

To SIPP or not to SIPP?

People often ask whether a Self Invested Personal Pension (SIPP) is an appropriate package, says Ray Prince, who aims to unravel any confusion

Imagine the scenario: you have several personal pensions, some separate share investments and an investment property, so how can you use a SIPP to invest in the shares and the property? A SIPP allows greater control of pension investments and a wider range of options. This means, that subject to what legislation will allow, you can decide when, where and how to invest your pension contributions.

Property as a contribution

As well as buying a new property, the ban on connected party transactions that was lifted by HM Revenue & Customs on April 6, 2006 means that if you already own a commercial property, you can either sell the property to your SIPP or pass the property to your SIPP as an 'in specie' contribution.

Technically speaking, it is not possible for property, shares or other allowable assets to be

scheme as a contribution, any outstanding mortgage will need to be paid off before the property can be moved into the pension scheme.

But where you own an existing property, what is the best option? The 'in specie' transfer might appear to be the more attractive of the two because tax relief is available on the contribution. However, the major drawback with this method is that the mortgage must be paid off before the transfer can proceed.



Investors wishing to benefit from tax relief on the full value of the property will need to have earnings that are at least equal to the value of the property'

able for any capital gains tax on any gain in the asset since he/she acquired it. They may also be liable for stamp duty.

providers so make sure you look at what type of SIPP you need, as well as checking the small print before you sign on the dotted line.

An easy option

The simplest way of making a contribution to a pension scheme equal to the value of assets held would be to sell those assets and pay the proceeds into the pension plan. This avoids the potential problems with an in specie contribution and allows someone who does not initially have the cash to make a substantial contribution to their pension scheme. Tax relief will be given on the contribution as normal, assuming the gross contribution does not exceed their UK earnings. Capital gains tax and stamp duty may be payable on the sale of assets.

The disadvantages are that the assets do not end up in the pension scheme, unless the pension scheme subsequently buys the assets. This could involve delay and values may have moved in the meantime. If the asset was a property, of course, it might not be available for sale.

The next step

If you are considering the SIPP route, make sure you do your research in advance as this area can be a minefield. Also, there are a number of SIPP

Tax relief benefits

Investors wishing to benefit from tax relief on the full value of the property will need to have earnings that are at least equal to the value of the property. It would therefore appear that the most practical method of moving property into a pension is likely to be to build up a fund first and then buy the property.

In relation to share ownership within a SIPP, the following points should be noted:

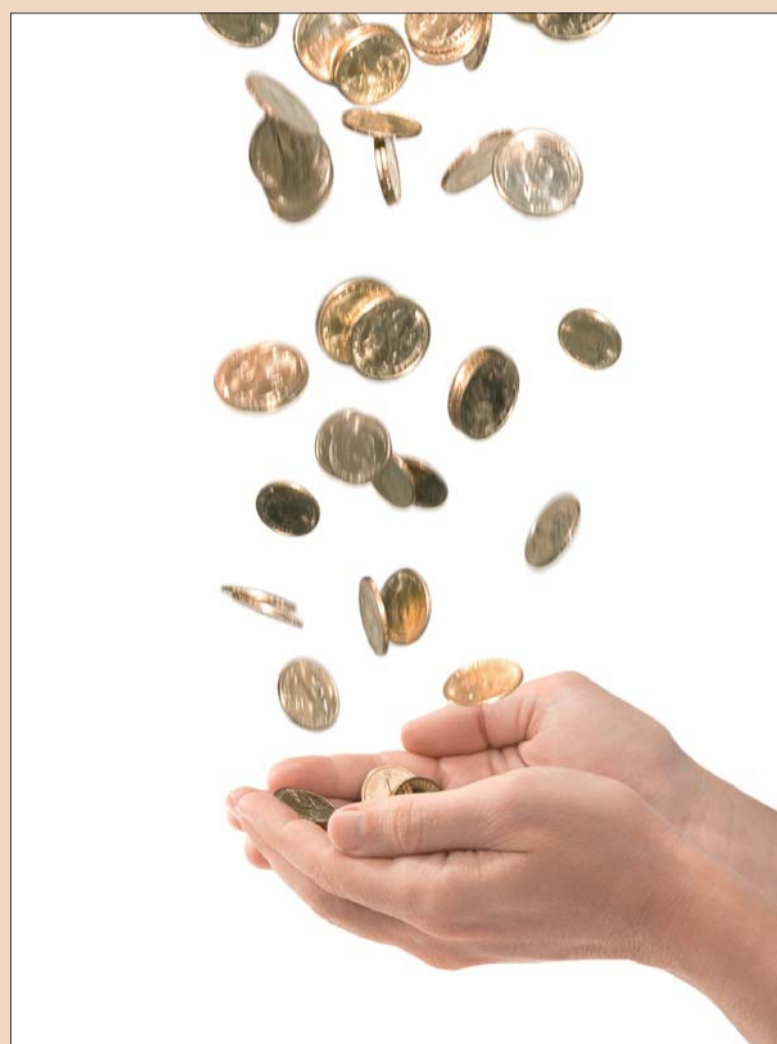
- The SIPP or connected parties cannot own over 50 per cent of the shares of the company
- Shares acquired under savings-related share option schemes or share incentive plans are allowed by the Finance Act 2004 to be transferred to a pension scheme and these will automatically qualify for tax relief as contributions if they are rolled over into the pension scheme / arrangement within 90 days of the member becoming the owner
- The purpose of the investment must not be for the SIPP member or a connected party to use the company's assets
- The company's main activity must be trading.

The transfer is in effect a contribution, so it is entitled to tax relief in the normal way. If the contributions would normally get tax relief at source, basic-rate tax relief on the value contributed will be paid by HMRC into the plan, with any higher rate relief being claimed through self-assessment.

The person transferring the ownership of the asset will be li-

passed to a scheme as a contribution. However, the Revenue has confirmed that it is possible to say: 'I am going to contribute £100,000 to my SIPP and to discharge this obligation I give my SIPP this property or these shares.'

Where the allowable asset is passed to a scheme, the contribution will benefit from tax relief limited to the higher of earnings or £3,600 gross, rather than the full value of the asset. When passing a property to a pension



By using a SIPP, you are able to access investment funds managed by the full range of fund managers. You will also be able to invest your fund directly in stocks and shares, commercial property and other assets. To assist with this, the fund will be able to borrow up to a maximum of 50 per cent of the net assets of the scheme. However, it should be noted, that when borrowing to help fund a property purchase, the SIPP will also need to cover all associated costs, such as stamp duty and legal fees.

To learn more about your retirement planning options, you can request a free copy of Rutherford Wilkinson's latest Audio CD: 'How To Avoid The 3 Most Common Retirement Planning Mistakes'. Just call Catherine Lowes on 0191 217 3340 and a copy will be posted to you (please quote ref: DT). □

About the author



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