SIPP Guide

A tax-efficient flexible pension that you control.

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Contents

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Introduction

Stephen Sutherland.
ISACO's Chief Investment Strategist and author of *How to Make Money in ISAs and SIPPs.*

Welcome to our SIPP Guide for the 2020-21 tax year.

Self-Invested Personal Pensions (SIPPs) are a form of personal pension scheme approved by HMRC. Whilst they have a lot of similarities with ordinary personal pension schemes, we prefer SIPPs due to their greater flexibility and range of investment options.

Did you know that when it comes to saving for retirement, more and more people are choosing a Self Invested Personal Pension (SIPP)? Yes, it's true, and if your goals are similar to ours, a SIPP is going to be a great way to help you achieve them. Surprisingly, SIPPs were created in 1989, yet it is only in the last ten years or so that they have become popular and are now the preferred way for smart investors to manage their pension arrangements.

Over the next few pages we'll look at how you could save thousands of pounds in tax with a SIPP and how you could benefit from greater flexibility at retirement. We'll also dispel some popular myths about SIPPs too.

If you would like some one-to-one help and guidance with your SIPP investing, feel free to get in touch. You can email me direct at Stephen@ISACO.co.uk and my private line is 01457 831 642.

I hope you enjoy our SIPP Guide.

Your friend,

Stephen Sutherland

Stephen Sutherland.
Chief Investment Strategist and author of *How to Make Money in ISAs and SIPPs.*

How a SIPP works

A SIPP is not an investment itself but simply a tax wrapper that protects the investment from personal liability for tax. Please note however that unlike ISAs, when you eventually start to take an income from your SIPP, the income taken will be taxable.

Let's take a look at how a SIPP works.

How a SIPP works

Contributions are invested into your chosen funds

Basic-rate tax relief is added onto each of your contributions*

→

The invested capital benefits from potential investment growth in a mainly tax-free environment

→

Benefits can be taken from the age of 55 in the form of:

- Annuities (optional tax-free lump sum)
- Flexi-access income drawdown (optional tax-free lump sum)
- Lump sums of any size (25% of which is tax-free)

*40% or 45% tax relief is awarded, where applicable, through a SIPP holder's annual tax return.
Chart courtesy of ISACO.

What are the advantages?

The four main advantages of a SIPP are:

- Tax efficiency
- Greater choice
- Better planning
- You can open a SIPP for a child

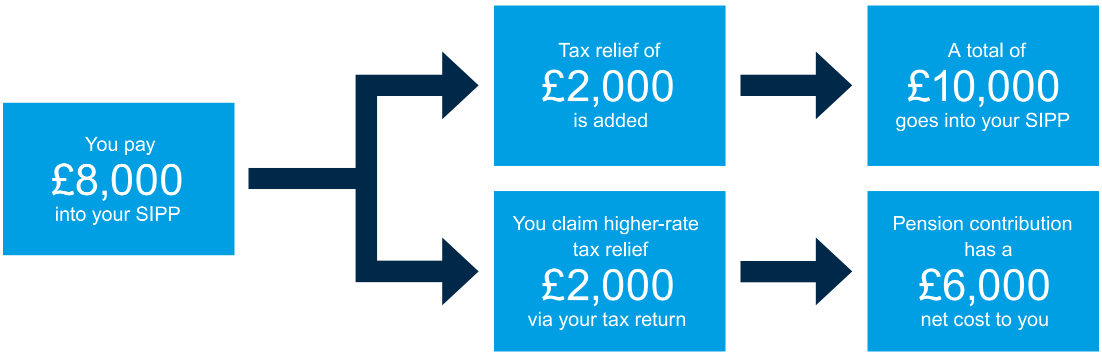
Tax efficiency

A SIPP is a long-term savings vehicle with great tax advantages – tax relief on contributions, tax-free growth of the fund and some of the benefits are tax-free when you draw them too. For example, from the age of 55 (57 from 2028), you can receive up to 25% of your pension fund value as a tax-free lump sum (subject to certain limits). The remaining fund used to have to be utilised to provide you with a taxable income but, as we will see later, recent changes give much greater flexibility as to how you can access the remainder of your pension pot.

