



@sipp gets a clean bill of health!



We are delighted to announce that @sipp plc, our administrative operation, has received very positive feedback from the Financial Services Authority, following a recent assessment. This wide ranging assessment was the first of this nature to be carried out since the FSA assumed responsibility for regulating SIPPs in April 2007. In line with their current focus, the FSA were particularly interested in our approach to Treating Customers Fairly, reflecting emerging TCF guidelines.

The feedback we received from the overall assessment was excellent. The FSA is confident that @sipp is, "...in a position to demonstrate that consumers can be confident they are dealing with a firm where the operation of its SIPP scheme is being run in accordance with FSA regulatory requirements...".

@sipp's vision has always been, "to be the leading SIPP administration company of

choice for the discerning high net value client". We strive to achieve this by "living" our values:

- Focusing on our Client's needs and aspirations
- Providing a high standard of professional and friendly service
- Using Self Investment to develop our company and ourselves
- Emphasising Teamwork in improving our performance
- Demonstrating Integrity in all our activities

We are therefore delighted to report that the FSA commented that @sipp "...is able to demonstrate that areas of your business are delivering fair outcomes for customers such that consumers can be confident that they are dealing with a firm where the fair treatment of customers is central to its culture...".

Sensible talking from HMRC

In the current financial climate, good news stories can be hard to come by! However in this issue we have some great news to report in terms of the borrowing limits that apply to property owners looking to re-negotiate their mortgage interest rates.

Previously we have found members trapped in mortgage deals at the end of their terms for fear of being hit by an unauthorised payment charge.

This problem arose for SIPP members who bought property prior to 6 April 2006 under the previous borrowing limits of 75% of the value of the property. Post A-Day the more stringent rules came into play where borrowing limits were reduced to 50% of net scheme assets, thus leading to many members being locked into loans and terms paying high rates of interest.

Following consistent lobbying by the Association of Member Directed Pension Schemes, HMRC have clarified the rules to allow individuals who currently have borrowing within their SIPP above the 50% net asset limit to be restructured or re-mortgage without applying an unauthorised tax charge..

As if that wasn't good enough news, HMRC is also allowing leases on commercial properties to be renegotiated, to allow a reduced rent to be paid, provided the lease is on a commercial basis and negotiations have taken place between independent parties acting at arms length.

The minefield that is Alternatively Secured Pension (ASP)

Believe it or not, the Self Invested Personal Pension is the same age as Bart Simpson! Some twenty years ago, the Chancellor Nigel Lawson unveiled the SIPP. SIPPs have come a long way since their introduction to the market with some of the most significant changes being witnessed from A-Day in April 2006.

A-Day saw the rules change significantly with regard to the option of taking income from age 75. The Government originally introduced Alternatively Secured Pension to counter religious objections to the pooling of mortality risk in annuities. However, further clarification has been sought on this and the tax charges applicable on death in ASP as it seems that it is more widely available to anyone over the age of 75.

You may be aware that there has been considerable lobbying to reduce the confusion and allow a flat tax charge of 55% on death in ASP as opposed to the current rules outlining a tax charge of up to 82%, unless the remaining fund is paid to charity.

Outlined below are the basic rules and tax charges currently applicable on ASP. We await HMRC's response on the considerable lobbying to reduce the tax charge and hope that they will make the sensible decision.

Alternatively Secured Pension operates in a similar way to pension fund withdrawals. The fund can be drawn on each month, quarter or year to provide



you with a regular income. This income will be subject to income tax.

- Maximum income is 90% of what could be provided by a lifetime annuity.
- Minimum amount you can take from the plan equates to approximately 55% of what could be provided by a lifetime annuity.
- These levels are subject to review every year based on age 75.

Death Benefits:

When a member dies in Alternatively Secured Pension leaving dependants, the remaining drawdown fund must be used to provide survivors' pensions (for one or more dependant). Dependant means the deceased member's:

- Widow(er) or civil partner;
- Children (under age 23); or
- Anyone else who in the opinion of the scheme administrator was in some way dependant on the member at the time of death, such as disabled relatives or unmarried partners.
- If a member dies in Alternatively Secured Pension with no dependants, the only

authorised death benefit that can be provided from the fund is payment of a charity lump sum death benefit.

Payment to any other party such as an adult child or grandchild would be subject to two sets of tax:

- Inheritance tax would be levied as if the fund were the top part of your estate, with any tax liability being met from your remaining pension fund.
- There would also be an unauthorised payment charge of at least 70%. 15% would normally be deducted from your remaining pension fund, with the balance of 55% payable personally by your nominated beneficiary.

The total effective tax charge is likely to be 82% and could in some cases be 100%.

Case Study: Use of Property as 'In Specie' Contributions over 3 years

Scenario:

In the scenario below, 3 equal partners who own a property worth £600,000 (with no existing loans) find themselves in a situation where two of the partners (A & B) decide they would like to put their share of the property into SIPP's (ie £200,000 each), but the third partner (C) would rather opt out.

Proposal: Use the 'In Specie' contribution facility.

