

CASE STUDY

March 2011

PURCHASE OF VETERINARY PREMISES

More and more business owners are buying their business premises with their pension funds.

This describes Suffolk Life's approach and structure to pension property purchase and management. For full details of fees, key features and more, refer to our Suffolk Life Property Guide.

Approved for use with clients.

This factsheet is intended for information purposes only. Its contents are not to be used as legal, financial or tax advice. The tax treatment and tax benefits are based on our understanding of tax legislation at the time of issue.

Key points

Facts

- » Three investors wish to purchase a property worth £425,000
- » They each have approx. £100,000 in their pension funds

How

- » Investor's SIPP purchases £150,000 of the property including fees, using £100,000 of their fund and £50,000 borrowing each

Outcome

- » They each transfer to a Suffolk Life MasterSIPP to purchase the property, borrowing to make up the shortfall

Benefits

- » Ownership of their business premises through their SIPPs
- » Growth in value of the property is capital gains tax free and rent is paid to the SIPPs to repay the mortgage

Background

Paula has been a vet for over 15 years, working in a local practice with two other partners. Together they lease the premises, and have been made aware by their landlord that he intends to sell it.

They are coming to the end of their lease and Paula and her partners are concerned that a new owner may have different plans for the site, and they do not want to move. The property is on the market for £425,000.

Paula consults her financial adviser, Richard, on her options.

What can be done?

Richard conducts a review of Paula's situation – it was some years ago that Paula last saw him.

Richard's review of the veterinary practice's accounts quickly shows that the business is profitable, but that a move to different premises combined with a higher rent could quickly reverse that position.

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Looking at Paula's personal position, he finds that she has built up combined pension funds of just over £100,000. Having handled a premises purchase for a local dentist, Richard asks Paula if she had considered buying the surgery herself.

Paula hadn't considered this, as she thought that £425,000 was too much for her and the partners to manage. She had not considered that she might be able to use her pension to make the purchase.

Following a full review of all 3 partners' circumstances and pensions Richard sees that each partner has over £100,000 in their pension fund. He delivers an overview of a possible solution.

Overview

Richard explains that by transferring their pension funds to individual SIPPs, they could use these funds jointly. Then utilising the borrowing facility from their new SIPPs they could purchase the building.

They would still need to pay rent however it would now be payable to their own pensions, therefore contributing towards their own retirement funds. The rent could also be used to repay the borrowing.

Richard explains that their pensions can borrow up to 50% of their net value, so a further £150,000 could be raised to put towards the purchase. They're much happier with this arrangement, and agree to make the purchase.

The detail – how it works

Richard recommends that Paula and her partners each establish a Suffolk Life MasterSIPP, and arranges to transfer their pension funds into it from their old pensions. He searches for the best borrowing arrangement, and instructs Suffolk Life to acquire the property on behalf of the three SIPPs.

Suffolk Life is happy to work with Richard's choice of lender, and also with the partners' choice of solicitor.

