

# SIPP PROPERTY GUIDE



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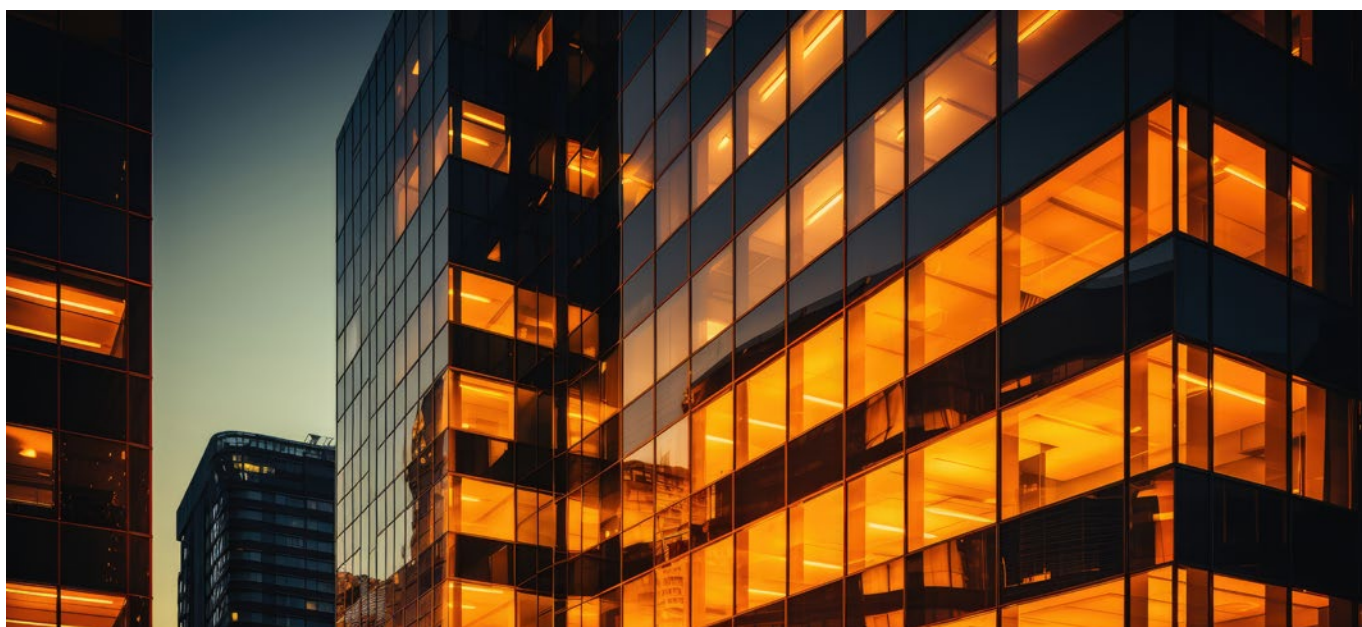
**WE PROVIDE  
FIT-FOR-PURPOSE  
AND CUSTOMER  
FOCUSSED  
PRODUCT  
SOLUTIONS**

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# SIPP PROPERTY GUIDE

IFG Pensions Limited (IFGL Pensions) accept investments into UK commercial property within our Insight SIPP. We have a dedicated property department with a wealth of specialist experience in the pensions and property sectors. The department is proactive and under continual development due to expansion.



Due to our SIPP property experience, we can confidently guide and support members and their advisors in a clear and transparent way through the property investment and see it through its lifetime to and through retirement. Property remains an attractive investment proposition whilst also potentially being useful as a vital business tool, and we can help set out the advantages and disadvantages of a commercial property purchase through a SIPP.

You can take comfort that we are regulated by the UK Financial Conduct Authority (FCA) to administer the SIPP; however, we are not regulated to provide financial advice. IFGL Pensions work closely with financial advisors and accountants who are supporting their clients from both an investment and tax perspective. IFGL Pensions act as both a Trustee of the scheme through our corporate Trustee Company, MW SIPP Trustees Limited, and as the Scheme Administrator. Our other important role is to ensure that the SIPP remains compliant from a regulatory perspective and to maintain its compliance with the HMRC pension rules.

