

Tax-free lump sum from your RATs?

Simon Graham considers recent changes to regulations in relation to tax-free lump sums available from Guernsey pension schemes.

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The Guernsey Retirement Annuity Trust Scheme (RATs) has long been considered an attractive vehicle for individuals relocating to the island with significant pension rights arising in their home country. Amendments to the Guernsey Income Tax Pension Regulations governing lump sum payments have recently made them an even more attractive prospect, especially for those moving from the UK.

As with many pension arrangements, upon commencement of drawing pension benefits, a RATs has the ability to pay to its member a tax-free lump sum. The maximum permitted is 25% of the fund value. However, until now this lump sum payment has been further restricted by regulations imposed by the Guernsey Income Tax Law, which has the effect of setting a cap on the maximum amount payable. In the case of significant pension funds, i.e. £1 million upwards, this restriction has left Guernsey at a disadvantage when comparing its pension regime to other jurisdictions.

For 2006 the maximum permitted tax-free lump sum is capped at £142,000. However, following recent changes, which have arisen following successful lobbying from the MeesPierson Reads Group, this restriction is no longer imposed on payments made in relation to certain inward transfers, including transfers made from overseas and UK pension funds.

For individuals moving from the UK wishing to escape a severe tax burden on their pension fund (at 40% or potentially even 55%), moving to Guernsey with its relatively simple tax regime, and just a single tax rate of 20%, is an extremely attractive option.

For those unfamiliar with the basic concept of a RATs, the following will be of interest: -

RATs - Basic description

- A RATs is a form of Discretionary Trust which acts as a personal pension scheme for individuals who are resident or become resident in Guernsey.
- RATs are highly flexible pension vehicles, approved by the Guernsey tax authorities.

Key attraction of a RATs

- RATs can receive inward transfer payments from UK schemes (before benefits have been drawn).
- Guernsey legislation does not impose any limits on the



quantum of inward transfer payments that can be received or on the total value of the RATs fund (unlike the new UK regime).

- A member may influence the management of his own scheme.
- The Trustees may invest in a wide range of asset classes.
- A member may take a loan from his own RATs fund (subject to certain restrictions).
- There is no requirement for an annuity to be purchased when triggering benefits.
- Pensions are charged to Guernsey income tax at 20% compared to 40% UK income tax if the fund were to remain in the UK (or potentially 55%).
- Residual funds may pass to dependants upon the death of the scheme member.
- Members may make annual contributions to RATs subject to certain limits.

What can MeesPierson Reads do?

- Advise on taxation and other issues relating to an individual's relocation to Guernsey.
- Establish the RATs scheme and obtain Guernsey Income Tax office approval.
- Act as Trustee of the scheme.
- Arrange for inward transfer payments from existing UK schemes.
- Advise on investment strategy and provide investment management services.

Anyone seeking further information should contact either Simon Graham or Jon Stephen in the first instance, or the MeesPierson Reads director or manager with whom you normally deal.