

SIPP or SSAS?

This article explains the key benefits and differences between the two types of pension fund.

The terms SIPP and SSAS are often referred to by pension providers and financial advisers, but many individuals may not know the key differences between the two types of pension fund and which may more suitable for their needs.

SIPP

A SIPP (Self Invested Personal Pension) is a personal pension scheme for one or several members, the members are usually also trustees themselves alongside a professional trustee who will administer the scheme. The professional trustee will generally be a bank or specialist pension administrator or SIPP provider.

SSAS

A SSAS (Small Self-Administered Scheme) on the other hand must be a company pension scheme and are therefore only open to company directors. The members administer the scheme personally; however in practice they would often employ a pension provider to administer the scheme on their behalf.

The Differences

Control

The main and key difference between the two is the greater scope and control members can have in a SSAS over a SIPP.

As a SIPP is administered by a professional trustee who owes a duty of care to the members, they are required to carry out due diligence on any investment meaning that the **ultimate decision as to whether or not to invest is the professional trustee's.**

A SSAS can offer greater control and scope. The fund is administered by the members who have the ultimate decision about what and where to invest, so long as such decisions comply with UK pension provisions. However, due to the stringent regulations of pension funds under the UK pension provisions, a SSAS can run into serious tax issues and liabilities if not properly administered and therefore are often still administered by professional trustees thus incurring greater administration costs.

Property Investment

In terms of investment a SIPP and SSAS can both be used to invest in commercial property, however a SIPP will generally not invest in overseas property. Both a SIPP and SSAS will often purchase commercial property and then lease the property to a company, be it either a company owned by a member or a third party company. The rent is then paid into the fund to top it up. This can also reduce the taxable income of the company. A purchase can be funded by a mortgage of up to 50% of the pension fund if required.

Investment in shares

A SIPP can invest in shares in any company, even if the company is connected to a scheme member.

A SSAS can also invest in shares, though it must be no more than 5% of the total assets of the fund in any one sponsoring employer.

Loans

A SIPP cannot loan money to a company without incurring large tax liabilities as this would constitute an unauthorised payment.

A SSAS however can make a loan to a sponsoring employer, subject to the conditions of having the security of a first charge over appropriate property. The loan from a SSAS cannot be used to clear debt – the loan must be used to improve the business through either growth or investment such as in new equipment or staff. The loan must also charge an appropriate rate of interest. The opportunity to loan is a major positive for many small businesses at a time of limited investment from banks, meaning that for some a SSAS may be more attractive than a SIPP.

Regulation

A SSAS is not covered by the Financial Compensation Scheme, meaning that if the scheme fails it will not be covered and all funds will be lost.

A SIPP is covered by the FCS meaning that if the fund fails the members will not lose their pension funds, at least up to the amount covered by the FCS (currently £50,000 per person).

James Hodgson

Partner

0161 764 4062

jhodgson@butcher-barlow.co.uk

IMPORTANT NOTICE

Butcher & Barlow LLP neither advises on, nor arranges or recommends specific investments or financial arrangements. This article is meant for information only and is not, and should not be viewed, as advice or a recommendation on whether a SSAS, SIPP or other pension scheme is appropriate to you. You should seek independent financial advice before entering into any financial arrangement, pension or investment.

