QNUPS: overview

- Inheritance tax concept.
- Primarily to provide IHT protection for QROPS, but QNUPS is much broader concept.
- No requirement to notify HMRC so many non-UK pension schemes are QNUPS without being aware of it (eg US IRAs and 401K plans).
- UK taxation:
    - Favourable IHT treatment (almost identical to registered pension schemes).
    - CGT exemption for ‘overseas pension schemes’ (TCGA 1992 s.271(1A)).
    - No UK tax relief in respect of contributions.
    - UK source investment income taxable at up to 45%.
    - Pension benefits paid to UK residents mainly subject to income tax under Pt 9 ITEPA 2003.
- Family concerns: divorce/bankruptcy/forced heirship.
- Reporting: CRS/TRS.
- Implications of Brexit?

What are QNUPS?

- IHTA 1984 s.271A and SI 2010/51.
- In outline, a pension scheme is a QNUPS if:
  1. It is established outside of the UK;
  2. Membership is genuinely open to local residents;
  3. Local jurisdiction provides tax relief in respect of pensions and: (a) tax relief is not available to the member in respect of contributions to the scheme or (b) most benefits paid by the scheme are subject to tax;
  4. It is either: (a) approved, recognised, or registered with the local tax authorities as a pension scheme or (b) no system for approval, recognition, or registration exists and 70% of each member's relevant scheme funds must be used to provide an income for life and pension benefits cannot commence earlier than age 55 (except in cases of ill-health); and
  5. It is either: (a) regulated by a regulatory body or (b) no regulatory body exists and the scheme is either established in the EEA or 70% of each member's relevant scheme funds must be used to provide an income for life and pension benefits cannot commence earlier than age 55 (except in cases of ill-health).
- Special rules apply to schemes established by international organisations and to certain Australian plans.

Practical points

- Drafting of scheme documentation is vitally important.
- Key jurisdictional differences:
    - local pension/tax regimes sometimes unhelpful;
    - flexible benefits (since April 2015);
    - investment restrictions (e.g. residential property; diversification);
    - local expertise;
    - perception of local integrity;
    - double tax treaties.

How are QNUPS being used?

- ‘Top up’ arrangements (contributions made in accordance with financial advice);
- Pension transfers from EFRBS (since April 2017);
- UK residential property for non-doms (since April 2017);
- Contract-based (UK source income);
- QNUPS/EPUT structures.

Thank you