

**This leaflet is solely for the use of financial and other professional advisors and members of the public should not rely on it**

## **Self-Invested Personal Pensions (SIPPs) Explained**

**Please note that these are general guidelines only. Please contact us before taking any action.**

### **What is a Self-Invested Personal Pension (SIPP)?**

It is a Registered Personal Pension Scheme, where the member decides where the assets are to be invested. In other words, it does what it says on the tin – it is a personal pension and the member directs where the monies are to be invested.

### **Who are the trustees?**

- In some SIPPs the member and the SIPP provider's trustee company are joint trustees
- In other SIPPs, the SIPP provider's trustee company is the sole trustee.
- For the MW SIPP 2 it is the latter – MW SIPP Trustees Limited is the sole trustee.
- But they have an overriding duty of care to protect the investments for the member

### **Who can have a SIPP?**

- Basically anyone in the UK up to age 75
- There is no lower age limit – they can be set up at birth.

### **Investments (other than property)**

- Can invest in anything, but some (most) investments are wholly tax free on both income and capital gains (other than ACT payable on UK dividends) whilst other investments are penally taxed
- Penal tax of 40%, 55% or even 70% applies on such investments as art, antiques, personal chattels such as yachts, racehorses etc

### **Property investment**

- UK commercial property fully tax free
- Overseas commercial property may be subject to local taxes
- UK residential property allowed as a wholly tax free investment provided it is via a "genuinely diverse commercial vehicle". This means either via a unit or investment trust, or REIT or OEIC or directly - but if direct, it must be a portfolio of at least 3 properties (or £1M), with no one property being more than 40% of portfolio, and the SIPP member (together with any connected party) cannot own more than 10% of the portfolio
- Overseas residential is same as for UK residential, but there may be local taxes and local legal issues re ownership etc.

### **Borrowings**

- A SIPP can borrow up to 50% of the net assets of the SIPP for any purpose
- Must be on commercial terms

### **Loan Backs**

- No HMRC limit but must be prudent, secure and commercial.
- Cannot loan to member or a connected party
- We do not allow any loans from SIPPs

### **Unquoted Shares**

- No HMRC limits
- But HMRC might impose penal taxes on shares in connected companies that have “taxable property” – we advise caution.
- We do not permit investment in shares in unquoted trading companies

### **Investment transactions with Connected Parties**

- Permitted
- Must be on commercial basis
- Must be independently valued
- Can be both ways i.e. SIPP can buy from or sell to the member.

### **Contributions**

- Up to a total of £50,000 in any tax year by company and/or member, with full personal or corporation tax relief on such contributions, provided:
  - a) member's contributions do not exceed 100% of salary.
  - b) company contributions can be justified to Inspector of Taxes as being relevant to member's involvement with the business
- The limit of £50,000 covers all pensions for a member – so if the member has an insurance pension policy with an annual premium of £15,000, a maximum of £35,000 can be paid for him into the SIPP.

### **Maximum benefits**

- Up to £1.8M fund but reducing to £1.5M on 6.4.2012

### **Benefits payable**

- Can be taken at any time after age 55
- 25% of fund can be taken as tax free cash sum
- Can take tax free cash sum and defer taking annual income
- Annual pension depends on fund size but is between zero and 100% of basic drawdown pension: 100% of basic drawdown pension is roughly equivalent to what member would get if an annuity were bought (but no need to buy an annuity).
- If member has guaranteed pension income (essentially state pension plus annuity income from an insurance policy) of at least £20,000pa, can take as much drawdown as they choose in any year, but will pay marginal income tax rate on their drawdown payment
- No need ever to buy an annuity

### **Death**

- On death before drawing benefits and before age 75, whole of member's fund can be paid out as lump sum free of IHT
- On death after starting to draw benefits (includes just taking the tax free cash sum) or death after age 75, if no annuity has been bought fund is used to provide income each year to spouse/dependants. Alternatively, can pay out whole of fund but tax of 55% is paid. Residual 45% fund exempt from IHT.
- If lump sum is paid out to a pre-nominated charity, zero tax is payable.

### **Protected Rights**

- MW SIPP2 accepts protected rights pension funds
- No investment restrictions
- Must be used on death to provide income at specified minimum level to surviving legal spouse or civil

partner

**Changes effective 6.4.12**

- Lifetime Allowance reduces to £1.5M
- Restrictions on Protected Rights cease

**We do not give financial advice. nor do we advise on the suitability of a SIPP. No comments here are intended as such. The above information is based on our understanding of the legislation governing pensions at the time of writing. Before taking any action you should consult a qualified financial and/or tax adviser. Levels, bases of and reliefs from taxation may be subject to change.**

**This Newsletter is intended for professional advisors only, not members of the general public**

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