UK Chancellors Spring Budget 2017

With the last half-yearly budget before the return to annual announcements, the Chancellor gave us several things to consider;

Overseas Pensions - QROPS
The biggest surprise is the introduction of a 25% transfer tax at source on transfers overseas except in specific circumstances. There was an industry consultation over several months on proposed changes and this was not included anywhere. Their stated policy objective is of promoting fairness in the tax system. It continues to allow overseas transfers from pension schemes that have had UK tax relief that are made when people leave the UK and take their pension savings with them to their new country of residence.

To be exempt from tax, the main two criteria are;

- Both the individual and the QROPS are in the same country after the transfer, OR
- The QROPS is in one country in the EEA (an EU Member State, Norway, Iceland or Liechtenstein) and the individual is resident in another EEA country after the transfer.

This puts an end to tax free transfers to 3rd party jurisdictions where the client lives outside of EU/EEA countries. This may indicate that on completion of Brexit, this tax may apply to all transfers except where the client lives in the same country and the pension provider.

It should also be noted there is no work around by temporarily moving jurisdiction, as UK tax charges will apply to a tax-free transfer if, within five tax years, an individual becomes resident in another country so that the exemptions would not have applied to the transfer.

They state that there are generally between 10,000 and 20,000 transfers to QROPS each year and that is expected that only a minority of these transfers will be subject to this policy. I would be surprised if this is the case. I don't have any stats, but I believe a significant amount of transfers would have been ones where tax would apply if they transferred today.

Other changes which apply to existing or new transfers are;

- Payments out of funds transferred to a QROPS on, or after, 6 April 2017 will be subject to UK tax rules for five tax years after the date of transfer, regardless of where the individual is resident

- The requirement that at least 70% of a member's fund must be used to provide an income for life will be removed from the conditions that a pension scheme must meet to be an 'overseas pension scheme' or a 'recognised overseas pension scheme', thereby enabling such a scheme to provide flexi-access drawdown. – This means certain overseas jurisdictions can offer full taxable access to pensions funds in the same way as available in the UK since 2015. We may have to wait until after 6th April to see which jurisdictions can add such flexibility.
- To limit abuse, rules are in place that a tax charge may apply to individuals who have been resident outside the UK for less than 5 years. This period is to be extended to 10 years. – This is a reporting requirement that QROPS administrators advise HMRC of all payments out of the scheme. Whilst the reporting is extended, limits on what you can take still go on forever, they are just double-checking for longer.
- Where a foreign pension or lump sum is paid to a UK resident, 100% of the pension arising will be chargeable to UK tax (to the same extent as if they had been paid from a registered pension scheme). – This closes a loophole where some advisers were advocating transfers for those who were not intending to retire overseas to obtain a 10% tax saving.

For those who have already transferred, there is no penalty tax impact, but it becomes more important than ever to have a strong long-term relationship with your financial adviser to ensure continued support and understanding of your circumstances. It is likely that markets such as Thailand who have in the past relied heavily on pension transfers as major income streams will change significantly as commission based salesmen are no longer able to sustain their sales based up-front commission driven method of customer to product sales. AIMS is already well positioned using the post 2011 UK model of fee based advice which promotes long-term client relationships.

State Pension Age

The Government will publish its first statutory review of the State Pension Age by 7 May 2017. They originally planned to review every 5 years but reduced this to 3 years. It is likely at some point in the future, those of us young enough will have to wait further years to receive our State Pension.

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Other areas of note

- Government revenues have been significantly better than had been projected. This allowed the Chancellor to cut his forecasts for government borrowing in every year until 2022
- The UK's fiscal deficit still amounts to around 3.5% of gross domestic product (GDP) even after seven years of deficit reduction (with an overall debt of nearly £1.7 trillion).
- Although the government debt-to-GDP ratio is expected to peak next year and start falling in 2018-19, fiscal policy remains positioned to stop the UK from falling into a sustained recession if Brexit has a significant adverse effect on economic activity.
- Income tax increases were as previously announced and tax avoidance and evasion legislation is being strengthened.
- They will maintain the commitment to improving productivity, which remains stubbornly low and reiterated the intention to spend substantial sums on infrastructure investment. This includes social infrastructure such as education, housing and social care (specifically mentioning a package to help the National Health Service). Likewise, also pledged to enact further reforms around these areas and added measures to ensure the UK remains an attractive destination for highly-skilled research, specifically mentioning support for electric vehicles, robotics and artificial intelligence.

AIMS gives financial advice on Pensions, Investments, Medical insurance and Life assurance following UK best practice to promote long-term client relationships, whilst adhering to the rules of the local regulator. Please contact us with any questions or requirements.

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