

the Professionals

SIPPs - an attractive option for partners pensions?

Self invested personal pensions (SIPPs) offer the opportunity to create a diversified pension portfolio which individuals can control themselves, and, more importantly for high earners, the opportunity to invest large sums and get valuable tax relief.

Since the introduction of pension simplification (A Day) on 6th April 2006, individuals can now pay up to £215,000 pa (or 100% of their income if lower) into SIPPs, and obtain full tax relief on the contributions. Similar amounts can be paid in future years, allowing a large pension pot to be accumulated.

So what is a SIPP?

A SIPP basically consists of a pension scheme wrapper and the investments within that wrapper.

The pension scheme wrapper allows specific tax treatment for contributions going into it and on the investment income and gains arising within it. Wrappers must be administered in accordance with HMRC's rules, which basically state that the funds can only be accessed post age 50 (or 55 as of April 2010). Up to 25% can

be taken as a tax-free lump sum whilst the balance must be used to provide an income (though not necessarily by means of an annuity from an insurance company).

The real advantage of a SIPP over a conventional pension scheme is that you can manage the investments yourself, and with a large degree of flexibility, depending on the sums invested and the risk profile of the investor.

This flexibility and control, coupled with the tax advantages, mean that SIPPs appeal to high earners such as partners of professional firms - but beware, there are a large number of SIPP providers, so ensure the SIPP you choose meets your requirements, and review it regularly. We work with a number of independent financial advisors, and will happily arrange an introduction.

One very attractive opportunity which is proving popular with partners of professional firms, is the ability to transfer the partnership's existing office property into SIPPs, and in so doing acquire tax relief of 51% of the market-value of the property transferred in.



Welcome

to the first edition of The Professionals, Broomfield & Alexander's publication for professional practices. The Professionals is our review of news, regulatory changes and opportunities affecting professional services firms.

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If you would like to suggest topics for future editions then please telephone Claire Griffiths on 029 2073 9424 or email marketing@broomfield.co.uk.



CLEAN UP ON TAXES

Clients who are working with contaminated land need to investigate the possibility of claiming tax relief on 150% of their clean up costs. The contaminated land relief legislation came in force in 2001, but is not used as frequently as it could be. This legislation allows landowners or leaseholders the opportunity to claim tax allowances of 150% of the actual cost of clearing the contamination. Once an interest in the land (i.e. a freeholder or leaseholder rights) have been established, the tax reclaim is relatively straightforward.

For advice please contact our property tax team on 0800 052 1387 or email them at property@broomfield.co.uk.

WHEN WAS THE LAST TIME YOU REVIEWED YOUR PARTNERSHIP OR MEMBERS AGREEMENT?

This new Age Discrimination Act which has been implemented on 1st October 2006, makes it illegal for employers to differentiate or discriminate on the basis of age. Are you aware that your partnership agreement (or Members Agreement in the case of an LLP) will be affected by this new legislation, which makes it illegal to differentiate on the basis of age?

The retirement age for partners of 65 is not legitimised by the Regulations (as it is for employees). We advise you to review your agreement to see if it complies with the new legislation, and consider whether 65 is the appropriate age of compulsory retirement from your partnership, or whether the needs of your particular business require something else.

LIMITED LIABILITY PARTNERSHIPS (LLPs)

Limitation of liability has long been a concern for professional firms, and Limited Liability Partnerships (LLPs) have gone some way towards reducing the personal exposure of partners.

The principal advantage of an LLP lies in limitation of liability, since its members are not personally liable for the LLP's contracts, debts or other obligations such as professional negligence claims.

The disadvantage lies in disclosure, and in some additional regulation. LLP information will have to be filed at Companies House and will be on public record. Annual accounts will be required that will include: turnover; profit and loss for the year before members' profit shares; and, in some circumstances, the amount of profit attributable to the member with the largest profit share - some partners currently find this offputting, but there are ways in which to manage the reader's perception of this disclosure. As with companies, smaller LLPs falling within the appropriate exemptions are not required to have a statutory audit, and can adopt the simpler accounting rules for smaller entities; nevertheless, accounts will still have to be filed.

