

Buying UK commercial property using a SIPP

Your questions answered

What is a SIPP?

A Self-Invested Personal Pension (SIPP) is a personal pension that allows you access to a wider choice and type of investment when it comes to saving for your retirement.

Who can invest in the SIPP?

Anyone who has a Flexible Retirement Plan can invest in the SIPP. However, you should speak to your financial adviser to determine whether this is the most suitable option for you.

How can I invest in a SIPP with Prudential?

You can invest in a SIPP through the Pru Flexible Retirement Plan Self-Invested Fund. This is also available if you choose the Income Drawdown option.

To administer the SIPP, we've teamed up with Curtis Banks Group who are specialists in dealing with a wide range of SIPP investments, including the acquisition and administration of property within a SIPP portfolio. They'll be working with us to look after the SIPP administration.

Please refer to the "Key Features of the Flexible Retirement Plan (Personal Pension and Income Drawdown with SIPP options)" document for further information about the SIPP.

How can I use my SIPP to buy UK commercial property?

- As one of your options, the SIPP provides the opportunity to buy and invest in UK commercial property directly. This is potentially beneficial if you are self-employed and want to use your SIPP to help buy your business premises. However, the property does not need to be connected to your own business.

- Your SIPP can borrow up to 50% of the value of your Pru Flexible Retirement Plan less any existing borrowings to help buy the property. We can accept borrowing from a high street lender or personal borrowing from yourself or company of which you are a Director. Evidence of market rate interest will be required for any personal borrowing.
- You and other Prudential SIPP planholders can pool the funds in your SIPPs to buy a commercial property as a joint investment.
- You can also use your SIPP to part-buy a commercial property where the other purchasers are not SIPP investors. If this option is chosen please liaise with the Property New Business team at Curtis Banks to discuss the additional requirements. You can call them on **0370 850 6063**. