

Case study - Releasing money from property

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Using existing assets and pension funds to ease cash flow.

Mark is the owner of MRG Limited, a small construction firm. Due to poor movement within the industry, his business is struggling and he is finding himself unable to pay his material suppliers.

The office where Mark's company is based is owned by MRG Limited and Mark hopes he may be able to release equity from the property to help the business out.

Mark meets with his financial adviser, Jane, for advice.

What can a SIPP do?

Mark currently has money invested in a few different pensions, altogether totaling in excess of £100,000. All of these schemes are performing poorly and haven't given Mark a great deal of return over the years.

Jane primarily recommends he consolidate his plans into one SIPP, allowing more control over his pension. She informs Mark that in doing this, it is possible for him to 'sell' some or all of his property to the SIPP, leaving him with some money to use for his business.

Mark enquires as to whether it is possible to do a similar thing with the machinery he owns for his business, but Jane states it would not be feasible as it would incur significant tax charges.

Jane also explains that the transaction would be classed as a disposal for Capital Gains Tax purposes and that stamp duty would be payable by the SIPP on the purchase price.

Together they discuss the value of the property and how much Mark would need to help his business along at this difficult time. He decides £100,000 would be sufficient. His property is worth £400,000, meaning he would have to sell 25% of his offices to his SIPP.

What happens next?

Jane and Mark take legal advice and decide that Mark's company should be the nominee in the process, holding the property in its name with 25% of the beneficial interest allocated to Mark's SIPP. The remaining interest belongs to the company itself.

The rent paid for the 25% SIPP-owned property is passed to the SIPP and would be a tax deductible expense of the business. It would also be received by the SIPP, free of any tax. The rent would continue to build the fund, Mark could make further investments with this or build up enough to bring further tranches of the property into the SIPP.

25% of the property would be removed from the business, so if the business were to fail that portion of the property would not be available to creditors.

Death benefits

Mark had planned on leaving his business in the hands of his son when he passes away. However, in leaving 25% of the business's premises owned by his SIPP, he's worried about the possibility of this.

Jane explained that 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 partner with an income or the pension assets could be passed to his son, with a tax charge if he had already taken benefits. A combination of the two would also be an option. If his partner continued to take an income from the pension upon Mark's death, the remaining assets could be left to their son on her death subject to a tax charge. If either Mark or his partner were over 75 on their death any remaining assets incur high tax charges when paid out to a beneficiary.

Summary

Jane shows Mark how his financial position will change if he follows her suggestions.

Before

Mark has a spread of pension funds totaling in excess of £100,000, which are not currently performing to his satisfaction.

He also owns a business property worth £400,000, but his business is struggling with cash flow in the current market.

After

Mark consolidates his funds into a SIPP, which now has a 25% interest of his property. The plan's value is still just over £100,000 after taking account of fees including stamp duty.

£100,000 cash, less any Capital Gains Tax, has been released to him to use as he wishes.

He pays an agreed market rent to the SIPP.

Where can I get more information?

For more information on this topic, please see our case study, Joint nominee property purchase at www.suffolklife.co.uk/casestudies

Factsheets are also available regarding property purchase and development at www.suffolklife.co.uk/factsheets

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