

Client Scenario

Colin sets up in business

Purchasing commercial property through a Rowanmoor SIPP, by transferring existing benefits and borrowing funds, ensures this man will have business premises to work from when he becomes self-employed and a retirement income for the future.

- Self-employed man in his late 40s.
- Requires premises to work from.
- Wishes rental income to benefit him, not a landlord.
- Uses short-term borrowing to fund commercial property purchase.
- 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.
- Benefits can be taken in stages and not all at the same time.
- Rental income from the property will boost pension liquidity and repay borrowing.
- Full flexibility is available when benefits are taken.
- Administration is of a truly bespoke nature and each plan has a dedicated administrator.

Funding

Contribution	£ 8,000*
Tax relief	£ 2,000
Transfers	£ 190,000
Total SIPP assets	£ 200,000
Borrowing (maximum available £100,000)	£ 55,000 ⁺
Total funds available for property purchase	£ 255,000

Property investment

Property	£ 200,000
VAT @ 20%	£ 40,000 ⁺
Fees and disbursements	£ 9,000
Total funds required	£ 249,000

* After higher rate tax relief is reclaimed, the net cost of the contribution is £6,000.

⁺ VAT is reclaimed and could be used to reduce borrowing to £15,000, or for property development.

Meet Colin . . .

Colin Lyon is a graphic designer who has worked for several large advertising companies for the last twenty years and has built a good reputation for himself within the industry with his futuristic styles of design. He has recently started working on a self-employed basis and is doing very well. His skills and unusual design techniques have made him much sought after and he is able to dictate fairly high prices for his work.

Whilst working in London, he visits Daniel who is his friend and also his financial adviser. As Colin is currently working from rented accommodation he is advised that by establishing a self-invested personal pension and transferring his existing funds into it he would be able to purchase a studio from which to work.

Colin sets up a SIPP with an initial contribution of £8,000, which when pension tax relief is added will total £10,000. As Colin's earnings will take him into the higher tax band he will be able to reclaim another £2,000 on his annual self-assessment tax return. As Colin has a full diary of work he intends to make regular annual contributions.

Colin has three personal pensions totalling £190,000, which are transferred into the SIPP making total assets available for investment, when the £10,000 contribution is added, £200,000. The maximum amount a SIPP can borrow is 50% of its net asset value, which, when added to the total SIPP assets, means that £300,000 is potentially available to purchase a property and meet any associated costs.

A property is identified, that will require minimal work to be undertaken to make it suitable as a design studio. The property is valued at £200,000 and its purchase will be subject to VAT. It is expected that all fees and disbursement associated with the purchase will total £9,000. Another £40,000 is required to cover VAT, which can be reclaimed by the SIPP after the purchase and used for any development or improvements that may be required.

Daniel advises Colin to borrow £55,000 and repay £40,000 when the VAT refund is received. The rental income will be available to service the mortgage repayments and further lump sums can be repaid from Colin's annual contributions.

Colin will need to pay rent to the SIPP for use of the property, which will need to be in line with an independent rental valuation produced by a recognised professional individual. This will provide a good investment return for his pension fund and it is expected that the property will also benefit from 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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