



SOUND & IMPARTIAL
FINANCIAL ADVICE

PENSIONS TAX SIMPLIFICATION FROM 6 APRIL 2006 – SIPPs

Under the HM Revenue & Customs 'simplification' proposals, from 6 April 2006 there will be many changes to the HM Revenue & Customs rules that apply to Self-Invested Personal Pensions ('SIPPs'). For example:

- there will be much wider investment options
- there will be much greater scope and flexibility for paying contributions
- if the member's fund value exceeds a new 'lifetime allowance' when the member starts to draw benefits then a tax charge will apply to the fund
- there will no longer be a requirement that a SIPP must purchase an annuity when a member attains age 75.

A summary of the main changes that will apply to SIPPs (based on our understanding as at 12 December 2005) is set out overleaf.

13 April 2006

1. INVESTMENTS		
	SSASs Pre A-Day	SSASs Post A-Day (from 6/4/2006)
(a) General	<p>Detailed regulations specify the permitted investments.</p> <p>Some SIPPs operate their own investment restrictions.</p>	<p>There will be no investment restrictions, except as specified below, and SIPPs will be allowed to invest in all types of investments (including, for example, unquoted investments, residential property and works of art). However, on 5 December 2005 the Chancellor announced that there will be punitive tax measures applied to direct investment in residential property and in most forms of tangible moveable property. So, whilst investment in such assets is not prohibited, in practice it is extremely unlikely that SIPP members will invest in them.</p> <p>Investments held must be suitable for the purposes of the scheme and it will be left to the Trustee and the Administrator to decide whether or not a particular investment is suitable for the scheme.</p> <p>As now, SIPPs may introduce their own restrictions and will not necessarily allow the full range of permitted investments permitted. The Wolanski & Co. Personal Pension Plan will allow all permitted investments.</p>
(b) Self-investment	Not permitted.	See 'Shares in unquoted companies' below.
(c) Loans	Not permitted.	<p><u>Loans to any person (company, firm or individual) connected with a scheme member</u> Not permitted.</p> <p><u>Loans to any person (company, firm or individual) not connected with a scheme member</u> Permitted. There are no specific restrictions on such loans.</p>

1. INVESTMENTS (continued)		
	SSASs Pre A-Day	SSASs Post A-Day (from 6/4/2006)
(d) Property	<p>Commercial property permitted; residential property not permitted (except in very limited circumstances).</p> <p>Property cannot be purchased from the member (or the member's employer).</p> <p>Property can be leased to the member's employer on commercial terms.</p>	<p>Investment in both commercial and residential property (whether in the UK or overseas) will be permitted. However, as explained under (a) above, there will be punitive tax measures applied to direct investment in residential property. So, whilst investment in residential property is not prohibited, in practice it is extremely unlikely that members will invest in this way.</p> <p>Property can be purchased from, or leased to, the member (or the member's employer) on commercial terms.</p>
(e) Shares in unquoted companies	Not permitted.	No limitations on investments in unquoted companies.
(f) Borrowing	SIPPs may borrow for commercial property only, up to a maximum of 75% of the property purchase price.	Schemes may borrow for any investment purpose up to a maximum of 50% of the net value of the fund (after deducting any existing borrowing).
(g) Personal chattels	Not permitted.	Schemes will not be prohibited from investing in personal chattels - but see 'Members benefiting personally from scheme assets' below. However, as explained under (a) above, there will be punitive tax measures applied to direct investment in most forms of tangible moveable property. So, whilst investment in such assets is not prohibited, in practice it is extremely unlikely that members will invest in them.
(h) Transactions with members	<p>Investments cannot be purchased from/sold to/leased from/to the member or their relatives.</p> <p>Loans to members are not permitted.</p>	<p>Schemes will be permitted to enter into investment transactions with members or their relatives, although loans to members or their relatives will still not be permitted.</p> <p>All investment transactions must be on commercial terms - but see 'Members benefiting personally from scheme assets' below.</p>

1. INVESTMENTS (continued)		
	SSASs Pre A-Day	SSASs Post A-Day (from 6/4/2006)
(i) Members benefiting personally from scheme assets	Not permitted.	Members will be permitted to benefit personally from scheme assets. They will have to report personal use of scheme assets (or any personal use by their relatives) on their personal income tax returns and this will result in a pension benefit-in-kind tax charge on the member. However, investment in the assets from which the members are likely to derive personal benefit will be subject to punitive tax measures - see (a) above - so, whilst investment in such assets is not prohibited, in practice it is extremely unlikely that members will invest in them.

