



Alexander Beard Group Bulletin

Yanks and QROPS don't mix

Alexander Beard Group's discretionary fund management partners, London & Capital Wealth Management, speaking through Founder and Managing Director Daniel Freedman, have sounded a timely warning about the dangers of British residents in the United States, who are subject to US taxation, considering transferring UK pensions they may have accumulated back home into offshore QROPS schemes.

For the unwary or uneducated adviser and their clients Freedman warns "*Such Qualifying Recognised Overseas Pension Schemes represent a significant potential trap*"... "*QROPS are fine for a British citizen who is planning to move to the USA permanently but has not yet left and if the transfer is done before they become US tax resident then there isn't an issue but if the transfer is done afterwards then there can be significant problems*".

Freedman told us that he had decided to speak out after a couple recently came to see him after having been hit with a tax equivalent to 25% of their total pension fund of around £1.28million because their previous adviser recommended a transfer into a QROPS in 2011. "In this case, the move triggered US tax charges on the whole value of the transfer" Freedman said.

For a start, if the QROPS trust is registered in a jurisdiction that lacks a double taxation agreement with the US the scheme could also be subject to the need to report annually to the IRS about the underlying growth and possibly the income generated within the underlying funds. For each year not reported, interest and tax penalties ultimately would be assessed. A number of offshore QROPS are being peddled in the United States to unwary Brits through trusts in Malta because Malta has a double taxation agreement but this does not exclude it from FATCA reporting.



Daniel Freedman, Founder and Managing Director of the London & Capital wealth management office

Freedman went on to say "*Even if the QROPS scheme they choose meets certain US issues, for example, by being domiciled in Malta, the transfer of a UK pension belonging to an American tax payer into a Maltese QROP could still end up being a taxable event unless the client has built up enough foreign tax credits to offset it*".



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On top of that the IRS may consider QROPS as a form of trust which necessitates annual foreign trust reporting.

Freedman again... *"This can result in tax penalties of up to 50% of the account value"... "For many individuals, QROPS are an excellent, legally tax efficient-way to make the most of an individual's pensions savings" he added! "But there is a tendency to see them as a one size fits all product for every client who is moving overseas for good, regardless of nationality or final destination and this is where problems arise".*

Alexander Beard Group Expat and Emigration Director Philip Teague said *"We are working with London & Capital to produce a product for USA citizens living in the U.K. who have 401K plans back home now adversely affected by FATCA. This will complement our AMVEST product which provides a FATCA exempt option for USA citizens who have accumulated U.K. pensions whilst working here in the UK".*



Philip Teague,
Divisional Director – Expat
& Emigration Division

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