

# UNLISTED COMPANY SHARES

Your 'how to' guide



**SUFFOLK**LIFE

# Background

Since the introduction of the changes to pensions (often referred to as pension simplification) on 6 April 2006 it has been possible for SIPP's to invest in unlisted company shares.

There are a number of things that need to be considered before investing in unlisted company shares within a SIPP, in particular the possible taxable property charges that could apply if the investment does not meet strict criteria set out in the Finance Act 2004.

The following pages of this guide set out which Suffolk Life plans can invest into unlisted company shares and the criteria we have set for which shares we will accept.

This guide is intended for information purposes only. Its contents are not to be used as legal, financial or tax advice. The tax treatment and tax benefits are based on our understanding of current tax legislation.

## CAN MY SIPP INVEST IN UNLISTED COMPANY SHARES?

Unlisted company shares are an allowable investment option for investors with:

- » All MasterSIPP's set up from 15 March 2010;
- » Non-protected rights benefits of MasterSIPP's set up before 15 March 2010.

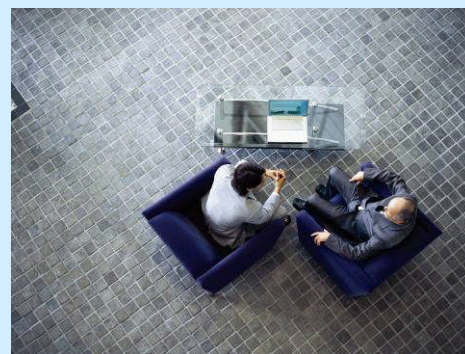
Unlisted company shares are not an allowable investment for the assets held by Suffolk Life Annuities Limited (SLA). This includes the following:

- » Protected rights benefits of MasterSIPP's set up before 15 March 2010; and
- » The Suffolk Life SIPP (deed poll SIPP) which closed to new business at the end of December 2007.

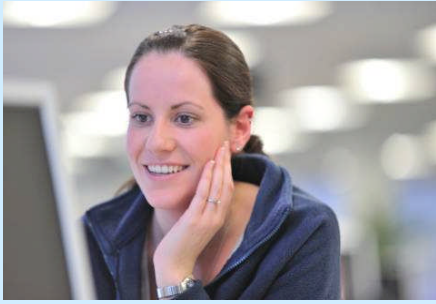
The reason for this is that SLA as an insurance company is subject to additional regulatory rules on the assets that it can hold.

PLAN START DATE	SIPP TYPE	BENEFIT TYPE*	UNLISTED COMPANY SHARES?
After 15 March 2010	MasterSIPP	NPR and/or PR	Allowable
30 October 2007 to 15 March 2010	MasterSIPP	NPR rights only; or NPR and PR rights held together	Allowable
30 October 2007 to 15 March 2010	MasterSIPP	PR rights held separately	Not allowable
Before 31 December 2007	Suffolk Life SIPP (deed poll)	NPR	Not allowable

\* NPR – Non-protected rights, PR – Protected rights



There is a clear need for advice when considering unlisted company shares in a SIPP. There are a number of things that need to be considered in great detail and your adviser will be best placed to understand your circumstances.



You can contact our Asset Transfer team using [allowableinvestments@suffolklife.co.uk](mailto:allowableinvestments@suffolklife.co.uk).



## INVESTMENT MANAGERS

Investment manager and stockbroker accounts must comply with certain core requirements.

For further information on investment managers, please visit our website at [www.suffolklife.co.uk](http://www.suffolklife.co.uk) or alternatively email our Investment Manager Account Opening Team at [imteam@suffolklife.co.uk](mailto:imteam@suffolklife.co.uk)

# What we allow

We will need to be confident from the outset that the assets you wish to purchase are allowable in your MasterSIPP.

## ALLOWABLE INVESTMENT CRITERIA

We will allow unlisted company shares which meet the following criteria. You will be required to provide us with evidence of these requirements (please see page 6 for further details on the allowable investment assessment procedure).

- 1) Company must be incorporated in the UK;
- 2) Must be a trading company;
- 3) Must be ordinary shares (we do not allow preference shares or bonds);
- 4) Shares must be freely transferable to another eligible investor and must not be subject to any shareholder agreements.