Contributions into an HMRC registered pension such as a SIPP offer significant tax benefits - most importantly you can claim tax relief on your contributions. This means that for every £1.00 that goes into their SIPP a basic rate income tax payer only pays 80p – the other 20p comes from the government in the form of tax relief. It is even better for higher rate taxpayers who get 40p tax relief, and additional rate taxpayers get 45p tax relief, on every £1.00 contribution to a SIPP. Higher and additional rate taxpayers will claim their additional tax relief (i.e. the excess over the basic rate) through their annual self-assessment return. If you are a Scottish income tax payer the rates are slightly different but the principal of tax relief remains unchanged. The diagram below illustrates how tax relief works for a higher rate taxpayer.

A £10,000 investment for just £6,000

What it could cost to invest £10,000 in a SIPP if you are a higher-rate taxpayer.



This illustration assumes income tax rates of 20% and 40%.
Please note that rates of tax may change in the future, which could affect the amount of pension tax relief you receive.
Chart courtesy of FundsNetwork.

Your maximum annual tax relievable contribution is limited to £40,000. You can contribute more than this each year to a SIPP but the contribution will not get tax relief. Contributions made after you reach age 75 will not get tax relief either.

If your relevant UK earnings (basically your income from employment or self- employment) are less than £40,000 per year then your maximum tax relievable SIPP contribution is 100% of these earnings rather than £40,000. Even if you have no relevant earnings at all you can contribute up to £3,600 a year (gross) into a pension and receive basic rate tax relief.

For those with an 'adjusted income' (i.e. taxable income plus all pension contributions) of £240,000 or more though, the maximum tax relievable contribution is usually reduced. In the 2020-21 tax year the annual allowance is reduced by £1 for every £2 of a person's adjusted income over £240,000 – this is known as the Tapered Annual Allowance. However, your annual allowance cannot fall below £4,000.

If you are taking advantage of an additional ‘carried forward’ allowance, tax relief will also be claimed on these contributions, up to a maximum of £40,000 per contribution period. I’ll tell you more about the carry forward allowance in the ‘SIPPs: Frequently asked questions’ section, on page 16.

The amount of pension savings you can build up over your life that benefit from tax relief is subject to an overall maximum – this is called the ‘lifetime allowance’. If you build up pension savings worth more than the lifetime allowance you’ll pay a tax charge on the excess when you take the benefits. The lifetime allowance currently rises each year by the rate of inflation and for the 2020-21 tax year it is set at £1,073,100.

SIPP key points

- For every 80p you pay into your pension the Government adds another 20p in tax relief – SIPP providers will invest this tax relief some 2–6 weeks after your payment is made
- If you’re a higher rate taxpayer, you may claim up to a further 20p for every £1 you contribute to your SIPP
- If you’re an additional rate income taxpayer, you may claim up to a further 25p for every £1 you contribute to your SIPP
- Your SIPP investments will grow free of tax
- The maximum tax relievable contribution allowance for the 2020-21 tax year is £40,000
- You will only receive tax relief on contributions up to 100% of your relevant UK earnings if these are less than £40,000
- Those with an adjusted income over £240,000 a year will have their annual allowance reduced by £1 for every £2 they earn over this amount, but their annual allowance cannot be reduced below £4,000
- You can transfer from other pensions and investments into your SIPP
- You may take up to 25% of your SIPP fund as a tax-free cash lump sum after age 55 (this will rise to 57 in 2028)

How to grow your money much faster

UK pension fund investments grow free of income tax and capital gains tax (CGT), which allows funds to grow your money faster than taxed alternatives and benefit considerably over the longer term due to the effects of compounding.

Greater choice

SIPPs allow you to choose where you want to invest your pension savings. Instead of being restricted to a limited range of funds – as with some other types of pension – SIPPs offer a wide range of investments to choose from. You can also decide how much you want to invest and how often. You can even transfer in pension plans from other providers.

