Technical

Guide To Self Invested Personal Pensions (SIPP)

SIPP

What is it?
A Self Invested Personal Pension is a UK-based pension scheme that was first introduced in 1989.

How is a SIPP funded?
It can be funded by a transfer from another pension scheme or directly by the scheme member.

Are there restrictions on the scheme member's residence?
SIPPS are available to both UK and non-UK residents.

What if the scheme member holds a SIPP and moves to the UK?
Nothing changes.

When can benefits be taken?
The scheme member can start taking benefits from the age of 55 (this is due to change to 57 in 2028).

Is it subject to UK IHT?
No.

What is the Maximum Pension Commencement Lump Sum that can be taken?
A maximum lump sum of 25% of the scheme value can be taken. Depending upon the scheme member's country of residence, this could be tax free.

Is it subject to UK income tax if the scheme member is UK resident?
Following the introduction of Pension Freedoms in 2015, there are various options as to how benefits can be taxed. Ordinarily a regular income from the scheme will be arising income for UK income tax, however, if a lump sum isn't taken then 25% of each regular payment can be tax free.

What is the tax treatment of benefits if the member is not UK resident?
This will depend on the scheme members country of residence, any Double Taxation Agreement(DTA) in place between the UK and that country and finally, which country is granted taxing rights in respect of pension income/benefits under the DTA.

What else do I need to know about SIPPS?

- Can be transferred to an overseas scheme at a later date where it is more appropriate for the scheme member.
- Taxable events must be reported to Her Majesty's Revenue and Customs (HMRC) irrespective of where the scheme member is resident.

When can I access my benefits?

Subject to the rules of the specific scheme, new legislation introduced on the 6 April 2015 meant that if you have a defined contribution (money purchase) scheme and reached the Normal Pension Age of 55, it is possible to access as much of your pension as you wish.

There are broadly 3 ways to access pension savings:

- Lifetime annuity
- Flexi-access drawdown
- Lump sum payment

Lifetime annuity
You can use some or all the funds to buy an annuity which will pay an income for at least the rest of your life. The amount of income you receive will depend on your age, pension pot, interest rates and sometimes your health. Upon death (depending on the rules of the scheme) a nominated beneficiary can receive the payments tax-free if you passed away before age 75, if you die after your 75th birthday then any beneficiary can receive payment or a lump sum taxed at their marginal rate.

When purchasing an annuity, you may also have the option to take a tax-free lump sum of 25% of your pension fund (if your scheme allows it).

Flexi-access drawdown
Under flexi-access drawdown there are no restrictions; you can take as much or as little as you want each year. Subject to your pension's scheme rules, you may be able to take 25% of your pension as a tax-free lump sum at the time of drawdown. If flexi-access is not available under your current scheme, you may be allowed to transfer to an alternative provider that offers it.

One-off lump sum payment
You may be able to access your savings without designating the funds to drawdown.

You can take money direct from your pension fund without having to buy an annuity or going into drawdown. If you have not previously taken ('crystallised') any of your benefits, you have the option to take an Uncrystallised Funds Pension Lump Sum (UFPLS). Of this, 25% is paid tax-free, with the other 75% being taxed as pension income. Where this option is exercised, the scheme will deduct and account for income tax under the requirements of the PAYE regulations.

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Transfers to QROPS

Before you can transfer your pension fund to an overseas pension scheme, you will need to check that it is a QROPS and that your scheme will allow it. Transfers made to a scheme that is not a Qualifying Recognised Overseas Pension Scheme (QROPS). will be classed as unauthorised payments and face a tax liability on the transfer of up to 55%. Furthermore, unless the scheme member and the QROPS provider are resident in the same jurisdiction or an EEA country, a 25% transfer charge will be deducted by the administrator of the transferring scheme. However, the transfer charge is only levied against the value of the fund that has benefited from UK tax relief.

UK tax charges may still apply to any payments made from the QROPS. Once transferred, the QROPS is subject to specific HMRC reporting rules in respect of any benefits that are paid out of the scheme to the member.

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