



In-Specie Contribution Guide

Background

Pensions simplification removed most of the restrictions on transactions between registered pension schemes and connected parties (such as members, their relations or their employers).

This change has understandably stimulated interest from individuals and their employers in moving some of their assets or investments into the tax-efficient wrapper of their pension scheme.

Of course, this can be done by simply selling the asset to a Self-Invested Personal Pension (SIPP). This can be a welcome way of releasing cash from the pension fund to the seller, but it means that the SIPP must have sufficient ready cash to cover the purchase price.

Where the aim is to use the asset or investment to boost the pension fund the individual may just want to pay the asset into the SIPP as a contribution. This is what they can now do by making an in-specie contribution.

HM Revenue & Customs' (HMRC) Position

The Finance Act 2004 states that pension contributions must either be made in cash or by the transfer of eligible shares. Eligible shares are shares received from an approved SAYE share option scheme or share incentive plan, where the transfer is made within 90 days of the individual exercising their right to acquire them.

Therefore, on the face of it, this suggests that in-specie contributions can only be made with eligible shares. However, HMRC has confirmed that in-specie contributions can be made using other investments and has set out its requirements:

- HMRC has confirmed that the legislation requires a pension contribution to be expressed as a monetary amount.
- Firstly the member or employer must make the commitment to pay a monetary contribution to the SIPP. This is the creation of a debt to the SIPP.
- The debt can then be settled by the transfer of assets that the member or employer owns of equal value in-specie to the SIPP.

So, by following this two-stage process, the in-specie route can be used for more than just eligible shares. The following sections of this guide explain how this process operates in more detail.

Amount of Contribution

Valuation of Assets

For a contribution to the SIPP that is made by the in-specie transfer of an asset, the amount of the contribution has to be taken as the market value of the asset on the date that ownership is transferred to the SIPP.

Market value is defined in Section 272 of the Taxation of Chargeable Gains Act 1992. Basically this means that:

- most assets, like property, will be valued at the price they could have been sold for on the open market,
- unit trust/OEIC holdings will be valued at the published bid price
- the value of shares listed on the London Stock Exchange will be based on a formula that uses average and closing share prices for the day. Accordingly, the value will not be available until the following day. This is more commonly known as the 'quarter up' valuation basis.
- Unquoted shares will have to be valued by a suitably qualified independent third party, like an accountant or the Company Secretary.

Valuation Issues

There is the need to first specify the contribution as a cash sum and then create a debt of that amount owed to the SIPP. The market value of the asset subsequently passed in-specie to the SIPP to clear this debt should, ideally, exactly match the amount owed.

- For stable assets, such as property, this is possibly fairly easy to achieve.
- Whereas for more volatile assets, such as quoted shares (where the value changes constantly), a discrepancy is almost certain to arise.

Where a discrepancy does arise HMRC requires us to take action to deal with the difference.

If the value of the asset is less than the monetary amount stated by the member:

- The member must make up the difference by the payment of a cash contribution because they have created a debt to the SIPP for the amount that was originally due.
- In order to meet HMRC expectations we, as the Scheme Administrator, must pursue the SIPP member for payment of the balance. Otherwise it is questionable whether a proper debt was established in the first place.
- If the difference is not paid the amount may be deemed an unauthorised payment and would be subject to significant tax charges.

If the value of the asset is higher than the monetary amount that the member said they would contribute.

- The excess assets can be returned to the member.
- The excess assets can be purchased (i.e. cash payment) from the member as a connected party transaction. This will only be possible if the SIPP has sufficient cash to pay for the asset.
- The excess assets can be retained by the SIPP as a further contribution. In this case, we need to ensure the necessary paperwork is completed to treat it as another contribution.

HMRC will expect that there is a realistic link between the monetary amount of the contribution and the value of the assets to be transferred. The monetary commitment should not be deliberately and significantly less than the anticipated value of the in-specie assets.

Contribution Date

The contribution date is the date on which the assets are deemed to have been disposed of by the member to the SIPP. It is not the date that the application or request to make a contribution is received or accepted by us. For specific types of asset the relevant date will be:

- For stocks and shares in certified form (i.e. paper certificates) it will be our receipt of the signed and dated stock transfer form together with the original share certificate.
- For stocks and shares in uncertified form (i.e. CREST) and usually held in a Stockbrokers account it will be the date that the transfer of the holdings into an account for the SIPP is completed.
- For unit trusts/OEICs it will also be receipt of the signed and dated stock transfer form.