You can typically choose from thousands of funds run by top managers, as well as pick individual shares, bonds, gilts, unit trusts, investment trusts, exchange traded funds (ETFs), cash and commercial property (but not residential property). The precise range of investment options open to you will depend on which SIPP manager you select.

With a SIPP you are free to invest in:

- Cash & Deposit accounts (in any currency, providing they are with a UK deposit taker)
- Insurance company funds
- UK gilts
- UK shares (including shares listed on the Alternative Investment Market)
- US and European shares (stocks and shares quoted on a recognised stock exchange)
- Unquoted shares
- Corporate Bonds
- Permanent Interest Bearing Shares (PIBS)
- Commercial property
- Unit trusts
- Open ended investment companies (OEICs)
- Investment trusts
- Traded endowment policies
- Futures and options
- Exchange Traded Funds (ETFs)

Better planning

A person retiring 20 years ago had very little choice as to how they could use their pension pot other than to buy an annuity. Over the intervening years a wider range of options were gradually introduced but each of these still included restrictions on how a pension pot could be accessed and used.

The 2015-16 tax year though saw the introduction of changes which significantly expanded the choices people would have when they reached retirement – these changes were commonly known as 'pension freedoms'. On one hand these pension freedoms gave people much more flexibility as to how they generate an income in retirement but on the other it has made the choice much more complex.

To help make decisions at retirement, anyone over 50 can receive free impartial guidance under the Pension Wise scheme set up by the government (www.pensionwise.gov.uk) although this is quite basic so if your pension arrangements are complex, or your pension pot is large, then you would benefit from seeing an Independent Financial Adviser (IFA) as well.

It is important to understand that the rules described below generally apply to money purchase pension schemes only - in other words schemes where you build up your own pension pot. They do not apply to final salary occupational pension schemes. You should also be aware that your current pension provider may not offer all of the options discussed below but that it may be possible to transfer your fund to a provider who does.

Let's start to look then at the options you have when you want to take benefits from your pension pot.

When can I access my pension funds?

You can decide to access your pension pot at any time after you reach the age of 55 (age 57 from 2028), but you should remember that the aim of a pension is to provide for you for the rest of your life. The earlier you access it, the less time it has to grow and the longer it has to last.

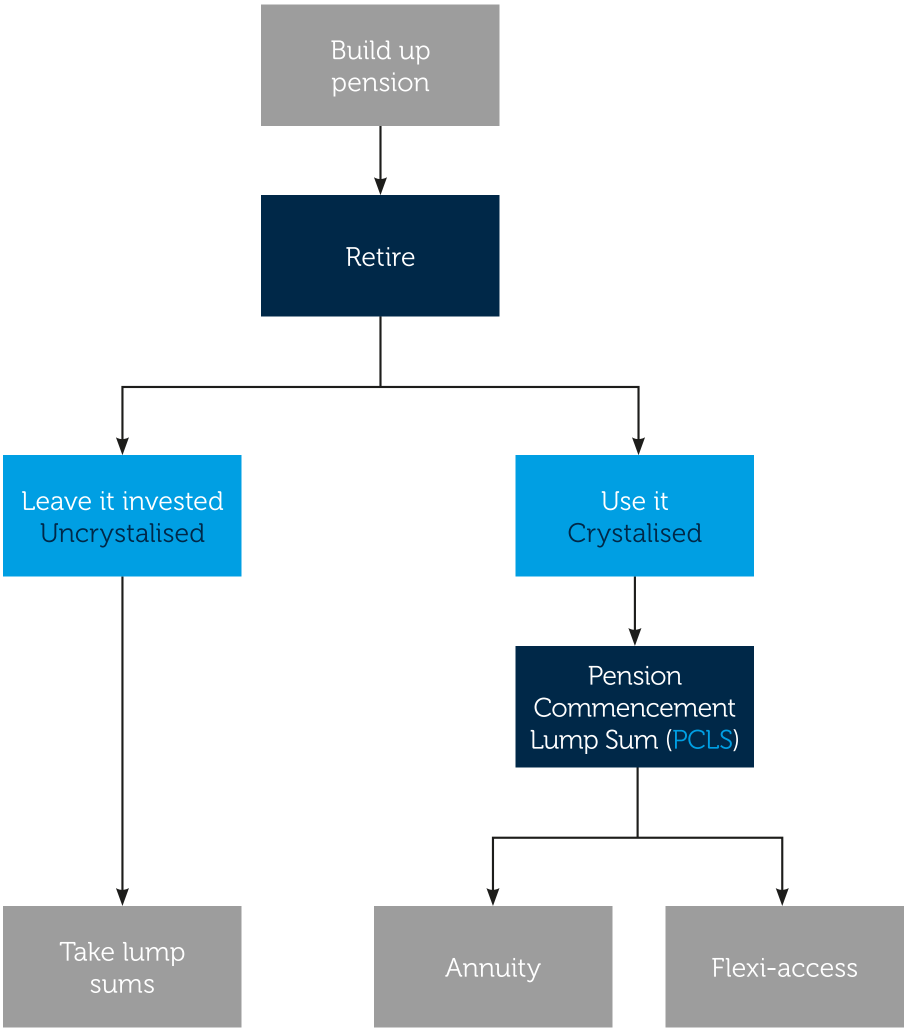
How can I use my pension pot when I decide to retire?

