TECHNICAL NOTE
TRANSFERS FROM OVERSEAS PENSION SCHEMES

Scottish Widows Platform

For Professional Advisers only

Transfers can be accepted into a registered pension scheme from an overseas pension scheme. The treatment of such transferred benefits will normally be the same irrespective of the type of overseas scheme from which they were paid. However, the treatment of these benefits for lifetime allowance testing purposes will depend upon whether these have arisen from a recognised overseas pension scheme (ROPS) or from an overseas scheme that is not a ROPS.

If the overseas scheme is a ROPS the member may be entitled to claim an enhanced lifetime allowance in respect of overseas membership of that scheme. HMRC's Pensions Tax Manual (PTM) sets out the requirements for an overseas scheme to be a ROPS.

It should be noted that many providers of registered schemes, including Embark Group, will only accept overseas transfers from a ROPS.

Transfer from an overseas pension scheme (ROPS or otherwise)

A member transferring from an overseas pension scheme will be able to draw benefits in the same form and same circumstances as any other member of a registered pension scheme. Moreover, any investment income or gain in respect of the transferred funds under the receiving scheme is free of UK income tax and capital gains tax.

Although such a transfer is not a recognised transfer it is not treated as an unauthorised payment. Section 188(5) of the Finance Act 2004 provides that a transfer is not treated as a contribution and therefore it does not qualify for tax relief on receipt.

Impact on annual allowance

Transfers into a UK registered scheme from an overseas scheme have no impact on the individual's annual allowance.

Where the receiving registered scheme is a defined benefit (DB) or cash balance scheme the benefit increase arising from the transfer will not effectively count towards his/her annual allowance as the value of the transfer payment should be deducted from the closing value of the member's rights in the tax year concerned for annual allowance purposes.

Where the receiving scheme is a money purchase scheme no account will be taken of the transfer value for annual allowance purposes as it is not a contribution.

Lifetime allowance – transfer from a recognised overseas pension scheme

A transfer to a UK registered scheme from a ROPS is not a benefit crystallisation event. The member's benefits will be tested against their lifetime allowance when they are crystallised.

Where all or part of the transferred benefits do not relate to UK tax relieved contributions made after 5 April 2006 the member will be able to elect for an enhanced lifetime allowance. Such an election must be made to HMRC by no later than five years after the 31 January following the end of the tax year in which the transfer in took place. This is referred to as the 'recognised overseas scheme transfer factor'.

The 'recognised overseas scheme transfer factor' is calculated by dividing the amount of any sums and assets transferred by the standard lifetime allowance as at the date of the transfer. But if UK tax relief was received in respect of:

- Contributions made after 5 April 2006 by or in respect of an individual to the overseas arrangement; or
- Accrual of benefits under an overseas scheme after 5 April 2006

then the amount transferred has to be reduced by that part of the transfer value which relates to benefits/contributions so relieved (the 'relevant relievable amount').

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Example 1

Ken Brown transferred benefits worth £200,000 from a ROPS to his UK registered scheme on 7 June 2018. He doesn't have a 'relevant relievable amount'. His 'recognised overseas scheme transfer factor' is calculated as:

$$\frac{\textbf{The amount of the transfer from his ROPS}}{\textbf{The standard lifetime allowance for 2018/19}} = \frac{\textbf{£200,000}}{\textbf{£1,030,000}} = \textbf{0.194}$$

The result is then rounded up to two decimal places (i.e. 0.20).

This means Ken has a lifetime enhancement factor of 0.20 (i.e. a 20% increase over the standard lifetime allowance).
If Ken decided to crystallise pension benefits in 2023/24, these would be tested against an enhanced lifetime allowance of £1,287,720 (i.e. £1,073,100 standard lifetime allowance x 20% plus the £1,073,100 standard lifetime allowance).

The deduction of the 'relevant relievable amount' ensures broadly that the enhancement does not include amounts transferred into the registered pension scheme that have benefited from UK tax relief after 5 April 2006 (for example because the individual has had migrant member relief on contributions to the overseas scheme). The 'relevant relievable amount' relates to any part of the period during which the individual was an active member of the recognised overseas pension scheme and was not a 'relevant overseas individual'. A 'relevant overseas individual' is an individual who either does not qualify for UK relief on contributions paid to a registered pension scheme because they are not a 'relevant UK individual', or an individual who is not employed by a UK resident employer and only qualifies for UK relief on pension contributions because they were resident in the UK both during 5 years immediately before the tax year under consideration and when they became a member of the registered pension scheme.

Example 2

Deborah White made a transfer of £100,000 from a ROPS to her UK registered scheme in May 2018. Of this, £40,000 is a 'relevant relievable amount'.

When determining Deborah's 'recognised overseas transfer factor' the amount transferred must firstly be reduced by the amount of the 'relevant relievable amount'. In this case this leaves a transferred amount of £60,000 (£100,000 – £40,000).

This provides an enhancement factor of:

$$\frac{\textbf{The amount of the transfer from her ROPS – relevant relievable amount}}{\textbf{The standard lifetime allowance for 2018/19}} = \frac{\textbf{(£100,000 – £40,000)}}{\textbf{£1,030,000}} = \textbf{0.058}$$

The result is rounded up to two decimal places (i.e. 0.06).

This means Deborah has a lifetime enhancement factor of 0.06 (i.e. a 6% increase over the standard lifetime allowance).
If Deborah decided to crystallise pension benefits in 2023/24, these would be tested against an enhanced lifetime allowance of £1,137,486 (i.e. £1,073,100 standard lifetime allowance x 6% plus the £1,073,100 standard lifetime allowance).

Lifetime allowance – transfer from an overseas scheme other than a ROPS

The position is exactly as for a transfer from a ROPS, as described above, except that there is no ability to elect for an enhanced lifetime allowance.

For more information on the Scottish Widows Platform, please contact your consultant.
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