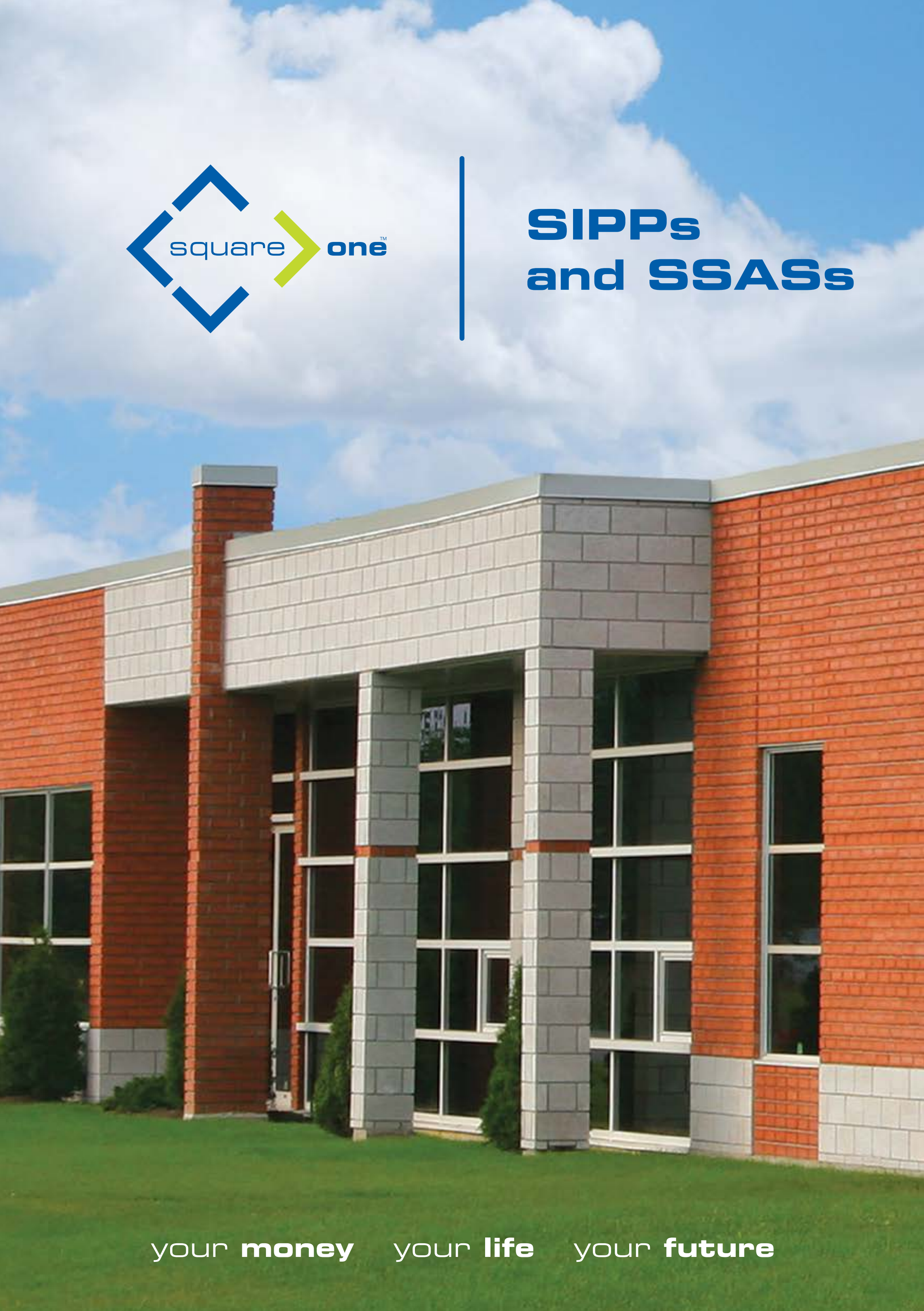
SIPPs and SSASs



your **money** your **life** your **future**

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The information in this booklet is of a general nature and specific advice about your own circumstances should be sought before taking any action, or refraining from taking any action. The Financial Conduct Authority does not regulate tax advice, so it is outside the investment protection rules of the Financial Services and Markets Act and the Financial Services Compensation Scheme. This publication represents our understanding of law and HM Revenue & Customs practice as at 31 January 2016.

Introduction

Self Invested Personal Pensions (SIPPs) are not a new concept, although you might think otherwise from the press attention they attract. The introduction of the Pension Freedom rules has ignited fresh interest in pension investment and for those with large funds, the wide investment options coupled with flexible withdrawal has put the spotlight back on SIPPs.

Small Self Administered Schemes (SSAS) also have a role to play, and continue to be attractive for some small business owners. Whilst the two types of scheme have many similarities and are governed by the same tax rules there are also some marked differences. This brochure gives an outline to the features of both and how Square One can help you make the right choice for your pension.

Self-invested

personal pensions defined

A SIPP is a special form of personal pension which allows the pension scheme member to choose and control the investments within their pension plan. SIPPs are offered by most of the major insurance groups and a range of specialist providers.

The benefits that you can draw from a SIPP and the contributions that can be made are subject to exactly the same rules as an insured personal pension. The major difference between the two types of personal pension is that the SIPP has a much wider investment choice. If you were dissatisfied with the investment performance of the fund manager of a traditional insurance company's personal pension policy, there was nothing much you could do except transfer to a new provider. With a SIPP you can simply switch funds – and fund managers – often at the click of a mouse.

