GUIDE TO SELF INVESTED PERSONAL PENSIONS (SIPP)

WHAT IS IT?

A Self Invested Personal Pension (SIPP) is a UK-based pension scheme that can invest in the full range of Her Majesty's Revenue and Customs (HMRC) approved investments. This allows a greater range of investments choices than would be available under a personal pension scheme.

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?

A SIPP is available to both UK and non-UK residents. Some SIPP providers may have restrictions for making regular contributions for 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 age 57 from 2028).

IS IT SUBJECT TO UK IHT?

No. Funds held within the SIPP are treated as being outside of the estate for IHT.

What is the maximum Pension Commencement Lump Sum (PCLS) that can be taken?

The maximum PCLS (or tax-free cash) that can be taken is 25% of the value of the scheme. 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 PCLS is not taken then 25% of each regular payment could be taken tax free.

WHAT IS THE TAX TREATMENT OF BENEFITS IF THE MEMBER IS NOT UK RESIDENT?

This will depend on the scheme member's country of residence, any Double Taxation Agreement (DTA) in place between the UK and that country, and 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 may be more appropriate for the scheme member.
- Taxable events must be reported to HMRC irrespective of where the scheme member is resident.

WHEN AND HOW CAN I ACCESS MY BENEFITS?

The 'pension freedoms' legislation introduced on the 6 April 2015 by the UK Government meant that if you have a 'defined contribution' pension and reached the Normal Pension Age of 55 (this is set to increase to age 57 from 2028 in line with the state pension age increases) it is now possible to access as much of your pension as you wish.

There are 3 main options to access your pension savings. You can also choose any combination of these options:

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

You are able to use some or all of your funds to buy an annuity from an insurance company that gives you regular payments for at least the rest of your life.

RL360°

The amount of income you receive will depend on you age, pension pot, current interest rates and sometimes your health.

Upon your death (depending on the terms of your annuity i.e. if death benefits had been purchased) a nominated beneficiary could receive the payments tax-free if you pass away before age 75, if you die after your 75th birthday then any beneficiary could receive payment or a lump sum taxed at their marginal rate.

When purchasing an annuity, you also have the option to take a tax free lump sum of up to 25% of your pension fund at the same time.

Flex-access drawdown

Under flexi-access drawdown 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 (subject to available lifetime allowance) 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.

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 remaining 75% being taxed as income at the client's marginal rate. Where this option is exercised, the scheme will deduct and account for income tax under the requirements of the PAYE regulations.

Transferring to a QROPS

If you are a UK resident moving overseas, or a non-UK resident with a UK pension, using a Qualifying Recognised Overseas Pension Scheme (QROPS) could offer the same flexible access rules.

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 QROPS will be classed as unauthorised payments and face a tax liability on the transfer of at least 40%.

Furthermore, unless the scheme member are resident in the same jurisdiction or an EEA country, a 25% overseas 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 benefited from UK tax relief.

UK tax charges may still apply to any drawdown payments made from the QROPS. The QROPS will notify HMRC when such payments are made. Please note: any transfer, drawdown or lump sum payment that is in excess of your lifetime allowance, then you may be taxed on any excess.

Important notes

Please note that every care has been taken to ensure that the information provided is correct and in accordance with our current understanding of the law and Her Majesty's Revenue and Customs (HMRC) practice as at March 2019. You should note however, that we cannot take on the role of an individual taxation adviser and independent confirmation should be obtained before acting or refraining from acting upon the information given. The law and HMRC practice are subject to change. Legislation varies from country to country and the plan owner's country of residence may impact on any of the above.