



Guide to SIPPs and overseas property

ARE YOU A SIPP-SAVVY PROPERTY INVESTOR? IF YOU'RE NOT ALREADY IN THE KNOW, YOU SOON WILL BE AFTER READING OUR SUCCINCT INTRODUCTION TO SELF-INVESTED PERSONAL PENSIONS. TAX-RELIEF HEAVEN ON EARTH, THIS WAY...

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What is a Self-invested Personal Pension (SiPP)?

A SiPP is about the most flexible form of pension plan available. It works in much the same way as a standard personal pension except that while an insurance company tends to arrange a personal pension, a SiPP requires a pensioner trustee. The pensioner trustee's role is to report to HM Revenue and Customs Office, claim the necessary tax reliefs and ensure the scheme isn't breaching any Inland Revenue requirements. To set up a SiPP you'll need to open a central bank account in which the pension fund will be held and from there the funds will be invested according to your (the investor's) wishes.

what are the benefits?

SIPPs allow you to take advantage of tax relief when buying property, in the UK or abroad. For higher-rate taxpayers the tax relief will be as high as 40 per cent – eg, if a higher-rate taxpayer makes a contribution of £60,000 into their SiPP they would have a £100,000 fund to spend on property. Also, you can borrow against a SiPP property. Further to that, any income arising from the SiPP assets is free of tax (with the exception of dividends on equities) and any capital gains made on the assets is also tax-free. However, SiPP investors should check that they are not liable to tax abroad. SIPPs also offer flexibility and investment freedom. They are limited only by the broad legislation of HMRC. Investment options such as stocks and shares, commercial property, funds and assets, which are not available to a personal pension, are open to SiPP holders.

Is buying abroad possible with a SiPP?

Yes – but, as with UK property, it has to be classed as 'commercial' property, which means you can't buy a residential villa or apartment for personal use through a SiPP. A SiPP is a trust arrangement and a number of countries – for example, France, Spain and Portugal – do not legally recognise pension trusts, a fact that can make the legalities of buying a SiPP property there rather complicated. Also noteworthy is that pensioner trustee fees tend to be significantly higher – at around £5,000 per property transaction for overseas property. Another option is to invest in overseas property indirectly – that's to say, invest in an investment trust, unit trust or Open-Ended Investment Company (OEIC). That way, you benefit from more diversification and more liquidity and avoid charges usually associated with directly holding property.

Who is eligible for a SiPP?

Any individual is eligible for a SiPP. It does not matter if you are already a member of a company pension scheme, they are open to everyone. There are also no age restrictions – SIPPs are even available to children.

Do SiPPs suit certain budgets?

SIPPs are only really appropriate for larger funds as establishment fees and transaction costs are considerably higher than for a normal pension scheme. To set up a SiPP fund costs around £600 and then there are annual trustee fees of around £350-£500. You will also have to pay a transaction cost of £25-£35 every time something is changed in your SiPP portfolio. Then, of course, there are the dealing costs of buying and selling investments to consider.

Are there any cases when you'd advise against buying through a SiPP?

I'd certainly advise investors considering purchasing a property through a SiPP to proceed with caution as problems may arise if the individual requires and expects a tax-free lump sum when they retire. Return on an investment is subject to property market conditions, and judging whether these are at their most favourable can be even harder when dealing with an overseas property.

Is there anything buyers should be wary of when buying through a SiPP?

There are additional costs when buying and selling through a SiPP that investors should be aware of, including increased legal costs. The property will also have to be valued on a periodic basis by a trained valuer. It's advisable that an investor only uses the services of a solicitor who has the required experience of property purchase via a SiPP and, when buying abroad, has a foreign language.

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SIPP OPPORTUNITY



Available at the Caracola Beach & Spa Resort on Venezuela's Margarita Island are one and two-bed apartments that qualify for purchase through a SiPP fund. Prices for a one-bed property start from €79,000 (£63,000). All units are fully furnished and come with a guaranteed rental return of seven per cent net a year for ten years. Facilities include restaurants, bars, pools, shops, gardens, chill-out areas, a spa, gym and beauty salon. There is also a golf course nearby.

