A month ago the UK Chancellor, George Osborne, announced additional amendments to UK pension legislation to take effect from 6th April 2015. Following the Budget 2014 consultation process, it was agreed that the current UK death tax rate of 55% was considered too high and the position would therefore be considered. Speaking on the first day of the Conservative Party Conference in Birmingham, Mr Osborne declared that the 55% rate would be abolished and a new set of rules enforced depending on an individual’s circumstances on death.

**The key changes are summarised below:**

**Death pre-75**

* For pension scheme members who die prior to reaching age 75 with a UK defined contribution pension, whether in a drawdown arrangement or with uncrystallised funds, any nominated beneficiaries will be able to inherit the remaining fund free of any UK tax.
* This change affects only those that are in drawdown, where the previous tax for distributing benefits as a lump sum equalled 55%. There is no change to those with uncrystallised funds, where payment remains tax free.
* The payment will be tax-free so long as it is in the form of a cash lump sum payment(s) or is taken as pension income through a flexi access drawdown account.

**Death post-75**

* Beneficiaries will have the ability to access the remaining pension funds flexibly (i.e. no restrictions on the amount of withdrawal at any one time), and at any age, subject to tax at their marginal rate, unless the full fund is paid in its entirety as a lump sum.
* Beneficiaries receiving benefits as a full cash lump sum payment will be subject to a tax charge of 45% (a reduction of 10% on the present rate of 55%).
* The Government also intends to make death benefit lump sum payments post-75 subject to tax at the marginal UK rate in the future (as opposed to the 45% flat rate), and will engage with the pension industry to put this regime into place during 2016/17.

**What do the above changes coming into force on 6th April 2015 mean for QROPS?**

* The changes announced are with reference to UK resident individuals and therefore the taxation position on death for UK non-resident individuals is not yet clear. We are hopeful that this will be addressed in the Autumn Statement on 3rd December 2014.
* At a flat tax rate of 45% on death post-75 (where the remaining fund is accessed as a 100% lump sum payment), this is still considerably higher than the corresponding applicable rate in a QROPS, set at 0% (Gibraltar) and 7.5% (Isle of Man), assuming the member has been a non-UK resident for 5 complete tax years at the point of death.
* Average UK life expectancy is well in excess of age 75 for both males and females, and therefore it is expected that in the majority of cases the post-75 regime will apply, meaning that benefits will be subject to tax in some form.
* Advantages for defined benefit members remain unchanged, where transfers from unfunded UK Government schemes will cease in April 2015.
* With now even further changes since those already announced in the 2014 Budget, in addition to other amendments imposed over the last number of years, when will the UK pension landscape ever reach a stable position? QROPS continue to offer certainty to an individual, and are still very much open and available, so the message remains loud and clear - transfer NOW and lock in the benefits that a QROPS can provide for your future (before it is potentially too late).
* The normal benefits of a QROPS versus a UK defined contribution arrangement still exist i.e. a maximum tax-free lump sum benefit of up to 30% (as opposed to 25% in the UK), freedom from the UK Lifetime Allowance (LTA) charge, keeping in mind the ever-decreasing UK LTA limit, and generally a better tax position on death, even in light of the forthcoming changes to take effect in the UK.

If you have any queries regarding this release please contact us via [lucy@clubkeyoffshore.com](mailto:lucy@clubkeyoffshore.com) or over the phone at +84 120 7706 383