2. CONTRIBUTIONS																
	SSASs Pre A-Day	SSASs Post A-Day (from 6/4/2006)														
(a) Earnings Cap	The Earnings Cap (currently £105,600) applies to the maximum permitted contributions.	The Earnings Cap will cease to apply – see 'Contribution limits' below.														
(b) Contribution limits	<p>The maximum permitted contributions from the member and the employer combined are the following percentage of earnings (note: earnings are restricted to the Earnings Cap for this purpose):</p> <table border="1"> <thead> <tr> <th>Age</th> <th><u>% of net relevant earnings</u></th> </tr> </thead> <tbody> <tr> <td>up to 35</td> <td>17.5%</td> </tr> <tr> <td>36-45</td> <td>20.0%</td> </tr> <tr> <td>46-50</td> <td>25.0%</td> </tr> <tr> <td>51-55</td> <td>30.0%</td> </tr> <tr> <td>56-60</td> <td>35.0%</td> </tr> <tr> <td>61-74</td> <td>40.0%</td> </tr> </tbody> </table> <p>It is possible to select earnings for the current tax year, or for any of the previous five tax years, limited to the Earnings Cap.</p> <p>Also, it is possible in certain circumstances for contributions to be treated for tax purposes as if they were paid in the previous tax year ('carry back').</p>	Age	<u>% of net relevant earnings</u>	up to 35	17.5%	36-45	20.0%	46-50	25.0%	51-55	30.0%	56-60	35.0%	61-74	40.0%	<p>There will be no limit on the contributions that can be paid by either the member or employer.</p> <p>Tax relief on a member's contributions will be restricted to 100% of earnings with no monetary limit (but see below). All member contributions will be paid net of basic rate income tax (even if the member is not subject to income tax), which will be reclaimed and invested for the member's benefit by the Administrator. Where the member is subject to higher-rate income tax, the member can claim additional tax relief.</p> <p>The employer's contribution will be tax-deductible without limit (subject to the normal 'wholly and exclusively' corporation tax rules).</p> <p>If the total contributions in any year from both the member and the employer (plus any amounts reallocated to the member) exceed £215,000 (index-linked) then the member will be subject to income tax on the excess. However, this limit will not apply in the year when the member uses the whole of his/her pension fund for income drawdown and/or annuity purchase.</p> <p>Carry back will cease to be available.</p>
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(c) In-specie contributions	Contributions cannot be made as in-specie transfers of assets.	It will be possible for contributions to be made as in-specie transfers of assets. These will be treated as if they were paid net of basic rate income tax.														

3. DRAWING BENEFITS		
	SSASs Pre A-Day	SSASs Post A-Day (from 6/4/2006)
(a) Conditions/ages	No need to retire to receive benefits; a member can take benefits at any time from age 50 (earlier for specified occupations or in cases of ill-health) and 75.	No change, except that from 2010 benefits cannot be taken before age 55 (except in cases of ill-health).
(b) Maximum benefits	No limits on pension. Up to 25% of the fund can be taken as tax-free cash (except in relation to transfers that have been certified, where the amount that can be taken as a tax-free cash sum may be less than 25%).	All current benefit restrictions are replaced by a new 'lifetime allowance' of £1.5m (index-linked) which applies only when benefits are put into payment. There will be a detailed procedure for testing benefits from all sources against the lifetime allowance. Special transitional provisions ('primary' and 'enhanced') will be available for existing funds at 6 April 2006. 25% of the fund up to the 'lifetime allowance' can be taken as tax-free cash. If the fund exceeds the 'lifetime allowance' then the excess can be taken as cash, subject to a 55% tax charge.
(c) Annuity purchase	Pension can be paid out of the fund but an annuity must be purchased by the member's 75 th birthday.	Pension can be paid out of the fund. An annuity can be purchased at any time but the requirement to buy an annuity by the member's 75 th birthday will be removed.
(d) Income drawdown	Under income drawdown, there is a minimum income of 35%, and a maximum income of 100%, of the single person's annuity that can be purchased by the fund based on special factors published by the Government Actuary's Department. This must be reviewed every 3 years. Income drawdown must stop by age 75, at which time an annuity must be purchased.	Under income drawdown, there will be no minimum income in any year and, up to age 75, the maximum income will be 120% of the single person's annuity based on the Government Actuary's Department annuity rates. This must be reviewed every 5 years. Income drawdown can continue after age 75, but the maximum income will then be 70% of the single person's annuity based on the Government Actuary's Department annuity rate at age 75 (regardless of the member's actual age). This must be reviewed every 12 months.
(e) In-specie benefit payments	Benefits cannot be paid as in-specie transfers of assets.	It will be possible for benefits to be paid as in-specie transfers of assets.