# PROPERTY PURCHASE

The SIPP can purchase UK commercial property, whether it is freehold or leasehold, in many forms; Industrial units, offices, warehouses, retail units, hotels, pubs, forestry, students' halls of residence (not flats), nursing homes, children's homes and land. The IFGL Pensions SIPP does not permit the purchase of residential property.

The property is purchased in the sole name of our corporate Trustee company, MW SIPP Trustees Limited. MW SIPP Trustees Limited acts in the capacity of the Landlord. It is important to note that MW SIPP Trustees Limited will always limit its liability to the assets of the members SIPP.

You are able to purchase property from connected persons. A 'connected person' is defined by sections 993 and 994 of the UK Income Tax Act 2007.

This includes the member themselves, a close relative, or a business interest. If it is established that the seller is connected, the purchase must be transacted on a commercial basis. This means the purchase price must be supported by an independent qualified valuation by a Royal Institution of Chartered Surveyors (RICS) surveyor. This surveyor will also provide their advice in respect of any environmental issues, presence of any asbestos, the structure of the building, the rent

value and the reinstatement value for insurance purposes.

The purchase conveyance is dealt with by a qualified solicitor. We work with a panel of solicitors that understand the SIPP product and that we have experience of working with, to try to ensure the process is slick and knowledgeable. The costs of these solicitors are also considered. We aim to ensure that the fees offered by panel solicitors are competitive but without compromising on a quality service. Should it be desired to appoint an alternative solicitor of the members choice then we of course will accommodate but reserve the right to apply additional fees.

An average timescale of a commercial property purchase is 3 months. It can be achieved in a shorter period, but it does depend on all parties' cooperation.



## SURVEYOR

If the SIPP requires lending to complete on the property purchase, the lender will insist on appointing a surveyor. However, if there is no lending, the Trustees will need to appoint a surveyor. The surveyor will be asked to comment on:

- The capital value
- The rental value
- The reinstatement value for insurance purposes
- Whether a structural survey needs to be prepared
- Property usage/permissions
- Any environmental issues that may need further investigations
- Any asbestos present in the building that needs to be managed
- Any other matters that may affect the title

We will need to call upon the services of a surveyor at certain times throughout the ownership of the property to acquire valuations.

## TAX BENEFITS

The purchasing of property in a SIPP does benefit from significant tax concessions. It can essentially be compared to a tax-free property company that sits beside the members company. In a typical scenario; the member purchases a commercial property either from a third party, the members company or indeed the member themselves personally; the SIPP leases the property to their company, the company pays rent to SIPP. The tax concessions include:

- Rent is received into the SIPP tax free.
- The member's company receives full tax relief from the rent payments through the annual accounts.
- The capital growth of the property is tax free within the SIPP.
- The SIPP funds typically fall outside your estate for inheritance tax purposes.
- Personal contributions into the SIPP receive tax relief at your rate of tax.
- Employee contributions receive full corporation tax relief.

However, there are many other scenarios in which property can be an attractive SIPP investment. In a completely arm's length transaction for example; a member purchases an attractive commercial property with an existing tenant, he receives rental yields and in the long term benefits from the potential of growing equity in the property itself.





## VAT

The majority of properties are not liable to VAT, however, some properties have waived the tax exemption and become vatable or 'opted to tax'. It may be that the property was a new build and automatically taxable, or the property has had extensive renovations so the owner wished to reclaim the VAT element of these costs back from HMRC. When a property has waived this exemption, there will be VAT due on the purchase price and on all subsequent rents.

