A Guide to

Self Invested Personal Pension Schemes

(SIPPS)

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Contents

Introduction

This guide is intended to provide you with a summary only of the main features of a SIPP.

In his budget speech in 1989 Nigel Lawson said:

"I propose to make it easier for people in personal pensions to manage their own investments".

A Self Invested Personal Pension Scheme (SIPP) is a sophisticated and flexible personal pension scheme giving you the ability to invest your pension fund assets in areas other than insurance company pension funds.

SIPPs are generally established under Irrevocable Trust by a Trust Deed and Rules and you join by executing a Supplemental Deed.

Within insurance company pension funds, investments would normally be restricted to the individual funds managed by the insurance company administering the scheme leaving little flexibility or choice for the member. If a member wished to reduce or suspend contributions or transfer to another insurance company then typically large penalties would be applied to the funds, particularly if this occurred in the early years of the contract.

With a SIPP you have the flexibility to pay contributions at whatever level you choose within Her Majesty's Revenue & Customs (HMRC) limits and there is no contractual minimum contribution.

In consultation with you we will be responsible for determining and implementing the investment strategy. Your SIPP can also invest in commercial property, with the assistance of a mortgage if required, when can then be leased to a third party or back to your own business at a commercial rent.

There are no penalties applied should you wish to vary contributions, retire early or even transfer your SIPP to another provider.

The SIPP is designed to take full advantage of the Pension Fund Withdrawal (PFW) rules first introduced in the Finance Act 1995 and when combined with the phased retirement facility, the SIPP undoubtedly offers one of the most flexible and sophisticated tax planning tools available.

Our fees will be clearly stated and will reflect the level of work involved and will normally be paid out of your fund.

As Francis Bacon said nearly 400 years ago:

"Chiefly the mould of a man's fortune is in his own hands"

Eligibility

You are eligible to join a SIPP if:

- You're resident in the UK, or
- You're working overseas as a crown servant, or
- You're the husband, wife or civil servant of a crown servant working overseas

Please note you can in fact contribute up to £3,600 gross (you actually pay £2,808 net after basic rate tax relief, the Government adding £792!) without any earnings whatsoever, either for yourself or perhaps on behalf of a child or grandchild.

Where an individual is under 16, their legal guardian must:

- Sign any application forms on their behalf
- Be responsible for making sure that HMRC contribution limits are not exceeded
- Be responsible for the contract as if they were the member until the individual reaches adulthood

It is possible for you to be an active member of an employer's occupational pension scheme and contribute to a SIPP in respect of the same source of earnings.

Transfer payments in respect of other approved pension benefits can be accepted without the requirement for further contributions and it is therefore possible to establish a SIPP purely to receive transfer payments, although we strongly recommend that professional advice be obtained before transferring any benefits.

Contributions

The Scheme has been designed to provide maximum contribution flexibility and there is no minimum contractual contribution. HMRC impose an upper limit on the total contributions that can be paid in any tax year, and we can advise you on the maximum level of contributions applicable in your own circumstances.

If you wish contributions can be paid on a regular basis, although there is no obligation to maintain these contributions.

Contributions can be reduced or increased to reflect individual circumstances and there is no penalty for altering contribution levels. Contributions can be paid by you or your employer provided the total contributions do not exceed HMRC limits.

Contributions may be accepted in the form of property i.e. 'in-specie' contributions.

You can contribute up to 100% of your net relevant earnings i.e. your taxable earnings and qualify for tax relief at your highest rate, subject to an annual allowance for the following tax years:

- £225,000 for 2007/08
- £235,000 for 2008/09
- £245,000 for 2009/10
- £255,000 for 2010/11

Legislation Update:

In his 2009 Budget the Chancellor announced changes to the tax relief available on pension savings for individuals whose income is £150,000 or higher.

The Government intends from 6 April 2011 to restrict tax relief for individuals with an annual income of £150,000 or more. Relief will be tapered away so that for those earning over £180,000 relief will be worth 20 per cent, the same as a basic rate taxpayer.

