



Will clients wait till age 55?

Back in 2002 the Government first announced its intention to raise the normal minimum pension age from 50 to 55.

From 6 April 2010 the change finally comes into effect. This obviously presents somewhat of a dilemma for those aged 50 to 54 who are considering drawing benefits, as they now have only two months to take advantage of the current normal minimum pension age, otherwise they will have to wait until they are 55.

An important point to note is that the change does not impact only on those individuals considering drawing benefits for the first

time, but will also affect individuals under 55 currently drawing benefits in the form of phased draw down. From 6 April 2010, the increased normal minimum pension age also applies to any further benefits which are crystallised.

However, where benefits have been crystallised before 6 April 2010 these benefits can still continue to be paid.

Like many approaching deadlines, this one may prompt individuals to review their circumstances with their advisers. Whether or not subsequent action will be required, we recommend that you take advice now.



Increased tax burden for high income earners

On the 9 December 2009 the Government published a consultation document for 'Implementing the restriction of pension tax relief'. This contains draft legislation to which responses are invited.

The restriction on tax relief on pension contributions for high income individuals is due to come into force from April 2011.

An individual may be affected by the proposals if their income, including their own pension contributions and charitable donations, is £130,000 or over.

Where an individual is affected they are only affected by the restriction if their gross income (including employer pension contribution) is £150,000 or over.

One of the differences is that there will be no account taken of the

previous year's earnings as was suggested beforehand.

Once the income has been determined, the next stage is deciding what the appropriate rate of tax relief on pension contributions is. The proposal is for a taper relief to be introduced for individuals with gross income from £150,000 up to £180,000. This taper relief will gradually reduce the tax relief on pension contributions until it is finally restricted to the basic rate (currently 20%).

An example of the restriction relief back to the basic rate is provided by an example:

Individual A, with gross income of £180,000, makes a contribution into a pension of £40,000.

If individual A, had not made the contribution, £10,000 of his earnings

would have been taxed at 40% and the remaining £30,000 taxed at 50%.

In order to restrict tax relief to basic rate (20%), a restriction of 20% is applied to the first £10,000 receiving the 40% marginal relief, and a restriction of 30% is applied to the £30,000 of the contribution which receives the 50% marginal relief.

The restriction is therefore £11,000, with individual A still receiving basic rate relief of £8,000 (20%).

To deal with the inequality marginal tax relief of those on either side of gross incomes of £150,000, a taper relief is proposed, with the tax relief gradually reduced from 50% to 20% as gross income rises from £150,000 to £180,000.

The method of implementing the taper relief has not yet been finalised.

New Higher Income Tax Rates

From April 2010 a new top rate of income tax of 50% (42.5% on dividends) will be payable on income over £150,000.

In addition, the gradual withdrawal of the personal allowance for those with incomes of £100,000 or more, and the restriction of higher rate tax relief for pension contributions for those with incomes of more than £150,000 (from April 2011) will give some high earners a marginal rate of tax of 60%.

Discretionary trusts will suffer tax on virtually all non-dividend income at 50% and dividend income at 42.5%.

Planning for Higher Rates

A number of tax planning opportunities may help to reduce the impact of these changes. It is crucial, however, for taxpayers to seek professional advice prior to taking any action.

Timing

As individuals are generally taxed on a receipts basis, consider the timing of payments. Accelerating payment of a bonus, for example, to before 6 April 2010 will avoid a potential additional tax charge of 10%.

Shareholders in owner-managed businesses may consider a one-off acceleration of dividend into the current tax year.

Salary Sacrifice

For employees earning between £100,000 and £150,000, entering into salary sacrifice arrangements may be attractive. From 2010/11, such individuals will lose their personal tax allowances, but will still be able to obtain the higher rate of relief on pension contributions. By making a higher pension contribution and reducing their salary to below £100,000, they should qualify for full tax relief on their pension contributions, whilst keeping their personal allowance intact.

Inter-Spouse Transfers

Consider gifting income-generating assets to a spouse to make use of lower-rate income tax bands. Also consider funding contributions into a spouse's pension scheme.

For husband and wife businesses, however, beware the prospect of anti-avoidance legislation to prevent "income shifting" from one spouse to the other.



Charitable Giving

If considering gifting shares or land to charity and you earn in excess of £150,000, delay any such gifts until after 5 April 2010. Tax relief is given by reducing an individual's taxable income by the market value of the asset.

