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Fine Dining or just a simple takeaway?

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The Self-Invested Personal Pension industry has historically been built around an ethos of “if the Inland Revenue allows it, then we will allow it”. In general, a strict and tightly defined permitted investment list pre A-Day kept discussions about SIPP investments fairly straight forward.

We now find ourselves in a world where HM Revenue & Customs (HMRC) has no desire or intention to maintain a list of permitted investments. Instead it has created an environment backed by taxable property rules whereby investments that aren’t consistent with a tax-privileged regime lose those tax privileges, and more. SIPP providers now need to apply a different logic when considering whether or not to allow certain asset classes into a SIPP.

Let’s take a step back and look at the taxable property rules. The primary purpose of this legislation was to prohibit investment by registered pension schemes into residential property, works of art, racehorses, vintage cars and the like.

Tax consequences – a case for caution?
The tax consequences are something that simply cannot be ignored. If taxable property is acquired by a registered pension scheme taxes may apply at:

- **40%** of the purchase price as an unauthorised payment.
- **15%** of the purchase price as an unauthorised payment surcharge.
- **15%** of the purchase price as a scheme sanction charge.
- **40%** of the income and or gains as a scheme sanction charge.

In simple terms, any investment into residential property, or tangible moveable property, either directly or indirectly, will lead to a tax charge of between 40% and 55% (of the amount invested) on the member, a further tax charge of typically 15% on the SIPP and then a tax charge of 40% on any income and/or gains subsequently arising in respect of that asset.

HMRC sensibly concluded that this would be sufficient to drive any sane investor away from such investments. However, introducing legislation without any consultation has a tendency to **reinforce the law** of unintended consequences. There will be some assets such as unquoted shares that can be caught by these rules. For example, if a pension scheme holds unquoted shares in a company that buys taxable property (e.g. plant and machinery) then the pension scheme is deemed to have purchased that plant and machinery for the purposes of the taxable property rules (to the extent of the pension scheme’s fractional ownership of the company). This would then immediately trigger the aforementioned tax charges.

The exemption that will typically apply to an unquoted company states that the pension scheme investment, i.e. the unquoted company, must satisfy all the conditions set out below in order for the exemption to apply.

- The company is carrying on a trade, profession or vocation (i.e. it is a trading company). This will therefore exclude investment companies. If the trading company subsequently converts to an investment company, then this could have serious tax consequences. This could easily happen without the SIPP provider being consulted.
- The company is not controlled by the member, connected persons and/or the SIPP acting either individually or together. Clearly this is easy to establish at outset, but future share transactions could occur without the SIPP provider’s knowledge.
- Neither the member, nor a connected person, is a controlling director. This brings the ownership threshold down from 50% to 20% in conjunction with a directorship. In many unquoted companies, it would be normal for an investor holding 20% or more to be a director or at least have family representation on the board.

If it does then we do not need to look under the bonnet and see what the company is investing in. However, if at any subsequent time any of these conditions are not met, any purchase of taxable property by the company will trigger the aforementioned tax charges.

There are other conditions to be met, but the above summarises the ones that are most relevant.

SIPP variants
The SIPP market has grown at pace over recent years and you could suggest that some of the new products have created an element of confusion. You may even argue that some of the new entrants have suffered from the odd strategic urge to create confusion, one for another day.

In the drive to play in this market you will see Personal Pensions and Private Managed Funds dressed up as SIPPs which can be a tad confusing. Allowing for all of this, I firmly believe that advisers understand the fundamentals of the market i.e. that SIPPs come in all shapes and sizes. I regularly come across discussions that involve talk of mini SIPPs, midi SIPPs and full SIPPs. The terminology might change a little but there is one basic concept that remains true. The range of permitted investments varies to satisfy the demands of particular consumer types. Also, there should be a clear price differential that is correlated with the range of permitted investments.

The answer to two questions will normally enable a potential SIPP investor to decide the type of SIPP he/she requires.

Question 1 - Do I want to manage my SIPP myself or alternatively use a financial adviser/investment manager? Many of the low cost online SIPPs are not established to deal with financial advisers/investment managers; they are targeted at the DIY market where there is no pension or investment advice on offer.

Question 2 - Do I want to invest wide of cash, unit trusts, oeics, gilts, ETFs and corporate bonds and instead consider a range of fund platforms, commercial property, insurance company trustee bonds, discretionary managers and a range of cash deposit facilities. Online execution only low cost SIPPs do not cater for this wider investment range.

The best of both worlds?
Over the last few years online products have developed that are both low cost and offer the vast majority of the investment flexibility available to full SIPPs. These are typically adviser led products, where the majority of money ends up either in (a) unit trusts/oeics via a platform or (b) a panel discretionary investment manager and the client only pays for increased flexibility if they use it.

So where does this leave the “full” SIPP? There remains a healthy market for these products. They can offer features that are attractive to some clients and apply over and above those outlined. These can include the client:

a) acting as a trustee of his/her own SIPP;
b) acting as a legal owner of all SIPP assets (jointly with the professional SIPP trustee);
c) counter signing any transactions;
d) having access to a bespoke technical service and named administrators;

Cost
The cost of SIPPs seems to be a hot topic; some will argue that you can deliver the same investment solution in a more cost effective manner. Saying SIPPs are expensive is a little bit like saying eating out in a restaurant is expensive. The simple truth is that it all depends on your choice of establishment and selection from the menu at hand. It might well be an expensive night out but on the other hand it might not, you (or your partner) are in control of where you go and what you eat. The same choice and control issue exists with SIPPs.
When considering the costs involved in any modern pension arrangement it is crucial that you are prepared to look beyond general statements and consider some of the detail. This applies irrespective of whether you are using a multi manager arrangement, a platform or indeed a SIPP. Many of the more modern online SIPP products will compete head on with these other options, that is why they are becoming more mainstream. Just like any decision to eat out, it is all about personal choice and preference.

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

Notes for Editors

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

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Our customer proposition - Market leading, low cost, transparent, service, value, choice, leading functionality, integrity, award winning.

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Research by CoreData Research places Sippcentre alongside Standard Life as advisers' two most preferred SIPPs.

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