jane smith financial planning ltd

A Guide to

Self-Invested Personal Pensions

Providing you with the investment choice to enable you to take greater control over your retirement planning

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A Guide to Self-Invested Personal Pensions

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A pension remains one of the most tax-efficient ways of saving for your retirement. The government views retirement savings as being so important that it offers generous tax benefits to encourage us to make our own pension provision. However, the tax benefits will depend on your own personal circumstances and the tax rules are subject to change by the government.

One solution you may wish to consider if appropriate to your particular situation is a Self-Invested Personal Pension (SIPP). Like all pensions, a SIPP offers up to 50 per cent tax relief on contributions and there is no capital gains tax or further income tax to pay. However, unlike dividend payments received outside a SIPP, there is no 10 per cent tax credit applied to dividend payments within a SIPP.

PENSION WRAPPER

A SIPP is essentially a pension wrapper, capable of holding investments and providing the same tax advantages as other personal pension plans, that allows you to take a more active involvement in your retirement planning. SIPPs are not appropriate for small investment sums.

You can generally choose from a number of different investments, unlike some other traditional pension schemes that can be more restrictive, and this can give you greater choice over where your money is invested. Whereas traditional pensions typically limit investment choice to a shorter list of funds, normally run by the pension company's own fund managers, a SIPP lets you invest almost anywhere you like.

It may also be possible to transfer-in other pensions into your SIPP, which could allow you to consolidate and bring together your retirement savings. This may make it simpler for you to manage your investment portfolio and perhaps make regular investment reviews easier.

TAX RELIEF

SIPP investors receive tax relief on their contributions. So you could potentially benefit from between 20 per cent to 50 per cent tax relief depending upon your own circumstances. You must pay sufficient tax at the higher/additional rate to claim the full tax relief via your tax return.

TAX ADVANTAGES

This is a long-term savings vehicle with certain tax advantages, but you should be prepared to commit to having your money tied up until at least age 55. There are various options for taking benefits from your SIPP that you should be aware of. You can receive up to 25 per cent of the pension fund value as a tax-free lump sum (subject to certain limits); the remaining benefits can be taken gradually as an income or as additional lump sums, both of which are subject to your tax rate at that time, although this is potentially a lower tax rate than the one that you currently pay, depending on your circumstances at the time.

COMPOUND GROWTH

UK pension fund investments grow free of income tax and capital gains tax, which allows funds to accumulate faster than taxed alternatives and benefit considerably over the longer term due to the effects of compounding of growth.

Where tax has been deducted at source on income within a pension fund – such as rents, coupons and interest – this is reclaimed by the pension provider and the tax credited back into the pension fund.

NOT SUBJECT TO TAX DECLARATION

Assets held within the pension fund that carry no tax at source, such as offshore investments and government gilts, are not subject to tax declaration or payments. If you are an experienced investor, then managing your own pension investments may be for you. However, you need to be comfortable that you have the skill and experience to make your own investment decisions and have sufficient time to monitor investment performance. So you can either take control of your investments or pay someone to do it for you. If you pay, your costs will increase for this facility.

MANAGING YOUR INVESTMENTS

There are a number of considerations you need to be aware of, for example, you cannot draw on a SIPP pension before age 55 and there are usually additional costs involved when investing. You'll also need to be mindful of the fact that you may need to spend time managing your investments. Where an investment is made in commercial property, there could be periods without any rental income and in some cases the pension fund may need to sell on the property when the market is not at its strongest. SIPPs also charge higher costs than a stakeholder and you may pay two sets of management fees for the wrapper and the underlying investments.

IF YOU ARE AN INVESTOR WITH THE EXPERTISE TO MAKE YOUR OWN INVESTMENT DECISIONS, A SIPP MAY PROVIDE YOU WITH THE INVESTMENT CHOICE TO ENABLE YOU TO TAKE GREATER CONTROL OVER YOUR RETIREMENT PLANNING. IF YOU ARE UNSURE, IT'S ESSENTIAL TO SEEK PROFESSIONAL FINANCIAL ADVICE. TO DISCUSS YOUR RETIREMENT PLANNING NEEDS, PLEASE CONTACT US.

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A SIPP is appropriate for people comfortable with making their own investment decisions. Investments go down in value as well as up so you could get back less than you invest. The rules we refer to are those that currently apply; they could change in the future but you cannot normally access the money until at least age 55. Tax reliefs depend on circumstances. Content featured is for your general information and use only and is not intended to address your particular requirements. It should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

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