Discretionary Trusts

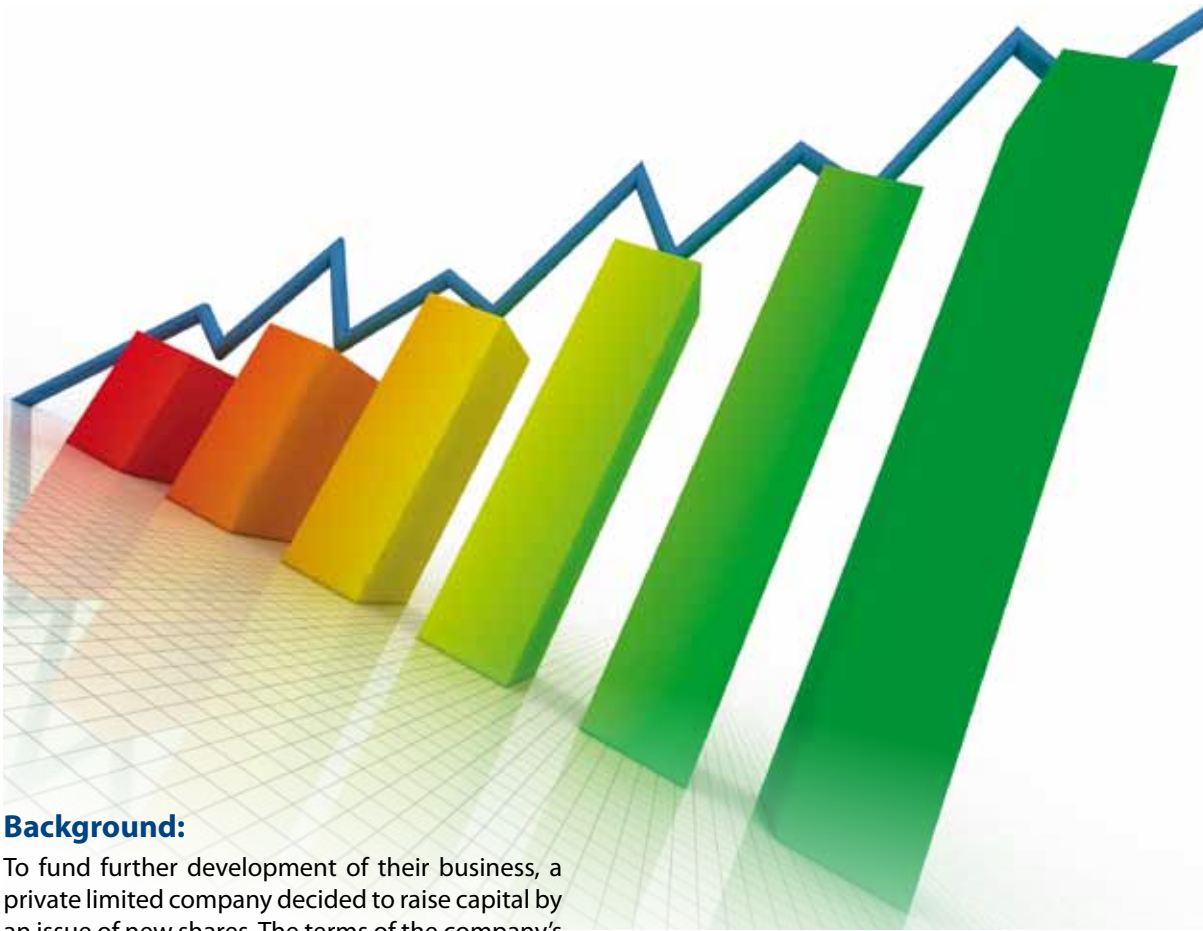
The new trust rates are particularly punitive for smaller trusts, and trustees may wish to consider the benefits of continuing with such trusts in the light of the increase. It may be appropriate, in some cases, to change the terms of the trust so that an individual becomes entitled to the trust income on an arising basis rather than being subject to the trustees' discretion.

Whilst trusts suffering the 50% rate will have less income to distribute to the beneficiaries, distributions made from discretionary trusts will be deemed to be paid net of a 50% repayable tax credit. Beneficiaries whose income is less than £150,000, may be able to obtain a tax repayment.

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Case Study: Unquoted Company Shares



Background:

To fund further development of their business, a private limited company decided to raise capital by an issue of new shares. The terms of the company's Articles of Association gave existing shareholders the option of purchasing the new shares in proportion to their existing shareholding. Although one shareholder wished to take up this option, he did not wish to liquidate other investments to fund the transaction. However, the shareholder did have a considerable cash fund within his SIPP.