A person deciding to retire has three basic options as to how they can use their pension pot.

1) Withdraw lump sums
2) Invest it in an annuity
3) Place it in a flexi-access drawdown pension scheme

However, the first financial decision you will need to make on reaching retirement is whether you want to access your pension pot at all.

If you have enough income without dipping into your pension pot then you should consider leaving it untouched and even continuing to make contributions – remember, you can get tax relief on contributions until you reach age 75. This would mean that your fund would continue to grow in the tax advantageous environment, and make use of the wide range of investment options a SIPP offers, we outlined earlier.



As you can see, one of the options is only available to you where you have left the funds invested so let's start by looking at that.

Option 1: Withdraw lump sums

This option allows you to withdraw lump sums of any size from your 'uncrystallised' pension fund. (Uncrystallised funds are those which haven't been used already to buy an annuity or been allocated into a flexi-access pension or income drawdown scheme). Hence you may also see these referred to as Uncrystallised Funds Pension Lump Sums (UFPLS).

Each of the UFPLSs you take will be 25% tax-free but the remainder will be added onto any other income for the year and the total of this amount will be then liable to income tax at the appropriate rate.

This could be a good option if you require a large lump sum – you could even withdraw your whole pension fund in this way if you wished. However, it needs very careful planning to ensure that you do not end up paying income tax unnecessarily when you make a large withdrawal this way.

It is also important to understand that you cannot take a tax-free lump sum using this option – each UFPLS is 25% tax-free and 75% taxable. The tax-free lump sum (known as the Pension Commencement Lump Sum or PCLS) can only be taken when you crystallise your pension fund. This happens when you use your pension fund to purchase an annuity or allocate it to a flexi-access pension, so let's look at those options now.

Option 2: Invest it in an annuity

An annuity converts your pension pot into a guaranteed income for life so this is a particularly attractive option for people who want to be sure that their money will not run out. The major downside though is that once the annuity has been purchased the pension pot has gone and you no longer have access to your funds.

Annuities are offered by insurance companies and the amount of income they produce will depend on how long the insurer expects a person to live. This means that older people, and those whose life expectancy may be reduced by a health condition, will receive a higher income.

A person purchasing an annuity has various options. You can choose for the income paid to:

- be at a level amount every year
- increase each year, either by a fixed percentage or in line with inflation
- decrease, so as to pay out a larger amount in the early years of retirement when the person is able to be more active
- be guaranteed for a fixed number of years so it will continue to pay out even if the purchaser dies

It is also possible to buy a capital protected (or value protected) annuity. This will provide a return of any unpaid income as a lump sum on the annuitant's death.

If your pension has been set up through an insurance company you can still choose to buy your annuity through a provider of your choice using the Open Market Option (OMO). Everyone purchasing an annuity should use the OMO to ensure that they get the annuity that will pay the highest income for their particular circumstances.

