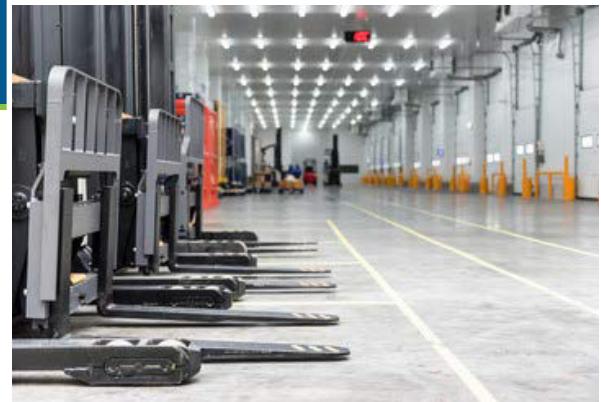


Part property purchase.

A case study

Jon runs his own plastics company and wants to purchase his business property through his self invested pension but the value of his pension fund has been adversely affected by investment market conditions. However, despite this, Jon is able to make a part property purchase, which also assists his business.



The facts

- Jon's business operates from a unit on a popular industrial estate and the unit is owned by Jon's limited company
- The property has been recently valued at £175,000 by a RICS Registered Valuer and there is outstanding borrowing on it amounting to £110,000
- Jon has an existing personal pension and, until recently, it had been valued at £185,000
- Jon had planned to transfer this amount into a bespoke SIPP and then use the monies to buy the premises from his business, thereby giving it much needed working capital and allowing it to pay-off the existing borrowing (which it has been struggling to service due to global trading conditions)
- To Jon's disappointment, the value of his personal pension had dropped by 20% due to market conditions and it is now worth £148,000. He is worried that the property purchase may no longer be possible, with wider ramifications for his business too.

The solution

- Jon transfers the pension savings in his existing personal pension into a Full asset SIPP with Dentons as originally planned
- His cash transfer-in amounts to £148,000. Out of this, Jon's SIPP uses £143,000 to acquire a part share in the property
- This leaves Jon with £5,000 liquid cash to cover the purchase and other costs. Jon's SIPP therefore acquires an 81.7% share of the property*
- Jon's business uses the £143,000 to pay off its outstanding borrowing of £110,000, thereby leaving it and the property debt-free
- Jon's business also has £33,000 left over from the part sale of the property, which it uses as much needed cash flow during uncertain trading conditions
- Jon's SIPP receives rent from his business based on its percentage ownership of the property
- The open market level of rent on the whole property has been confirmed by the RICS Registered Valuer as £14,400 per annum meaning that Jon's SIPP receives £11,766 (81.7%)
- Jon is pleased to note that this represents an annual return of 8.22% on the investment into the property and that the rent is received tax-free into the SIPP bank account.

The advantages

- Jon's company is able to pay-off existing company borrowing following the part purchase of the property by Jon's SIPP, as servicing that company borrowing had been affecting day-to-day cash flow of the business
- Jon's business is further assisted by an injection of £33,000 of additional working capital. This additional cash had been a real lifeline to Jon's business and is key to its survival
- Jon's SIPP now owns a part share of commercial property, which produces a tax-free investment return of 8.22% per annum
- Any future growth in the value of the 81.7% share of the property owned by the SIPP will not be subject to Capital Gains or Corporation Tax and the value of Jon's SIPP sits outside his estate for Inheritance Tax purposes**
- The open market rent which Jon's business pays into the SIPP is a deductible business expense for Jon's business
- Jon's SIPP is now receiving a stable income stream from a reliable tenant and positive investment returns, which are less volatile than he was previously experiencing
- Jon's SIPP could acquire the additional 18.3% of the property at a later date, once cash has built up in the SIPP through rent receipts and potentially company contributions.

Notes

- This case study is for Financial Adviser use only and not for use by retail clients
- Figures used in this case study are for illustration purposes only
- Aside from the significant benefits to the pension scheme, a part property purchase can also be a benefit to a client's business if it also happens to be the vendor of the property as funds are released from the self invested pension to the client's company
- All statements concerning the tax treatment of products and their benefits are based on our understanding of the current law and HM Revenue & Customs (HMRC) rules. These are for general guidance only and do not constitute professional advice. The tax treatment depends on the individual client circumstances and may be subject to change. Whilst every effort has been made to ensure accuracy, no liability can be accepted for any errors or omissions
- If VAT may be applicable, you should seek specialist advice
- *Sufficient cash funds will be required to be held in the default bank account to ensure ongoing fees and expenses can be met
- **The property and remaining pension assets are currently outside of Jon's estate and are therefore not subject to inheritance tax if he were to die. From 6 April 2027, however, effectively all pension funds death benefits (including SIPPs), will be brought within scope of Inheritance Tax under current Government proposals
- Whilst the names used in this case study are fictitious, the processes described have been used in actual cases
- Dentons will not provide advice on the suitability of investments but reserves the right to refuse to hold any proposed investment in the scheme
- Every care has been taken to ensure that the information provided is correct and in accordance with our understanding of current law and HMRC rules, which are both subject to change.



Dentons Pension Management Limited
Sutton House, Weyside Park
Catteshall Lane, Godalming
Surrey GU7 1XE

T 01483 521 521
F 01483 521 515
E enquiries@dentonspensions.co.uk
W www.dentonspensions.co.uk

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