



## Private Client Law Bulletin

### PENSION TAX SIMPLIFICATION?

#### Chancellors Pre-Budget Report

As most people will be aware the pensions' industry has been gearing itself up for a "golden period", as it was widely anticipated that as from 6<sup>th</sup> April 2006 residential property purchase would become permissible for most forms of pension funds.

Gordon Brown however has had other ideas. In his Budget statement of 5 December 2005 he has announced that there will be no taxation advantages for registered self-directed pension schemes that hold residential property assets.

This amendment does not prevent a registered scheme from holding such an asset, but it may result in quite disastrous financial consequences should the scheme continue to hold such an asset or indeed acquire an asset in future.

In theory the taxation charge could amount to 82% of the value of the asset. This arises from a combination of an income tax charge at 40% on the member; a scheme sanction charge of 15% on the scheme administrator; an unauthorised payment surcharge of 15% on the scheme member; and a further 40% charge on the remaining value of the scheme assets should the scheme be de-registered for exceeding the 25% prohibited asset threshold.

Whilst the tax charge is reminiscent of those imposed by Dennis Healey in the Labour administrations of the 1970s, it is perhaps more disappointing that the whole industry was led to believe in consultation that this was likely to come to pass, to have the cup cruelly dashed from its lips at the 11<sup>th</sup> hour!

**If you would like an informal chat or require any specific advice in connection with the material contained in this bulletin, or on any other Private Client issues, please contact the Liverpool office on 0151 600 3451 or the Manchester office on 0161 836 8800.**

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