You will need to arrange for the shares to be purchased and held by an investment manager or stockbroker account established within the SIPP, Suffolk Life will not hold unlisted company shares direct.

## OTHER REQUIREMENTS

You must meet the following criteria. You will be required to sign a declaration that includes these (please see page 6 for further information on the unlisted company shares investor agreement).

1. You and your connected parties must not own 20% or more of the company;
2. You and your connected parties must not be controlling directors of the company;
3. The purpose or one of the purposes of holding shares in the company must not be to enable you or your connected parties and concert parties (a group of people acting together in order to take over or control a company) to have personal use of any assets of the company.

A controlling director is defined in schedule 29A of the Finance Act 2004 (as inserted by Schedule 21 of the Finance Act 2006) which is available at [www.opsi.gov.uk](http://www.opsi.gov.uk). This basically means a director who, either alone or in conjunction with any associates, controls over 20% of the share capital of a company.

Connected parties are defined in section 993 of the Income Tax Act 2007 available at [www.opsi.gov.uk](http://www.opsi.gov.uk) and, for example, could be:

- » your husband, wife or a registered civil partner;
- » your brothers, sisters, parents, grandparents, children, grandchildren and their husbands, wives or registered civil partners;
- » the brothers, sisters, parents, grandparents, children, grandchildren of your husband, wife or registered civil partner - and their husbands, wives or registered civil partners
- » certain trustees
- » a company you control
- » concert parties.

## TAXABLE PROPERTY RISKS

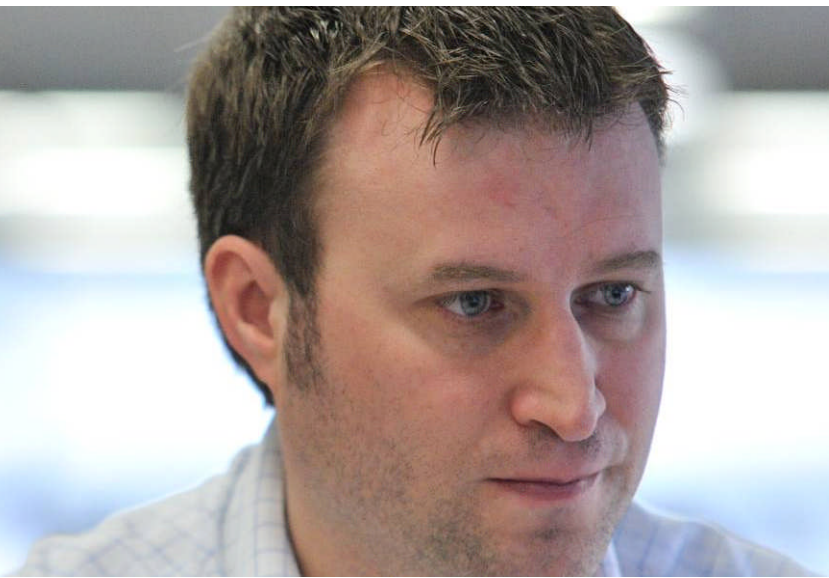
Although unlisted company shares are an allowable investment within our MasterSIPP, unless strict requirements set out in the Finance Act 2004 are met, an investment into unlisted company shares is an investment into taxable property.

Where this is the case, substantial tax charges would be imposed by HMRC. Firstly there is an initial tax charge based on the value of the taxable property, potentially up to 70% of that value. On an ongoing basis there is tax on any income which the asset produces (or on deemed income and profits if there is no income) and tax on any capital gain eventually realised.

The allowable investment criteria detailed above have been set to limit the possibility of an investment into taxable property.

We do not give advice and for this reason we strongly urge you when considering unlisted company shares as an investment choice within your SIPP to seek advice from a financial adviser.

# Valuation of shares



**As unlisted company shares often do not have readily available valuations, we will use the book cost, any subsequent open market value or the latest traded price if available in annual statements and any other statements.**

If we have not received a recent valuation then this value may be significantly out of date and not necessarily represent the true value of the shares.

## FORMAL VALUATIONS

There may be times when we will require information on the then current market value of the shares. For example on a Benefit Crystallisation Event when you start to take benefits the current open market value\* of your SIPP is required. It is likely that the use of a specialist professional valuation firm to provide this will be required.

