LONDON & COLONIAL
INNOVATION IN PENSIONS

Press Release

Further budget clarification final nail in the QROPS coffin

Adam Wrench, London & Colonial's Head of Product & Business Development, looks at the possible future for QROPS in light of the budget announcements earlier this year.

"There were a number of scaremongering headlines that appeared shortly after the budget announcements. Articles with titles such as 'QROPS Industry Reels from Budget Pension Changes' (International Adviser – 24th March 2014) and 'QROPS Industry Nervous After Budget' (The Telegraph – 1st April 2014) to name but two, did little to allay such fears, with many believing the budgetary announcements to be the start of QROPS' demise.

The main concern of these two articles was that the flexibility being announced to UK schemes would not be replicated across to QROPS as at that time there was no particular mention of how the new rules would impact on QROPS.

However, the good news is that it would appear these concerns are about to be addressed. In August, at a recent HMT Flexibility workshop run by the ILAG (Investment and Life Assurance Group), it was confirmed by HMRC that legislation covering QROPS would be updated, to enable payments similar to flexi-account drawdown and uncrystallised lump sums to be made.

This confirmation by HMRC will be a boost to those firms that were perhaps concerned with the previous scaremongering headlines and will be welcome news that the additional flexibility in retirement announced to UK schemes looks set to be extended to QROPS including the 'cashing-out' option.

One final point that requires clarification would appear to be the 55% lump sum death benefit tax and whether this is set to be reduced. The only clues we have so far on this is a reference made in the Treasury response paper issued by the Treasury in July 2014. The Treasury acknowledged that the industry considered the 55% to be too high and also recognised that a 55% tax charge on "uncrystallised" funds where the member was aged over 75 "may be too high when the new freedoms come into force". The Treasury stated that "The government will therefore continue to consider the options for altering the rate and will confirm its intention at Autumn Statement 2014."

London & Colonial prediction:

The 55% rate for uncrystallised funds where the member is aged over 75 will be abolished. The rate applying to crystallised funds will be reduced from 55% to 40% (to bring this into line with IHT). What however, seems certain is that whatever rate they settle on it will apply equally to a UK scheme as to a QROPS therefore providing a level playing field.

Therefore, contrary to any scaremongering headlines we believe the growth in popularity of the QROPS market looks set to continue".

-ENDS-

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Notes to Editors

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