

## **CASE STUDY – PROPERTY PURCHASE**

**This case study refers to a SIPP but the same principles apply equally to a SSAS.**

Jane Davies has a SIPP with assets of £300,000, all fully invested in quoted funds. She is self-employed and her business rents a unit on a local industrial estate.

The business is expanding and Jane is looking for new premises. A newly-built larger unit is available to purchase at a cost of £250,000. Jane's business profits are £100,000 gross and the business could buy the unit by taking out a loan to help finance the purchase, but she also wants to consider using her SIPP instead.

The SIPP could sell most of its investments and use the proceeds to buy the unit, but Jane is reluctant to do this as she feels that they have good future growth prospects. Instead she looks at the scope for borrowing funds in the SIPP, as part of the finance required. The SIPP can borrow up to 50% of its net assets and Jane's bank is happy to lend this sum, having arranged many similar transactions in the past.

The total cost of the property including stamp duty, fees etc is projected to be £260,000. To achieve the necessary financing for this, the following takes place:

- Jane makes a contribution of £50,000 to the SIPP (she pays £40,000 net of basic rate tax relief and the SIPP reclaims £10,000 tax from HMRC)
- The SIPP then has total assets of £350,000 and borrowing of £175,000 is possible
- The balance of the purchase price is made up by selling some of the SIPP's quoted funds. The various components of the purchase are then:

Cash from contribution	£50,000
Loan from bank	£175,000
Proceeds from sale of funds	<u>£35,000</u>
Total	£260,000

The property is bought by the SIPP using these funds. A lease is then put in place between the SIPP as landlord and Jane's business as tenant. An independent valuation is obtained to confirm the open market rent at £20,000 p.a. The SIPP uses this rent to make interest and capital repayments on the bank loan.

Purchasing the property in the pension scheme has the following advantages:

1. Tax relief is obtained on the contribution into the SIPP. If the business had bought the property, this would have been financed out of funds after deduction of tax, but the SIPP is using gross funds.
2. The SIPP owns an investment with a good tenant and good rental income, with the potential for capital growth. All investment returns are tax free.
3. The property is protected in the event of any deterioration in the company's financial position in the future.

**Curtis Banks PLC**

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