The income provided by an annuity will all be liable to income tax. If you want to take advantage of the PCLS (the tax-free lump sum) you would arrange this at the time you purchase the annuity. So, for example, if a person had a pension pot of £1m and they wanted to take the maximum PCLS they would receive a tax-free lump sum of £250,000 (i.e. 25% of £1m) and the remaining £750,000 would be used to purchase the annuity.

Option 3: Place it in a flexi-access drawdown pension scheme

If you decide to allocate your pension pot to a flexi-access drawdown (FAD) pension you are able to take a Pension Commencement Lump Sum and take a regular income just as with an annuity. The income you could receive from a FAD though is much more flexible. Under this option your pension pot remains invested and part of it is drawn down on a regular basis to provide an income. The amount and frequency of the payment is up to you but the whole of each income payment will be liable to income tax.

The risk with a FAD is that if your pension investments do not perform as well as expected then the income taken may have to be reduced. There is even the chance that the person runs out of money entirely.

The Money Purchase Annual Allowance (MPAA)

One other point to consider when thinking about options at retirement is whether you want to continue making contributions to a pension scheme. We mentioned earlier that the maximum a person may be able to contribute to a pension scheme and receive tax relief is normally £40,000 a year – the annual allowance.

Where a person has taken advantage of one of the flexible options though (such as a UPLS or entering a FAD) then a lower maximum of £4,000 a year usually applies – this is known as the Money Purchase Annual Allowance (MPAA).

So which option should I choose?

Each of the three options we have outlined has advantages and disadvantages so it is very important to think carefully about them to ensure that you end up with a solution that matches your needs and your attitude to risk.

One great thing about the pension freedoms though is that you don't have to make just one choice – you can mix the options up to suit your needs. Let's consider an example.

David has reached age 62 and has decided that he wants to gradually retire - he has a pension fund worth £820,000. He decides that he wants to make some changes to his house and take a long holiday with his partner.

In order to fund this he takes an Uncrystallised Pension Funds Lump Sum of £120,000. Part of this UPFLS is tax-free (25% - £30,000) and the remainder is liable to income tax. He leaves the remaining pension pot of £700,000 invested in his SIPP.

He works for another four years part-time and is able to cope comfortably on his income from his employment. At age 66 he decides he wants to stop working and retire. By this time his SIPP fund has grown to £800,000.

David now decides to use half of his pension pot to buy an annuity and attribute the other half to a flexi-access drawdown scheme. As both these options crystallise his pension pot he can take a Pension Commencement Lump Sum. He decides to take the maximum PCLS of £200,000 (i.e. 25% of his £800,000 crystallised pension pot).

Of the remaining £600,000, half is used to purchase an annuity which will provide him with an income for life. The other half is attributed to a flexi-access drawdown scheme which David can use to provide him with an additional income which he will be able to increase or decrease as his needs demand.

What happens to your pension fund if you die?

When a person dies it may be possible for them to pass their pension onto anyone who they name as a beneficiary. How these pension benefits are taxed when they are passed on now largely depends on whether or not the person died before they reached the age of 75.

	Lump sum	Income
Die before 75	Tax-free	Tax-free
Die at or after 75	Taxed at beneficiary's marginal rate of income tax	Taxed at beneficiary's marginal rate of income tax

Under certain circumstances there may be an additional tax charge if the pension fund of the person who has died exceeded the lifetime allowance (currently set at £1,073,100) or if benefits are not taken from the pension fund within two years of the person's death.

If there is any of the pension fund remaining when the beneficiary dies then they can nominate a further beneficiary to pass the fund onto and it would again be liable to tax in a similar way to that described in the table above.

Where the person has purchased an annuity before they die then any lump sum or income benefits a beneficiary receives will be liable to tax in the same way as we have described above. It is important to remember though that an annuity will simply stop paying out on the annuitant's death unless they have made specific choices to avoid this when they bought it – for instance a guaranteed period or a level of capital protection.

Regardless of the age of the person when they die, or the type of pension they are passing on, the pension fund will not be liable to inheritance tax.