However, in some scenarios the SIPP can purchase the property as a 'Transfer of a Going Concern' (TOGC) which means that no VAT changes hands on completion. The property is still taxable but the SIPP does not need to raise the cash for the VAT element. This would need to be discussed at the outset and in some scenarios, we would need to seek specialist advice. This is the basic criteria to qualify as a TOGC:

- If the previous owner had opted to tax and charged the tenant VAT on the rent, we must opt to tax and continue to charge the tenants VAT on the rent.
- The effect of the transfer must be to put the new owner in possession of a business which can be operated as before.
- The business or part of the business must be a 'going concern' at the time of transfer.

Should the property be taxable, we would need to add the property to the MW SIPP Trustee Limited VAT umbrella scheme with HMRC. Quarterly returns will be submitted and payments made to HMRC or refunds as the case may be.

It is important to note that IFG Pensions Ltd are not VAT experts and the member will need to seek advice from their accountant or tax adviser in some scenarios.

## THE CHALLENGES OF PROPERTY PURCHASE

Despite the many advantages of a member's SIPP investing in property, other factors should be considered:

Commercial property is deemed to be illiquid; it does take time to sell. Careful consideration should be given to the property's liquidity when planning to take benefits from the SIPP as property sale timelines might not neatly align with the members plans in terms to withdraw income or lump sums from their pension. Advance planning and preparation are therefore especially important when considering investing SIPP monies into more illiquid assets like property. The value of property can go up and down, and the value can be impacted by a wide array of criteria.

Should the property become vacant there would be no rental income to service any loan repayments, rates or other ongoing costs, nor to provide income if the member is in drawdown. These will need to be ultimately funded from the members other assets or personal monies, should both the cash and other SIPP assets run dry, until a tenant is found.

The property value is a surveyor's opinion and it is not a guaranteed sales price.

There are regular costs involved in the ownership of commercial property, particularly if the tenant is connected. These can include solicitor's costs to establish the leases during the ownership of the property in the SIPP, and if the tenant is connected, there are regular rental valuations that need to be acquired from a surveyor in line with the lease. We also need to acquire a capital valuation of the property every 3 years for regulatory purposes.

Should the property become unaffordable to the SIPP, we will need to agree to sell, and in some scenarios this sale process may take place through an auction house. This could potentially result in a real loss of value.

It is very important to note that the many tax advantages of buying a property in to the pension scheme does mean that there are strict rules that MW SIPP Trustees Limited as the SIPP's Trustee and IFGL Pensions as the Administrator must adhere to. Non-compliance can result in tax consequences on the SIPP and possibly the member's company.



### **ASBESTOS**

Should it be established by the surveyor that there is asbestos apparent in the building, an asbestos register is required. This is managed by the tenant.

### **ENVIRONMENTAL RISKS AND CONCERNS**

It is essential when owning a property to take advice on any environmental issues. The surveyor will prepare a desktop survey and any recommendations for further environmental surveys. The solicitor will also carry out searches on the property which may flag any environmental issues that require further investigations.

### **ENERGY PERFORMANCE CERTIFICATE (EPC)**

At the outset of the purchase, we check on the government register whether an EPC has been carried out in the last 10 years. From April 2023 all properties must be rated from A to E. Properties rated F & G are not permitted to be tenanted. Should the property you wish to purchase fall into the F & G category, you will need to quantify the work that needs to be undertaken to bring the property to an E rating prior to renting, and ultimately a B rating by 2028.





## SYNDICATED PROPERTY

It is feasible that more than one SIPP can purchase a property in whatever proportions are affordable to each member's SIPP. All parties must be a party to a Syndicate Agreement at completion of the purchase which sets out the rules of ownership if there is a dispute. In this scenario, each SIPP will benefit from its own bank account. An additional property bank account will be established where there is a Syndicate Agreement to receive the rental income and pay all the property expenses. This bank account must maintain a minimum balance of £10,000. Funds above this balance will be distributed on a regular basis to the individual SIPP bank accounts based on proportion of ownership.

