

LIFETIME ALLOWANCE CHARGE AND FAMILY SIPPS

As the lifetime allowance has been reduced and now stands at £1.25m there have been a number of 'creative' suggestions about how to deal with this cap, other than via the use of transitional protection. One example is the family SIPP.

THE DETAILS

The theory behind using the family SIPP relies on an idea which has been around for some years: that investment growth (or loss) in a common SIPP fund can be allocated between the family members in a way that is not proportionate to the size of their holdings. Thus the family SIPP's flexibility suggests Dad could choose to have 2% growth on his SIPP, helping him keep within the lifetime allowance, while allowing the excess return above 2% to be allocated to Son and the other family members.

Whether such a manoeuvre is permitted by the legislation is subject to some disagreement among family SIPP providers and pension lawyers. Crucially it will depend upon HMRC's views on the precise terms of the family SIPP, which varies between providers, so care needs to be taken in choosing your provider and checking their track record. The starting point is to ask whether such an allocation of fund value between members is an authorised payment. If it is not then the Finance Act 2004 legislation means it is unauthorised:

To date there have been no reports of HMRC challenging family SIPP growth allocation, but then those providers promoting the idea would presumably not be filing Event Reports detailing such allocation exercises in the first instance.

TO SUMMARISE

A Family SIPP:

- Is a pooled fund
- Each member will have a specified share
- Each member has their own lifetime allowance
- There can be an allocation of growth/loss in a default and discretionary basis
- The allocation of growth or loss is not linked to the members specified share of the pot and;
- The allocation can be carried out annually or more often if beneficial
- Specialist advice (from an IFA) is required to ensure compliance with HMRC guidelines

