



News from Louis Letourneau.

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[Louis Letourneau](#) gives you the lowdown on the new way to invest.

Soon, everybody's going to be talking about SIPPs – that's Self-Invested-Personal-Pensions, in case you didn't know. There are big changes coming soon in the world of pensions and, while all the rules haven't been finalised yet, one of the biggest means that, from April next year, you should be able to put property into your pension plan via a SIPP.

Yes, that's right. The property-crazed British people will soon find another use for bricks and mortar – having it as their retirement nest egg. Of course, that's what many of us do informally already – I don't know how many times I've heard a client say that his property is his pension.

But from next April, if you put your property into your SIPP, the investment will enjoy all the tax breaks currently available only for pensions. You will be able to contribute up to 100% of your earnings (subject to an annual limit of £215,000) into a SIPP, which can use this money to purchase the property. If you're a higher rate taxpayer, you will get tax relief of 40% on the contributions you make; if you are a basic rate taxpayer, you'll get 22% tax relief. Your whole SIPP fund can be used to purchase a property. In addition, the fund can borrow up to 50% of the value of its assets – that means a fund worth £300,000 could borrow an additional £150,000 to buy a property worth £450,000. Once inside the pension, any rental income from the property is tax-free, as are any capital gains made on the sale.

And, what's more, it's not just buy-to-let properties which you can put into your fund, but also your home - and even your little place in the south of France. Mind you, there could be problems with overseas properties because of the different legal systems around the world, and it may be that the pension companies offering SIPPs won't want to get drawn into that minefield. Not all countries recognise trusts, which is the legal structure underpinning pensions, and some countries would tax the rental income, which is of course, tax-free in Britain. But there's certainly enough scope for investing in UK properties.

However, before you get too excited, remember that there are disadvantages, too. A major drawback is that you won't own the property any more – the pension trustees could make commercial decisions that you disagree with. And, although once in the pension, there'll be no capital gains tax on sale of the property to a third party, there could be a tax bill when you sell it to the pension trustees if it wasn't your only or main residence at some stage. And, if you want to continue living in the property after you've sold it to the pension trustees, you'll have to pay them the market rent. And how exactly do you convert your home into an income stream at age 75?! It's also fair to say that many of the pension companies have major reservations about the proposed changes.

And what about the risk of a property market crash? Much of the reason why people don't trust conventional pensions these days is because they saw the value of their funds spiral downwards when the stock market took a dive in 2000 in the aftermath of the high tech boom. Many experts are now predicting that the days of rising house prices are over, and that we could even see prices go down significantly over the next year or so.

While property is generally a safer investment than stocks and shares, it's unwise to put all your investment eggs in one basket. If you can build up a pension fund that includes property, stocks and shares and fixed interest securities, such as corporate bonds and government 'gilts', that's ideal. But, because property costs more than those other types of asset, people who decide to buy real estate for their SIPP may find that the property accounts for almost 100% of their fund – that isn't sensible asset allocation.

Furthermore, the true direction of the property market may be temporarily disguised because of these changes. In other words, the buy-to-let market may be skewed at the moment because wealthy people are buying up properties in order to put them in a SIPP come next April. Only after the rush to buy ends might we see that the property market wasn't as healthy as we thought.

So, while it sounds a very attractive proposition, you should think matters through very carefully before deciding to put a property in a SIPP. For the average investor, in particular, it may be better to invest in property on a small scale through property funds. These are collective funds – your money is pooled with that of other investors, and the fund managers buy commercial property with it. They're offered by most of the large pension providers, and can be accessed via personal pensions and stakeholders – so their charges will be lower than SIPP charges, too.

Louis Letourneau, MA is an experienced independent financial adviser (IFA), specialist in financial planning and wealth management. He founded Rainbow Finance in 1995 and has consistently challenged financial companies and Government on their attitudes to gays, lesbians and same sex couples and was instrumental in the Inland Revenue to changing its guidance notes to recognise unmarried couples in pension benefits. His work has also resulted in life insurance companies starting to relax the discriminatory underwriting criteria toward gay men and people living with HIV. He was a founder of the Rainbow Research Project which surveys and educates private pension schemes in how they recognise unmarried couples on death benefits. He was also a founder member of the Stonewall Immigration Group (which campaigned for Immigration rights for same-sex couples, achieving a significant victory in April 1997) and helped set up the gaypartners.org initiative with gay.com in early 2001, campaigning for same-sex partnership rights. He speaks regularly on national and local radio.

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