

# Fact Sheet – Property

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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 current tax legislation.

## Advantages and disadvantages of owning commercial property within a SIPP

### Advantages

- » Pension contributions used to purchase the property will already have received tax relief, either to the company or individual.
- » There may be capital available in the pension scheme to fund some or all of the purchase.

#### Selling company owned property to a SIPP

- » When the property is ultimately sold by the pension fund to provide the investor with retirement benefits there is no CGT liability.
- » Following the SIPP's purchase any capital growth in a property is exempt from CGT. Also, the assets in the SIPP including the property should fall outside the investors estate for IHT purposes, other than if benefits are ultimately provided by an alternatively secured pension.
- » Rent paid to the SIPP is a deductible business expense and hence could reduce the corporation tax liability of the tenant.
- » The rental income received by the SIPP is tax free and hence when used to pay a mortgage can reduce the borrowing at an increased rate.
- » As an asset of the SIPP, the property would not generally be accessible to creditors in the event of an individual or company going bankrupt.
- » Releases capital back into the business to help with cash flow.

#### Succession planning

- » It is simple for the SIPP investors to sell part or all of the property to another SIPP investor or to an 'outside' SIPP purchaser.
- » If there are younger investors in a SIPP property syndicate, it may be possible to retain the property within the SIPP when older investors retire. This will typically involve the retiring investors selling all or some of their SIPP's share in the property to younger investors so they have sufficient liquidity to take pension benefits.

#### Borrowing

- » SIPP can borrow 50% of the net fund value.
- » No individual or corporate liability or credit checks because loan is in the name of the SIPP provider.

#### Retirement options

- » Rental income should be known and regular so income payments can be planned.
- » A regular stream of rent can help maintain the fund value although this is not guaranteed.

#### Death benefits

- » Property could be paid to a beneficiary as an in-specie death benefit to avoid the need for sale of property on death, provided enough cash is available for any tax charges.



## Disadvantages

- » Property is legally owned by the SIPP so some individuals may feel they have a lack of control.

### Selling company owned property to a SIPP

- » The property can not be used as collateral for future loans to the company.
- » The company will now have to pay a market rent.
- » The SIPP provider is obliged to chase tenants for rent even if they are the SIPP investor or a person or company connected to the investor.

### Retirement options

- » The property will need to be valued when benefits are drawn or loans are considered. On these occasions the SIPP will incur the cost.
- » The sale of a property could be at an inopportune time if a sale is required to pay benefits.

### Borrowing

- » If the SIPP provider has borrowed to purchase the property, they may be faced with high capital repayments to keep the term of the loan to a minimum. Interest payable on the loan by the SIPP will not qualify for tax relief as the scheme does not pay tax.
- » Loan repayments and other expenses such as business rates and service charge will still need to be maintained even if the property is empty, this may result in other assets or the property having to be sold.

### Liquidity and diversity

- » If the property represents the main asset of the SIPP it would leave its investment holdings poorly diversified.
- » Property can be illiquid if SIPP needs to sell the property to pay benefits.
- » The scheme will have to register for VAT if the property is not VAT exempt.

## What to do next?

For more information please visit [www.suffolklife.co.uk/asproperty](http://www.suffolklife.co.uk/asproperty) or contact our acquisitions team on 0870 414 7000.

