

CASE STUDY

DEVELOPING LAND WITHIN A SIPP

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A business owner struggling to locate a suitable property decides to purchase and develop a plot of land instead.

The Challenges

For a number of years, Aiden has been actively looking for the perfect commercial property to accommodate his growing pet food business. There is a lack of suitable properties in the area, and with the lease expiring on his current property within the next 18 months he needs to act quickly to secure appropriate premises for his stock and employees. Aiden's company presently pays £15,000 annual rent to a third party landlord, and Aiden would rather see that money put to good use for himself or his company.

A few years ago, Aiden opened a SIPP with Curtis Banks and consolidated his previous workplace pensions. He has also been regularly using his full annual allowance to build up his pension savings. Aiden has been investing in a variety of short- to medium-term investment options. His fund has been growing nominally and is now valued at £300,000. However, Aiden is keen to explore options that may offer more regular investment growth.

The Actions

Aiden contacts a financial adviser, Stuart, to discuss his predicament. Stuart explains that Aiden may be able to purchase land within his pension, which he could then look to develop using SIPP funds, building a commercial unit that will be suitable for his company. Stuart emphasises that it would be beneficial to ensure

that Aiden's pension remains diversified with some liquid assets.

Within three weeks of this conversation, Aiden identifies a plot of land locally that he thinks would be perfect for his business premises. The asking price is £105,000, and the land already has suitable planning permission for a commercial business unit. Aiden has some discussions with two local developers to obtain quotations for the build. These quotations come in at £115,000 and £125,000.

Stuart tells Aiden that it is essential he notifies Curtis Banks of the proposed development at the same time he notifies them of his intention to acquire the land, as there are additional requirements and regulations that will need to be satisfied.

Stuart also tells Aiden that he is unable to begin any development work until the land has been through Curtis Banks's due diligence process and has been acquired by the SIPP, and that Curtis Banks has confirmed he has authority to begin the works. Aiden says that he understands this, and still wishes to proceed.

Stuart ensures that Aiden is aware that amongst other due diligence requirements, Curtis Banks will obtain valuation advice to ensure that the proposed works comply with HMRC regulations, and that the lease to be put in place with Aiden's

company on completion is in line with market terms.

Additionally, Stuart tells Aiden that due to the extent of the works, he will need to appoint a Contract Administrator to oversee the works. He will need to decide who to appoint and provide their details to Curtis Banks. Aiden asks Stuart if he is able to manage the project himself. Stuart explains that this is not possible, unless Aiden is able to demonstrate suitable qualifications and experience, which would then be considered by the SIPP administrators.

The Results

The seller accepts Aiden's offer to buy the land, and he immediately begins the acquisition process via his SIPP. At the same time, Aiden begins the development process with Curtis Banks. He provides evidence of the two independent quotations he has already received for the work and confirms which quotation he wishes to proceed with.

Once the land has been purchased, the SIPP enters into a development contract with Aiden's chosen contractor. The agreement outlines the works to be completed and the payment schedule. This contract is reviewed and approved by Curtis Banks.

Stuart arranges to disinvest enough cash to cover the purchase price, the development works, and all associated costs (such as fees). At Curtis Banks's request, this also includes funds set aside within the SIPP as a contingency.

Once the works are complete, Aiden's company happily takes residence in its new business premises. As a result of the lease in place between the SIPP and his company, Aiden now receives £20,000 annual rent into his SIPP. The rent is tax free, and is also deductible from the trading profits of Aiden's business.

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:

T 01473 296 950

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

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Please remember not to send any personal, financial or banking information via email as it is not a secure method of communication.