CURTIS BANKS

GUIDANCE NOTE

UNLISTED SHARES

APPROVED FOR CLIENT USE | MARCH 2023

Summary

These notes summarise the rules for investment by SIPPs and SSASs into shares in unquoted private companies. This is a complex area and we will require completion of our Unlisted Shares Questionnaire before confirming whether a particular investment is acceptable.

You should also read our Schedule of Allowable Investments for a more general description of the rules on SIPP investments and Investment Notes for SSAS.

Limits on Investment

A SSAS may only invest up to 5% of its assets in the shares of a sponsoring employer (subject to an aggregate of 20% if there is more than one employer).

Apart from this restriction, there is in theory no upper limit on the amount of the fund which can be invested in an unquoted private company, and the company can be connected with the scheme member. However, you should carefully consider how much of your fund you wish to invest, particularly if the investment is very risky, or you are not accustomed to making this sort of investment, or if you would have little or no assets to fall back on if the investment was to fail. We can give more guidance in particular situations.

We have the right to decline investments or to restrict the amount of your pension assets which can be used for a particular investment and in some cases we will need to apply restrictions.

Tax avoidance

If the share purchase was not made for a genuine commercial reason (i.e. if it was done with the aim of avoiding tax) then HMRC can withdraw any tax advantages under general powers available to them in the Income & Corporation Taxes Act 1988. To avoid this risk, it is possible to obtain prior HMRC clearance for the purchase under section 707 of the Act.

Taxable Property

Pension schemes can be taxed heavily if they are investing, directly or indirectly, in “taxable property” as defined by HM Revenue & Customs. This is defined as residential property and “tangible moveable property” (cars, boats, art, antiques etc, but broadly anything which can be moved).

There is a risk that pension schemes could find that an investment in an unquoted private company results in them having invested into taxable property, because the company holds something which is classed as taxable property.

There are 2 ways of avoiding this risk:

1) If the investment is via a “genuinely diverse commercial vehicle”. These are explained in more detail in our Investments notes – broadly speaking they are investments which might genuinely hold taxable property.

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2) If the taxable property owned by the company:
   - has a market value of less than £6,000; and
   - is held solely for the purpose of management or administration of the company; and
   - cannot be personally occupied or used by the scheme member or anyone connected to them

This means that small items of equipment may not be caught by the taxable property rules, if they meet the above conditions. In practice, many items will not meet all these conditions, and the position may change over time, so this bullet point is unlikely to be a way of avoiding the risk of investment into taxable property.

As a result, our policy is not to allow investments which are seeking to rely on this exemption.

Liquidity

The market in the shares of an unquoted company may be restricted, or non-existent and the shares may be difficult to value at any point in time. A minority interest in an unquoted company may have very little value unless a buyer can be found.

This has consequences for the payment of benefits from the scheme. It may be necessary to sell investments when tax free cash sums and pensions are paid, and to liquidate the entire fund if an annuity is being purchased or benefits paid out on death. Difficulties in selling unlisted shares may lead to reduced benefits being payable.

When deciding to buy unlisted shares, consideration should be given to how they will be sold in the future. If there are definite potential exit routes, such as the planned flotation or sale of the company at a future date, this makes the investment more viable.

Registration

The shares must be registered in the names of all the trustees of the scheme, including our trustee company. We need to receive a copy of the share certificate.

Costs

Please refer to our Schedule of Fees for your SIPP or SSAS.

In addition to our fees, you may need to pay fees to other advisers, e.g. an accountant for valuing the shares and advising on their suitability.

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.

For enquiries related to the Suffolk Life MasterSIPP, the Suffolk Life SIPP or Your Future SIPP, please refer to our Ipswich office:
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We may record and monitor calls. Call charges will vary.
Please remember not to send any personal, financial or banking information via email as it is not a secure method of communication.