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Dentons Pensions

SSAS property purchase.

A case study

John Smith and his son, Andrew, run a successful family owned company with its own business premises. They are looking to set up a Dentons SSAS and transfer funds from their existing personal pensions with the intention of then using the SSAS funds to purchase the business premises from their company.

The facts

- John has a personal pension with a total value of £140,000
- Andrew has a personal pension with a total value of £60,000
- The commercial property is valued at £292,000 with associated costs estimated at £8,000* giving a total purchase cost of £300,000
- Once John and Andrew's company has set up a SSAS and it has been registered by HMRC, the SSAS Trustees will need to borrow to ensure there are sufficient funds in place to purchase the property
- The SSAS Trustees can borrow a maximum of £100,000 (i.e. 50% of its value once the transfer values have been received). £70,000 of this will relate to John's share of the SSAS and 30% to Andrew's
- With the transfer values and borrowing, John's share of the SSAS (£210,000) will fund 70% of the property purchase and Andrew's (£90,000) will fund 30%
- Total funds available are £300,000.

The process

- The company set up a Dentons SSAS and completes the relevant paperwork. It can take a few weeks for the SSAS to be approved by HMRC
- Once approved, John and Andrew's personal pension funds can be transferred to the SSAS
- John and Andrew complete Dentons' Commercial Property Questionnaire which shows that borrowing is required to fund the proposed commercial property purchase
- John and Andrew discuss the sale of the proposed property with their Accountant to ensure any tax implications are covered
- The SSAS Trustees can now borrow 50%of the value of the SSAS
- As the SSAS members' company is both vendor and tenant of the property, the purchase price and the rent to be charged under the lease, must be the open market valuation of each. This must be carried out by a Fellow of the Royal Institution of Chartered Surveyors (FRICS) or a Member of RICS (MRICS) who is a Registered Valuer
- The SSAS Trustees arrange the borrowing and purchase the property.

The result

- Utilising pension funds to purchase the business premises releases capital back to the business
- Any gain on the property value within the SSAS is free from capital gains tax and rent paid to the SSAS is free from income tax. The property is also held outside of each member's estate for Inheritance tax
- The company can pay administration costs of the SSAS as a deductible expense
- A rental income of £25,000 pa (the lease is for a 10 year term with a rent review after 5 years), is allocated as follows:
  John - £17,500 pa (70% of the rent)
  Andrew - £7,500 pa (30% of the rent)
- Rental income paid by the company can be treated as a business expense for its tax purposes and is paid to John and Andrew's pension scheme rather than to a third party
- The rent is used to service the mortgage along with future contributions. Once the mortgage is settled, ongoing rent and contributions build up the liquidity to pay benefits to John when he reaches age 66 and wishes to draw benefits from the scheme
- As continuing rental income can service pension payments, the property will not need to be sold.

Notes

- This case study is for Financial Adviser use only and not for use by retail clients
- *Estimated associated costs include Stamp Duty Land Tax, surveyor's fees, solicitors and legal costs and lender's fees.
- The management of the property is the responsibility of the pension scheme member, either directly or through a duly appointed professional property manager. If required, Dentons can issue rent invoices and complete VAT returns, for which we will charge in accordance with our fee schedule.
- Dentons will arrange for the property to be insured under a block policy arrangement unless alternative arrangements are required or the property is a leasehold and the freeholder arranges the insurance.
- All statements concerning the tax treatment of products and their benefits are based on our understanding of the current law and HM Revenue & Customs (HMRC) rules. These are for general guidance only and do not constitute professional advice. The tax treatment depends on the individual client circumstances and may be subject to change. Whilst every effort has been made to ensure accuracy, no liability can be accepted for any errors or omissions
- If VAT may be applicable, you should seek specialist advice
- Whilst the names used in this case study are fictitious, the processes described have been used in actual cases
- Every care has been taken to ensure that the information provided is correct and in accordance with our understanding of current law and HMRC rules, which are both subject to change.

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