- For property it will be the completion date of the transfer of ownership. (It is possible to have a simultaneous exchange and completion date).
- For insurance policies it will be the date of the deed of assignment. This is dated after all parties have signed it and when it is received by us.

Tax Relief

The tax relief works in exactly the same way as it would for a cash payment:

- Employer payments will normally be an allowable deduction against profits before they are assessed for corporation tax, as long as they satisfy the usual "wholly and exclusively" test.
- Individual payments up to the level of the individual's relevant UK earnings for the tax year (or £3,600, if higher) will qualify for relief against income tax for that tax year.

However, there is one very important difference between a cash contribution and an in-specie contribution and that is tax relief for the in-specie contribution cannot be claimed on the acceptance date of the application. Tax relief can only be claimed on the Contribution Date, which if there are multiple assets to be transferred (i.e. a number of individually owned shares) this means there could be multiple contribution payment dates. The amount of contribution will be the value of the asset transferred and not necessarily the amount that the member or employer said they will contribute.

Tax position on In-Specie Contributions

An in-specie payment to a SIPP is regarded as a sale of the asset to the SIPP. This means that assets moved into the SIPP as in-specie pension payments are subject to the usual tax charges for asset sales. So any gain is taxable in the usual way. Once inside the pension scheme any future gains are sheltered.

What is needed to transfer Ownership

Shares

Individually held shares, either quoted or unquoted, in a certificated form (i.e. paper certificates) will require the completion of a Stock Transfer Form to record the change of ownership. The original share certificate needs to be included with the stock transfer form.

Where ownership is registered electronically on CREST an instruction will need to be given to the Stockbroker/Investment Manager who currently holds them to transfer them into an account for the SIPP. This could mean that the SIPP will have to set up a new account with the Stockbroker/Investment Manager.

The normal stamp duty rules apply on the in-specie payment of shares as a contribution. For paper transactions (i.e. via a stock



transfer form): 0.5% of the value of the shares rounded up to the next £5. For electronic transactions (i.e. paperless and settled through CREST): 0.5% of the value of the shares rounded to the nearest 1p.

Note: stamp duty is not payable on the transfer of eligible shares arising from an employee share scheme.

Unit Trust/OEICs

These are also re-registered using a stock transfer form to record the change of ownership. Most unit trusts/OEICs are un-certificated but if there is a certificate for a particular fund then this will be needed to complete the re-registration process.

Property

The process for making an in-specie transfer of property is for a conveyance document (or ground lease, if the property is held leasehold) to be executed between the owner and the trustees of the receiving pension scheme. This transfers legal title to the property from one party to the other. The transfer of title should then be recorded in the title deeds to the property. Both parties will need independent legal advice on the change of title.

Again the normal stamp duty rules apply on the in-specie payment of a property as a contribution.

Transfers of land and buildings

Rate	Property Band
Zero	£0 - £150,000
1%	Over £150,000 - £250,000
3%	Over £250,000 - £500,000
4%	Over £500,000

Insurance policies

An in-specie payment of an insurance policy to a pension scheme involves the policy owner and the trustees of the receiving scheme executing a deed of assignment.

This deed transfers legal title to the policy.

A check should be made with the policy provider to make sure that the insurance policy is capable of assignment to the SIPP. The provider should also always be consulted regarding the wording of any deed of assignment before it is executed, to make sure that the proposed terms are consistent with the insurance policy provisions and the provider's requirements.

The way that in specie contributions have to be dealt with and the fact that a debt to the SIPP has to be created and paid in any event does create risks for the person wishing to make a contribution in this way. Therefore, it is important that all the risks associated with in specie contributions are understood before committing to making a contribution in this way.

This information sheet is based on Alliance Trust's interpretation of current legislation and HMRC regulations and should not be relied upon for detailed advice or as a statement of current law.



This communication is for professional advisers only and should not be relied upon by private customers.



This literature is printed on paper made from trees grown in sustainably managed forests.

Alliance Trust Savings Limited, PO Box 164, Meadow House, 64 Reform Street, Dundee DD1 9YP.

Tel +44 (0)1382 201900 **Fax** +44 (0)1382 202250 **Email** contact@alliancetrust.co.uk **Web** www.alliancetrust.co.uk

For security and compliance monitoring purposes telephone calls may be recorded.

Alliance Trust Savings Limited is registered in Scotland No. SC98767, registered office as stated above; is authorised and regulated by the Financial Services Authority whose address is 25 The North Colonnade, Canary Wharf, London E14 5HS firm reference number 116115; gives no financial or investment advice.