In anticipation of that new restriction, the Government is introducing new rules to apply from 22 April 2009 to restrict higher rate tax relief on pension contributions for individuals.

The restrictions will apply to those:

- whose income is £150,000 or higher
- who change their normal ongoing regular pension savings, and
- whose total pension savings exceed £20,000

Taxation of Contributions

Contributions are normally eligible for tax relief in the tax year of payment.

Under current legislation your contributions will qualify for tax relief at the highest rate of tax you pay.

Your personal contributions are paid net of basic rate tax, which will be reclaimed from HMRC and credited to your fund. If you are a higher rate tax payer you claim the extra tax relief from HMRC.

If your employer contributes on your behalf you will not be taxed on the amount of these contributions and your employer will normally be able to claim the contributions as an allowable business expense for Corporation Tax.

The Scheme cannot be used to contract-out of the State Second Pension (S2P), although we can arrange this for you separately.

We will send you a pension contribution certificate in order for you to obtain full tax relief.

Lifetime Allowance

The Revenue set a lifetime allowance on the total retirement benefits that you can receive from all your pension plans without a tax penalty. If your benefits exceed this allowance, there is a lifetime allowance charge of 55% on the excess if it is paid as a lump sum, and 25% if you take it as a pension.

Your benefits must be tested against the lifetime allowance before your 75th birthday.

The Revenue has announced that the lifetime allowance for the following tax years is:

- £1.60million for 2007/08
- £1.65million for 2008/09
- £1.75million for 2009/10
- £1.80million for 2010/11

Transfers

It is possible to transfer previously accumulated approved pension scheme benefits into your SIPP although transfers cannot be received in respect of “contracted-out” liabilities.

Permitted Investments

SIPPs have been designed to allow you maximum flexibility with regard to your choice of investment strategy and the Trustees will be the legal owners of all assets held within your fund.

Your SIPP can be invested in any of the following ways:

- Unlisted shares (note most SIPP providers don't allow these)
- UK quoted stocks, shares, gilts and debentures
- Shares quoted on the Alternative Investment Market (AIM)
- Warrants, Futures and Options
- Permanent Interest Bearing shares
- Stocks and shares traded on a recognised overseas stock exchange
- Authorised unit trusts, investment trusts and OEICS
- Insurance company funds
- Deposit accounts
- Commercial property and land
- Hedge funds

Certain categories of investment may result in tax charges. These include:

- Residential property and associated land from which you derive personal benefit
- Personal chattels, capable of private use
- Loans to connected parties such as scheme members, their relatives and partnerships in which they are partners

If you wish us to consider any particular asset that does not clearly fall into any of the allowable asset classes then full details should be disclosed for clarification.