A SIPP can also purchase a property jointly with any other entity including the member and the member's company.

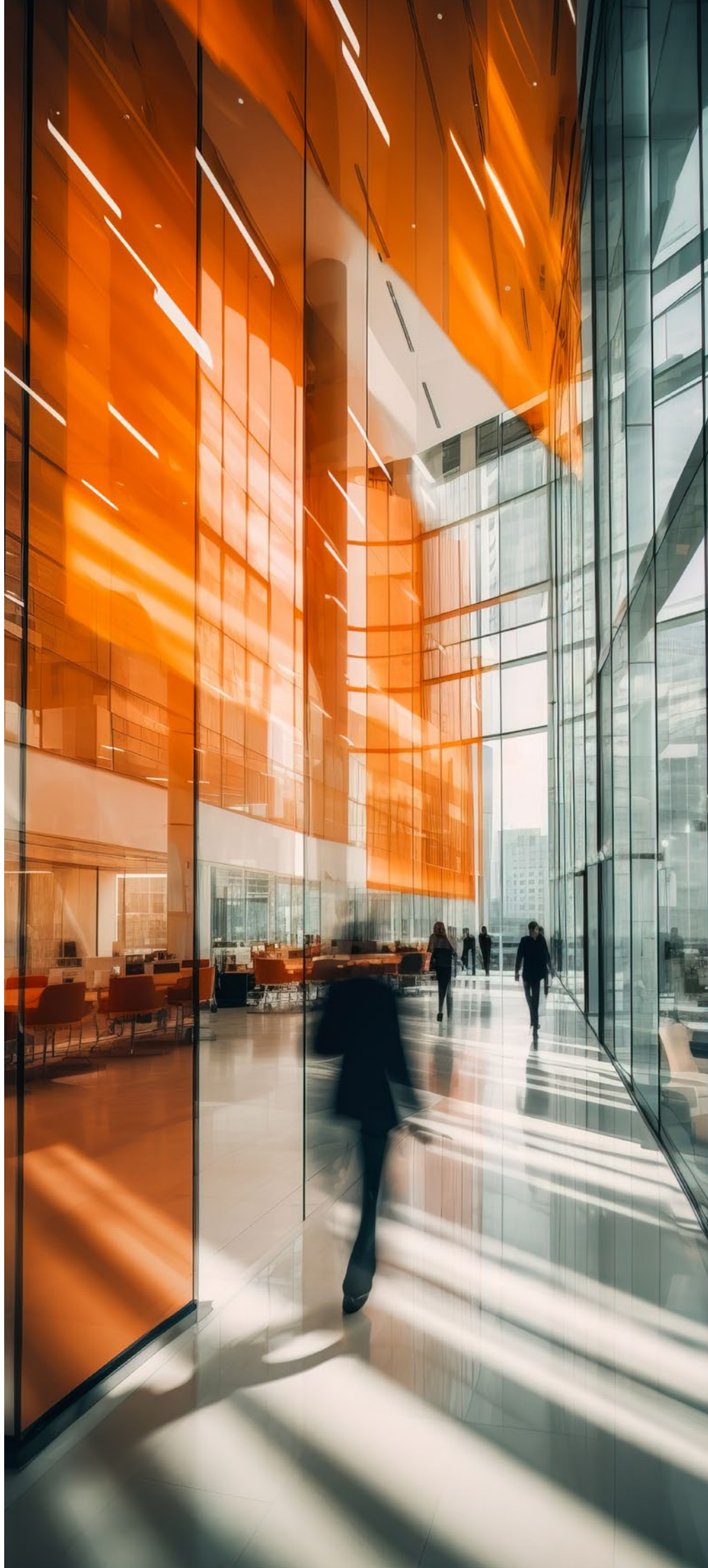
Additional fees apply where property is syndicated.

## MORTGAGES

SIPP rules do permit lending.

We can assist with the lending, but it is up to the member to source a lender and agree terms and provide them to us.

