

Investment

Much of the initial headlines on investment centered on the new investment freedom allowed post April 2006. When we originally announced to the press we thought that the Revenue were going to allow residential property into pensions many commentators said we were mistaken. We were, of course right but there are still plenty of rules to contend with.

We have compiled a chart that shows the investment options available pre and post simplification. This covers the current position for Self-invested company schemes (Small self administered schemes or SSAS), Self-invested personal pensions (SIPPs) and our own Self-invested benefit arrangement (SIBA), which is a company scheme with the widest possible investment powers. After A day (6th April 2006) we were told all arrangements would have the same tax rules. On reading the Finance Act 2004 however we find differences between employer sponsored schemes and provider sponsored schemes. We have therefore kept the names SSAS and SIPP to reflect the two different types.

Some of the main points to note are;

Property

Residential as well as commercial property can be held within the tax efficient pension framework. The sting in the tail is that the ability to borrow is reduced for most schemes. Currently a SIPP for example can put down a 25% deposit and borrow the remaining 75%, so a £50,000 fund could buy a £200,000 property. Post A day the borrowing is limited to 50% of the pension fund so the £50,000 fund can only borrow £25,000 and buy a property for £75,000.

Anyone looking to buy a commercial property with borrowing should therefore act now to ensure a sale completes before A day.

Wasting assets

There was talk of the Pensions Porsche when the investment freedom was first announced but these ideas have been quashed by the wasting asset rules. A fund investing in such an asset gives rise to a 55% tax charge (40% on the member and 15% on the fund). A wasting asset is anything with a normal useful life expectancy of less than 50 years but just to catch any classic car enthusiasts anything mechanical is automatically classed as a wasting asset.

Art, Antiques etc

Schemes will now be able to directly invest in Art, antiques and collectables (taking into account the wasting asset rules). Judging by past performance some of the better of these assets have done extremely well and may make an interesting addition to a portfolio. There is however still a question over benefit in kind tax.

If you keep such an investment in your home the Revenue may tax you on the enjoyment value as a benefit in kind. We do not yet know the level or mechanism for such a charge.

Connected party rules

Currently most pension rules preclude buying assets from a connected party such as a family member, although this does not apply to our SIBA or to a SSAS buying a building from the sponsoring employer.

Post April 2006 all these restrictions disappear although a tax charge may apply if the transaction is not done on a commercial basis.

This could open up interesting financial planning opportunities for example on equity release.

Many older people are asset rich but cash poor hence the growth in equity release plans, where people sell a proportion of their home to a company for a lump sum and retain the right to live there. Instead of paying rent the lump sum they receive is discounted down.

In future a family can do this using pensions with a son or daughter using their pensions to buy a share of their parents house on the same commercial terms as an equity release company.