

Case study - Succession planning

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Peter is wishing to take his tax-free cash but the only asset of his SIPP is property.

Peter's company, Wakeley & Co, has successfully been in business since 1971.

Aged 62, Peter is looking to start winding down and initially become part time with a view to retire fully and maybe sell his business in about 5-10 years. Peter has a substantial pension which purchased a property a number of years ago from which he runs his business. Peter used the majority of the remaining cash within his SIPP and some accumulated rent to renovate the property last year and hence there is no liquidity in the fund to pay his pension commencement lump sum or an income to replace all of his earnings as he winds down.

Peter consults Sarah, his financial adviser who also advises his children, to discuss the issue.



Sarah realises Peter is in a good position in that he owns his company's property through a Suffolk Life MasterSIPP. The MasterSIPP is unusual because the property is held through a Trustee Investment Plan (TIP) with Suffolk Life Annuities Limited (SLA), and SLA is therefore the owner of the property. Sarah suggests that Peter sell his SIPP's property to his children through their own SIPPs so that he can release money in order to take benefits from his SIPP.

Fortunately, his daughter Kim already has her own SIPP with Suffolk Life which she has been contributing into since her late teens. David, his son, has a few different pensions. Since these are the two children who are most interested in Peter's business plans, Sarah explains that if David were to consolidate his pensions into one Suffolk Life SIPP, then Kim and David would be able to use their SIPPs to purchase some or all of the property from Peter's SIPP. Because of the TIP arrangement there will be no change to the legal or beneficial ownership of the property. Instead, Suffolk Life will reallocate the SIPP plans for which the property is held in accordance with the investments made by David and Kim's SIPPs.

Process

As there is no change in ownership of the property, there would be no stamp duty charged, nor any VAT implications. However a valuation would be needed to ensure the internal reallocation took place at market value. Suffolk Life provides all the paperwork for the process ensuring the property is allocated correctly between the SIPPs. Suffolk Life will not require the involvement of a solicitor, though the investors have the right to take legal advice should they wish.

Peter has some doubts. Even though he is considering retirement, he would still like to work part time in the business and therefore wishes to still have some control over the property. He also worries that his children might not be able to afford the whole price of the property outright.

Sarah reassures both of Peter's doubts by explaining that it is not necessary for Kim and David's SIPPs to purchase all of the property at once; they could own 25% each for example, leaving Peter's SIPP with 50%. This allows Peter's SIPP to still own half of the property and releases 50% of the fund for his retirement.

Sarah further explains that due to the flexibility of the MasterSIPP, each child's SIPP could own a different amount. For example, Kim's SIPP could own 20% and David's SIPP could own 60%, releasing a significant proportion of the property value to Peter's SIPP to use as his pension and still allowing his SIPP to hold 20% of the business' premises.

Peter and his two children would enter into a group investment agreement which sets out the agreed ownership proportions between their SIPPs. It also sets out the process to be followed in the event of a death or if one of them wishes to dispose of their SIPP's share.

Fees

Peter is concerned about the cost of the process. Sarah reassures him that because Suffolk Life have conducted many re-apportionment exercises, they have managed to get their cost typically between £500-£700. This is payable from the SIPP funds involved in the re-ownership. The valuation charge is in addition but Peter sees this as quite reasonable.

Summary

Peter is now able to retire at his own pace and even remain partially invested in the property until he chooses to buy an annuity.

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