

Client Scenario

Curtis joins forces with his business

A contribution into his Rowanmoor SIPP enables an individual to jointly purchase the freehold of the premises leased by his company enabling future rent to accumulate pension funds for retirement.

- Wishes to purchase premises jointly between a SIPP and his company.
- Looking to modernise the premises.
- Requires rental income and capital growth to enhance his pension benefits.
- Tax-efficient method of funding further benefits.

Self-Invested Personal Pension (SIPP)

- For individuals looking to build and control their pension fund investments.
- Tax relief on personal contributions up to 100% of earnings.
- Flexibility provides facility to switch between single and full investment options.
- Benefits can be taken in stages and not all at the same time.
- Comprehensive, flexible benefit options enable retirement income to be phased.
- Provides flexi-access drawdown, scheme pension and uncrystallised funds pension lump sum.
- Administration is of a truly bespoke nature and each plan has a dedicated administrator.

Transfers

Personal Pension Plan A	£ 130,000
Personal Pension Plan B	£ 120,000
Total	£ 250,000

Funding

Transfers A and B	£ 250,000
Contribution	£ 30,000*
Total SIPP funds	£ 280,000

*The company will be able to offset its annual tax by £5,700 on the contribution to the SIPP.

Property

Valuation	£ 300,000
VAT	£ 0
Total	£ 300,000
SIPP property share	£ 200,000
Company property share	£ 100,000
Total	£ 300,000

Fees and disbursements have not been included.

Meet Curtis . . .

Curtis Long is in his mid thirties and has built up a successful business providing consultancy for information technology services for small to medium size businesses. He works from offices rented by his limited company. The current owner of the freehold property is looking to sell it.

Curtis is keen to buy the commercial property through a Rowanmoor SIPP by using existing funds and borrowing the balance. Following initial discussions with the vendor it becomes clear there will be insufficient funds within the pension fund to purchase the property. As an alternative Curtis considers jointly purchasing the property between the pension and his limited company.

Len, his financial adviser, discusses the matter with him and suggests the SIPP does not borrow funds and highlights it would be more tax-efficient for the limited company to pay a contribution to the pension instead.

To establish the SIPP, two existing personal pensions are transferred in, valued at £130,000 and £120,000, which, when added to a contribution of £30,000 from the limited company, means the total fund available is £280,000.

Agreement is reached to purchase the property at £300,000, which is supported by an independent open market valuation. The seller is registered for VAT and has opted to tax the property. As the property is to be sold with an existing lease in place, it has been agreed that the sale is to be treated as a transfer of a going concern and no VAT is payable on the purchase price.

Curtis referred the issue of VAT to his accountant who felt the best way forward to deal with the ongoing administration, on this occasion, was to set up a VAT partnership between the company and the SIPP to deal with VAT in respect of the property. As VAT, and particularly a VAT partnership of this type, is an extremely complex area VAT advice should always be obtained.

The SIPP will purchase two thirds of the property with the company purchasing the remaining third. Additional funds will also be required by both parties to meet the costs of any fees and disbursements. Upon completion the company will lease the offices from the SIPP.

Because of the shared nature of the purchase, a joint ownership agreement, setting out the SIPP's and company's respective rights and liabilities in relation to the property, will need to be signed by both parties to safeguard each party's interest in the investment.

The offices are fairly old and would benefit from modernisation as they have a low energy performance rating and are subject to an asbestos management plan. Usually the company, as tenant, is responsible for these works under the terms of the lease. The surveyor has confirmed that the works will result in an increased property and rental valuation. Curtis intends for the property owners to have this work carried out, along with other improvements once the purchase has been completed. As the SIPP owns two thirds of the property it will meet this split of the improvement work costs and receive the same split in the increased rental payments as advised by the surveyor.

The SIPP will receive rent from the company, in line with an independent valuation produced by a recognised professional individual, providing a good investment return along with the potential of capital growth, which is tax-free.

This scenario illustrates some of the features of a Rowanmoor SIPP. It is based upon our understanding of current pensions law and taxation and is correct at the time of publishing. Professional advice from a suitably qualified adviser should always be sought when considering retirement planning.

For more information on Rowanmoor's products and services please visit our website www.rowanmoor.co.uk, call 03445 440 550, or email enquiries@rowanmoor.co.uk.

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