

CASE STUDY

BORROWING MONEY FOR A SIPP PROPERTY PURCHASE

APPROVED FOR CLIENT USE | JANUARY 2024



A dentist looking to acquire her business premises via her SIPP needs help to meet the purchase price.

The Challenges

Sarah has a successful dentist practice which has been operating for a number of years. She has a SIPP with Curtis Banks which has a diversified investment portfolio. Sarah owns her business premises personally, which she estimates is worth around £230,000.

Sarah's SIPP is currently valued at £175,000. She is looking to free up some cash within her company for other projects. She has seen on the Curtis Banks website that she is able to purchase commercial property using her SIPP, and with this in mind, she contacts her financial adviser, Cathy. Cathy explains to Sarah that she is able to sell her commercial property to her SIPP, but that her SIPP must pay market value in order to satisfy HMRC regulations.

Cathy explains that under HMRC regulations, the SIPP is able to borrow up to 50% of the net fund value from a regulated high street lender to acquire the property. Therefore, Sarah's SIPP can borrow up to £87,500 for the purchase.

Sarah will be able to use the rental income her company will pay to the SIPP to make the loan repayments.

The Actions

Sarah contacts her business bank manager, Simon, to see if he is able to help with lending to her SIPP for the property purchase. Simon confirms

that the bank does offer specialised lending to SIPPs.

She obtains an Offer in Principle from the bank to facilitate the purchase, and contacts Curtis Banks to submit a Property Form and begin the purchase process. Sarah applies for a £60,000 loan, which will cover the purchase costs and Stamp Duty Land Tax (SDLT) in respect of the transaction.

As part of the purchase, Curtis Banks issues formal instructions to the bank to begin the lending process. These instructions clearly outline the SIPP requirements and regulations that will need to be satisfied in order to draw the loan.

Sarah, in her capacity as seller, instructs her own solicitor to act on her behalf in the sale of the property to the SIPP.

A core part of the lending process is a valuation report, so Curtis Banks asks the bank which valuer it will be instructing, confirming that the valuer must be qualified via the Royal Institution of Chartered Surveyors (RICS). Curtis Banks will then instruct the same valuer to avoid duplicate charges for Sarah.

The valuation confirms the property value as £235,000, slightly higher than Sarah anticipated. Therefore, she liaises with both Curtis Banks and the bank to increase the loan amount to £65,000. This remains within the borrowing capacity regulations.

As the tenant is a connected party, the valuer also offers advice regarding the lease terms to be put in place between the SIPP as landlord and Sarah's company as tenant. The bank confirms that it is happy with the lease terms, noting that the quarterly rent payable is £4,600.

Curtis Banks undertakes the standard purchase due diligence, which includes reviewing the loan agreement from the bank which outlines the terms of the loan. Sarah also reviews this document to ensure that she is happy with the terms before her SIPP commits to them. The quarterly loan repayments will be £1,500, so Sarah is comfortable there will be sufficient liquidity from the rental income to service the loan and the SIPP fees.

The solicitor acting for the bank arranges for a legal charge to be put in place in the bank's favour. This charge acts as the legal mechanism to ensure that in the event that the property is sold or transferred, the bank's loan must be redeemed in full.

The Results

Curtis Banks completes the due diligence on the property, and notifies the bank of the target completion date.

The bank sends the loan monies, less its loan arrangement fee which Sarah has previously agreed, to the solicitor acting for the SIPP. The SIPP also sends the balance of purchase monies to the solicitor, and the purchase completes.

The SIPP's solicitor sends the full purchase price to Sarah's solicitor, who in turns sends this to Sarah's personal account as seller. Sarah will need to ensure that she has taken account of any tax consequences of the sale, such as capital gains tax (CGT) in respect of the sale proceeds.

Sarah no longer owns the property personally, but her SIPP benefits from the lease with her company, which generates a rental income into the SIPP which is tax free. The SIPP arranges the monthly repayments to service the loan.

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 0370 414 7000

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

E enquiries@curtisbanks.co.uk

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