

Factsheet - Developing property

Fact Sheet | November 2010

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 and other legislation, and depend on a customer's individual circumstances. They may be subject to change in the future.

How a SIPP can be used in the development of land and buildings.

A SIPP may acquire bare land with the specific intention of developing it or alternatively the SIPP may have already acquired land with buildings that it wishes to improve or redevelop.

Prior to any development works being carried out, any appropriate planning permission must be obtained. The SIPP will either have acquired the property with the benefit of the planning permission or will need to obtain the planning permission itself.

A SIPP is generally not permitted to hold residential property. However, the SIPP can hold land with the benefit of a residential planning permission, though to ensure compliance with HMRC rules, the SIPP will need to dispose of the property before the residential planning permission is implemented.

The conveyancing process involved for purchasing land that is to be developed following the SIPP's acquisition does not differ materially from any other acquisition. Our fees would remain chargeable in accordance with our schedule of fees.

It is very important that we are contacted in respect of any building works to be carried out, no matter how minor or major. It is imperative that we deal with the VAT position, insurance and funding at an early stage to ensure that our procedure for building works is followed.

The SIPP can borrow to fund the development works provided the SIPP's total borrowing does not exceed 50% of the net fund value. Regardless of whether the SIPP is to borrow in order to facilitate the development works, sufficient funds must be in place prior to the contractor being appointed.

In most cases VAT will be payable on the building works. In order to recover VAT paid on the building works we will need to ensure the VAT exemption over the property has been waived. It will take between three to five months for VAT to be reclaimed so this should be taken into account when calculating the funding of the building works.

In order for Suffolk Life to consider the building works the following points will apply:

- » In most cases the work must be carried out by a single contractor, who must be completely independent from the SIPP investor.
- » We will require at least two quotations from different contractors for the work to be carried out. This enables us to compare the costs involved in order to ensure that the SIPP is being charged fairly.
- » Suffolk Life is required to act as any independent landlord would in the open market. In order to

demonstrate this, we will require a valuer to confirm whether it is reasonable for Suffolk Life to pay for the works. This advice must be obtained prior to the contractor being instructed.

- » The chosen contractor will be appointed directly by Suffolk Life to implement the works on our behalf.
- » In some cases a contract will be drawn up between Suffolk Life and the contractor which sets out the works to be carried out for a fixed price, and Suffolk Life's liability will be limited to the net value of the relevant SIPP plan.
- » As Suffolk Life is a compulsory member of the Construction Industry Scheme, the contractor must be and remain a member of the Construction Industry Scheme also. We will require various tax details from them in order to make payment to them in accordance with HMRC requirements.
- » We will need to appoint an architect or supervisor who will be responsible for acting on our behalf in drawing up the contract for the building works, procurements, warranties and other development related SIPP provision and advice.

If the property is already subject to a lease and the SIPP funds building works which increase the capital value of the property, we would expect the SIPP to benefit from an increased rent following completion of the works. We would instruct a valuer to advise on any appropriate amendments to the lease terms to include any increase in rent.

If the rent is to be increased, this will need to be documented prior to the contractor being instructed. Suffolk Life will need to appoint a solicitor to arrange for this to be appropriately documented.

Our property management fees are charged principally on a time cost basis in accordance with our schedule of fees. Work carried out by Suffolk Life in respect of building works will be included when the annual management fee is calculated.

For more information please visit www.suffolklife.co.uk/property or contact our acquisitions team on 0870 414 7000.

Suffolk Life is the trading name of Suffolk Life Pensions Limited (registered in England and Wales number 1180742) and Suffolk Life Annuities Limited (registered in England and Wales number 1011674). Both companies are authorised and regulated by the Financial Services Authority. Suffolk Life operates and administers self-invested pensions and similar pension products. The registered address of both companies is 153 Princes Street, Ipswich, Suffolk, IP1 1QJ
Tel: 0870 414 7000 Fax: 0870 414 8000
Telephone calls to Suffolk Life are recorded for training, monitoring and fact verification purpose



SUFFOLKLIFE
THE INTELLIGENT APPROACH