



SIPPs – Tax summary

Below, is a brief summary of the tax regime relating to SIPPs. This is by no means exhaustive and some of the comments made may not necessarily apply to your own individual circumstances. The tax regime, whilst important, is just one aspect that needs careful consideration. We strongly advise that you take professional advice on this, and all other matters, concerning SIPPs.

Contributions

The limits for the Annual Allowance for contributions across all pensions, in aggregate, are shown below. Tax relief is available on up to 100% of earnings.

Tax year	Annual allowance
2006/2007	£215,000
2007/2008	£225,000
2008/2009	£235,000
2009/2010	£245,000
2010/2011	£255,000

Lifetime allowance

The Lifetime Allowance (LTA) sets a ceiling on the total value of pension funds that an individual can accumulate without a tax penalty. When an individual takes benefits, the aggregate value of all their pension funds is tested against the LTA.

Tax year	Lifetime allowance
2006/2007	£1.50 million
2007/2008	£1.60 million
2008/2009	£1.65 million
2009/2010	£1.75 million
2010/2011	£1.80 million

Any funds over the LTA are subject to 55% tax where the excess is taken as cash and 25%, in addition to income tax at the marginal rate, where it is taken as income. This will depend on any transitional protection gained on assets held prior to 6 April 2006 (see below).

Protection

Individuals can register for protection at any time up to 5 April 2009.

Primary Protection is only available to those whose funds were valued over £1.5 million on 5 April 2006. This protects the fund already accrued and provides ongoing protection in line with any increase in the LTA limit.

Enhanced Protection offers complete protection from the LTA charge. However, active membership of all registered pension schemes must cease from 5 April 2006 for this to be available and no further contributions can be made.

Retirement income

On reaching minimum retirement age (currently age 50, rising to 55 by 6 April 2010) individuals can take benefits from their SIPP either via Annuity Purchase or Unsecured Pension (UP). SIPPs are usually divided into a number of equal segments so that only part of the fund need be crystallised at any one time.

Typically, up to 25% of the fund will be available as tax free cash. The balance of any funds may be applied to purchase an annuity. Alternatively, individuals can opt for UP, a more flexible version of income drawdown. Under this arrangement, income withdrawn can be varied, the SIPP can be moved into UP gradually and annuity purchase can be deferred. The income that can be withdrawn is calculated using tables published by the Government Actuary's Department (GAD) based on age, gender and prevailing interest rates. The maximum income is 120% of the relevant GAD figure. This is approximately equal to the single-life annuity that the residual fund could purchase. It must be recalculated, based on the value of the fund, every five years. The minimum income is nil.

Death benefits

If an individual dies whilst taking UP, the fund may be paid to the nominated beneficiaries as a lump sum subject to a 35% tax charge but normally free of inheritance tax (IHT).

Alternatively Secured Pension (ASP)

HM Treasury published a document entitled 'The Annuities Market' in December 2006. This discussed, amongst other things, ASP. By age 75 you must secure your pension income either by annuity purchase or an ASP. The income available under ASP will, again, be determined from the GAD tables, but as if the policyholder is aged 75. The HM Treasury document suggests that the minimum rate of income withdrawal as an ASP will be 65% of the comparable annuity rate for a 75 year old. The maximum income will be 90%. These income figures may need to be reviewed annually. Pensioners can still use their fund to purchase an annuity at a later date.

Death benefits and ASP

The HM Treasury document also suggested that the transfer of lump sum death benefits will be removed from the authorised payment rules. This will mean that such payments in the future will be unauthorised and attract unauthorised payment charges of up to 70 per cent. The Inheritance Tax charges introduced in the Finance Act 2006 on ASP funds will remain in place. This means that on the death of a member any remaining ASP funds can be authorised payments only where they are used to pay dependants' pension benefits, paid to a charity or, in limited circumstances, repaid to an employer.

The document also stated that the Government does not regard it as proper that tax privileged pension savings be used to preserve the maximum remaining pension pot on death of a scheme member and allocate this to the pension funds of other members of the scheme, who were connected with the deceased. Thus, the document suggests that so called 'Family SIPPs' will not be beneficial.