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# SIPP property purchase case study

This document is provided for use by professional advisers in conjunction with products provided by Talbot and Muir. The information in this document is based on our interpretation of the relevant HMRC guidelines, which are subject to change.

## Overview

The below guide offers an example and some guidance as to the benefits of purchasing a commercial property via a pension scheme, and further property literature can be found on our website: www.talbotmuir.co.uk

## Funding the purchase

- Contributions (personal/employer and can utilise carry forward if available)
- Transfers from other registered pension schemes
- Borrowing – up to 50% of net value of the SIPP/SSAS
- SIPP/SSAS is able to borrow funds from member or connected party
- Part purchases are permitted if the scheme is unable to purchase the whole property

## Advantages of SIPP/SSAS property investment

- Tax relief on contributions
- No tax on rental income
- No capital gains liability on asset sold within scheme
- If the client is also a tenant, rent paid to the SIPP tax deductible from trading profits
- Generally, SIPP/SSAS assets are outside of the reach of creditors
- In most circumstances assets held in SIPP/SSAS fall outside of estate for IHT purposes and can be passed down through the generations

## What type of property can you purchase with a SIPP or SSAS?

- Commercial property including offices, retail units, industrial units
- Freehold and long leasehold premises
- Land purchases (commercial, agricultural and development)
- Residential property is not permitted or anything suitable for use as a dwelling

# Key considerations

Connected transactions such as sale and leaseback deals must be supported by independent valuations by a suitably qualified surveyor.

VAT – SIPP and SSAS may be registered for VAT in order to recover tax on the purchase and/or any property development. Once a property is elected, VAT must be charged on ongoing rent. It is important that VAT advice is provided by a qualified individual.

# Example – client purchasing their business property

David recently received his annual statement from his pension provider, and presented this to his financial adviser at their annual review meeting. It was noted that his fund had increased to £250,000.

David mentioned that he would like to explore the possibility of purchasing the company's commercial premises via a pension fund, in order to boost the return on his pension assets and also to provide a cash injection to the business and help with its development. His adviser mentioned that David should consider transferring to a SIPP, which would give him the flexibility to purchase the property with his pension funds.

The property had been elected for VAT following development works undertaken several years ago. David consulted with a VAT expert, who confirmed he would be able to register the SIPP for VAT in order for the SIPP to reclaim the tax payable on the purchase price.

As HMRC would deem this to be a connected transaction, David instructed a RICS qualified surveyor to value the property. The property was subsequently valued at £200,000 and the solicitor provided the following completion statement once searches had been completed and a completion date had been agreed:

- Property purchase price: £200,000
- Stamp duty: £1,800
- VAT @ 20%: £40,000
- Legal costs (incl. VAT): £2,400
- Disbursements: £200
- Annual SIPP fee (incl. VAT): £984
- SIPP property purchase fee (incl. VAT): £960
- Total: £246,344

The property was insured by the trustees via a specialist block insurance scheme designed specifically to cover trustee owner's risks.

An arm's length lease was also put in place between the SIPP and David's business, the rental value being confirmed within the independent valuation.

**Outcome:** The SIPP receives (tax free) future rental income from David's business as the tenant as per the terms of the commercial lease. The residual funds can then be invested into another investment product within the SIPP wrapper (e.g. a DFM) via a standing order set up to transfer rental payments at quarterly intervals.

- The SIPP is able to reclaim the VAT payable on the purchase.
- No Capital Gains Tax liability if/when asset sold within the pension.
- David's company receives £200,000 (net of VAT) which they can use to aid their expansion.
- The property is now off the company's books and generally would be outside of the reach of creditors.
- The property also falls outside of David's estate for IHT purposes and property can be passed down generations.

# Business development team

Other useful guides can be obtained from our Adviser Support Team:

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