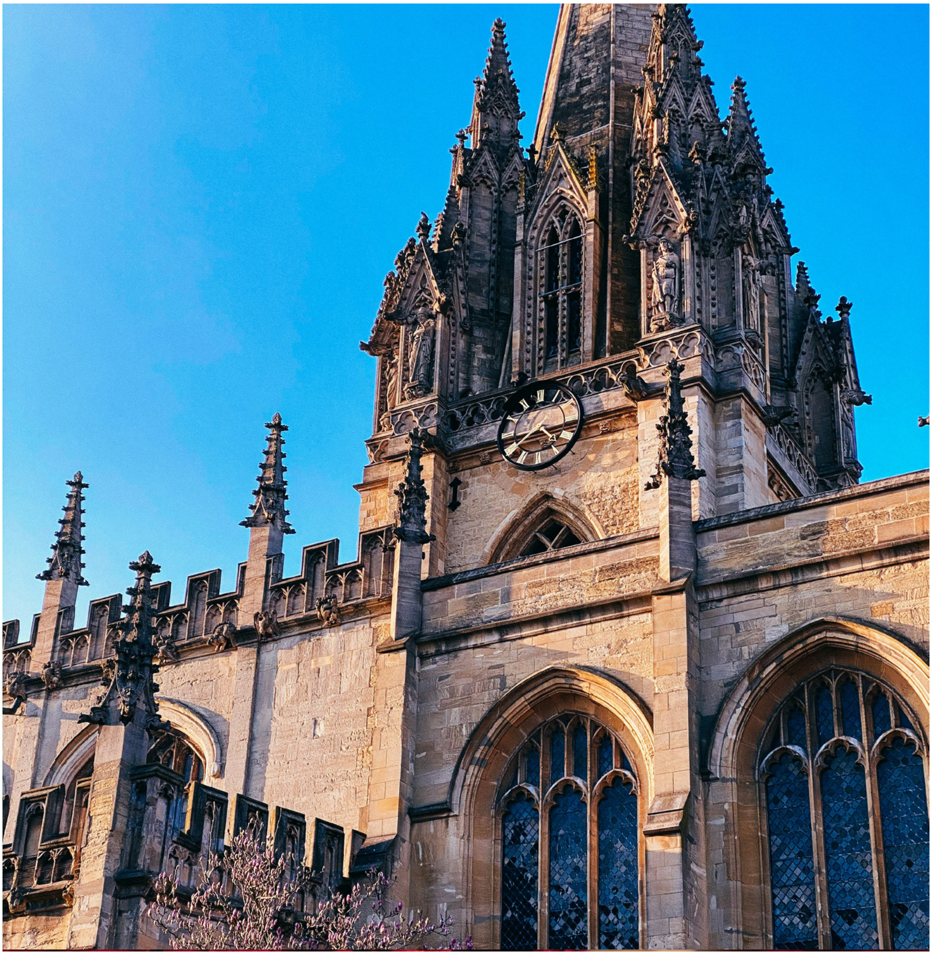
IS IT TIME TO BRING YOUR QROPS BACK TO THE UK?



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Is It Time to Bring Your QROPS Back to the UK?

For many years, Qualifying Overseas Pension Schemes (QROPS) played a central role in cross-border retirement planning. They were created to help UK nationals who moved abroad take their pensions with them and, in certain circumstances, offered advantages that UK pensions did not.

But much has changed since QROPS were first introduced in 2006. Over the years, successive governments have tightened loopholes and aligned overseas pensions more closely with domestic rules. Most recently, the abolition of the Lifetime Allowance (LTA) in 2024 and the inclusion of pensions within the inheritance tax (IHT) net from April 2027 have prompted many to ask a critical question:

For UK residents, is it now time to bring overseas pensions back home?
This guide takes an in-depth look at the history of QROPS, how they were used, what has changed, and the key factors to consider before making any decisions.

A Brief History of QROPS

QROPS were launched in April 2006 following the “pensions simplification” reforms. The original intention was clear: to allow those retiring abroad to transfer their UK pensions into a scheme in their new country of residence, ensuring continuity of savings and retirement planning.

However, as the rules evolved, so did their use. For many years, QROPS were not just about expatriates retiring abroad; they became a planning tool for UK residents too.

Why did UK residents use QROPS?

1. Income flexibility

Before April 2015, UK pensions were more restrictive. Most people were obliged to purchase an annuity or were limited to capped drawdown. By contrast, some QROPS schemes allowed flexible withdrawals, making them attractive to those who wanted more control over their retirement income.

2. Avoiding the Lifetime Allowance (LTA)

For anyone whose pension pot approached the LTA (originally 1.5m, later 1m), transferring to a QROPS was a way of avoiding punitive tax charges. Once a pension was transferred overseas, growth in that scheme was no longer tested against the LTA.

3. Additional tax-free cash

Certain transfers into QROPS opened the door to accessing more than the standard UK 25% pension commencement lump sum. In practice, some individuals were able to take nearly double the usual entitlement.

For many, these advantages outweighed the downsides of dealing with an overseas administrator or potential currency risks.

The Pension Freedoms Revolution

Everything changed in April 2015, when the UK introduced pension freedoms. From that point, members of UK defined contribution schemes could access their pensions with complete flexibility. They could take income as and when they wished, or even withdraw their entire pot in one go.

This removed one of the most compelling reasons for transferring into QROPS while remaining UK-resident.