Partners A & B don't have the earnings to allow the whole of their respective shares of the property to be put into their SIPP's as a one off 'in specie' contribution.

To transfer £200,000 in as a contribution, each partner would have required earnings of at least £250,000. (Even if they did have the earnings they would still have been constrained by the Annual Allowance and more recently the rules regarding high earners.)

Solution:

Partners A & B will 'drip in' their share of the property over three financial years.

i.e. £66,667 in each of the 3 years (increased or decreased by any change to the value of the property in the second and third year). Tax relief of £16,667 is received on the net contributions made (grossed up to £83,334, each is within their earnings levels and Annual Allowance).

The SIPP Trustee takes ownership of 22.22% (£166,668) of the property in the first year.

In the second and third year the Trustee takes ownership of the balance of the property owned by partners A & B i.e. 66.67% with 33.33% still owned by the 3rd Partner. (figures rounded)

Ownership:

1st Year:	22.22% - SIPP's 33.33% - Partner C 44.44% - Partners A & B.
2nd Year:	44.44% - SIPP's 33.33% - Partner C 22.22% - Partners A & B
3rd Year:	66.66%- SIPP's 33.33% - Partner C 0% - Partners A & B

In the third year partners A & B no longer have any personal ownership of the property. Their ownership has transferred to their SIPP's.

The relationship between the two SIPP members is regulated by putting in place a Syndicate Agreement.

The relationship between the two SIPP members, the Trustee, and partner C as owners during the first and second year is determined by a Joint Ownership Agreement put in place and amended as partners A & B, with SIPP's, drop out.

The Joint Ownership relationship remaining after the third 'in specie' contribution is between the Trustee and partner C.

The Syndicate Agreement remains in place for as long as partners A & B are involved in the investment in the property through their SIPP's.

Taxation factors:

Tax Relief:

Basic rate is recovered from HMRC into the SIPP's i.e. £16,667 each.

Higher Rate Tax can be claimed via Self Assessment, reducing other Income Tax liabilities by a further £16,667. Tax benefit for each SIPP member is £33,334.

Total relief £66,668.

Capital Gains:

Any tax liabilities at the time of contribution into SIPP's must be paid.

Any future Capital Gain whilst the share of property is in the SIPP's is free from Capital Gains Tax.

On the sale of the property no Capital Gains Tax will be payable by the SIPP members, partner C will be liable for any Capital Gains Tax on his share of the property.

Stamp Duty

Land Tax:

Is payable on the property value when moved into the SIPP's.

Rental Income:

Apportioned share of rent received by the SIPP's is tax free, and increases the value of the funds held.



The budget hits high earners

As you may be aware, the Chancellor's announcement in the recent budget regarding high earners and future pension contributions has caused a great deal of confusion.

'In this article we aim to give you the key points in respect of pension following Royal Assent of the Finance Bill 2009 on 21 July which becomes the Finance Act 2009.

What changes were made to pension tax relief for those with high incomes in the 2009 Budget?

In the annual budget on 22 April 2009, the Chancellor announced that tax breaks on pension funding for high income individuals with relevant income of £150,000 a year or more will be capped

Interim rules are being introduced from 22 April 2009 to discourage those affected by the new rules from boosting their pension funding before the final rules are introduced from 6 April 2011.

Interim changes from 22 April 2009:

'High income individuals will be subject to a special annual allowance of the greater of (a) £20,000 for contributions payable monthly, quarterly or more regularly, (b) £30,000 for contributions payable half yearly or annually or (c) their protected pension input amount - based on their normal amount of regular pension provision before 22 April 2009. This figure can be an average of contribution made over the last three years i.e 2006/7, 2007/8 and 2008/9. In order for 'protection' to remain in force contributions must continue with the same pension provider. If contributions are made into a new policy, 'protection' will be lost.

Key elements of the draft proposals:

Rules apply to high income individuals, those earning £150,000 or more in any one tax year.

High income individuals will be subject to a special annual allowance of the greater of (a) £20,000 or (b) their protected pension input amount – based on their normal amount of regular pension provision before 22 April 2009. In order for 'protection' to remain in force contributions must continue with the same pension and provider. If contributions are made into a new policy, 'protection' will be lost.

Any pension provision above this level with effect from 21 April 2009, whether made personally or by an employer, will generate a special annual allowance tax charge on the individual (set at 20% for the tax year 2009/10).

Relevant income for high earning individuals cannot be reduced below £150,000 by entering into a salary sacrifice arrangement post 21 April 2009.

To summarise, the main changes are:

Higher Rate tax relief for individuals already earning more than £150,000 is limited immediately on contributions up to £20,000 or £30,000 according to the frequency of pension contributions or to their "normal pattern of contributions". Contributions above these amounts will continue to receive basic rate relief.



Contact Us

Harry Perdikou or Lee Halpin, @sipp plc, 58 Elliot Street, Glasgow G3 8DZ

Tel: 0141 204 7950, Fax: 0141 243 2257, E-mail: admin@atsipp.co.uk

www.atsipp.co.uk

