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Dentons

Unquoted Share Purchase

A Case Study

The Facts:

- Mr Khan is aware of an information technology business, Relltek, with a niche market and potential for growth. The business is based in the UK and is privately owned
- He wants to use his existing pension savings held through a platform to purchase 10% of the shareholding in Relltek from a new issue of shares
- His wife, a Director, aleady personally owns 9% of the shareholding in Relltek; there are 6 other shareholders
- Mr Khan will need to establish a SIPP to make this investment.

Key notes:

- Dentons only permits investment in unquoted company shares provided the criteria for exemption from the HMRC 'taxable property' rules are satisfied
- Taxable property includes residential property and tangible moveable property (please see definition overleaf)
- Failure to satisfy the criteria could mean the investment gives rise to severe tax charges on both the SIPP member and their SIPP
- The HMRC taxable property rules are designed to prevent indirect investment in taxable property using a vehicle such as an unquoted trading company (please see overleaf for where this applies).

Process:

- Mr Khan completes the Dentons Investment Questionnaire 'Shares in an unquoted UK limited trading company' (available on request or can be downloaded from the Dentons website)
- He submits this with a valuation of the shareholding provided by a Chartered Accountant
- Dentons internal Investment Committee* undertakes an assessment of the investment proposal to ensure it adheres to HMRC regulations
- Mr Khan's SIPP is viewed as effectively 'owning' 19% of the shares of the unquoted company (10% directly and 9% indirectly). This is considered acceptable (subject to meeting other rules) as it is below the 20% 'controlling director' shareholding threshold and there is sufficient diversification of shareholders
- As the relevant criteria are met, Mr Khan can proceed with the investment through a SIPP
- Mr Khan establishes a Dentons SIPP with funding from a pension transfer from his existing personal pension
- The 10% shareholding of Relltek investment is purchased.

Advantages:

- Ability to invest in unquoted company shares through a bespoke pension which is usually not possible through conventional insured or platform pensions
- Tax free capital growth of the investment
- Able to assist smaller and growing companies raise capital for expansion.

*Dentons Investment Committee is made up of experienced members of senior management and compliance. Using this level of expertise, along with external analysis where applicable, Dentons makes a balanced decision in confirming SIPP investments comply with HMRC regulations and can be held within our SIPP.

Please note:

To avoid the taxable property rules applying to unquoted shares, Dentons requires company ownership or control to be diversified between a minimum of 5 persons unconnected to the SIPP member. Or the company can be fully controlled by an unconnected third party.

No scheme member or a connected party can have any personal use of any taxable property owned by the company.

Dentons requires a minimum fund size of £50,000 and the maximum amount of shares held overall in unquoted trading companies is limited to 50% of the value of the SIPP net assets.

Strong.
Flexible.
Intelligent.
Dedicated.
Connected.

Definitions

Taxable property means residential property and/or tangible moveable property (e.g. plant and machinery; motor vehicles; fixtures, fittings and furnishings that are not part of the fabric of a building; and office equipment). However any item that is worth no more than £6,000 and is held solely for the purposes of the administration or management of the company/vehicle and is not available for the personal use of a SIPP or SSAS member or a connected person is exempt.
The direct/indirect holding of taxable property by a SIPP or SSAS is an unauthorised payment and may give rise to tax penalties on the SIPP or SSAS member(s) and the scheme administrator.
If security for a loan includes residential property and the legal charge is not drawn up correctly and the SIPP or SSAS ends up holding the property or an interest in it then there could be tax charges.

HMRC taxable property rules are designed to prevent indirect investment in taxable property using a vehicle such as an unquoted trading company where:

- The company is controlled directly or indirectly by the SIPP member and/or any other party connected with them
- The SIPP member, or any other party connected with them, is a controlling director of the company
- The SIPP member, or any other party connected with them, is allowed to occupy or use taxable property held, directly or indirectly, by the company.

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