CURTIS BANKS

CASE STUDY

GROUP CONNECTED PARTY PURCHASE

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This case study is from Meet the Joneses – Series 1. Information about the family and further case studies can be found on our website, www.curtisbanks.co.uk. All characters in the Jones family are fictional and intended for demonstrative purposes only.

The Challenges

Fred Jones owns and runs a shipping business with his son, Dan. His daughter Julia isn't involved with the family business; however, the three of them currently own the business premises together. They believe the property is worth approximately £400,000; Fred owns a 50% share and Dan and Julia hold 25% each. The three of them are considering transferring the property into their pensions.

The business is still growing and there is plenty of scope for development on the property. They all believe this could significantly increase its value.

Fred in particular is concerned about Capital Gains Tax (CGT). He is aware that if the property was within a pension, any growth would be free of CGT. His pension is worth approximately £700,000.

Julia has recently received a pension credit following the dissolution of her civil partnership, and was already considering property as an investment for the new funds within her pension, which in total is now worth £850,000.

Dan is 50 and has £150,000 in his pension; this isn't where he would like it to be and he is looking to increase his contributions. He also feels like holding the property in his pension could be a good way to boost his savings if the value does in fact increase.

The group also feel that the current split of ownership might not be the most appropriate going forward.

The Actions

Fred and Julia already hold SIPPs with Curtis Banks, so they don't need to transfer their pensions in order to complete the property purchase. Dan arranges to transfer his personal pension to Curtis Banks.

Julia calls the Curtis Banks property team to ask for more information about the process, and gets through to Veronica.

Veronica confirms that it will be possible for Fred, Dan and Julia to use their SIPPs to purchase the property. She confirms that each will retain their own individual SIPPs, and a share of the property will be assigned to each. Things such as rent, fees, or changes to the property value will be apportioned between their SIPPs accordingly.

Veronica also wants to make Julia aware that there are some additional considerations due to the purchase being completed between connected parties – in other words, the three individuals in a personal capacity, and their SIPPs. There are additional connected party considerations as the tenant of the property will be Fred and Dan's business.

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Veronica confirms that Curtis Banks will be the legal owner of the property, and it must demonstrate to HMRC that it acts as a commercial landlord would on the open market. Where there are connected parties involved, a provider must make sure that all transactions are completed at market value.

When the SIPPs purchase the property, this means that the property value must be determined by a professional valuer. Curtis Banks will also complete all of its normal due diligence checks on the property. Julia thinks her father may be unhappy about this as they have owned the property for many years with no problems, but doesn't think it will make him change his mind.

Veronica explains that a valuer will need to confirm a market rate of rent for the business to pay; Fred and Dan can't simply agree a rate of rent for themselves. She also explains that although it would hopefully never come to it, if Fred & Dan's business were to fail to pay the rent, Curtis Banks would have to pursue them for the money in the same way that it would for an unconnected tenant. In order to ensure HMRC's rules are satisfied, Curtis Banks could not allow a concession without taking valuation advice. Julia promises to discuss this with her father and brother but is confident they will still want to proceed.

Julia explains the current ownership split of the property, and the fact that they will most likely want to change this at the point the SIPPs purchase the property. Veronica confirms that this is no problem at all; and in fact, they could also change the ownership split again in the future if they wanted to.

The Results

Dan transfers his pension funds into a Curtis Banks SIPP, and the group begins the process of purchasing the property from themselves.

The property is valued at £400,000. They agree an initial split of 20% for Dan, 45% for Julia and 35% for Fred. This gives Dan the opportunity to diversify his pension while he builds up his funds, with a view to purchase more from Fred over time.

Although Fred has no plans to retire in the near future, he feels that it is the right time to take a smaller share in the property. Dan's son, Alfie, has been working for the company and has expressed an interest in running it with Dan when the time comes, so Fred can also foresee a time when some of his share goes to Alfie. Julia is comfortable with her share, and will be happy with any further changes of ownership her family requires going forward.

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.

This information is based on our understanding of current legislation, including (but not limited to) FCA, PRA and HMRC regulation. It does not constitute any form of advice.

Contact details

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