

GUIDANCE NOTE

INVESTMENTS

APPROVED FOR CLIENT USE | JULY 2023

Summary

SIPPS and SSAs are able to invest in any type of asset. Whilst Curtis Banks aim to provide a SIPP with investment flexibility, we also take a responsible approach to the investments we allow in our SIPPs. In practice investments will be restricted by two factors:

- the heavy tax penalties which HMRC will impose on certain investments; and
- additional restrictions imposed by a SIPP or SSAs provider.

Curtis Banks Ltd will not permit those investments which incur heavy tax penalties. In addition, experience has shown that many non-standard investments are likely to be inappropriate for SIPP investors, and we give guidance below on the restrictions we apply to these. Subject to these restrictions, the widest possible range of genuine investments is available in our products.

You should always contact us for confirmation before taking any action in connection with a particular investment, to confirm that we are in agreement and ready to proceed with it.

Important points to consider

Please note that Curtis Banks Ltd does not give investment advice and all investment decisions are made by you in conjunction with your advisers. We cannot take responsibility for the consequences of your investment decisions.

Types of Investment

You can find out our stance on investments by looking firstly at the Permitted list below for confirmation on what is generally allowable, and then at the Unacceptable and Restricted lists for confirmation on particular investments which would cause difficulties.

Permitted Investments

These are the general types of investments which qualify for a tax free return. Links are shown below to other Guidance Notes describing some of the investments in more detail:

- Cash deposits
- Shares in companies listed on the main London Stock Exchange or the AIM or OFEX markets
- Shares in companies listed on a recognised overseas stock exchange
- Shares in unquoted private companies (see Specialist Investment section below)
- Unit trusts, open-ended investment companies ("OEICs") and insurance company managed funds
- Government securities
- Quoted debentures and loan stocks
- Building society Permanent Interest Bearing Shares ("PIBS")
- Offshore funds
- Hedge funds and exchange traded funds
- UK and overseas commercial property and land (including agricultural land, hotels, nursing homes and public houses) (see our Property notes)
- Real Estate Investment Trusts ("REITs")
- Second hand endowment policies
- Investment grade gold bullion
- Loans to the employer company (SSAs only)
- Other types of pooled investment vehicles where the scheme member cannot influence or use or control the investment (known as "genuinely diverse commercial vehicles" and described in more detail below). If properly structured, these can invest in some of the unacceptable investments below.

Unacceptable Investments

These are investments which incur heavy tax charges and which we do not allow in any

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circumstances. The main reason they are unacceptable is that there is a risk that scheme members or their relatives could gain personal benefit from them. Examples are:

- Residential or holiday property (including residential ground rents)
- Tangible moveable property (art, antiques, wine, vintage cars etc.)
- Commodities
- Loans to connected or unconnected parties (other than loans from a SSAS to a sponsoring employer)
- Property limited liability partnerships
- Wasting assets (having an expected lifespan of 50 years or less)
- Premium bonds

Specialist Investments

We deem unregulated collective investment schemes and unlisted shares to be specialist investments.

You should only invest in these investments if you are fully aware of the risks associated with them. You should take financial advice before making this type of investment.

These investments are not protected by the Financial Services Compensation Scheme. If you would like further information about the Financial Services Compensation Scheme, please speak to your adviser or contact us.

These investments are allowed provided they meet our due diligence requirements.

Restricted Investments

At Curtis Banks we take our trustee and regulatory responsibilities seriously. As a result, we restrict certain investments because, based on our experience, they may be inappropriate for SIPPs. They are split into 2 categories:

Our Standard Policy is to say No:

- Overseas hotel rooms
- Overseas farmland
- Unquoted “ethical” investments (carbon credits, green oil, overseas trees etc)
- Solar panels and wind turbines
- Life settlement funds
- Unquoted equities in a non-UK company and/or where the person is a 20% director or has control of the company
- Third party loans to individuals
- Third party loans to companies which are unsecured

- SSAS loans secured by debentures rather than a fixed charge on an asset
- Intellectual Property (patents, trademarks etc)
- Currency trading
- Restricted contracts for difference
- Cryptocurrencies

Possible but Full Due Diligence Needed:

- Gold other than physical gold bullion
- Offshore bonds
- UCIS

Reasons why we feel these investments may be inappropriate include:

- In some cases there is a risk that they breach HMRC rules
- Often these types of product are distributed by unregulated companies, meaning that an analysis may not have been carried out by an FCA authorised adviser to assess whether the investment meets the client’s circumstances in terms of their attitude to risk, level of sophistication etc
- The investments may not have a robust infrastructure in place or may be a complete scam - in many cases we are unable to fully check this out
- They are often poorly documented - rectifying this requires a lot of work and is not always possible
- Due diligence on the investments involves a lot of work and can be out of all proportion to the amount of the investment.

If you wish to apply for one of the above types of investment, you should complete and return our Non Standard Investment Questionnaire.