4. DEATH BENEFITS		
	SSASs Pre A-Day	SSASs Post A-Day (from 6/4/2006)
(a) Death before drawing benefits	<p>The value of a member's fund, excluding any part of the fund that relates to a transfer value that has been certified, can be paid as a lump sum (usually tax-free).</p> <p>If any part of the member's fund relates to a transfer value that has been certified then only 25% of that part of the fund can be paid as a lump sum and the balance of that part of the fund must be paid as a dependant's pension (taxable), except where there is no dependant.</p>	<p>The value of the member's fund can be paid as a lump sum and/or as dependants' pensions.</p> <p>The lump sum will normally be tax-free (unless it exceeds the 'lifetime allowance', in which case the excess will be taxed at 55%).</p> <p>Any dependant's pension will be subject to income tax.</p>
(b) Death in income drawdown	<p>On death before age 75 the balance of the fund can be paid out, less 35% tax.</p> <p>An annuity must be purchased by age 75 and the benefits payable on death after annuity purchase will depend on the death benefits selected under the annuity.</p>	<p><u>On death before age 75</u> The balance of the fund can be paid out as a lump sum, less 35% tax.</p> <p><u>On death after age 75</u> It will not be possible to pay out any lump sum - the remaining fund must be used to provide a dependant's pension (taxable). If there are no dependants then the remaining fund can be reallocated to the pension fund of other nominated members of the scheme or paid to a registered charity nominated by the member.</p> <p>HM Revenue & Customs is currently considering whether any inheritance tax will apply in these circumstances.</p>

5. MISCELLANEOUS		
	SSASs Pre A-Day	SSASs Post A-Day (from 6/4/2006)
(a) Concurrency	Members cannot normally accrue benefits under an occupational pension scheme at the same time as contributions are being paid to the scheme.	Full concurrency – can be a member of any number of pension schemes at the same time.
(b) Serious ill-health	No special provisions.	The value of the member's fund can be paid as a lump sum. The lump sum will be tax free unless it exceeds the 'lifetime allowance', in which case the excess will be taxed at 55%.
(c) Legal structure	Personal pension scheme established by Provider (must be bank or life insurance company). The Provider appoints a Trustee and Administrator.	New-style 'registered' pension scheme (need to change scheme rules, otherwise any existing HM Revenue & Customs requirements will continue to apply). Provider/Trustee/Administrator unchanged.
(d) Eligibility for membership	Any eligible individual: can be employee, director or self-employed.	No restrictions on membership of the scheme.

5. MISCELLANEOUS (continued)		
	SSASs Pre A-Day	SSASs Post A-Day (from 6/4/2006)
(e) HM Revenue & Customs reporting requirements	There are currently no HM Revenue & Customs reporting requirements.	<p><u>Pension Scheme Return</u> The SIPP must complete a new annual Pension Scheme Return. The information to be provided on the Pension Scheme Return will include the following:</p> <ul style="list-style-type: none"> • details of any assets acquired from, or sold to a member, or a person connected with a member, of the scheme • details of any land, or interest in land, that the scheme acquired from, or sold to, a connected party • details of any loans made by the scheme to a connected party • details of any other assets acquired from a connected party, other than shares, land, interest in land or loans • details of any cash, cash on deposit or current account balances held • details of any assets acquired by the scheme at arm's length. <p><u>Event Report</u> In addition, the SIPP will need to make an Event Report by the 31 January following the tax year in which the event occurs if any reportable events, including the following, happen:</p> <p>Reportable changes to the scheme</p> <ul style="list-style-type: none"> • has the scheme been wound-up • have there been any changes in the members' ability to exercise control over how scheme assets are used • has the scheme changed its rules to allow the making of unauthorised payments • has the scheme changed its structure • has the number of scheme members changed band from that previously notified. <p>Reportable movements of scheme funds</p> <ul style="list-style-type: none"> • details of any unauthorised payments • details of any lump sum death benefits greater than 50% of the prevailing 'lifetime allowance' • details of any ill-health pensions that have been suspended because the ill-health condition is no longer met • details of any benefits put into payment where enhanced protection applied • details of any transfers to qualifying

		recognised overseas schemes.
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5. MISCELLANEOUS (continued)		
	SSASs Pre A-Day	SSASs Post A-Day (from 6/4/2006)
(e) HM Revenue & Customs reporting requirements (continued)		<p>Lump sum payments</p> <ul style="list-style-type: none"> • details of any lump sum payments that were: <ul style="list-style-type: none"> ○ more than 25% of the value of the member's pension rights; and ○ between 7.5% and 25% of the prevailing 'lifetime allowance' • details of any lump sum payments made where primary or enhanced protection applied. <p><u>Accounting For Tax</u> The SIPP will need to complete an Accounting For Tax form on a quarterly basis where tax is due to be paid, as follows:</p> <ul style="list-style-type: none"> • the tax charge that applies to short service refunds • the 35% tax charge that applies to the residual fund on death in drawdown before age 75 • the 35% tax charge that applies on the payment of a scheme surplus to the employer • the tax charge that applies to benefits vesting in excess of the 'lifetime allowance' • the 40% tax charge that applies if the scheme is deregistered.

Note: The current HM Revenue & Customs rules are extremely complex, and the proposed changes still lack some detail. Therefore, the above table should be considered only as a general guide based on our understanding as at 12 December 2005 of current HM Revenue & Customs requirements and the relevant provisions of the Finance Act 2004.