



Gordon Brown's U-turn on Investments for SSASs and SIPPs

Gordon Brown in his Pre Budget Report on 5 December 2005 has withdrawn some of the tax advantages of the new investment freedoms that he had previously introduced for self-administered pension schemes. The Chancellor's U-turn affects both SSASs and SIPPs and reneges on his own legislation, whose provisions were due to come into effect on 6 April 2006 - "A-Day".

In particular, the Chancellor has decided, at this late stage, to apply penalties to pension schemes that choose to invest in residential property - other than in flats above shops where the shops are purchased - or possibly via pooled vehicles. Other investments in art, antiques, stamps, classic cars, fine wines etc will suffer similar penalties.

This short notice U-turn is extraordinary and unjust. The Government itself proposed these changes in a Consultation paper issued on 17 December 2002 under Gordon Brown's signature. Subsequently the Government conducted intense consultation processes, which seemed more wide ranging than any previous such exercise.

As a result, changes were enacted in Finance Act 2004 and Finance Act 2005 and have been followed up by reams of still emerging Regulations. The ability of such Schemes to invest in domestic property after A-Day was legislated for in Finance Act 2004. The purpose of the near two-year delay until A-Day was to enable the nation and the markets to plan properly to absorb the new changes.

The U-turn is simply disgraceful. Many thousands of people have changed their planning, altered their pension formats, made substantial contributions, contracted for investments, etc. in the light of the new legislation. The Royal Institution of Chartered Surveyors had estimated that around £24 billion's worth of domestic properties would be transferred in the post A-Day period!

The Inland Revenue has lectured at many road shows indicating in some detail the approach to residential property purchase. Its successor, H M Revenue & Customs, has in recent months confirmed its agreement to SSASs exchanging contracts now for the acquisition of residential property - provided that title did not take pass until after A-Day. The effect of the announcement, therefore, will cause havoc and considerable additional costs in unravelling or reshaping planning.

Objectively, it is wrong that pension investors are denied the opportunity of investing their pensions savings in the sector that they trust best. Buy-to-let residential property can be independently justified as a proper investment medium for pension schemes. The merits of this sector for inclusion in an overall pension portfolio should continue to be proclaimed. Similarly, pension funds should be allowed to diversify from traditional equity/fixed interest sectors. Indeed, if these options had been available during 2000-2003,



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many national pension problems could have been avoided. This theme should continue to be hammered home to the Government through appropriate lobbies.

There will be considerable and sustained lobbying of the Government to highlight the negative effects of their U-turn and to reargue the principles that the Government itself advocated up till last week. During this process we will, however, work on the basis that the proposed changes will be enacted.

Fortunately, the Chancellor has left untouched the most crucial features of the A-Day changes. These will still come into effect on 6 April 2006. We highlight that the following features of the 2004/5-pension simplification legislation remain operative after yesterday's announcement:

- **Higher tax relieved pension contributions will be allowed in most cases - particularly for the self-employed.**
- **The existing system of tax exemption on rental and interest income and on capital gains arising in pension funds continues**
- **Withdrawal of the requirement to buy annuities.**
- **The ability to pass on unused pension savings on death to selected beneficiaries – in some cases tax-free.**
- **Higher tax-free cash sums for most.**
- **The ability to vary, stop and start pensions - without having to retire.**
- **Permitted assets may be sold to and bought from scheme members and their families.**

We will continue to help our clients maximise the use of the above features. In addition, this firm is committed to doing its utmost to highlight to the Government, if necessary over a sustained period, the advantages of the majority of the previously enacted proposals - and the folly and any hardship caused by the U-Turn.