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The case for QROPS and QNUPS

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Adam Wrench discusses how offshore bond sales are coming under further pressure from QROPS and QNUPS.

Traditionally offshore bonds have been the underlying investment of choice when it comes to QROPS. The reasons for this are two-fold.

Firstly, and prior to the advent of platforms, offshore bonds provided advisers with a competitive and effective trading vehicle. Secondly, they also offered overseas advisers an opportunity to benefit from an additional commission payment.

This was made possible by the fact that traditionally offshore advisers have not been under the same regulatory requirements as their UK counterparts - especially in terms of commission disclosure.

However, in more recent years we have now begun to see the emergence of a new breed of adviser (one more similar to their UK counterparts) who are choosing to adopt ‘UK look-alike' regulatory and advice standards with increasing regularity.

In terms of product, we can now envisage multi-platform QROPS solutions fast becoming the model of choice going forward, as a result.

The use of an offshore bond exposes the client to two separate layers of charging - one for the top wrap, the QROPS, and a second on the offshore bond itself. However by using a platform linked QROPS, these costs can be significantly reduced, while still providing the client with exactly the same tax advantages.

The use of a platform therefore, is arguably one of the most efficient ways of investing within a QROPS. Not only will many clients already have become used to the functionality that a platform can offer while in the UK, but a strong affiliation towards one platform in particular may already exist.

Having said that however, it is both desirable and beneficial for a client to have full access to a diverse range of different platforms, rather than be restricted to just the one.

As a client's attitude to risk changes with age so the value of any assets held on a platform will also change. New premiums as well as fluctuations in market conditions - coupled to platforms' constant alteration of their fees and charging structures, and not to mention the anticipated platform consolidation - will all have an effect.

It is for these reasons that clients will benefit far more from being able to access a multi-platform solution which can not only adapt according to their changing circumstances, whatever the reason, but also has the ability to provide them with a wide choice of different funds and/or asset classes.

QNUPS (Qualifying Non-UK Pension Scheme) investment

With the recent announcements surrounding the reduction in the annual and lifetime allowances, both clients and advisers are actively looking for suitable solutions to fund these pension shortfalls - and with their availability to both UK and Non-UK residents alike, QNUPS could well provide the answer.

Now although any contributions to a QNUPS may not qualify for UK tax relief, they are exempt from the £40,000 annual allowance limit; and similar to UK pensions the funds are entitled to "gross roll up", in addition to being able to provide a 25% tax free cash payment also.

A further benefit is that not only will the funds, upon crystallisation, not suffer the same 55% death tax as would apply within the UK, but as pension funds they are IHT exempt.

Any contribution made into a QNUPS will immediately fall outside the client's estate.

When QNUPS are compared to offshore bonds there are similarities. Any investment made into an offshore bond does not attract tax relief, but the funds while held within the offshore bond can also benefit from "gross roll up".

to QNUPS.

Normally an offshore bond will be used in conjunction with a discretionary trust for inheritance tax planning.

However gifts into a discretionary trust for inheritance tax purposes will be limited to the nil rate band every seven years, i.e. £325,000, and furthermore, in order for the gift to be fully inheritance tax-efficient the settler must "survive" for seven years following any ‘gift' being made.

However, it is their use in relation to succession planning that appears to be less attractive, when compared

With the increasing popularity of offshore pensions solutions such as QROPS and QNUPS we can see the competition for offshore investment becoming increasingly more competitive.

As advisers' knowledge in this area continues to grow, so the full potential benefits of these contracts will become more widely appreciated within the adviser community.

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