Similarly where shares are purchased from you personally or one of your connected parties an open market valuation is required to set the value for the transaction.

Where a valuation is required, it is your responsibility to source an independent professional valuer to carry it out.

\* The market value required is a price that those assets can reasonably be expected to fetch on a sale in the open market (section 272 of the Taxation of Chargeable Gains Act 1992).

## DEFAULT VALUATIONS

In the event that you fail to appoint a suitable valuer, we will appoint a valuer of our choice to carry out the valuation. The costs associated with valuing the shares will be paid from your SIPP.

## VALUATION FIRMS

Any professional valuer used to provide a valuation for unlisted company shares must not be connected with you. The costs levied by such professional firms can be significant in comparison to the value of the shares.

## VALUATION FEES

Where it is necessary to employ a professional valuer to value the shares held, the costs associated will be charged to your SIPP.

Valuation fees can be significant; fees of £5,000 to value a single company may not be uncommon. Please note, this figure has been provided as an indication only and it is possible that valuation fees may be considerably higher.

We suggest that an adequate cash balance is retained in your SIPP when making investments into unlisted company shares to cover the eventuality that a formal valuation is required.



# Costs for unlisted company shares

**Before you commit to the purchase of unlisted company shares, you should consider the costs involved. The information on this page gives an indication of the costs in addition to any valuer's fees which apply to purchasing and holding unlisted company shares.**

## **SUFFOLK LIFE FEES**

Due to the increased administration involved, we will levy a one off fee of £300 to enable your SIPP to invest in unlisted company shares. This fee is subject to VAT and is charged at the time of receipt of the Unlisted Company Shares Investor Agreement (please see the following pages for further information on this agreement).

Our standard fees will apply for the purchase of unlisted company shares and ongoing administration of your SIPP. Please see our schedule of fees for further information.

Please note, our fees do not cover the cost of valuations or other legal fees which are to be paid from your SIPP.

In addition, we reserve the right to levy a time charge for any work required by us in the following situations:

- » Where a valuation of the shares is required
- » Where a holding is subject to the taxable property charges.

## **INVESTMENT MANAGER FEES**

As all unlisted company shares must be purchased and held by an investment manager account, it is worth bearing in mind that your investment manager may also levy a fee.

For further information on the fees that may apply, please contact your investment manager directly.



## **STAMP DUTY**

Stamp duty applies to the purchase of all shares and these costs will be borne by your SIPP.



# Process for purchase of unlisted company shares

**Before an investment into unlisted company shares proceeds you must have checked that the shares are allowable. The Unlisted Company Shares Investor Agreement must also be signed and sent to us. This agreement is only required from you once and covers all unlisted company shares held within your SIPP.**

In addition we must check if each unlisted company investment is allowable and confirm that the agreement is acceptable before the investment proceeds. An account with your chosen investment manager will also need to have been set up.

Once the above is done you will then need to arrange for your chosen investment manager to purchase the investment.

## CHECK INVESTMENT IS ALLOWABLE

It is your responsibility to ensure that the investment meets our criteria for allowable unlisted company shares as described on page 3 and that we have confirmed this.

In order to confirm that an unlisted company share meets our criteria we require the following information:

- » The articles and memorandum of association;
- » Certificate of incorporation;
- » Any other document which confirms that the investment meets the allowable investment criteria, such as a letter from the company secretary.

Please send the above information scanned to [allowableinvestments@suffolklife.co.uk](mailto:allowableinvestments@suffolklife.co.uk). Alternatively you can send photocopies by post to Asset Transfer team, Suffolk Life, 153 Princes Street, Ipswich, Suffolk, IP1 1QJ. We aim to respond to allowable investment queries within three working days.

## SIGN UNLISTED COMPANY SHARES INVESTOR AGREEMENT

To hold unlisted company shares in your SIPP you must sign an Unlisted Company Shares Investor Agreement. This agreement is a necessary document which highlights the costs, risks and your responsibilities associated with the purchase of unlisted company shares.

