Broadbase International Ltd Newsletter – July 2010

If you are in New Zealand we hope that you are enjoying the school holidays. Jeremy will be taking a couple of days off during the next two weeks to take in some of the sights and sounds of Christchurch's Kidsfest with his family, including the incredible Kidsmarket in Cathedral Square on Monday – imagine a huge car boot sale organised by kids. Only limited parental involvement is allowed, although we do recommend that you set a couple of ground rules if you are coming – restricting the kids to what they can carry works well for us!

In our newsletter this month we take a quick look at some of the less-publicised changes in June's emergency budget and examine the some of the myths about New Zealand QROPS.

UK June "Emergency" Budget

The UK coalition government's June "emergency" budget didn't bring too many surprises – with a huge deficit to reduce the increase to VAT (rising to 20% in January 2011) and spending cuts and freezes to public services were clearly signposted long before they were actually announced. But there were a couple of announcements that pretty much flew under the radar that we would like to highlight, as they do potentially impact Brits in New Zealand.

- Rise in the state pension age to 66 will be accelerated – current indications are that this change will occur in around 2016 for men. This was scheduled to happen in 2024 for men and 2026 for women, with a further rise to 67 scheduled for 2034-2036, with a final hike to 68 in 2044-2046.
- Reduced pensions tax relief from 6 April 2011 – reformed annual allowance of around £30,000 – £45,000 (down from £245,000 this tax year), more details to be announced in the next couple of months.
- Obligation to purchase an annuity by age of 75 will be removed, also by April 2011.

Taken together, these changes signal a fairly significant overhaul of the UK pensions system. We'll bring you more information when the finer details are settled. In the meantime, for a concise summary of UK income tax rates and allowances check http://www.hmrc.gov.uk/rates/it.htm.

QROPS and the Myth of 100% Access

Every couple of months we are amused to see an offshore financial adviser expressing serious concerns about the validity of New Zealand QROPS pension schemes, generally while pointing out that the QROPS that they are selling has no such drawbacks. Some of these pundits even go on to assert that New Zealand QROPS allow you 100% access to your pension funds.

QROPS have been around since 2006, and most of the concerns that were raised at the time of their launch have come to nothing – the HMRC clearly keeps a close eye on QROPS, and acted decisively and without comment to remove QROPS status from Singapore pension schemes in 2008 - but the system seems to be working overall. Its time we think to clarify some of the commonly expressed "concerns" over New Zealand QROPS:

The HMRC rules are around which overseas pension schemes can become QROPS and when you can access UK pension funds that have been transferred to a QROPS are well defined and strict. Essentially, the QROPS regulations are designed to ensure than expats can only transfer their UK pensions to overseas pension schemes that have similar rules to UK pension schemes.

An overseas (non-UK) pension scheme can apply to become a QROPS if:

- It is a regulated occupational or personal pension scheme – pension schemes or Superannuation schemes are regulated in New Zealand by the Government Actuary.
- It is open to people who live in the country where it is established – pension schemes in New Zealand are open to residents.
- The country in which the pension scheme is established does not give tax relief on pension contributions or most of the benefits are subject to taxation – no tax relief is giving on contributions to New Zealand Superannuation schemes.
- It is registered with the relevant tax authorities in the country where it is established – New Zealand schemes are registered with the Government Actuary and the Inland Revenue Department.

- It is established in a country with a Double Taxation Agreement with the UK that contains exchange of information and non-discrimination provisions – New Zealand has a double taxation agreement with the UK.
- Retirement benefits available to the member from transferred funds are available no earlier than they would be in a UK pension scheme – In New Zealand schemes the retirement age is usually at age 55.
- It will provide required information to the HMRC (on payments out of the scheme, transfers to other schemes etc.) – New Zealand QROPS schemes are obliged to report back to the HMRC any withdrawals of UK pension transfers from a New Zealand scheme if the scheme owner has been a UK tax payer in any of the last complete 5 UK tax years.

Any transfer or access to pension benefits that contravenes HMRC regulations within the five year QROPS reporting period can result in tax charges and penalties of up to 55%. The QROPS regulations are stringent, but only apply for the first five complete UK tax years that you are outside the UK. After this, the overseas pension scheme is no longer obliged to provide details of the transferred fund to the HMRC, and your pension is only subject to New Zealand tax and pensions regulations and to any rules and restrictions imposed by the individual New Zealand pension scheme.

This can mean that you can access as much as 100% of your pension as a tax-paid lump sum once you are outside the 5-years QROPS reporting period, although in practice most NZ pension scheme providers will have their own limits on what you can draw down (normally around 20-40%). Some funds are more flexible than others, and you do of course have to keep in mind that you will need an income in retirement.

New Zealand QROPS are mainly aimed at Brits and returning Kiwis who have moved to New Zealand on a permanent basis, unlike other QROPS which are touted as tax-saving vehicles for the well-heeled. Interestingly, New Zealand has not needed to change its pension regulations to fit around the QROPS rules, unlike other well-known expat tax havens. Partly this is due to the way pensions are taxed and accessed in New Zealand and the UK - the UK generously allows you to make contributions to your pension fund tax-free, but is then very restrictive about when and how you can take benefits from your fund. In New Zealand there is very little tax relief available on pension contributions, but access to your fund (apart from retirement savings within the KiwiSaver retirement saving scheme) is generally far more flexible. As New Zealand pension funds are taxed as they grow, the income or lump sums you drawdown from your fund are regarded as tax-paid – you do not pay any further New Zealand income tax on them.

So, 100% access to your pension fund within the 5-year QROPS reporting period is a myth. Access to your pension fund outside the 5-year QROPS reporting period is often possible with more flexibility than would be available in the UK, but while it is relatively common practice for New Zealanders to take money out of a superannuation fund well before retirement this decision and its implications ultimately rest with you.

At Broadbase International we have carefully researched the QROPS available in New Zealand, and we recommend a couple of different QROPS providers. Each of these has different features which make them particularly suitable for different people, and part of our QROPS service includes the offer of a careful analysis of your financial position and goals and a discussion of whether a New Zealand QROPS is right for you. Contact Jeremy or check our website to find out more.

New Zealand Local Elections

If you are living in New Zealand you should receive a letter this week confirming your registration details in preparation for the local body and health board elections later this year. If you are a New Zealand permanent resident aged over 18 and have lived here for a year or more, you are required by law to register to vote. For more information see article on voting in New Zealand on our UK website.

Until Next Month…

Wishing you well until we are next in touch. Please feel free to contact us anytime if you have any questions about the financial side of life in New Zealand.

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