A Guide to
Self-Invested Personal Pensions

"Building up your pension in a tax-efficient wrapper and remaining in control of your investments at all times"

WELCOME

Welcome to 'A Guide to Self-Invested Personal Pensions' (SIPP). SIPPs have been around since 1989, but after the introduction of Pension Simplification legislation on 6 April 2006, SIPPs have become more accessible.

If you would like to have more control over your own pension fund and be able to make investment decisions yourself with the option of our professional help, a SIPP could be the retirement planning solution to discuss with us.

WHAT IS A SIPP?

A SIPP is a personal pension wrapper that offers individuals more freedom of choice than conventional personal pensions. They allow investors to choose their own investments or appoint an investment manager to look after the portfolio on their behalf.

Individuals have to appoint a trustee to oversee the operation of the SIPP, but having done that the individual can effectively run the pension fund on his or her own.

A fully fledged SIPP can accommodate a wide range of investments under its umbrella, including shares, bonds, cash, commercial property, hedge funds and private equity.

HOW MUCH CAN I CONTRIBUTE TO A SIPP?

Many SIPP providers will now permit you to set up a lump sum transfer contribution from another pension for as little as £5,000, and while most traditional pensions limit investment choice to a short list of funds, normally run by the pension company's own fund managers, a SIPP enables you to follow a more diverse investment approach.

Most people under 75 are eligible to contribute as much as they earn to pensions including a SIPP (effectively capped at £255,000 each tax year). For instance if you earn £50,000 a year you can contribute up to £50,000 gross (£40,000 net) into all your pension plans combined in the 2010/11 tax year.

If your total annual income has reached £130,000 since April 2008, you may experience further restrictions on the amount you can contribute and obtain higher or additional rate tax relief.

The earnings on which you can base your contribution are known as Relevant UK Earnings. If you are employed this would generally be your salary plus any taxable benefits. If you are self employed, this would normally be the profit you make (after any adjustments) for UK tax purposes.

Even if you have no Relevant UK Earnings, you can still contribute up to £3,600 each year to pensions. Of this the government will pay £720 in tax relief reducing the amount you pay to just £2,880.

CAN I TRANSFER MY EXISTING PENSION TO A SIPP?

Before transferring to a SIPP it is important to check whether the benefits, such as your tax-free cash entitlement, are comparable with those offered by your existing pension. Make sure, too, that you are aware of any penalties you could be charged or any bonuses or guarantees you may lose.

If you have had an annual income of £130,000 or more since April 2007 and make regular contributions to a pension, changes announced in the 2009 Budget could affect you. Switching regular contributions to a new pension may mean future regular contributions are subject to a £20,000 limit.

A SIPP will typically accept most types of pension, including:

- Stakeholder Pension Plans
- Personal Pension Plans
- Retirement Annuity Contracts
- Other SIPPs
- Executive Pension Plans (EPPs)
- Free-Standing Additional Voluntary Contribution Plans (FSAVCs)
- Most Paid-Up Occupational Money Purchase Plans

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SIPPS ARE NO LONGER THE ELITE PRODUCT THEY WERE WHEN THEY WERE FIRST LAUNCHED. IF YOU WOULD LIKE TO DISCUSS YOUR RETIREMENT PLANNING OPTIONS, PLEASE CONTACT US FOR FURTHER INFORMATION.

WHERE CAN I INVEST MY SIPP MONEY?

You can typically choose from thousands of funds run by top managers as well as pick individual shares, bonds, gilts, unit trusts, investment trusts, exchange traded funds, cash and commercial property (but not private property). Also, you have more control over moving your money to another investment institution, rather than being tied if a fund under-performs.

WITH A SIPP YOU ARE FREE TO INVEST IN:

- Cash and Deposit accounts (in any currency providing they are with a UK deposit taker)
- Insurances company funds
- UK Gilts
- UK Shares (including shares listed on the Alternative Investment Market)
- US and European Shares (stocks and shares quoted on a Recognised Stock Exchange)
- Unquoted shares
- Bonds
- Permanent Interest Bearing Shares
- Commercial property
- Ground rents in respect of commercial property
- Unit trusts
- Open ended investment companies (OEIC)
- Investment trusts
- Traded endowment policies
- Warrants
- Futures and Options

Once invested in your pension the funds grow free of UK capital gains tax and income tax (tax deducted from dividends cannot be reclaimed).

WHY WOULD I USE MY SIPP TO INVEST IN COMMERCIAL PROPERTY?

Investing in commercial property may be a particularly useful facility for owners of small businesses, who can buy premises through their pension funds. There are tax advantages, including no capital gains tax to pay, in using the fund to buy commercial property.

If you own a business and decide to use the property assets as part of your retirement planning, you would pay rent directly into your own pension fund rather than to a third party, usually an insurance company.

Ordinarily, a business property will, assuming that its value increases, generate a tax liability for the shareholders or partners. Unless, that is, you sell the property to your SIPP. Then the business can pay rent to your pension fund, on which it pays no tax, and any future gain on the property will also be tax-free when it is sold.

WHAT ARE THE TAX BENEFITS OF A SIPP?

There are significant tax benefits. The government contributes 20 per cent of every gross contribution you pay - meaning a £1,000 investment in your SIPP costs you just £800. If you're a higher or additional rate taxpayer, the tax benefits could be even greater. In the above example, higher rate (40 per cent) taxpayers could claim back as much as a further £200 via their tax return. Additional rate (50 per cent) taxpayers could claim back as much as a further £300.

WHEN CAN I WITHDRAW FUNDS FROM MY SIPP?

You can withdraw the funds from your SIPP, between the ages of 55 and 75 and normally take up to 25 per cent of your fund as a tax-free lump sum. The remainder is then used to provide you with a taxable income.

If you die before you begin taking the benefits from your pension the funds will normally be passed to your spouse or other elected beneficiary free of inheritance tax. Other tax charges may apply depending on the circumstances.

WHAT ELSE DO I NEED TO KNOW?

You cannot draw on a SIPP pension before age 55 and you'll need to be mindful of the fact that you'll need to spend time managing your investments. Where investment is made in commercial property, you may also have periods without rental income, and in some cases, the pension fund may need to sell on the property when the market is not at its strongest. Because there may be many transactions moving investments around, the administrative costs are higher than those of a normal pension fund.

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