The End of the Lifetime Allowance

The abolition of the LTA in April 2024 marked another turning point. For years, advisers recommended QROPS transfers to avoid the risk of LTA charges on future growth. Once transferred, funds were tested against the allowance at the point of transfer, but further growth escaped scrutiny.

Now, with no LTA, that planning opportunity is redundant. Instead, pensions are tested against two new limits:

- Lump Sum Allowance (LSA) – capped at 268,275 (25% of the old LTA).
- Lump Sum and Death Benefit Allowance (LSDBA) – capped at 1,073,100 (unless transitional protection applies).

Importantly, tax-free cash taken from an overseas pension before transfer does not reduce a client's LSA or LSDBA. This creates a scenario where someone who already accessed tax-free cash abroad could still access their full allowance in the UK once transferred.

Closing the Tax-Free Cash Loophole

Until October 2024, UK residents could still exploit a loophole by transferring into certain EEA or Gibraltar-based QROPS without triggering the 25% Overseas Transfer Charge (OTC). By doing so, they could potentially unlock extra tax-free cash.

This exemption was removed on 30 October 2024, closing the door on this strategy. Today, a UK resident transferring to a QROPS in most cases will face the 25% OTC unless they are genuinely resident in the same jurisdiction as the scheme.

The 2027 IHT Changes

Perhaps the biggest development still to come is the extension of inheritance tax to pension funds, effective from April 2027.

At present, many pensions can be passed on free of IHT, especially if death occurs before age 75. From 2027, unused pension funds will be included in the estate for IHT purposes.

For UK residents, this applies equally to:

- UK-registered pensions, and
- Overseas pensions such as QROPS or other qualifying non-UK schemes (QNUPS).

In fact, QROPS may introduce extra complexity for executors:

- Overseas schemes will need to be valued and reported for IHT purposes.
- Beneficiaries may need to pay IHT directly, rather than the scheme settling with HMRC (which UK pensions can do).
- Delays and administration costs may increase, especially where foreign jurisdictions are involved.

This significantly reduces the rationale for holding a QROPS while UK-resident.

Benefits of Bringing a QROPS Back to the UK

For many clients, repatriating overseas pensions to a UK scheme such as a Self-Invested Personal Pension (SIPP) offers clear advantages:

1. Simplification
Dealing with a UK provider, in sterling, under the UK regulatory regime removes layers of complexity.

2. Currency alignment
Income and withdrawals are received in sterling, eliminating ongoing FX risk.

3. Transparency and fees
UK SIPPs often have lower and more transparent charging structures than QROPS.

4. Tax efficiency
Eliminates the need to claim double taxation relief or navigate unfamiliar overseas tax regimes.

5. Estate clarity
Executors deal with a single jurisdiction. Any IHT liability can be settled directly with HMRC, avoiding the risk of beneficiaries being personally liable.

Key Considerations Before Transferring

Despite the simplification, transferring pensions is not a one-size-fits-all solution. Important questions remain:

- **Future residency:** If you intend to retire abroad, retaining a QROPS may still be advantageous, particularly in a jurisdiction where pension income is taxed more favourably.
- **Scheme guarantees:** Some QROPS may include unique benefits or protections that would be lost on transfer.
- **Exit charges:** Certain providers impose penalties or high fees on transfer-out.
- **Tax position:** Past residency, domicile, and double tax treaties may influence outcomes.

Practical Example

Take the case of a UK resident who transferred 800,000 into a Malta QROPS in 2018 to avoid the LTA. They withdrew a 30% lump sum at the time (above the UK's 25% allowance). Today, they are fully UK-resident and do not plan to move abroad again.

- **Under old rules:** Staying in Malta allowed higher tax-free cash and avoided LTA growth charges.
- **Under current rules:** There is no LTA, tax-free cash loopholes are closed, and from 2027 the QROPS will be within IHT scope anyway.
- **Outcome:** Transferring back to a UK SIPP now consolidates pensions, removes currency conversion risk, and simplifies estate planning.

Why This Matters for UK Residents

The landscape has shifted. Where once QROPS offered clear planning advantages, today they may simply add unnecessary complexity for clients who are long-term UK residents.

- Pension freedoms mean flexibility is no longer exclusive to overseas schemes.
- The abolition of the LTA removes a key driver of transfers.
- Extra tax-free cash opportunities have closed.
- IHT rules are being aligned for both UK and overseas pensions.

For many, this raises the question: why hold retirement savings abroad if you intend to retire in the UK?

Blacktower's Guidance

At Blacktower, we have been supporting expatriates and returning residents for nearly 40 years. With offices across the UK, Europe, and further afield, we specialise in cross-border wealth management, helping clients navigate complex tax and pension rules with clarity.

If you have a QROPS and are now UK-resident, we can help you:

- Assess whether to retain or repatriate your overseas pension.
- Understand the tax, cost, and estate planning implications of each option.
- Align your retirement savings with your long-term residency and lifestyle plans.
- Provide continuity of advice across multiple jurisdictions if you do move again.

Contact Blacktower today to speak with an experienced cross-border adviser.

Final Word

For many clients, the case for holding a QROPS while UK-resident has diminished significantly. While there may still be exceptions, depending on circumstances a UK SIPP offers equivalent flexibility, reduced complexity, and smoother estate planning.

The key is to review your situation now, before the 2027 IHT reforms take effect, and ensure your pension strategy continues to support your long-term goals.

Important Notice

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