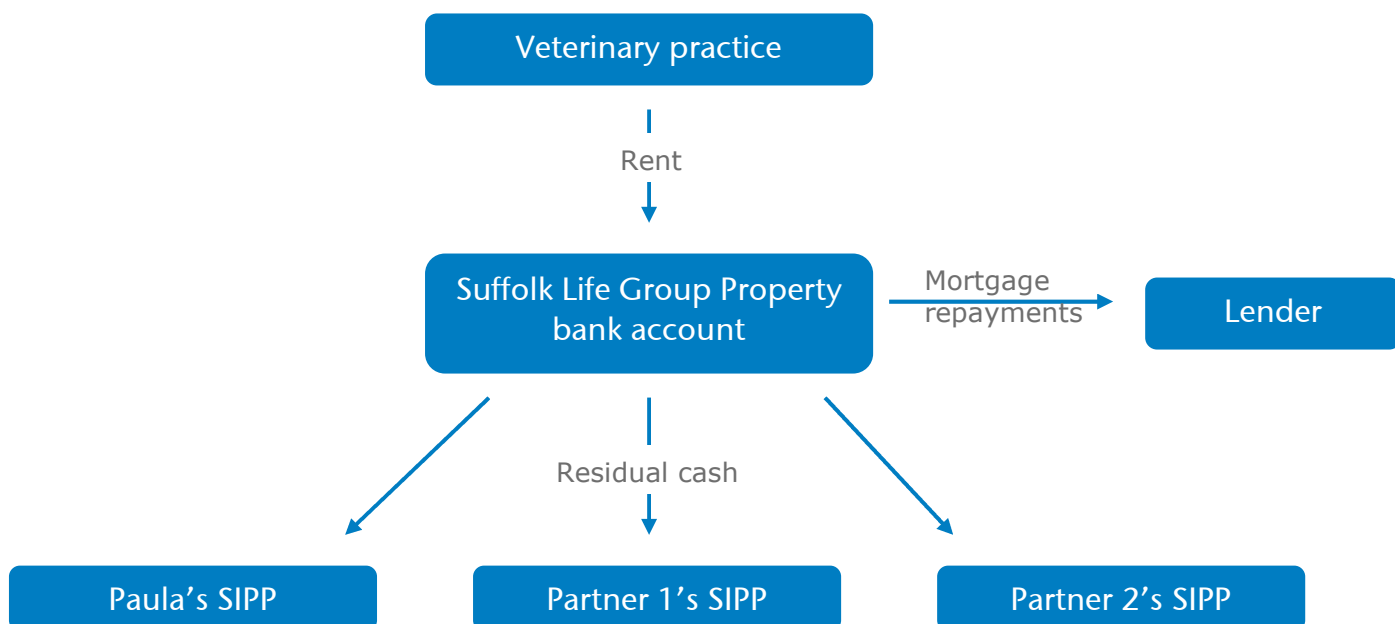
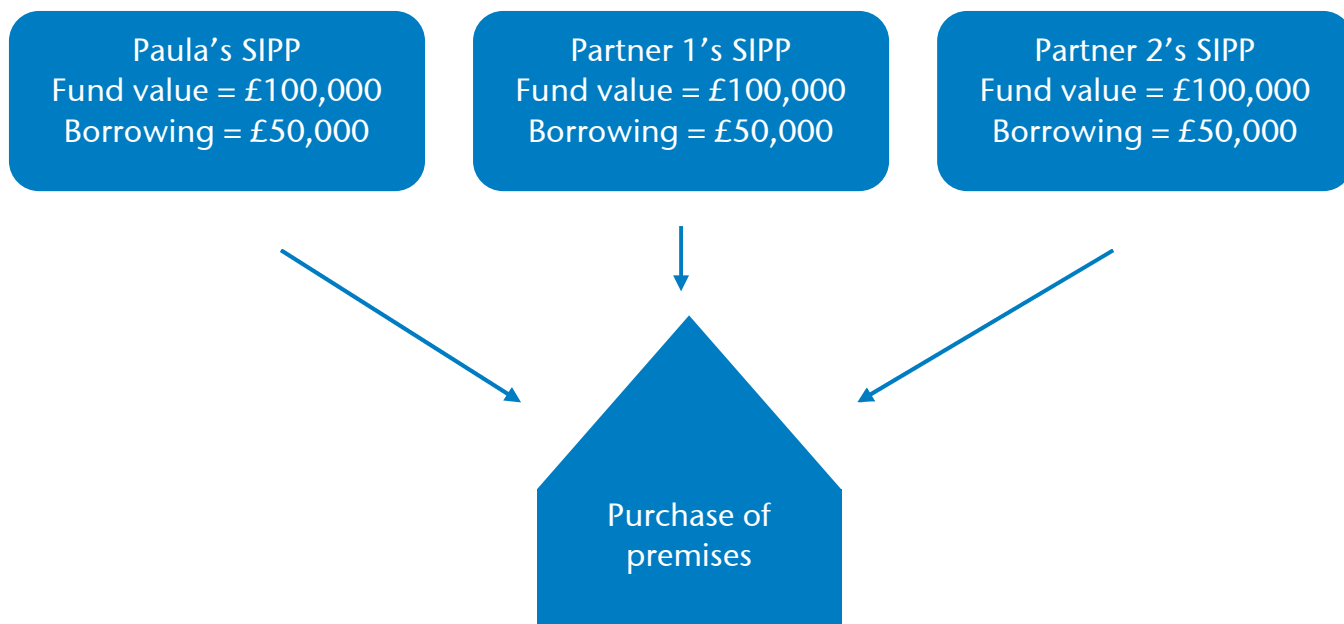
Once acquired, the partners pay the rent to Suffolk Life who arrange for the mortgage repayments to be made and any surplus to be retained in each of their SIPPs.

SUFFOLKLIFE

CASE STUDY

CONTINUED

Structure of ownership



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