Borrowing

Your scheme can take out a loan of up to 50% of its net asset value, to assist in buying an investment. Loans are usually taken out to assist with a property purchase and are described in more detail in our Property notes.

Genuinely Diverse Commercial Vehicles

Some types of investment will be genuine holders of the unacceptable assets listed above, with no risk of personal benefit for scheme members. A “genuinely diverse commercial vehicle” is HMRC’s definition of what is acceptable for this type of investment, and we can accept investments in this category.

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The “vehicle” can be in many forms: a trading company, partnership or investment trust are common examples. Genuinely diverse commercial vehicles fall into 3 categories:

- UK Real Investment Trusts (“REITs”)
- Trading companies where:
 - the pension scheme together with associated persons does not control the company; and
 - no scheme member or a connected person is a controlling director of the company; and
 - the scheme is not investing in the company for the purpose of allowing a scheme member or connected person to use an unacceptable asset.

In other words, the scheme can invest in a genuine arm’s length trading company without worrying about investing in unacceptable assets.

Other types of vehicle where:

- the vehicle either has assets over £1m or holds at least 3 residential properties, and no asset is worth more than 40% of the total; and
- if the vehicle is a company then it is not a close company; and
- the scheme’s holding in the vehicle does not exceed 10%; and
- the scheme is not investing in the vehicle for the purpose of allowing a scheme member or connected person to use an unacceptable asset; and
- the vehicle is not a horseracing syndicate

It can sometimes be difficult to establish whether an investment qualifies as a genuinely diverse investment vehicle, and Curtis Banks Ltd will require full details of this type of investment before confirming that it can go ahead.

Foreign Exchange Transactions

Where foreign currency transactions require conversion from Sterling to an alternative currency, we may be able to provide you with a Foreign Currency spot rate from a preferred Foreign Currency exchange provider. If you require a rate to be fixed or a specialist currency conversion service to be used, this may be possible with prior arrangement.

The Tax Penalties

The rules are complex, but generally the tax charges on unacceptable investments are a 40%

tax charge paid by the scheme member and a 15% tax charge paid by the scheme. If the investment is more than 25% of the fund, the member’s tax charge increases to 55% and in addition HMRC has the power to de-register the scheme, applying an extra tax charge of 40% of the total scheme assets.

As a result, the total tax charges could exceed 100% of the investment, and it is therefore essential that a scheme does not make unacceptable investments, either directly or indirectly. Scheme members will be responsible for any tax liabilities resulting from an unacceptable investment.

Connected party transactions

Schemes can enter into transactions with their members and connected parties, e.g. relatives or business associates. This includes buying and selling assets, and leasing property.

All connected party transactions must be at market values, backed up by independent written valuations. All transactions must be at arm’s length, e.g. if a scheme property is leased to the member’s company all rents must be paid promptly and the scheme must take swift action to recover any arrears.

Ownership

Investments are normally held in the names of the trustees of the scheme.

Quoted investments are usually held in a nominee name, normally a stockbroker’s nominee company. This allows easier buying and selling of investments. We will need to have terms of business in place with any trading platform or fund manager you wish to use.

We already have these terms in place with a large number of companies and will be able to confirm this for the company you want to use. If terms are not in place, please note that this needs to be done before an investment can be made.

Occasionally investments need to be held by a separate custodian, for example an investment overseas which cannot be held by the UK trustees.

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In all cases the investment must be securely owned by the pension scheme with no possibility that it could become an asset of another party.

Some pitfalls

If a pension scheme is classed as trading, it can be taxed on its profits by HMRC as a trading operation. An example of trading could be repeated buying and selling of properties for short term profit. Generally schemes should buy investments with the intention of holding them longer term.

If a scheme invests in a property investment limited liability partnership ("LLP"), it is taxed on the income and capital gains. Property investment LLPs are partnerships whose business is wholly or mainly investing in land and whose income is principally derived from this investment.

Prudent Investment

Finally, all investments should be on a commercial basis with due regard to the aim of the scheme to provide benefits.

In practice we aim to ensure this by listing above the investments which we regard as inappropriate. There may be other terms we would require for particular investments to be prudent, and we would let you know if this is the case.

Important points to consider

The value of pension funds may fall as well as rise. Your money is tied up until you take your benefits. Benefits can generally be taken any time after age 55, although this is due to increase to 57 in 2028.

Contact Details

If you'd like to speak to us about anything on this fact sheet, please contact us on:

T 0117 910 7910

We may record and monitor calls. Call charges will vary.

E enquiries@curtisbanks.co.uk

Please remember not to send any personal, financial or banking information via email as it is not a secure method of communication.

Accessing our services

If you experience difficulties accessing any of our services due to personal circumstances, we may be able to make some adjustments to help you. Please contact our Client Management Team on 0117 332 4080 or cmt@curtisbanks.co.uk to discuss any support adjustments that may be available to you.