

# Case study - SIPPs and agricultural land

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## With many farmers and landowners struggling to make ends meet, we show that it isn't just office buildings that are suitable for SIPPs.



Together with his son, William farms over a thousand acres in Kent. Like many farmers William has struggled with rising costs combined with falling prices for both livestock and cereal. William's family has been farming for generations, and he wants to eventually hand

over the farm to his son. His wife Louise has been working for many years to help make ends meet. Although retirement is not yet an option for them both, it is fast becoming a consideration.

They meet with their financial adviser Tony to discuss their financial situation.

### The SIPP option

Having conducted a full review of their circumstances, Tony outlined the potential benefits of using a SIPP to purchase part of the farmland in order to free up some cash for him and his wife.

He was able to show to William that by consolidating his existing pension policies, totalling around £200,000, into a SIPP he could take greater control over his pension. Both were also pleased to find that after her years at work, Louise had also managed to accrue a £100,000 pension fund made up of both protected and non-protected rights. Between them, Tony explained how they could purchase some of their farmland through a connected party transaction.

Tony explained some more of the detail to the couple. Whilst the farmland and the associated commercial buildings could be purchased by the SIPP, the family home and its garden could not; neither could any of the livestock or crops. William asked about his farm machinery, into which he'd invested a significant amount over the years, and Tony told him that would not be feasible because it would incur significant tax charges on the SIPP.

Tony outlined how they as a couple could transfer their existing pension funds into SIPPs, and then sell part of their farmland to their SIPPs at market value. The sale proceeds received from the SIPPs would increase the cash flow of the business to tide them over and help increase efficiencies on the farm. In addition, Tony explained that the transaction would be classed as a disposal for capital gains tax (CGT) purposes and that stamp duty land tax would be payable by

the SIPPs on the purchase price.

### Retaining control

William and Louise would enter a tenancy agreement with the SIPP provider, paying a market rent in return for use of the land.

The rent paid by William and Louise would be a tax deductible expense of their business and would also be received by the SIPP, free of any tax.

At first, William was concerned that he would lose control over the land. However, Tony assured him that, although he would no longer be the legal owner of the land, the SIPP provider would follow their instructions provided they complied with HMRC rules. The land would be separated from his home and removed from the business and hence if the business was to fail the land would be not become available to any creditors.

### Death benefits

William still had some doubts over what would happen when he eventually passed away, and what would happen to the land. Tony explained it depended on whether or not he had taken any benefits and what expression of wish he left. The assets could be used to provide his wife an income or the pension assets could be passed to his son. There would be a tax charge if he had already taken benefits. A combination of the two would also be an option. If Louise continued to take an income from the pension the remaining assets could be left to her son on her death subject to a tax charge.

### Summary

Retaining control was important to William, and he was reassured. Tony showed them how their financial positions would change.

#### Before

William and Louise both have various pension funds with a number of providers, totalling £300,000.

#### After

William and Louise both have SIPPs, which own farmland with a total value of £300,000.

£300,000 cash, less any CGT, has been released to them.

They pay an agreed market rent to the SIPPs for the land

they farm.

# Other options.

## Succession planning

William and Louise's son, Dan has started saving into his own pension plan. Once he has built up a significant fund he will be able to use a SIPP to purchase some of the land from his parents' SIPPs. This will free up cash within the SIPPs to enable the payment of benefits in a form to suit William and Louise. In addition, Dan will eventually be able to own the whole farm in his SIPP or join his funds with his future spouse to keep the farm in the family.



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