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The Corporate SIPP: A new type of pension option for employees that has known cost for the Employer

What is a Corporate SIPP (CSIPP)?

Essentially a CSIPP is a collection of separate individual SIPPs.

Who would join the Corporate SIPP?

The employer would offer membership to whichever of its employees that it chose. It could be based on service, status, grade or “by invitation”. Each “member” of the Corporate SIPP would have their own MW SIPP. In line with the age discrimination legislation, membership cannot be dependant on age.

What contributions can be paid?

Within each SIPP, contributions could be paid up to the Annual Allowance (£255,000 in tax year 2010/11) – but note that the Annual Allowance reduces to £50,000 from 6th April 2011. It also applies to contributions made for that member to all Registered Pension Schemes of which they are a member.

Note that differential company contributions can be paid for different members. The Age Discrimination laws prohibit a differential contribution by age alone, unless it is justified by aiming to provide the same ultimate benefit for all members.

Who pays the contributions?

The contribution could either be wholly paid by the company or jointly by the member and the company e.g. 10% by the company and 5% by the member. Members would be able to pay additional voluntary contributions into their SIPP, within the overall Annual Allowance

Is there tax relief on contributions?

Yes. Provided the contributions are within the Annual Allowance, full personal tax relief would be received on all contributions paid by the member, at the marginal rate i.e. up to of 50%. Contributions paid by an employer are eligible for corporation tax relief.

For those whose earnings exceed £130,000 contributions made before 6th April 2011 may have restricted tax relief. This is a complex area and you should consult your financial advisor or Accountant.

Can contributions be varied?

Yes, contributions can be varied each year, if desired. For example, part of a bonus could be paid to the SIPP rather than as income to the member, if it suited the member, with obvious tax advantages.

Can a member transfer existing pension arrangements into their SIPP?

It is possible to transfer in most approved existing pension policies, including Protected Rights, potentially allowing better investment returns – advice should be taken from a financial advisor.

When can a member take benefits?

Benefits can be taken at any time after age 55 and indeed can be taken even if the member continues to work. This might prove attractive to some employers, where it would suit their business if employees reduced their working hours gradually over a period of a few years.

Are there any tax advantages when benefits are taken?

When benefits are taken, up to 25% of the fund can be taken as a tax free lump sum.

Where can monies in a Corporate SIPP be invested?

Each member decides where to invest the monies in their own SIPP, within approved investments eg quoted stocks and shares etc. They should take advice from a financial advisor. The employer may be willing to meet the charges of the financial advisor: that is for agreement between the employer and the member

How many members can be in a Corporate SIPP?

Any number from two upwards. However, the more members there are, so the administration costs of the CSIPP reduce.

Who pays the costs?

The split of the administration costs will be agreed between the employer and the employee. In some cases the employer may be willing to meet all these costs. Normally the contribution paid by the employer and/or employee to the SIPP will include the administration costs, which will then be deducted from the SIPP. If the employer explicitly meets any part of the costs the employee may be subject to a “benefits in kind” tax assessment.

What are the advantages to the Employer?

- Not involved in making any investment decisions eg does not have to select an insurance company as it does with an insured Money Purchase scheme or a Stakeholder plan.
- Known company contribution levels that will not change with falling stock markets or changes in actuarial funding assumptions or accountancy requirements
- No financial liability after employee leaves service i.e. no unfunded past service liabilities
- Wholly transparent and known administration and running costs

- No trustees required from company
- Can select who is invited to join the scheme, subject to the discrimination laws

Who provides investment advice to the members of the Corporate SIPP?

Each member has the right chose their own investment adviser. The Employer could consider contributing towards the costs for the member to have up to say 1 hour per year with an IFA. Advice should be taken by the employer on the potential tax issues, as this could give rise to a “benefits in kind” tax assessment on the employee,

What are the advantages to the Employee?

- Freedom of investment choice, to suit individual circumstances.
- Can invest in wide range of asset classes including property as well as stocks and shares
- If unhappy with investment risks, can leave assets invested in an interest earning bank account, which protects capital
- Employer may contribute towards the cost of professional IFA advice each year
- Ability to pay additional contributions
- Portability: can take SIPP with him if he changes employer

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