

CASE STUDY

“SHOULD I BUY A COMMERCIAL PROPERTY THROUGH MY PENSION?”

This is a question we get asked on a regular basis. In response we have put together this case study to highlight the potential advantages of following this route.

It is particularly useful if you are an owner of a small to medium sized business. You can buy your business premises through your pension funds, meaning your company is paying rent to your pension instead of to a landlord.

Please note this case study refers to a SIPP, however the same theory also applies to a SSAS.

James, aged 42, is the managing director of his own business. His firm has seen strong growth over the past 5 years and he now needs larger premises.

Additionally, he is becoming increasingly frustrated with the amount of tax his business is paying.

He currently rents a small unit on an industrial park and is keen to purchase his own commercial property to trade from. After finding a suitable property, James contacted Boolers to discuss the options available to fund its purchase.

James has not paid much attention to his pension over the years, but has recently heard about SIPPs from a friend. He likes the idea of having greater control over his pension and using it for a commercial property purchase to utilise within his business.

VAT may be payable on the purchase of commercial property. Please see our separate notes on this, found at the end of the case study.

JAMES' PERSONAL DETAILS

- **Income: £80,000**
- **Existing pension fund valued at £100,000**
- **Higher rate taxpayer (40%)**

PROPERTY PURCHASE DETAILS

- **Property value: £160,000**
- **Stamp Duty on property purchase: £200**
- **Total: £160,200**

SOLUTION

With the advice of Boolers, James sets up a SIPP, which helps fund the building purchase with his forgotten pension.

SIPP CREATION

- The existing pension is transferred into a new SIPP.
- To help fund the purchase James places a £8,000 personal contribution into the SIPP, with the uplift of tax relief is increased to £10,000. As a higher rate taxpayer this contribution has ultimately only cost James £6,000. (The additional £2,000 tax relief is claimed via his Self-Assessment Tax Return for the year.)
- Total SIPP value: £110,000.

SIPP BORROWING FACILITY

- The SIPP can borrow up to 50% of its net asset value so the borrowing could be as much as £55,000 (50% of £110,000).
- Total SIPP value with borrowing: £165,000.

PROPERTY PURCHASE

- £160,200 is required to purchase the building.
- The remaining SIPP cash holding covers the additional costs associated with the property purchase, e.g. SIPP fees, Solicitor's conveyancing fees, Surveyor and borrowing fees.

CONCLUSION

- James now has his pension fund invested in a way that benefits his business.
- He can continue to extract profits from his company in a tax efficient manner.
- He has personal control over how his retirement fund is managed.
- There is no capital gains tax on capital growth of the property.
- The property rental income is received tax-free by the SIPP.

ONGOING

- Having purchased the office premises the SIPP leases it back to James' business.
- This rental income goes into the SIPP and also receives full tax relief (the rent paid must be at a commercial level, subject to an independent rental valuation).
- James receives tax relief on personal contributions (subject to limits).
- Any company contributions also receive tax relief, with the potential to reduce Corporation Tax and National Insurance.

**IF YOU REQUIRE FURTHER INFORMATION,
PLEASE CONTACT US**

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This case study is for illustrative purposes only and is only an example and should not be construed as advice or guidance. It is based on our understanding of current taxation, law and practice (July 2016), which is subject to change. Before undertaking any transfer of pension benefits a full review is required, to ensure that valuable benefits are not lost and that this is a suitable transaction.

VAT on commercial property purchases

Whether a commercial property has elected to waive exemption to VAT (i.e. Opted to Tax) will often not be known until the particulars of sale are received, or confirmation received from the vendor. It is possible for a SIPP to register for VAT, which will be undertaken by the Trustees or the member's accountant. The VAT returns are completed by or on behalf of the property manager. If VAT is paid on purchase, the SIPP can reclaim this VAT. The amount reclaimed can be used to help repay any SIPP borrowing. Please note, if the property has Opted to Tax, Stamp Duty will be paid on the value of the property including VAT. As VAT is a complex area of taxation, we will always seek VAT advice when purchasing property as we are not VAT experts.

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