Opening a SIPP for a child

It's never too early to start saving for a pension. As well as the option of investing in a Junior ISA, you can also open a SIPP for a child under 18 and get tax relief to help their retirement fund grow. Many parents and grandparents use the tax benefits of SIPPs to set up pensions for their young children and grandchildren.

Did you know that barely half of British adults below state pension age contribute to a private pension?[1] Yes, shocking but true, and yet to expect an annual retirement income of only £15,000 in today's money, children will need to have saved the equivalent of £203,528 by the time they retire.

If you start saving at 25, this means putting aside £449 a month until the age of 65. However, thanks to the power of compounding returns, you don't have to pay thousands of pounds a year to make a difference. Put away £40 a month for the first 18 years of a child's life, and, with tax relief boosting the contribution to £50 a month, it would be worth £506,064[2] when your child reaches 65, assuming 6% annual growth.

[1] Office for National Statistics - Pension wealth in Great Britain: April 2016 to March 2018 (released December 2019).
[2] Association of British Insurers and James Charles, The Times, January 2008.

Points to remember

- Under current legislation, you can open a SIPP on behalf of a child under the age of 18
- The Government will pay basic rate income tax relief on contributions up to a maximum of £3,600 per annum, i.e. you pay £2,880 and the Government will provide £720 in tax relief
- Once the child reaches the age of 18, they can take over the management of the SIPP and make their own contributions to it, receiving tax relief in their own right

SIPPs: Frequently asked questions

We have covered quite a bit of ground but maybe you still have some questions unanswered? If so and you fancy the idea of become an expert on SIPPs, you are going to love this very comprehensive SIPP FAQ that we've put together. By the end of it I'm pretty sure that you'll know more about SIPPs than the majority of so called 'financial experts'.

Q: What is a SIPP?

A: A Self-Invested Personal Pension (SIPP) is the name given to the type of personal pension scheme that allows individuals to make their own investment decisions from the full range of investments approved by HM Revenue and Customs (HMRC).

Q: Are SIPPs a personal pension?

A: Yes, SIPPs are a type of personal pension plan. Another subset of this type of pension is the stakeholder pension plan. SIPPs, in common with other personal pension schemes, are tax 'wrappers', allowing tax rebates on contributions in exchange for limits on accessibility.

Q: How much can I contribute to a SIPP?

A: You can pay as much into a SIPP as you like but you will only get tax relief on contributions up to a certain limit. For the current tax year 2020-21 the maximum tax relievable contribution you can pay into a SIPP is an amount equal to your relevant earnings subject to a limit of £40,000. This is good news for higher and additional rate taxpayers who will be able to enjoy income tax relief on their contributions, at either 40% or 45%.

However, the maximum £40,000 contribution will be reduced by £1 for every £2 of adjusted income a person has over £240,000. This means that a person who has a salary of £312,000 or above will have their 'annual allowance' reduced to £4,000, but it cannot be reduced below this amount.

Did you know that if you have been a member of a pension scheme but have contributed less than £40,000 in the 2017-18, 2018-19 or 2019-20 tax years, you can make an additional payment into your pension? Yes, by using the carry forward rules you could make SIPP contributions in the 2020-21 tax year of up to £160,000 gross and receive up to 45% tax relief. If you are a Scottish income tax payer the rates are slightly different but the principal of tax relief remains unchanged.

Q: How does the tax relief work?

A: The SIPP provider claims a tax refund at the basic rate (20% in the 2020-21 tax year) on behalf of the customer. The 20% is added to the 'pot' some 2–6 weeks after your payment is made. Higher rate and additional rate taxpayers must claim any additional tax refund through their tax return, or by otherwise contacting HMRC.

Q: What type of things can I invest into using a SIPP?

A: HMRC sets out the restrictions on what cannot be invested in using a SIPP – such as residential property. SIPP managers may choose to offer a restricted choice of investment types but you can typically choose from thousands of funds, as well as pick individual shares, bonds, gilts, unit trusts, investment trusts, exchange traded funds (ETFs), cash and UK commercial property. The investment options for ordinary personal pensions or stakeholder pensions are likely to be much narrower. Typically, they will be restricted to a number of funds run by the pension provider.