Solution:

On review of the company's Articles of Association it was established the shareholder's SIPP could be used to take up the entitlement of the new share issue. As the terms of the subscription were acceptable, the new shares were purchased as an asset of the SIPP.

Benefits:

There is no additional income tax to pay on dividends received by the SIPP. In addition, any gain made on the shares will be free from capital gains tax while held by the SIPP.

Important Considerations:

Unlike listed shares, liquidity of an unquoted investment may not be readily available. The associated implications of this, including the

ability to pay out benefits, should be considered at outset. In addition, the cost of obtaining an independent professional valuation may be substantial. The SIPP member should bear in mind that any benefit calculation will require such a valuation. If not readily available, the cost may fall on the member's SIPP fund.

Avoiding Tax Charges

Care must be taken with purchase of unquoted shares to avoid an indirect holding of taxable property, which would incur tax charges. As most companies will own taxable property (e.g. plant, machinery, equipment) it is vital the conditions of a trading concern are satisfied. Provided the company meets all of the conditions an indirect holding of taxable property will not result in a tax charge. It should be noted this effectively rules out the purchase of unquoted shares where the SIPP member or connected party is a controlling director of the company.

As @sipp will consider the full spectrum of investments allowed by HMRC, we will consider unquoted shares purchases on a case by case basis.

Staff News

While our Newsletter usually focuses on technical issues, we thought that it would be appropriate to highlight some recent staffing developments, within this issue.

Martin Batchelor joined us on 1 October in the new role of Area Relationship Manager. He is based in Leigh, Lancashire. Martin's appointment will allow us to offer a better service to our existing English based Introducers, while also allowing us to focus on developing new links with quality Introducers in the NW of England. This appointment, our first outwith the Scottish central belt, reflects our ambition to grow market share within targeted geographic areas.

Martin is qualified to the Dip PFS level. He has spent his entire career within the financial services sector. Recent highlights include a 5 year period spent within KPMG's Manchester based operations, where he gained significant experience in both SIPP & SSAS cases.

Lee Halpin was recently promoted to the new role of Technical Manager. Within this role, Lee effectively provides product advice, technical guidance and support on pension matters, to both our internal team and external Introducers. Given the nature of his role, Lee has developed a particular expertise in handling enquiries re Unlisted Investments, in the process ensuring that proposed

arrangements and resulting share structures comply with both our Trustee requirements and HMRC rules. This is clearly an evolving area of business for us, which is currently generating a lot of interest, reflecting the specialised nature of our services.

Lee joined our team in mid 2006: a mathematics graduate, he is currently pursuing formal CII qualifications.

Steven McBurnie recently joined the team, in a full time administrative capacity, following successful completion of his degree course, culminating in the award of a BA in Financial Services, from Glasgow Caledonian University.

Steven initially joined us in mid 2006, and has worked for us in a part-time capacity throughout his degree course. He is now well placed to develop his career within the specialised Pensions area, and we will support him as he works towards obtaining relevant professional qualifications.

Each of these appointments clearly demonstrates our commitment to recruiting, developing and retaining quality individuals who in turn will support both our day to day operations and our wider business development efforts.

It is also encouraging to note that we continue to expand our operations and invest in quality support resource at a time when many of our competitors have been forced to make staff reductions, with attendant implications for service quality.

Ayr Races

To celebrate the milestone 1000th "live" SIPP case being achieved by @sipp, as well as our ongoing growth in our Property portfolio, a day was arranged at the Ayr Gold Cup for all staff, and some invited clients and guests.

On a glorious Autumn day we commenced in style with a Champagne breakfast, before the short trip off to Ayr racecourse.

Lunch was then enjoyed in the Seafood restaurant whilst the serious business of the day - the races - got under way.

Bets were placed using a variety of skillful methods. Admin. Manager Carlyn Campbell scooped £160 from a £3 bet, with a horse selected purely for the nice shade of blue worn by the jockey!



Strolls round the Paddock, Winners Enclosures, and even to the Finishing Post to view the result of the actual Gold Cup race were enjoyed. Some guests even managed a meet and greet and photos with winning jockey Frankie Dettori.

The day was rounded off with a live band entertaining us in the Main Stand, before the trip back up to Glasgow. A great day out was had by all!



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