

What is a SIPP?

A SIPP is a Self Invested Personal Pension and is similar to other personal pension schemes but with the advantage that it gives the investor much more control of how their pension will work especially in regards to investment and succession planning.

Like other pension schemes a SIPP provides you with a tax efficient environment for your money to grow and come retirement provides you with a tax free lump sum and an income.

How do SIPPs work?

SIPPs are an upmarket version of a personal pension but are now available in some cases at little to no extra cost than standard personal pension arrangements. One of the main advantages is the wide range of investment choice. Instead of an insurance company offering you a limited amount of funds where a handful may only be suitable for your requirements, a SIPP gives you the opportunity to invest in thousands of funds. The main advantage is that between you and/or your adviser, you can design your pension specifically to suit you.

The list of permitted types of investment includes:

- Unit trusts/ Open ended investment companies (OEICS)
- Investment trusts
- Insurance bonds
- Direct UK stocks and shares including shares listed on the Alternative Investment Market (AIM)
- Overseas stocks and shares quoted on a recognised stock exchange
- Commercial property
- Futures and Options

How much can I invest?

In 2008/2009 the maximum annual contributions to gain tax relief must not exceed £300,000. Tax relief will be given on 100% of net relevant earnings up to this amount at your marginal rate.

For people with very little or even no earnings, up to £3,600 can be invested into a pension and still gain tax relief.

Presently there is no Life Time Allowance cap on the Isle of Man and therefore total contributions are not capped.

Taking Income

On the island there is no compulsion to purchase an annuity. Income can be taken between 0% and 120%. You must drawdown your income from the fund by 75 years of age however as highlighted, even then you are not forced to purchase an annuity. A 30% tax free lump sum may also be taken on retirement from your built up provisions.

What happens on death?

Through a SIPP, if you die before taking an income from your pension all your benefits are paid to your family or beneficiaries tax free.

If you die after you commence income drawdown, unlike a personal pension which will normally only offer limited benefits, as a SIPP is a perpetual trust arrangement your beneficiaries have three options:

- Your money can be paid out as a lump sum minus a 7.5% tax charge
- 100% of your benefits can be paid to your spouse or a dependent
- 100% of your assets can be passed to another pension scheme for benefit of your children or grandchildren for their pension.

Transfers from other pension schemes

In most circumstances you can transfer your existing pension provisions with another provider to your SIPP giving you complete control of all your pensions under one umbrella.

Both protected and non-protected rights can now be transferred into your SIPP, though these must be earmarked and kept separately. This is a straightforward process and now gives you full control over all your pension assets.

Commercial Property

Should you or your company decide to purchase a commercial property, it is possible to use some of the funds in your SIPP to assist you with this purchase. Likewise fully owned property can also be placed within the SIPP wrapper. In both instances the property is then owned by the pension scheme and the valuable attributes of this is that any rental income can obtain tax relief.

Qualifying Recognised Overseas Pension Schemes (QROPS)

Since April 2006 (A-Day) most UK pension schemes can be transferred to an overseas pension scheme (such as the Isle of Man) as long as the overseas scheme is registered with Her Majesty's Revenue and Customs (HMRC) as a QROPS scheme. The Isle of Man has a solid relationship with HMRC and is therefore suitable for these types of transfers.

If you are resident in the Isle of Man or are planning on retiring to the island a QROPS transfer may be suitable as future benefit payments can potentially be received without deduction of UK tax.



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For more information

If you require more information on any of the areas above, please contact Blythe Financial and we will be happy to help.

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