A good investment?

Self Invested Personal Pensions (SIPPs) may be popular in the financial press, but are they really suitable for all dentists? David Leaf finds out

Since “pension simplification legislation” took effect in April 2006, the interest in SIPPs has gathered momentum as investors have become increasingly interested in the concept of managing their own investment portfolio for pension provision. Taking investment control is one issue – making a success of it is another! Some entrepreneurial dentists who have taken an adventurous investment strategy may now have cause for regret following the economic crisis.

However, for other dentists, SIPPs do provide an excellent investment opportunity, providing greater control of their pension planning prior to retirement, and ultimately their retirement income and death benefits in retirement.

Investment opportunities

If your basic requirement is to set up a pension with a modest level of investment with a strong financial institution, a stakeholder or personal pension does offer a cost-effective solution.

However, SIPPs offer wider investment scope and are essential if you want to invest your practice freehold into your pension portfolio.

Case study 1

Dr Jones runs his practice from a commercial freehold property with a value of £150,000. He has no borrowings and wishes to maximise his tax relief claim for pension investments in the current tax year.

One option open to Dr Jones is to invest his practice property as a pension contribution into a SIPP. The attraction to him is that he will benefit from tax relief on the property invested to his pension.

For example, in the current tax year 2009/10 he can choose to invest 50 per cent of the property value (ie £75,000) which he can fully set against his taxable profits of £140,000 and obtain tax relief at his highest rates.

Tax relief at source to £93,750 grosses the net investment of £75,000 of the property to the SIPP up. This element of the tax relief is paid directly to the SIPP by HM Revenue & Cus-

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toms (a boost to the SIPP bank account of £18,750).

As a high rate tax payer, Dr Jones will also save 20 per cent tax against his balancing payment due to be paid 31 January 2011 – a further tax saving of £18,750.

As Dr Jones has only used half the value of the property investment in 2009/10 he can repeat the exercise with a similar investment in the subsequent tax year 2010/11, investing the remaining share of the property to the SIPP.

Over the two tax years of investment Dr Jones receives a boost to his SIPP bank account of £57,500 tax repaid by HMRC and a further £57,500 in tax savings against his subsequent tax bills. Clearly, this is extremely attractive for tax relief benefits. However, the other side of the coin needs to be considered in terms of the potential drawbacks of tying up the property within the SIPP.

Dr Jones has to appreciate that the property is now a part of the pension fund assets and will be administered as such by the trustees. This effectively means he will not be able to sell the property as his personal asset – i.e. it will be tied in with pension rules and regulations for the payment of benefits.

The tax-relief incentive

There are complex HMRC rules relating to the level of contribution allowable. This has been further complicated by the Budget earlier this year. However, for those dentists who fit the criteria and appreciate the benefits and drawbacks, SIPP property investment could be an attractive option.

Other reasons for investment

SIPPs provide extensive investment choice far wider than available from any one fund manager or pension provider. The facility and ability to spread investment amongst a wide range of fund managers, deposit takers and financial institutions makes them even more desirable to investors as they consider the impact of financial risk following the banking crisis. SIPPs are at the forefront for many investors pension planning and are likely to grow in numbers and funds under management for pension investors in the future.

The importance of independent financial advice (IFA) cannot be over emphasised with regard to SIPP investment strategy. You need an IFA that can provide you with a full overview of the market, as well as investment strategy advice including asset allocation, rebalancing of port folios and fund reviews.

For those investors considering a property investment it is important to have an adviser with experience and knowledge of SIPP Property Investment. Only a limited number of SIPP providers actually offer the full range of investment options for property investment, so it is important to work with those that offer flexibility and expertise.

If you would like to receive more information about SIPP investment strategies including property investment, you can request more information and advice by contacting David Leaf at Practice Financial Management Limited. Please telephone 01904 670820 or email david.leaf@pfmdental.co.uk.

About the author

David Leaf is an independent financial adviser and a founding Director of Practice Financial Management Ltd (PFM) member of ASPD. David holds Chartered Financial Planner Status, the premier financial planning qualification, awarded only to a small percentage of UK financial advisers.

ASPD members offer professional, objective and practical advice and services, based on experience within the industry, to dental practices and other businesses within the dental sector. ASPD members include solicitors, accountants, banks, financial advisers, valuers and sales agencies, insurance brokers and leasing and finance companies.

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