Despite its name, an LLP is really a corporate entity, it is able to hold property, contract and take legal action in the name of the LLP, just as a limited company can. An LLP is not subject to corporation tax, instead the individual members are subject to personal income tax on their share of profits. Current legislation allows an existing partnership to convert to an LLP on a tax neutral basis, and there are a variety of possible structures which can offer additional tax advantages.

LLPs are becoming increasingly popular, but firms need to be clear about why they are converting and fully understand the implications.

For more information please request a copy of our LLP helpsheet, and let us talk you through the pros and cons by calling our professional practices team on 0800 052 1387 or emailing them at professionals@broomfield.co.uk.





WATCHING BRIEFS...

This is a series where we update our professional practice clients on tax and other financial issues that affect the advice they give to their clients.

To register simply email us your details and the watching brief area you are interested in. Simply choose from tax, property or financial and we will send you regular updates and details of our courses.

WATCHING BRIEF... PROPERTY

Buying commercial property

When an individual or a business acquires commercial property, it could be possible to claim Capital Allowances on certain plant and machinery which may be an integral part of the building itself, such as heating systems, air conditioning or lifts, as well as items such as specialist lighting. To qualify for these allowances no prior claim must have been made by the previous owners.

Alternatively, if claims for allowances on plant and machinery or fixtures and fittings have been made by a previous owner, then purchasers should be wary of signing a "Section 198" election, as this will restrict the claimable allowances.

Claiming capital allowances can be a real and sometimes unexpected "tax bonus" for the purchaser - any

allowances claimed can be used to reduce the taxable income which the property or business generates.

We suggest tax advice should be sought at the earliest possible opportunity when purchasing commercial property, to ensure that all potential capital allowances are maximised.

REAL ESTATE INVESTMENT TRUST (REITs)

- KEY FEATURES

From 1 January 2007 companies who carry out a qualifying property rental business will be able to elect for the real estate investment trust (REIT) regime to apply where certain conditions are met. REITs are open to property owning companies as well as ordinary trading companies that have a large portfolio of real estate holdings.

REITs offer a tax efficient structure with no corporation tax payable on qualifying property rental income or chargeable gains, providing a range of important benefits to companies and investors.

What are the advantages to a Company?

- > Tax efficient
- > Access to new investors and capital

- > Stronger net asset value performance
 - > Acquisition currency
- #### What are the advantages to an Individual?
- > Tax transparent
 - > Regular high-yield returns
 - > Access to property for minimal outlay
 - > Portfolio diversification
 - > Easy to buy and sell
 - > Strongly governed

How can you become a REIT?

- Some of the main REIT entry criteria for a company are:
- > UK resident only
 - > listed on a recognised stock exchange (AIM is not included)

- > Hold 3 properties as a minimum
- > No single property with a value over 40% of the total properties value
- > No owner occupation
- > 90% of profits to be distributed.
- > Pay less than 10% of its dividends to any one shareholder
- > 75% of its accounting profits generated from the rental business.
- > 75% of assets involved in the property rental business

The entry charge for putting properties into a REIT will be 2% of the gross market value of the assets, although payment can be spread across a period of 4 years (although this will involve a slightly higher % charge).

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REAL ESTATE INVESTMENT TRUST (REITs) - KEY FEATURES

Purchasing extra properties

If a property is acquired by a REIT to refurbish or redevelop for its own investment purposes, but is sold within 3 years of the completion then the sale proceeds will not be exempt if the development costs exceed 30% of the fair value of the asset when it was brought into the REIT.

The small print

The government has announced anti avoidance measures that prevent owner-occupiers (including a majority shareholder in the REIT owning the property) from putting their trading properties into a REIT.

Companies with large property portfolios used in their trade may therefore have to consider

demerging into separate entities with the property owning company being listed separately and then leasing the premises back to the original owner.

If you have clients that you feel would benefit from tax advice on their property portfolio please contact Peter Griffiths of our specialist property tax team on 0800 052 1387 or email property@broomfield.co.uk.

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