Property Purchase

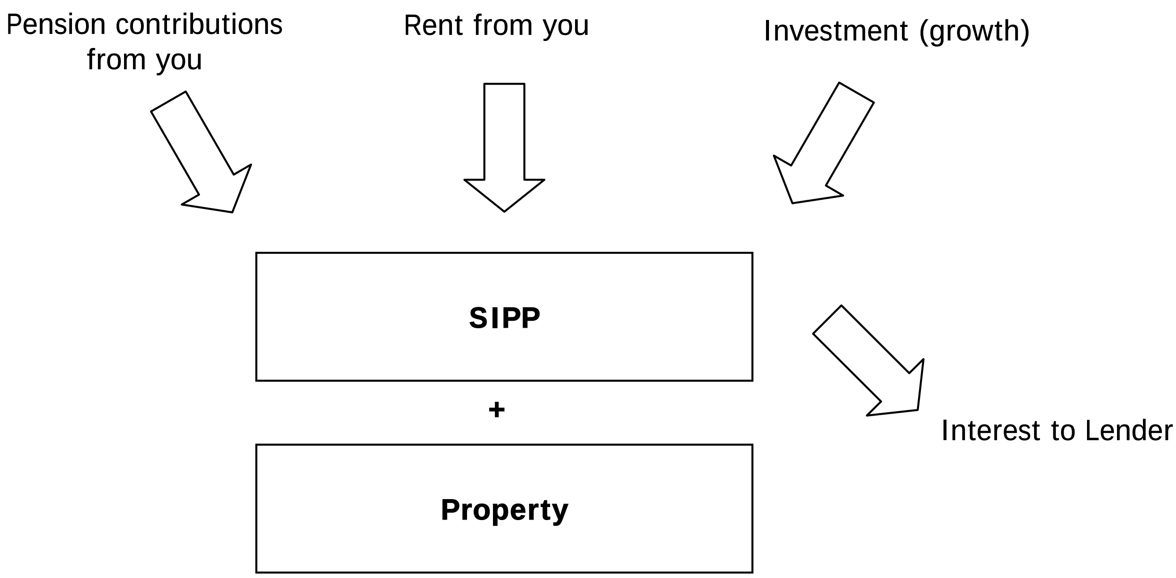
One very attractive and popular feature of a SIPP is that the Trustees can invest in commercial property (although investment in residential property for personal use doesn't really make sense).

A property can be purchased by an individual or a group of SIPPs. The Trustees can then lease the property on commercial terms. The Trustees can also borrow funds from a commercial lender to assist with the acquisition of a property, up to a maximum of 50% of the pension fund value.

Property Purchase

The maximum borrowing that can be utilised by the SIPP is 50% of the current scheme assets before the purchase.

Actual process of monies received and paid out:



The gain on the property is free of Capital Gains Tax, and the value of the assets is Inheritance Tax free.

Property Purchase (cont…)

The main advantages of buying your property within your pension scheme are:

- An initial saving in cost – in effect it costs less to buy a property if the purchase is via a pension fund as the contributions have attracted income tax relief

- The scheme trustees have no liability to capital gains tax on a subsequent sale, as capital growth is free of UK tax

When the pension scheme is set up your business is installed as a tenant of the property and therefore the rent paid by you to your pension is an allowable expense for income tax, and there is no tax liability for income tax on the rent received by the pension scheme.

As with an ordinary property purchase all of the normal procedures need to be actioned such as instructing your Solicitor, instructing a Surveyor (who will also set the commercial rent to be paid to the SIPP by you), associated costs i.e. stamp duty, etc, and the appropriate lease agreements with the business. Your pension scheme can register for VAT and you will need to speak to your Accountant with regard to this specialist area, or we can introduce you to a VAT specialist.

Taxation of Investments

Your fund will accumulate free of any liability to UK income tax or capital gains tax, although tax deducted at source on dividends from equities can no longer be reclaimed.

Payment of Benefits

There are a variety of benefit options available that you can receive on retirement or that your spouse, dependants or nominated beneficiaries can receive in the event of your death.

A broad summary of the options is provided below, although it is strongly recommended you seek our advice in considering your own circumstances.

Retirement

You can draw benefits at any time between ages 50 (55 from 2010) and 75 without any penalty. At this date you can use all or part of your fund to provide you with a tax free lump sum and an income.

It may be possible to retire earlier than your 50th birthday if you are in serious ill health or are in a specialised occupation.

You can draw benefits from your SIPP irrespective of whether you continue to work.

At retirement you can elect to receive a tax free lump sum of generally up to 25% of the value of your fund. The date you commence benefits is referred to as your pension date.

After payment of the tax free lump sum, your residual fund can be used to provide you with an income that will be taxed under Schedule E and this income can be provided in one of two ways:

Annuity Purchase

This involves passing your fund (after payment of your tax free lump sum) to an insurance company of your choice who in return will provide you with a regular income throughout your life. The income may increase during the course of payment, may be guaranteed for up to 10 years i.e. paid irrespective of whether or not you are alive and may continue, normally at a reduced level, to your surviving spouse or dependants.

