

**Should you buy a property with your Pension?**

Mr Smith owned a business, ABC Ltd and owned the building personally that the company worked out of. His accountant has recommended he explore the option of buying the building off himself using a SIPP Pension arrangement. But what is this and why would he do it?

A SIPP is a self invested personal pension which is a type of pension scheme that allows you to invest in commercial property. The benefit of this is that it is a very tax efficient way to own the property. So, lets look at the benefits:

If you were buying a property off someone else via a SIPP…….

1. You must either have enough funds in your pension to purchase the property. That’s the first thing so you will be limited with what you can pay in based on your annual allowance (see our carry forward and contribution case study).
2. You can then borrow up to 50% of the SIPP value if necessary and many high street banks offer this. For example, if you have £100,000 in your SIPP and need £150,000 in total to purchase the property, you can borrow the extra £50,000 as that equates to 50% borrowing on the original value.
3. The rent that your company pays goes into your SIPP. If there is a loan, then the rent pays the monthly payments on the loan.
4. The rent is offset against corporation tax for your company as a business expense meaning it is tax efficient as opposed to pay it to someone else (another landlord).
5. The rent and the property value then build up in the SIPP free of inheritance tax, income tax or capital gains tax.
6. The rent does not count towards your annual allowance meaning you can still contribute either personally or through the company up to a certain level each year.
7. There may be stamp duty/VAT considerations depending on the property.
8. You cannot do this with residential property (or hybrid properties on one set of deeds).
9. The SIPP owns the property and therefore is responsible for its upkeep.
10. The property must be valued before purchase and the purchase be at the market value.

If you were buying the building off yourself that you own personally…….

1. The rules and the process above are the same but there are extra considerations.
2. You are selling a commercial property personally to your SIPP so there may be capital gains tax considerations on you personally and stamp duty as well.
3. You will no longer get the rent personally as it will go into the pension but it should also save income tax on the rental if applicable.
4. You would (in the example above) receive £150,000 cash out of your pension which you could reinvest in other assets, pay off mortgages etc.

What happens if you want to sell, retire or you pass away?

1. The property can be sold, and the funds reinvested in normal stocks and shares type pension investments.
2. The property can be kept and rented to another company and their rental payments go into your pension.
3. Assuming there is enough liquidity (cash etc) in the pension you can still access 25% tax free and then an income in retirement.
4. On death (pre or post retirement), the funds pass down the generations free of inheritance tax and the property could continue to be rented.

Is it a good thing to do?

From a tax perspective, yes.

Paying into a pension for a business owner is the only tax efficient way of transferring money from your company to your personal estate without paying any tax. The rental is a business expense so saves you corporation tax and it is then building up in the pension tax free to then be reinvested later when you have surplus funds. You can borrow against it like a mortgage to buy a bigger property than with the cash only if required. It is a very tax efficient way to own commercial property. You can even have multiple SIPPs, for example two business owners and the combined value buys the property or even look into a SSAS (Small self invested pension scheme) but that’s for another case study.

But…..

The risk.

Property is an illiquid asset so you can’t just sell a few bricks to release some cash if you needed it. You could also be having all your eggs in one basket and if there is a problem selling the property or renting it in the future it could affect your retirement planning. Also consider that if you aren’t renting it yourself there may be rental voids.

As with anything there are pros and cons, but it can be a good option for business owners needing commercial property.

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**The value of investments and any income from them can fall as well as rise and you may not get back the original invested.**

**HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.**

**For specialist tax advice, please refer to an accountant or tax specialist.**

**Approved by The Openwork Partnership on 15/09/2023.**