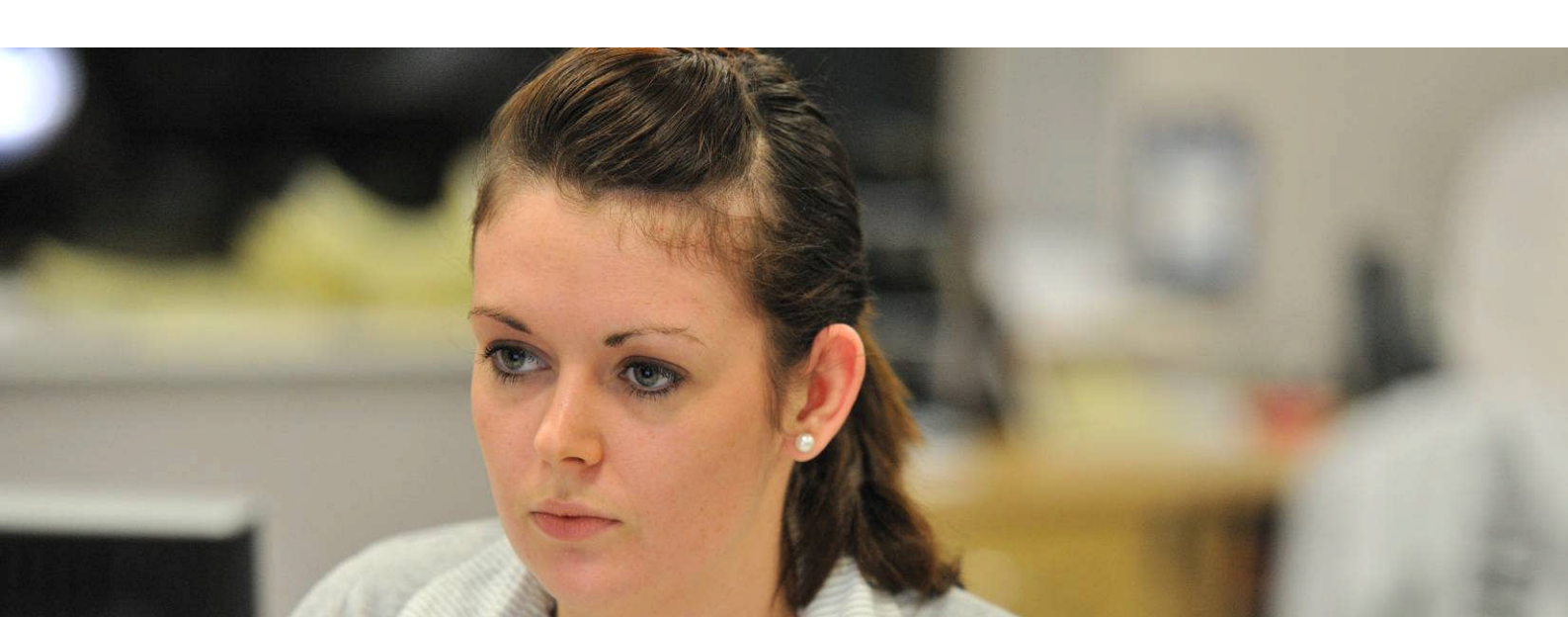
Once you have signed the agreement, please return this to us. We will confirm receipt of the completed agreement and send a letter of acceptance to you within three working days of receipt of the agreement.

