Non-UK Pensions - Embracing the IHT benefits

OPTIMUS

Let's play spot-the-difference...

Scenario 1 - a UK resident individual dies with personal assets of £1m and a registered pension scheme valued at £950K. The non-pension assets over and above the nil rate band are subject to IHT and the pension assets are not.

Scenario 2 - a UK resident individual dies with personal assets of £1m and a qualifying non-UK pension scheme (QNUPS) valued at £2m. The non-pension assets over and above the nil rate band are subject to IHT and the pension assets are not.

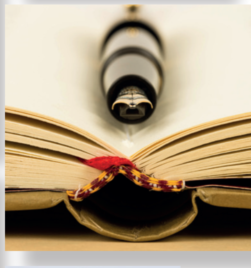
It takes no more than a quick-fire comparison to reveal that the key difference is that the pension assets outside the scope of IHT are higher with the non-UK pension scheme. However, this has nothing to do with IHT rules and everything to do with the £1m lifetime allowance laid down by the UK's income tax regime for registered pensions. And that, in turn, is driven principally by the fiscal imperative to cap the amount of tax-relief available for pension contributions in the UK. Non-UK pension schemes do not attract the same tax relief so there is no need to limit what you can contribute - hence the higher value of the IHT-free pension pot.

Generally, pension schemes are designed to achieve two key goals which, in priority order, are: firstly, to generate retirement funds for the contributing member and, secondly, for those savings to be made available to chosen beneficiaries in the event of the member's premature demise. To make sure the latter can happen, the UK government has legislated to ensure that both UK registered schemes and non-UK schemes are outside the scope of IHT.

There is a point to this rather rudimentary, potted summary of the taxation of pensions. And that is, when it comes to IHT, the UK government treatment of non-UK pension schemes is deliberate and indiscriminate. IHT benefits are not derived by loophole or circuitous planning - they are laid out in black and white in the laws of the land. Indeed, the regulations are called the 'Inheritance Tax (Qualifying Non-UK Pension Scheme) Regulations 2010' - there is no greater demonstration of an intent to create a specific IHT treatment for QNUPS than the title of the rules that govern them.

Nevertheless, there is, in some quarters, a certain amount of reticence around promoting the IHT benefits of QNUPS, probably founded on the well-trodden 'too good to be true' argument. But that jitteriness is misplaced because the IHT treatment is never in doubt. Where nervousness is justified, is when an arrangement is not a pension scheme at all and is being used for reasons other than to generate financial resources for retirement, or in the event of death. But if it's a bona fide retirement planning arrangement then IHT is one of the very attractive benefits that come with QNUPS - just like any UK registered scheme. That should be celebrated not whispered because, these days, it's rare.

"The IHT treatment is never in doubt"



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