Q: Who is eligible to own a SIPP?

A: Any UK resident (or individual with earnings chargeable to UK income tax) under the age of 75 can open a SIPP. In addition, Crown employees posted overseas and their spouses and civil partners can also contribute to a SIPP.

Q: What are the different types of SIPP?

A: Pension providers have all sorts of brand names for SIPPs but they can be classified in three basic types:

1. Full or Pure SIPP

This is used to describe a SIPP that offers access to the full range of investment options. The management charges for this type of SIPP are more expensive than the alternatives.

2. Hybrid SIPP

These are SIPPs offered by insurance companies where some of the investment must be held in the company's own funds but a proportion may be held in other funds or eligible investments.

3. SIPP Lite

This describes the low cost SIPPs that are designed for the vast majority of pension savers. They offer access to a wide range of funds but don't allow access to the less mainstream investment options.

Q: How do I choose a SIPP?

A: SIPPs come in very different shapes and sizes and sometimes with confusing charging structures. Choosing the right SIPP can therefore be a challenging process. It is important that you end up with a SIPP that can do everything you require of it, but also offers value for money. The last thing you want is to be paying for a degree of flexibility that you will never use. The one we – and most of our clients – use is the low-cost SIPP or SIPP Lite.

Q: Can you give me a summary of the key benefits of SIPPs?

A: Yes, here are five key benefits:

1) Like all other approved pension arrangements, they provide generous tax benefits

2) They give you control of your pension

3) They offer flexible options for taking an income in retirement

4) They enable you to reduce your costs

5) They offer you a wider range of investment choices than other types of personal pension

Q: What are the tax advantages?

A: SIPPs have three significant tax advantages:

1) Tax relief on contributions: Payments that you make to your SIPP will have basic rate income tax rebated directly into the SIPP. If you pay a higher rate of income tax, you can claim further tax relief at your marginal rate through your annual tax return.

2) Tax-efficient returns: Any returns you make on investments inside a SIPP are free from income tax and capital gains tax (CGT).

3) Tax-free lump sum: When you reach 55 (57 from 2028), you can start to draw pension benefits from your SIPP. You can withdraw up to 25% of the value of your pension fund tax-free, as a lump sum. Alternatively you can leave your pension fund invested and take Uncrystallised Funds Pension Lump Sums (UFPLSs) of any size – 25% of each UFPLS will be tax-free and the remainder liable to income tax at your marginal rate of income tax.

Q: Can I open more than one SIPP?

A: Yes, if you have an existing pension arrangement – such as a company pension scheme or another SIPP or personal pension – you can still open a SIPP alongside it. You are allowed to contribute to multiple pension schemes in the same tax year, provided that your combined total contributions do not exceed the limits.

Q: How can I buy a SIPP?

A: Investing in a SIPP is very easy and you can buy one by phone, by post or by going online. SIPP providers include AJ Bell, Fidelity, Hargreaves Lansdown, James Hay, Old Mutual Wealth, Standard Life, Bestinvest, Alliance Trust, and Charles Stanley. Our new clients purchase their SIPPs through Standard Life.

Q: What are the risks?

A: A SIPP is just a wrapper and it is as risky as the investments you place within it.

Q: What happens if the SIPP provider goes bust?

A: Any assets you hold within a SIPP should be ring-fenced and held separately from the SIPP provider. Therefore, if the SIPP provider fails, your SIPP will be safe. Any creditors will be unable to access your money and, although it will take time, and probably aggravation, you will eventually be reunited with it when it is transferred to another provider.

Q: What happens to my SIPP if/when I die?

A: In most cases, there is no inheritance tax payable on your pension when you die, since pensions are structured as a trust and sit outside your estate. In theory, your pension trustees have complete discretion as to who receives your pension benefits after your death. This is necessary to ensure that these benefits are exempt from inheritance tax and if this discretion is impaired they may become taxable as part of your estate.