## PURCHASE VIA INVESTMENT MANAGER

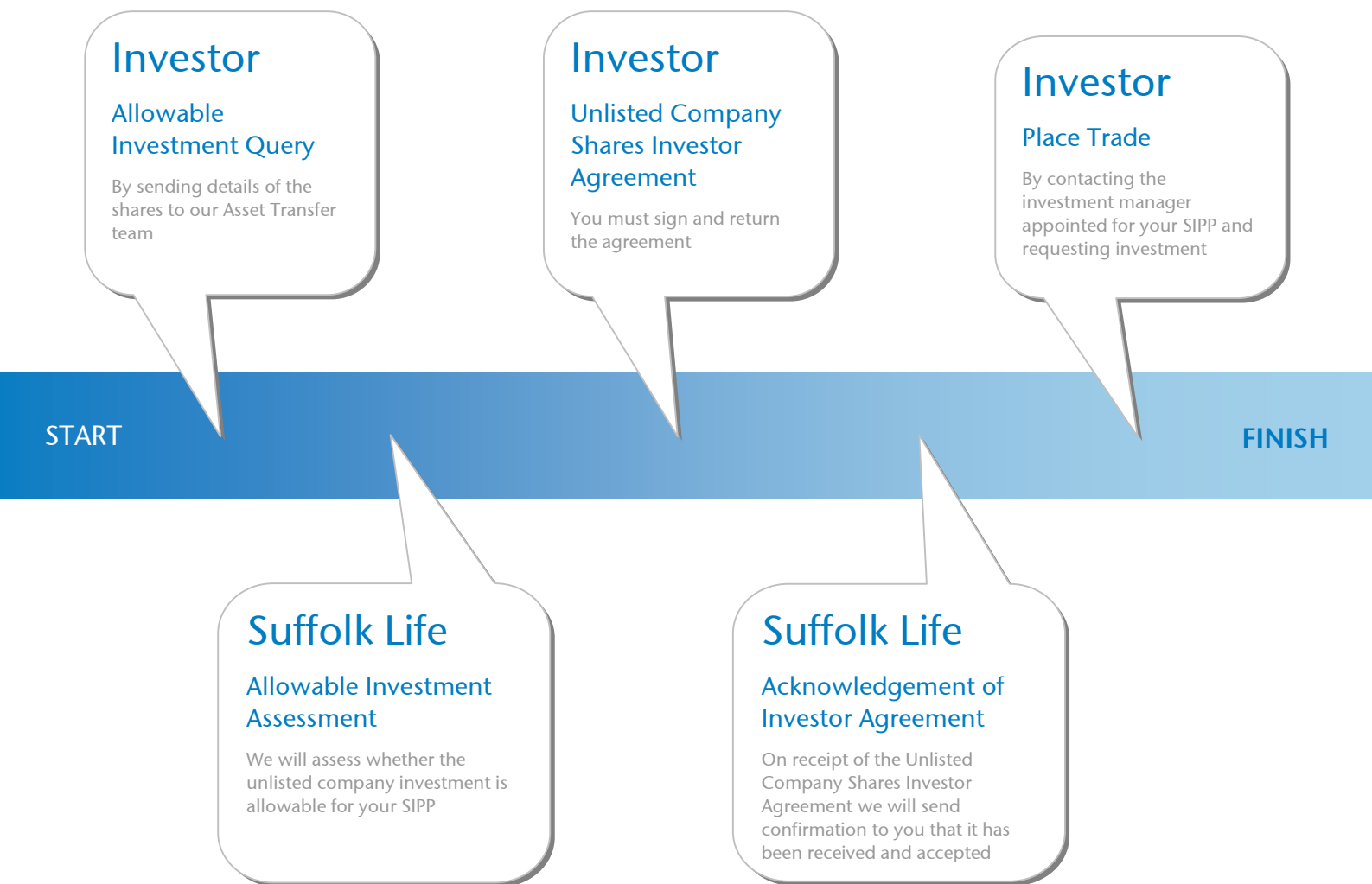
You can instruct the investment manager appointed for your SIPP to purchase the shares once the following have been completed:

- » An account with the investment manager of your choice has been opened on behalf of your SIPP;
- » We have confirmed that the unlisted company shares meet our allowable investments criteria;
- » You have confirmed that you and your connected parties meet the requirements set out in the allowable investment criteria; and
- » We have confirmed that we are in receipt of the completed agreement.

If you are purchasing shares from your personal holding or from a connected party, additional conditions apply. In particular, such transactions must be carried out at market value as described on page 4. For further information on connected party transactions please see our connected party transactions factsheet. This is available on our website or by contacting the Asset Transfer team on 01473 296825.



# Process Timeline



Suffolk Life is the trading name of Suffolk Life Pensions Limited (registered in England and Wales number 1180742) and Suffolk Life Annuities Limited (registered in England and Wales number 1011674).

Both companies are authorised and regulated by the Financial Services Authority.

Suffolk Life operates and administers self-invested pensions and similar pension products.

The registered address of both companies is 153 Princes Street, Ipswich, Suffolk, IP1 1QJ

Tel: 0870 414 7000 Fax: 0870 414 8000

Telephone calls to Suffolk Life are recorded for training, monitoring and fact verification purpose

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