Case study

Approved for investor use | September 2017

Purchasing land

Summary

An investor wishes to purchase a plot of land, but must consider liquidity issues within his SIPP.

The Challenges

Emil has seen a plot of land for sale for £75,000. It is currently used as grazing land, with the current tenant keen to remain in place.
If possible, Emil would like to use his pension to purchase the land as an income-producing investment for his SIPP. He also understands that if the land increases in value, the profit is not subject to capital gains tax (CGT). Emil has a little over £75,000 in his pension.

He approaches his financial adviser Leanne to ask about the next steps.

The Actions

Leanne agrees that purchasing the land within a SIPP could be a good option for Emil. However, she immediately identifies two issues: liquidity and diversity.

Emil's current pension will just about cover the purchase price and associated fees, but leave very little cash left over. Rent will be going into the plan, but ongoing fees or costs still need to be considered.

This situation will also leave Emil's pension very poorly diversified. As the land would use his whole pension fund, he would have nothing left over to invest elsewhere.

Leanne can see that Emil has not contributed to his pension in several years, although he is earning good money. Emil admits that he stopped contributing when he was made redundant from his previous job, and simply never started again when he joined his current employer.

Leanne contacts Emil's employer, and finds out that with matching employer contributions, Emil will be able to put approximately £9,000 gross a year into his pension. The employer is happy to pay the contributions into Emil's chosen SIPP. Leanne calculates that Emil can afford to make additional personal contributions to bring the annual total to £15,000 gross.

Leanne also calculates that Emil can afford to pay a one-off contribution of £45,000. She explains that as Emil has still been a member of a pension scheme in the years since he last contributed, he can use 'carry forward' to make this large contribution without exceeding the annual allowance.

Results

Emil transfers his pension into a SIPP, pays the single contribution, and arranges with his employer to set up the regular contributions. This allows him to buy the piece of land and diversify his pension with other investments, whilst also creating liquidity within the plan which can be used to pay any ongoing expenses. Emil could also consider using some of these funds to pay for commercial development on the land in the future.

Leanne confirms to Emil that he could apply for commercial planning permission at any time and the development could happen whilst the land was in the SIPP. However, his chosen SIPP provider would need him to sell the land before any residential development began. The provider also explains that they would not have accepted a land purchase if the sole reason was to obtain planning permission and quickly sell again, as HMRC could see this as a trading activity and tax it accordingly. This doesn't apply to Emil as he is interested in holding the land with its current tenant for the foreseeable future.

Important points to consider

The value of pension funds may fall as well as rise. Your money is tied up until you take your benefits. Benefits can generally be taken any time after age 55. Always take financial advice to find out if a SIPP is suitable for you.

Contact details

If you'd like to speak to us about anything on this fact sheet, please contact us on:

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We may record and monitor calls. Call charges will vary.
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