

# Case study - Joint nominee property purchase

Case study | March 2010

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## Current SIPP borrowing limits have meant that more and more investors are looking to purchase property jointly.

The relaxation of the rules surrounding connected persons has made it easier for an investor to make a property purchase through a SIPP along with another party.

### Arranging the purchase

Stephen and Graham are brothers. Together with their father Alex they are considering a joint purchase of a commercial property they have seen, with a good rental yield, available for £600,000. Each of them has quite different individual financial positions. They have therefore met with an accountant who has referred them to Adam, a financial adviser, to discuss the options on how best to make the purchase.

For the purposes of simplicity it is assumed that the purchase price of £600,000 includes costs and disbursements associated with the purchase.

Adam takes the time to review each of the family in person, and is soon able to verify that their individual circumstances are indeed quite different. He learns that despite being a high earner Stephen has little in the way of pension provision but he does have a high level of cash from a recent bonus, whereas Graham has already built up £200,000 via his money purchase pension. The father Alex is 77 years old, already retired and in receipt of his pension from annuities.

Stephen would like to make plans to fund his eventual retirement whilst Graham would like to take more control over his. Their father Alex would like an investment to give him a better return on his capital to supplement his annuities. Adam outlines a number of options to the three of them, and thinks a SIPP may be the most tax advantageous way forward to meet all of their needs and still acquire the property via a nominee route.

Adam explains that based on his earnings Stephen could contribute a lump sum £80,000 to a SIPP and benefit from £20,000 in tax relief. Outside of this he could also claim back additional tax relief in his annual self assessment. Graham can transfer his £200,000 pension fund to a new SIPP. The father Alex however really only wants to invest £150,000 of his savings into this project and is too old to consider a pension. With £100,000 + £200,000 + £150,000 = £450,000 they are short of the purchase price.

### Before borrowing

	Within the SIPP	Outside the SIPP
Stephen's SIPP	£80,000 + £20,000 = £100,000	£0
Graham's SIPP	£200,000	£0
Alex	£0	£150,000
TOTAL	£300,000	£150,000
	OVERALL TOTAL	£450,000

Adam suggests that they borrow the remaining £150,000 to fund the acquisition. Whilst at his age the father Alex is not interested in this, Adam explains that each of Stephen and Graham's SIPPs can borrow up to 50% of their value. A commercial loan for £150,000 is raised via the nominee route, and the trust deed allocates £50,000 of the debt to Stephen's SIPP and £100,000 to Graham's.

### After borrowing

	Within the SIPP	Outside the SIPP
Stephen's SIPP	£50,000 + £100,000 = £150,000	£0
Graham's SIPP	£100,000 + £200,000 = £300,000	£0
Alex	£0	£150,000
TOTAL	£450,000	£150,000
	OVERALL TOTAL	£600,000

# Joint nominee property purchase (cont.)

## Ownership and debt

Adam makes sure that each party understands the distinction between their share in ownership and their share of debt. He makes it clear that whilst Alex has a beneficial ownership of 25% (and thus 25% of the rent apportionment) he has no debt. Graham's SIPP on the other hand has a beneficial ownership of 50% and therefore 50% of the rental income, but is responsible for 66.7% of the debt. Stephen's SIPP owns 25% beneficial share but is responsible for 33.3% of the debt.

	Share of ownership	Share of debt
Stephen's SIPP	25%	33.3%
Graham's SIPP	50%	66.7%
Alex	25%	nil

## The future

At his age, Alex is unsure how long into the future he will want to keep the property, but he is happy in the knowledge that his sons can buy his share from him in whole or in part at market value at any point in the future, either via their SIPPs or as individuals. Adam advises that the trust deed will need to be updated to reflect this and solicitors will need to be instructed to deal with the transfer.