Independent Financial Advice

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SIPPS, (Self-Invested Personal Pension), have been in and out of the news over the last few years, but for some business owners they represent good value and an opportunity to park business assets outside of the direct business risk but still under the owner's control. Some SIPPs have been badly sold in the past, so whether you have one or not, the notes below may be of relevance.

What is a SIPP and why should I care?

Q. I have a small SIPP that was set up about 5 years ago with a small amount of cash and an insurance bond in it. Could it have been miss-sold?

Yes, and the FSA has been actively investigating SIPPs with high fees where an ordinary stakeholder pension would have been sufficient to provide the facilities being used. A SIPP with just provider-based assets is being under-utilised, so actively consider transferring to a simpler and hopefully cheaper pension contract if you are unlikely to look at more complex assets like business premises or direct investment in shares. Whether the SIPP was originally miss-sold will depend on your objectives 5 years ago.

Q. Where will a SIPP be advantageous?

Any business owner who operates from commercial premises, like a shop, workshop or yard may benefit from holding that asset within their pension rather than directly. The owner's pension scheme owns the asset, the business pays rent for use of the asset, the pension scheme pays off the mortgage and ultimately the asset is fully owned by the pension scheme.

On retirement, either a pension is paid out to the owner after selling the asset, or the rental income pays out the pension. Any capital gain or income is exempt of tax inside a pension scheme, so any capital appreciation or rental income on the premises is held, tax free, within the pension fund, only being taxed when actually being paid as personal income.

If the pension member wants to hold unusual assets like directly owned shares, wine or whisky in bond or gold bullion, then a SIPP will also have a real purpose; holding conventional unit trusts or OEICs in a SIPP would be pointless as a personal pension plan is likely to be cheaper in terms of fees and annual management charges.

Q. Are there differences between SIPPS?

Yes, there are a large number of SIPP administrators in the UK, with a number of them based in and around Leicester, but they all differ in terms of flexibility, charges and willingness to accept unusual assets. Professional advice is vital to ensure that you are getting the service and flexibility you need without wasting fees.

Q. My company is insolvent and I am looking at liquidation, are my pension assets safe?

Unless you made pension contribution while trading insolvently, then your pension should be safe and available to pay you an income when you retire. If you are a sole trader facing bankruptcy, your pension fund should remain intact, but once you retire the Trustee in Bankruptcy may try to recover some of the outstanding losses from your pension income. In either event, a pension will protect you from loosing your hard earned assets, providing you do not break the law.

The information above is for reference only and does not constitute an offer or personal recommendation of any kind. A pension is a long-term investment. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation. The fund value may fluctuate and can go down. Tax legislation can and may change in the future. The Financial Services Authority does not regulate business advice.

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