

RETIREMENT ANNUITY TRUST SCHEME (RATS)

What is a RATS?

Guernsey enjoys a reputation within the global finance arena as a centre of excellence for the provision and management of pension schemes. RATS were first introduced in 1991 and are an increasingly popular pension scheme choice for Guernsey residents. They are approved by both Guernsey and UK tax authorities and are a highly flexible and tax efficient pension vehicle. In essence the RATS is a discretionary trust that acts as a self-administered pension scheme run in most cases by the corporate trustee. The schemes can be tailored to the individual's lifestyle, pension needs and offer high levels of flexibility in terms of investment.

Transfers

Members can transfer funds from existing pensions schemes into a RATS. In certain cases it may be necessary for the trustee to acquire evidence that payment has been approved by the appropriate authority in the transferring jurisdiction.

Investments

RATS have wider and more flexible investment options than the traditional pension scheme. Assets can include quoted and unquoted company shares (there are certain restrictions on the latter where the member is a shareholder); commercial and residential property; bonds; and equities.

Loans and borrowing

A member can borrow up to 30% of the pension fund value at commercial rates. The trustee will need to

ensure they hold appropriate security for the loan. Any loan must be repaid in full before any pension benefits can be drawn. The RATS is also able to borrow funds to invest. Trustees will need to be satisfied that the income generated from the purchased assets and the growth forecast are sufficient to service the debt.

Contributions

There is no limit on the level of annual contributions made into the scheme. Members can contribute up until the age of 75 years. Tax relief is available annually on £35,000 or 100% of the member's taxable income – whichever is the lower. In the case of a married couple where both spouses are members of the scheme, this means tax relief on £70,000 contribution per annum. In addition, tax relief can be carried forward for up to six years. Should a member's employer make a contribution to the RATS, this is exempt under the benefits in kind' rule and is tax neutral.

Contributions accumulate free of Guernsey income tax and any income derived is also exempt whilst remaining in the scheme.

Pension benefits

A member must start to draw a pension between the age of 50 and 75 years (earlier if due to ill health). At any point after reaching the age of 50, a lump sum of up to a maximum of 30% of the fund value may be drawn. The lump sum is tax free up to a limit of £167,000. A member may draw the lump sum but delay taking pension payments until a later date.

Should the member die prior to drawing any benefits,

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the fund is not lost (unlike tradition insurance-based schemes). There are a number of options:

- The fund is paid to surviving dependants or beneficiaries with no Guernsey income tax charge (any non-Guernsey resident beneficiary may be subject to income tax charge depending on his jurisdiction of residence);
- The RATS is retained as a standard discretionary trust;
- A pension is paid to dependants either from the fund or via an annuity that is purchased.

If the member has drawn pension benefits prior to death the options similar but the tax treatment will be quite different as payments are deemed as income as opposed to capital.

Benefits in summary

- Wide range of asset classes which can include commercial and residential property;
- No requirement to purchase and annuity;
- Members can take a loan of up to 30% of the pension fund value;
- No limit on the permitted level of contributions;
- Contributions accumulate free of Guernsey income tax and any income derived is also exempt whilst remaining in the scheme;
- Tax relief on £35,000 (or 100% of taxable income if lower);
- Unused tax relief can be carried forward for a maximum of six years;
- Benefits can start to be drawn from the age of 50 to 75; therefore a member could continue to work whilst deriving an income from the RATS;
- A lump sum of up to 30% of the fund value can be drawn at any point from the age of 50;

- Should the member die prior to drawing any benefits from the scheme, the entire fund can be distributed with no income tax charge.

Imperium provides bespoke pension solutions for both Guernsey and UK residents as well as for its International clients often requiring complex retirement planning. Our small team of fiduciary professionals offers a bespoke high quality service to HNW private clients.

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