

NZ retirement fund quits UK HMRC registration. Is this the beginning of the end of QROPS misuse?

A New Zealand QROPS provider has announced its decision to quit the market. Southern Star Administration Ltd, which has been offering a QROPS under the name of the Southern Star Retirement Fund, intends to quit the market from June 30. The reason it gives is regulatory uncertainty. The company has also indicated that it intends to wind up its QROPS.

QROPS pension transfers are a great benefit to anyone who is now living outside the UK as they allow the UK pension to be moved to a jurisdiction offering greater benefits. However New Zealand has increasingly been seen to be a problematical jurisdiction, given that some IFAs have been using a loophole to pension bust. They are using the five year reporting rule as an indicator that beyond this period, the whole fund value can be taken as cash. In some cases allowing benefits to be taken at an age far lower than that stipulated by HMRC. This was never HMRC's intention. HMRC's penalty if the withdrawal is taken to be an unauthorised payment is a tax levy of 55%.

The New Zealand regulators are in the process of reviewing QROPS transfers to the jurisdiction. As they too frown on the practice of commuting values to a cash lump sum. This seems to have been the catalyst that has brought about Southern Star Administration's decision. This looks to signal the beginning of the end of the QROPS misuse. As it was easy for the unauthorised and unqualified adviser to undertake a transfer to a 100% cash withdrawal, but far harder for them to compete when it comes to genuine QROPS advice, hopefully this may also be the beginning of their demise too.

Unlike UK pensions which get tax relief on contributions but not on income, New Zealand pensioners pay tax on their fund but not on payments.

Southern Star said in a letter to clients that its decision was taken after a review of the scheme's recent member expectations "and the value proposition we offer".

"The directors also believe there is considerable uncertainty regarding the future of the present Qrops transfer system and have an expectation of changes being put in place by regulators which are likely to strengthen the retention requirements for members of New Zealand retirement schemes."

Southern Star said its decision had been made at short notice but would coincide with the end of the UK tax year.

All contributions would remain in the fund which would continue to be registered and regulated by New Zealand authorities until winding up.

Another 85 New Zealand schemes are listed by the British Government as Qrops-compliant.