

## Article

### Let the debate begin

April 2009

Two of the most controversial areas of debate in the run up to the introduction of 'Pensions Simplification' in April 2006 were the tax treatment of residual Alternatively Secured Pension funds (ASP) on death and the proposal to allow pension schemes to invest in residential property.

A general election must take place some time between now and June 2010. Political parties are in the throes of developing their manifestos, now is the perfect time to open up the debate on these two key issues.

Looking first at the ASP debate, we had the ridiculous scenario where it was introduced to counter principled religious objections to the pooling of mortality risk in annuities. Confusion still surrounds this point. In an exchange in the House of Lords on 27<sup>th</sup> October 2008 the following statement clearly implies that the Government now see it as having much wider application.

**Lord McKenzie of Luton [Labour]:** ...I want to reiterate that: nobody is forced to buy an annuity with their pension savings.....In essence, that is exactly what alternatively secured pensions achieve. Under an ASP, you are required to take between 55 per cent and 90 per cent of the annuity value of the pension pot. If there is anything left at the end of the day not taken as an income it has a tax exit charge.

As a minimum, clarity is now needed that ASP is an option that is now a real alternative to the purchase of an annuity at age 75 for all.

The real burning issue seems to be the Government's objection to bequests by pension savers to their heirs being subsidised by taxpayers. If this is the case then the challenge must be finding a level of tax that could be deducted from residual ASP funds that would remove these concerns.

Add to this the problems driven from the current economic climate and the arguments for change should not be contested. On the 1 October 2007 the FTSE 100 closed at **6,506.20**. By the 17th March 2009 it had fallen **40%** closing at **3,857.10**. The majority of clients invested in Unsecured Pension (USP) who are considering ASP will have stock market exposure.

The yield applying to Government Actuary's Department's (GAD's) rates on 1 October 2007 was **4.75%**. Based on this, a male-aged 75 entering ASP would have received **£102** income for every £1,000 of pension fund. The gilt yield that applies from the 1 April 2009 has fallen to **3.25%**. This means that a 75 year old male would now receive **£92** per £1,000 of fund, a fall in potential income of **10%**.

If you add to this the current tax charge on death on the residual fund of up to **82%**, you have a clear case for a neutralising tax, rather than a penalising tax. Consumers deserve a better deal, that is fairer for all.

A J Bell entered into open correspondence with Rt Hon. Ed Balls in his capacity as Economic Secretary to the Treasury in January 2007, shortly after the pre Budget Report, raising a number of concerns about taxation of ASP death benefits. Many of these concerns have now become reality. It was inevitable that such a penal tax regime alongside the market conditions would distort behaviour. Pension savers are flocking in their droves to overseas pensions schemes; the only way to change this behaviour is to urgently review the taxation rules.

Our proposal remains that you allow residual ASP funds to be paid to heirs as a lump sum after a one-off tax charge. This would be in lieu of Inheritance Tax, and any other tax charges that may otherwise be applied. We suggest a rate of tax at 55% is applied, acting as a neutralising tax charge to recoup the tax reliefs previously granted.

Looking back three years, allowing residential property in SIPP's was a hugely controversial area. Today, allowing SIPP's to invest in residential property would provide a huge boost to the UK housing market and help bring back confidence to a severely battered sector.

The government's u-turn on this issue in December 2005 was poorly timed but all things considered a good call. However, a properly thought out policy to now allow investment in residential property will give a much needed boost to the whole economy.

We are proposing that SIPP's be permitted to buy UK residential property on a buy to let basis. There would be restrictions to prevent individuals buying certain types of property through a SIPP such as a "buy to let" property that they currently own, their own home or a holiday home. These scenarios were at the heart of the Government's original concerns back in 2005 that led to their u-turn.

The highlights of our proposed framework are as follows: -

Under current legislation, a penal tax charge is triggered if an investment regulated pension scheme (ie a SSAS or a SIPP) invests in any taxable property. Taxable property (defined in Schedule 29A Finance Act 2004) includes any residential property and "tangible moveable" property such as certain types of plant, machinery and personal chattels including art and antiques.

Under A J Bell's proposals, UK residential property would be excluded from the definition of taxable property, as long as:-

- The property is purchased by the SIPP from a person who is not connected\* to the SIPP member (and has not been owned by the member or a connected person in the previous three years), and
- The property is empty or is let to an unconnected third party at an open market rent.

\* Connected person would be defined as per Section 993 Income Tax Act 2007.

We are in the process of carrying out research on both proposals; early figures suggest the majority of advisers and SIPP holders back our views. We aim to put the findings to both main political parties and continue to seek all party support. It is an opportunity to let common sense prevail.

Billy Mackay  
Marketing Director  
A J Bell

**END**

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**Please note this document is intended for trade and national press individuals.**

#### Notes for Editors

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A J Bell is the UK's largest privately owned SIPP provider and is continuing to grow rapidly in challenging capital markets. Invesco Perpetual and Midas Capital own 23% and 15% respectively of the share capital, the remainder being owned by Andy Bell and the management team.

Established in 1995, A J Bell specialises in providing administration, trustee and actuarial services for SIPP and SSAS.

A J Bell is now one of the largest SIPP trustee and administrators in the UK with in excess of 32,000\* individual SIPP's and assets under administration exceeding £8bn\*. It provides third party SIPP administration services for Barclays Stockbrokers, Halifax Share Dealing, Skandia and E\*Trade.

Recent research by CoreData Research placed Sippcentre as one of the two most preferred SIPP's.

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\*As at 30th September 2008.



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