The maximum amount that the SIPP can borrow is 50% of the net value of the SIPP, less any existing lending that may be in place. The lending will be to the SIPP trustee, which is MW SIPP Trustees Limited. The lender will take security over the property and the outstanding loan will be settled on any sale on the property. The loan repayments will be serviced from the rental income established through the SIPP bank account.



## COMMERCIAL LEASE

A lease must be prepared by a solicitor. The Trustees will not be a party to a lease unless it has been drafted by a suitably qualified individual.

Tenants will be subject to identity verification and credit checks.

All leases are established on a full repairing and insuring basis, where the landlord will establish the appropriate insurance but will seek to recover the costs from the tenant. It is the tenant's responsibility to keep the property maintained at their cost.

A tenant can be an unconnected third party or a connected party. A connected party could be the member themselves, the member's company, relative or connection through business. Should the tenant be connected, the tenancy must be established on a commercial basis and rent must be supported by a valuation carried out by a qualified RICS surveyor, and a commercial lease must be put in place between the SIPP and the tenant company.

Where the landlord and tenant are connected and rent is not paid in line with the lease, it is important to know that this will be classed as an unauthorised payment as defined in the Finance Act 2004. An unauthorised payment is subject to a tax charge on the member personally of 40% to 55% of the unauthorised payment amount. In addition, a scheme sanction charge of 15% to 40% of the unauthorised payment amount will be imposed on your SIPP by HMRC. We are obliged as the scheme administrator to report such events to the HMRC.

Non-payment of rent, particularly if the tenant is connected, will be recovered by whatever methods are deemed appropriate. It is very important that you discuss with us immediately should the tenant company fall in to difficulty, so appropriate measures can be put in place.



## PROPERTY MANAGEMENT

Once completion of the property purchase has taken place, we must then consider the management of the property.

The following issues must be considered;

- The terms of the lease must be adhered to.
- A standing order for the rent is established in line with the lease from the tenant company to the SIPP.
- Lease renewals, rent reviews and property valuations must be prepared by a qualified individual in line with both the lease and any regulatory requirement that we as the SIPP provider may require.
- We are happy for the member to manage the property but if we feel that the property is being mismanaged (such as unpaid rent), we do reserve the right to appoint a property manager and for any resulting costs to be borne by the SIPP.
- Advertising for tenants.
- Managing any development and property repairs.

- Utility bills must be placed in the name of the tenant company at date of occupancy. In the absence of a tenant or if the property is multi-tenanted, the utilities are placed in the name of the member. It is the responsibility of the tenant company to manage the utilities. MW SIPP Trustees Limited and IFGL Pensions will not take on the responsibility of the administration of these.

## INSURANCE

As the property is in the name of our Trustee Company, it is our responsibility to ensure that the property is adequately covered by insurance. The property will be covered by our block insurance policy. Should the member wish to source their own insurance for the property, we will provide the insurance specifications that we will require cover for.

## IFGL PENSIONS FEES

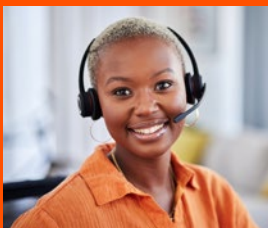
Please consider our fees before establishing the SIPP and purchasing the property. The fees will be invoiced and taken from the SIPP funds.

In addition to our fees, there are solicitor's fees, surveyor's fees, stamp duty, searches, and lenders fees to take account of.

IFGL Pensions are here to offer ongoing support and assistance. Any fees will be disclosed at the outset, via our **fee schedule**, but it is the responsibility of the member and their advisors to ensure that there are sufficient funds to cover these costs at all times.

Please refer to the **IFGL Pensions Fee Schedule**.

A minimum balance of £10,000 per property must be maintained in the SIPP bank account.



Please contact the **propertyteam@ifglpensions.com** or **0151 328 1777** with any queries.

**www.ifglpensions.com**



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