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COMPELLING REASONS FOR USING NEW ZEALAND QROPS (QUALIFYING RECOGNISED OVERSEAS PENSION SCHEMES)

1 Tax friendly for foreign and transitional resident members – 0% tax on fund growth

New Zealand is a tax friendly jurisdiction for foreign investors – with a 0% tax on growth in foreign assets for foreign investors. Because of this New Zealand is an extremely popular destination for foreign investors using tax efficient vehicles such as New Zealand based foreign trusts (New Zealand foreign trusts require the settlor (see <http://www.ird.govt.nz/trusts-and-estates/types/>) to be non-resident in New Zealand while the trustee is resident).

A well set out New Zealand superannuation scheme will be a Portfolio Investment Entity (PIE) and will invest in foreign investments thereby ensuring foreign members and transitional residents have a prescribed investor rate (PIR) 0% (see <http://www.ird.govt.nz/toii/pir/workout/#non>) – this means a 0% tax rate on fund growth.

2 Benefit payments from New Zealand QROPS are NZ TAX-FREE

Distributions from New Zealand superannuation schemes as tax free as they are considered capital distributions rather than income payments. For this reason New Zealand does not have to rely on a complex network of Tax Treaties to determine whether or not tax will be levied. This means members of a New Zealand QROPS do not suddenly need to transfer their pension if they change countries – such as would be the case if a member belonged to another QROPS relying on double tax treaties and then moved to a country where no double tax treaty was in place.

3 Members do not have to purchase an annuity or fixed drawdown

As New Zealand schemes do not make income payments, only capital distributions, the members never have to purchase an annuity. Therefore, if the member of a New Zealand QROPS wishes to leave the scheme after they have started to receive their ‘income for life’ they can, unlike if they were in drawdown or had purchased an annuity in another foreign QROPS. And the member would receive the full remaining value of their scheme on transfer (subject to individual scheme exit charges).

4 No ongoing tax compliance for NON-RESIDENT members of the scheme

As there are no double tax treaty requirements, the member does not have to prove where they are living on a year-by-year basis. There is no requirement for foreign members to provide the New Zealand scheme with a tax statement from their overseas tax authority to demonstrate that they are living in an overseas jurisdiction with a double tax treaty. Consequently, the member will not suddenly receive an unexpected tax bill due to not filing the correct compliance documents on time.



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5 Excellent and stable regulatory environment

New Zealand has an excellent regulatory body, with wide ranging powers, in the Financial Market Authority (FMA) see <http://www.fma.govt.nz/> that governs New Zealand superannuation schemes. In addition the Inland Revenue (the New Zealand tax authority) see <http://www.ird.govt.nz> closely monitors superannuation schemes tax compliance (as well as having been responsible for the set up of the KiwiSaver industry in New Zealand). Every scheme must be individually registered with and extensively reviewed by both the FMA and the Inland Revenue.

The FMA and Inland Revenue set policy that is important to New Zealand superannuation and not specifically designed to maximise QROPS outcomes. This is important as it makes QROPS a by-product of New Zealand legislation rather than the focus of it – which is friendlier for the HMRC.

6 English speaking by heritage

Being English speaking is crucial for most members as it means the following:

- All governing documentation is in English and not open to interpretation in another language
- All relevant authorities websites are understandable and complaints processes easy to follow

7 A large British expat population and strong links to Great Britain

New Zealand has inward migration from the United Kingdom of around 15,000 people a year (and significant outward migration as young New Zealanders seek work in the United Kingdom). These strong permanent and temporary people flows require mechanisms to ensure portability of property, funds and pensions easily – this is recognised by both governments. This provides New Zealand QROPS industry with a natural hedge, as QROPS are required to assist the migrants in their settlement. Indeed, United Kingdom pension transfers were occurring to New Zealand long before the introduction of QROPS legislation – so this is not a recent phenomenon.



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8 Full scheme transparency at all levels – including fees

Financial disclosure requirements in New Zealand are designed to protect the interests of the investor in financial products and services. The level of disclosure required for New Zealand schemes is second only to perhaps Australia, which is why many New Zealand QROPS investment statements run to 30 plus pages. This means that the member can satisfy himself or herself on every point prior to investing in the QROPS.

Furthermore, fee disclosure is completely transparent in New Zealand so there can never be any hidden fees leading to nasty surprises for the member in the future.

9 Death benefits and no inheritance tax in New Zealand

On death, a New Zealand scheme will typically pay out 100% of your remaining superannuation scheme benefits to your nominated beneficiaries. Such a payment will be free of any inheritance tax payments in New Zealand. This is in line with New Zealand also being a hub for QNUPS.

10 The other benefits

There are a multitude of other benefits that make New Zealand the most attractive QROPS destination, including:

- The ability to easily and transparently set fees between an advisor and a member
- Most schemes will allow members access to 30% of the funds at age 55 years
- Many schemes offer funds denominated in sterling, thereby reducing the currency exposure of members to the New Zealand dollar
- New Zealand pensions law is by in large based on United Kingdom pensions law and so there are many therefore there are a lot of similarities making them that are easy to understand.