The annuity available will depend on the value of your fund and annuity rates at the time of purchasing the annuity. It may also be possible to obtain 'impaired life' annuity rates which will provide a higher income if you are in poor health.

The insurance company will usually pay the income to you net of tax and will deal with all aspects of PAYE.

Pension Fund Withdrawal (PFW)

The concept of PFW was introduced by the Finance Act 1995 and it enables monies to be paid to you directly from the fund rather than by purchasing an annuity, until you reach age 75.

The amount that can be withdrawn each year is subject to a maximum based on 120% of the annuity rates provided by the Government Actuary's Department. There is no minimum amount, so you could just take your Tax Free Cash if you prefer.

The PFW limits are calculated at your pension date and are reviewed every five years thereafter.

Monies can be withdrawn at irregular intervals to suit individual circumstances as long as the payments are in accordance with the above limits.

PFW allows you to decide on the most opportune time to buy an annuity taking into account your own personal circumstances and annuity rates in force from time to time.

No further contributions may be made or transfers of other approved pension schemes received after benefits have commenced (unless at least one segment has not been opened, see below) or you have another pension.

Phased Retirement

Your individual fund is normally divided into 1,000 segments so that benefits can be taken gradually to suit your own personal circumstances. The restrictions and rules applying when benefits have commenced do not apply to segments for which benefits have not commenced.

Death before Pension Date

In the event of death before pension date the full value of the fund (subject to the restriction below and reaching age 75) can be paid to your nominated beneficiaries.

A spouse or dependant entitled to a pension may elect to take PFW rather than purchase an annuity.

In the event of the death of a spouse or dependant during PFW, the whole value of the fund can be paid to nominated beneficiaries, minus a one off 35% tax charge.

The benefits on death are normally written under discretionary trust and therefore any lump sum payments should not be subject to Inheritance Tax. Specialist advice will need to be given taking into account your own individual circumstances.

Death after Pension Date

In the event of death after pension date and after an annuity has been purchased, the benefits payable will be determined by the terms of the annuity contract.

If death occurs during PFW then the value of the fund may be paid to your spouse or dependant net of a 35% tax charge. If there is no spouse or dependant then the fund, net of a 35% tax charge, may be paid to your nominated beneficiaries.

If a spouse or dependant elects for PFW we will calculate the revised maximum limit at the date of death based on the spouse's or dependant's fund value and annuity rates provided by the Government Actuary's Department for the spouse or dependant.

In the event of the death of the spouse or dependant during the PFW the value of the fund can be paid to nominated beneficiaries subject to a 35% tax charge.

Alternatively Secured Pension (ASP)

ASP is effectively PFW after age 75! The maximum income is 90% of the relevant annuity that could have been bought at the time and the minimum is 55%. These limits are reviewed annually.

ASP was originally a concept that was designed for those with specific religious beliefs. The Government has therefore introduced levels of taxation upon death that generally makes it unattractive for tax planning. In some circumstances, the tax charge could be as high as 82%.

Establishment and Ongoing Administration of a SIPP

In order to establish your SIPP we will require a fully completed application form (one for each member of a Group SIPP) along with your birth and marriage certificates. In addition, we will require a certificate of eligibility and evidence of earnings if you are employed. Originals or certified copies of the evidence of earnings are acceptable. We have separate forms for arranging transfers in of other approved pension schemes.

If a Group SIPP is being established then we will also require a Group SIPP application form, which is available on request.

Notes

It should be noted that legislation regarding taxation could be subject to changes that cannot be foreseen.

This guide is based on our interpretation of legislation and HMRC practice, which may be subject to change at any time. Every care has been taken to ensure accuracy but it must be appreciated that neither the Company nor its Representatives can accept responsibility for errors or omissions.

The guide is provided for information purposes only and does not constitute a recommendation, implied or otherwise. You are strongly recommended to take investment advice on any transfer to and from a SIPP.

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