Property purchase case study

A case study

Mr & Mrs Williams run a successful florist as a partnership from a busy rented high street location. They have outgrown the existing premises and are now considering purchasing their own business premises. They have been advised that they can use their pension funds to achieve this.

The facts

- Mr & Mrs Williams each have £100,000 in their existing personal pensions
- The proposed shop is valued at £240,000 which can be purchased using their personal pension funds
- They will each need to establish a SIPP
- Their SIPPs can each borrow up to an additional £50,000 being 50% of the net value of their respective SIPPs.
- This can be used to meet the purchase price and other associated property purchase costs such as solicitor and surveyor fees, stamp duty land tax (SDLT) and VAT, if applicable.

The Process

Mr & Mrs Williams complete a Commercial Property Questionnaire

- The details to ensure the property is acceptable and there are sufficient funds to cover the property purchase and associated expenses> They each establish a SIPP and arrange for the funds from their personal pensions to be transferred
- The SIPP provider sends instructions to the solicitor named on the Commercial Property Questionnaire who is to act for the SIPP Trustees.
- Mr & Mrs Williams need to arrange a valuation from a surveyor to confirm the market rent that will need to be paid; the surveyor must be a Registered Valuer of the Royal Institution of Chartered Surveyors (RICS), who is either a Member (MRICS) or Fellow (FRICS). Their capital valuation report and rental valuation opinion should comply with RICS professional standards
- Mr & Mrs Williams arrange commercial mortgages through their bank which will help to fund the property purchase
- Once the 30-day mandatory SIPP establishment transfer cancellation period has expired, the funds in the SIPP, along with the agreed mortgage loans, can be used to complete the property purchase
- The solicitor draws up a commercial lease for the rental of the florist shop to the partnership
- The SIPPs then pay for the property and associated costs.

The Result

- Once in the property Mr & Mrs Williams pay the rental income to their SIPP which is applied to each SIPP's cash account on a 50:50 basis and is used to pay off their respective mortgages
- The joint property acquisition isstructured through a Declaration of Trust with the document recording the ownership split
- Mr & Mrs Williams can use their own solicitor, surveyor and insurer
- They can also manage their own property
- Purchasing their own business premises provides tax efficient arrangements for Mr & Mrs Williams -please see overleaf.

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Tax efficiency

- Tax free fund – Capital Gains Tax is not applicable to the SIPPs
- Rent is paid into the couple's own pension plans rather than to a third party
- Rental payments are treated as an expense of the couple's business
- Rent received into the SIPPs is free from Income Tax
- The property is outside the member's estate for Inheritance Tax.

Additional information

- Once the mortgage is paid, the ongoing/surplus rent and contributions continue to build the retirement fund and can be used for other investments and to pay benefits when the couple wish to retire
- Should the business fail then the property will be protected from creditors
- Clients can manage the own commercial property but this can be provided by full property management services, if required, for an additional cost
- Transactions between connected parties, such as the vendor or tenant, are allowed provided they are conducted on an 'arm's length' commercial basis and an independent valuation is undertaken. Valuations must be carried out by a Registered Valuer of the Royal Institution of Chartered Surveyors (RICS) whose report and opinion should comply with their professional standards

Notes:

- Thank you to Dentons for providing the information within this case study

- The value of your investments can go down as well as up, so you could get back less than you invested", "
- A pension is a long term investment.
- The fund value may fluctuate and can go down" and "Your eventual income may depend on the size of fund when accessed, interest rates and legislation.
- Taxation advice and some Commercial Mortgages are not regulated by the FCA

- All statements concerning the tax treatment of products and their benefits are based on our understanding of the current law and HM Revenue & Customs (HMRC) rules. These are for general guidance only and do not constitute professional advice. The tax treatment depends on the individual client circumstances and may be subject to change. Whilst every effort has been made to ensure accuracy, no liability can be accepted for any errors or omissions
- If VAT may be applicable, you should seek specialist advice

- Whilst the names used in this case study are fictitious, the processes described have been used in actual cases
- Every care has been taken to ensure that the information provided is correct and in accordance with our understanding of current law and HMRC rules, which are both subject to change.

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