintained, a good working relationship with the bank is vital, particularly if lending is involved. Sovereign provides suitable introductions where required.

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