CURTIS BANKS

CASE STUDY

PURCHASE OF FARMLAND

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Two farmers use their pensions to purchase land from themselves in order to plan for their retirement and help cash flow for their business.

The Challenges

Henry and Sarah, along with their son Michael, farm 1,000 acres in Kent. Like many farmers, Henry and Sarah have struggled with rising costs and falling prices for both livestock and cereal. Henry's family has been farming for generations, and the couple eventually want to hand the farm to Michael. The couple are not planning to retire yet, but it is fast becoming a consideration for them both.

The Actions

The couple's financial adviser Javier conducts a full review of their circumstances and discusses a few different options with them. The idea which particularly stands out for Henry and Sarah is to use self-invested personal pensions (SIPPs) to purchase part of the farmland in order to free up some cash.

Javier can see that with Henry and Sarah's combined pension funds, they would be able to purchase £300,000 worth of their farmland. This would be a connected party transaction.

Javier explains that SIPPs can potentially purchase the farmland and commercial buildings, but cannot acquire the family home or garden, which must be physically separate and independently saleable in their own right. SIPPs also can't purchase any of the livestock or crops.

Henry asks whether SIPPs can purchase their farm machinery, but Javier confirms that this would not be possible as it would incur significant tax charges for the SIPPs.

Javier then explains the connected party transaction in more detail. He tells Henry and Sarah that once their pension funds are within their new SIPPs, they can then sell the farmland to their SIPPs at market value. The sales proceeds Henry and Sarah receive from the SIPPs would then increase the cash flow of their business, increase efficiencies on the farm and help tide them over.

Javier also confirms that the transaction will be classed as a disposal for capital gains tax purchases, and that stamp duty land lax will be payable by the SIPPs on the purchase price.

Henry and Sarah would then enter into a tenancy agreement with their new SIPP provider and pay market rate rent for use of the land. The rent paid by the couple would be a tax deductible expense of their business and would also be received by their SIPPs free of any tax.

Henry is initially concerned about losing control over the land. Javier reassures him that although they will no longer be the legal owners of the land, their new SIPP provider will follow their instructions as long as they comply with HMRC rules.

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The land will also be separate from their home and removed from the business. Therefore if the business were to fail, the land would not be available to creditors.

The Results

Henry and Sarah each open a Your Future SIPP with Curtis Banks and use their pension funds to purchase part of their farmland. This releases £300,000 of cash (less capital gains tax) for them and their business. They begin to pay market rate rent to the SIPPs for use of the land.

The couple had worried that Michael could lose the farmland when they die. Javier explains that Sarah and Henry could each name their son as the beneficiary for the SIPPs. When either dies, Michael would have the option to inherit the SIPP, including the farmland, and keep it in a pension in his own name. Javier adds that if the couple wanted to pass the farmland to their son during their lifetime, he could also open a SIPP and use his own pension funds to purchase some or all of the farmland from his parents' SIPPs.

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, although this is due to increase to 57 in 2028.

Contact Details

If you'd like to speak to us about anything in this case study, please contact us on:

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