In practice, the trustees will consider your wishes and preference will obviously be given to your spouse and any dependants. In order to make sure your assets go to the right person, you need to complete a nomination form stating who you would like to receive the funds from your pension. If you have made no nomination and there is no obvious beneficiary, the trustees will consider the beneficiaries of your will and are likely to be influenced by this.

The FAQ is over and yes, we did say that it was pretty comprehensive. But let's not stop there. Whilst we are on the subject of SIPPs, we also wanted to dispel some 'SIPP myths'. Let's do that now.

6 SIPP Myths Dispelled

1) You have to be a high net worth investor to invest in SIPPs – FALSE

As you've heard, SIPPs were first introduced in 1989, but high costs meant that for most of the next decade they were only suitable for those with large pension funds. In recent years, however, the rise of online trading platforms has made the SIPP a cost-effective option for many investors.

2) SIPPs carry high charges – FALSE

SIPPs come in very different shapes and sizes and 'full' SIPPs can have expensive charging structures. However, more and more low-cost SIPPs are making their way into the market as middle-income investors get increasingly fed up with the poor returns on more traditional pensions. It's true that they were originally aimed at those with larger pension pots but, as charges have come down, it is now possible to run a SIPP even if you're only putting £50 per month into your pension.

3) You have to manage your pension yourself – FALSE

Although they are called 'self-invested' pensions, this does not mean that you have to make your own investments decisions. We suggest that you do make your own investment decisions, however it is possible to pay a premium to have the SIPP managed by an authorised and regulated investment adviser or stockbroker.

4) SIPPs are only for those who want a spread of sophisticated investments – FALSE

While SIPP investors can own UK commercial property, individual shares and traded endowment policies, and often have a choice of more than 1,000 different investment funds, not all SIPPs are designed to hold such a wide spread of investments. For example, low-cost SIPPs are aimed mainly at those who are more comfortable with a spread of collective investment funds – unit trusts or open-ended investment companies (OEICs).

5) 'SIPP approved' or 'HMRC approved' means the investment inside the SIPP is safe – FALSE

Just because a provider allows a specific investment to be held in a SIPP, it doesn't necessarily mean a significant amount of, or indeed any, due diligence has been done. The term 'SIPP approved' is used widely in connection with unregulated investments, including storage units, hotels in the UK and overseas, luxury holiday accommodation, bamboo crops, farmland in South America, renewable energy and car parks.

Unregulated investments are by their very nature higher risk than other options and the FCA (Financial Conduct Authority) is keeping a close eye on them and how they are marketed. Unregulated investments are only suitable for a minority of investors and if you do decide to invest in this way comprehensive due diligence is crucial.

Remember that using the term 'SIPP approved' or 'HMRC approved' in connection with an unregulated investment means absolutely nothing. There is no organisation which checks SIPP investments and provides them with a stamp of approval. The regulator certainly doesn't approve them, after all these are unregulated investments. Personally, we wouldn't touch unregulated investments with a barge pole.

6) You can’t carry forward unused annual allowances – FALSE

At the time of writing, it is possible to carry forward unused annual allowances. Carry forward was a rule introduced in the 2011/12 tax year that allows you to use any leftover annual allowances from the previous three tax years and apply them in the current tax year to top up your pension and receive tax relief on the additional contributions.

The maximum unused annual allowance that can be carried forward is £40,000 per tax year. That works out as a maximum of £120,000 for the previous three years and an additional £40,000 for the current year. However, you would need to have had at least this level of income in each of those years, since your maximum contribution is limited to 100% of your earnings.

Even if you have an adjusted income of over £240,000, and so have your annual allowance in year reduced below £40,000, you can still use carry forward to benefit from unused contributions in the past three years.

Final thoughts

We hope you've found value in this guide.

As I mentioned in my introduction, if you would like some one-to-one help and guidance, feel free to get in touch. Our clients kindly say that my brother Paul and I are incredibly friendly, caring and highly responsive to their questions and requests for help, support and guidance. What's more, if you call or get in touch, I promise that you won't be charged a penny.

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Your friend,

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