

WHICH TYPE OF SIPP?

The share of single premium pension business enjoyed by Self-Investment Personal Pensions ('SIPPs') has rocketed over the past three years from 6% to 25% of the market. Clearly SIPPs are being preferred by many investors over standard Personal Pension Plans and Stakeholder pensions: but are SIPPs really superior? The answer, as always is: "it depends".

The principle of the SIPP is that the investor is able, with or without advice, to select his or her own investments. In addition, SIPPs provide the ideal platform for flexible retirement planning, which may include Unsecured or Alternatively Secured Pensions. These arrangements permit pension funds to be left in place after retirement and used as a source of income, instead of being applied to purchase an annuity.

There are, however, several different types of SIPP. The lowest-cost is the internet-based SIPP with a restricted range of fund options. Next up the scale of cost is the Personal Pension with a self-investment option which is usually subject to a minimum investment value or to investment being confined to in-house funds.

The most flexible SIPPs, sometimes referred to as "full SIPPs", can either be insurance-based or trust-based. The latter are suitable for investors with larger funds and provide bespoke administration and trustee services, permitting investment in unlisted shares or overseas or unusual property. The trustees may also have power to borrow to fund property investment.

So you get what you pay for. But if cost is the overriding concern, the starting point should be a basic stakeholder pension, with charges capped at 1.5% per year for the first 10 years and 1% thereafter. This will favour investors making lower levels of contribution and is

ideal for people with no earnings, who can invest £2,808 p.a. and still receive tax relief to take the total contribution to £3,600 p.a.. The main drawback is that the range of available funds is usually limited to a selection of the provider's own funds and possibly a few external funds.

CONTRACTING OUT OF STATE PENSIONS

The Second State pension scheme ("S2P"), which replaced SERPS, the State Earnings Related Pension Scheme, is itself to be phased out in 2012. But meanwhile, those who have opted out of the State scheme and elected to apply the available national Insurance rebate to fund a personal scheme need to consider whether to remain contracted-out.

The critical factor is the level of the NI rebate, and this has reduced to a level which in the view of most advisers makes contracting-out unattractive. The decision to contract back is easily made but must be notified to the Revenue before the end of the tax year.

On the positive side, it is proposed that as from October 2008 people who have already built up funds in contracted-out schemes should be able to transfer these into SIPP schemes and thereby avoid the investment restrictions which currently deny contracted-out funds access to many of the most popular types of investment.

CAPITAL GAINS TAX CHANGES

The Chancellor has announced his intention to introduce a single 18% rate of Capital Gains Tax in place of the current complicated system whereby gains are taxed at the same rates as income but relief is given according to the length of time for which the asset generating the gain has been held; and, for longer-standing holdings, an allowance for inflation.

In some situations, investors will benefit from taking action before 6 April 2008, when the new system is scheduled to come into force, and in others it would pay to wait until after that date.

Assets which currently qualify for **business asset taper relief** will be taxed more heavily after 6 April. Currently, gains on qualifying assets held for more than 2 years are reduced by 75%, so that only 25% of the gain is taxable. For a 40% tax-payer, this produces a rate of 10%, which will be increased by 80% when the new 18% rate comes into operation. However, as a concession, the 10% rate will be retained for the first £1 million of qualifying gains.

Higher rate taxpayers will benefit from waiting until after 6 April to dispose of assets which qualify for **non-business asset taper relief**. Here, the current maximum rate is 40% and the maximum reduction would be to 24% if the asset had been held for 10 years. By contrast, basic rate taxpayers who have held a taxable asset for 10 years would be able to reduce their liability to 12% if they sold before 6 April 2008,

Investors who had rolled over accrued gains into **VCT or EIS** investments before 2004 would be better off deferring their disposal until after 6 April, when their 40% tax charge will reduce to 18%.

Also set to benefit after 6 April are beneficiaries of **offshore trusts**. Currently, capital distributions from such trusts to UK resident and domiciled beneficiaries are subject to gains tax at the beneficiaries' highest marginal rate, without any deduction for taper relief. Here again, the 18% rate will be better.

More generally, the change will remove the existing incentive to invest for the longer term and will favour growth investments over those which generate income; though of course the question of gains tax will only arise when gains exceed the tax-free allowance (currently £9,200 p.a.)

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