Small self-administered schemes defined

A SSAS is an occupational pension scheme, which is primarily intended for the directors and key employees of small businesses. It can have up to 11 members, who will all be scheme trustees. The assets are not owned by the individual members, but by the trustees as a whole, with members having a notional share of them.

This structure gives the trustees considerable control and flexibility of the investments, but also means they have to take on administration and regulatory responsibilities. Most good SSAS providers will provide administration services to help trustees fulfill their duties.

A SSAS can enable members to take flexible benefits in the same way as a SIPP, but can also provide members with a Scheme Pension if required.

The investment choice

The theoretical range of SIPP and SSAS investments is extremely wide. It includes:

- Cash deposits in any currency
- Onshore and offshore investment funds, including hedge funds and exchange traded funds
- Commercial property in the UK or overseas, including real estate investment trusts (REITs)
- Listed and unlisted shares and fixed interest bonds, both UK and overseas
- Traded life assurance policies
- Warrants, futures and options
- Gold bullion

In practice, few SIPP providers offer the full range of possible investments. For example, some SIPPs limit your choice to collective investment funds and cash. These fund-based SIPPs look similar to individual savings accounts (ISAs), and some are run by ISA plan managers. If you want a broad selection of funds for your SIPP, but you are not interested in direct investment in stocks and shares, these fund-based plans are worth investigating.

SSAS providers will usually offer a broad investment choice and it is up to the employer to decide which investments are allowed within the scheme rules. In addition to the investments listed above, a SSAS is also able to make loans to the sponsoring employer, subject to conditions.

Investment

Limits

There are some restrictions on the investments that can be invested in a SSAS or a SIPP, and holding them either directly or indirectly would incur penal tax charges. The list (which is not exhaustive) includes:

- Residential or holiday property
- Tangible moveable property eg antiques and fine wines, plant and machinery
- Commodities
- Premium Bonds

Many providers also impose their own restrictions on non-standard investments and may not, for example, allow a fund to be fully invested in shares of an unlisted company.

Pension investors also need to be aware of the other tax constraints on pensions – the Lifetime Allowance and the Annual Allowance. The Lifetime Allowance restricts the total pension savings an individual can have without incurring an additional tax charge. The limit was reduced to £1million in April 2016, but is expected to rise in line with inflation from 2018.

The Annual Allowance is the limit on pension contributions that can be made and get tax relief. The standard limit is £40,000pa, but high earners will have their allowance tapered and reduced to £10,000pa if they have total earnings (including pension contributions made on their behalf) of £210,000pa.

Commercial property investment

A major attraction of SIPPs and SSASs is that they can invest in commercial property which is let to the member's company or partnership. You can even sell a property that you or your business owns to the pension scheme (although this might result in a tax charge on any capital gains). Any sale transaction must use an arms' length valuation, because there are tax penalties for 'value shifting.' Similarly, the business must always pay a full commercial rent, which the SIPP or SSAS will receive tax-free.

A SIPP or SSAS can borrow up to 50% of its net assets for property investment (or any other purpose) so, for example, a SIPP with net assets of £300,000 could borrow £150,000 and spend £450,000 on a commercial property. Often SIPP and SSAS property purchase is financed by a combination of transfers from previous pension arrangements, new contributions and borrowing.

SIPPs and SSASs that hold commercial property as an investment will normally have higher annual charges than simpler pension arrangements with investments in listed securities, collective funds and cash.

Loans

A SIPP cannot lend money to a member or anyone connected with the member. The 'no connection' rule means that a SIPP cannot lend to the company of a director member.

A particular feature of SSAS is the facility for the sponsoring employer to receive a loan-back advance for business purposes or repaying existing borrowings, including directors' loan accounts. Such loan-backs would be restricted to 50% of the collective scheme assets. This additional facility may prove particularly of interest to limited companies who, on the one hand wish to fund pensions for directors and senior executives and, on the other hand wish to manage cash-flow or have business projects for which they wish to use available business profit and reserves.

If pension-backed loans to an employing company are important, then a SSAS is the route to take. However, the company or directors will have to provide full security for the loan, which must have an initial term of less than five years and be repaid in equal instalments of capital and interest.

How we can help?

There are many SIPP and SSAS providers, offering a range of services.

As independent financial advisers Square One Corporate Services can provide advice on:

- The choice between a SSAS and a SIPP
- The selection of a pension provider to meet your investment requirements
- The appropriate investment strategy within your SIPP or SSAS
- Transferring existing pension arrangements into your pension arrangement
- The use of a SIPP or SSAS in drawing retirement benefits

Testimonials

“As a busy printers finding time to sort out pension schemes, mortgage rates or insurance deals is always a problem. Square One Financial have solved this for us. After speaking to one of their advisors everything was put into place allowing us to concentrate on running our business. As we do this Square One Financial are there in the background to inform us of any movement in the market that we may benefit from.”

“Financial advice with regards to risk mitigation and investments generally is an area which places considerable pressures on the professionals who operate such businesses in a tightly regulated market. The demarcation line of products sold between those that are regulated and those that are not is not always clear. In our experience we have found Square One, staffed and operated by a number of qualified personnel, to be responsive and clear at all times and will continue to use them as our first port of call.”

“I have always been pleased with the advice I have had from Square One. Their staff combine a high level of technical expertise with a service that is prompt, professional and friendly.”

“John Kelly is the best I have met in his field. He is very knowledgeable, trustworthy and efficient. He is always helpful and available to answer my questions. I would not consider anybody else for Financial advice.”

Other services

for business clients

- Shareholder protection
- Keyman insurance
- Workplace pensions
- Profit extraction
- Death in service schemes
- Group medical schemes
- Tax reduction strategies
- Exit and succession planning

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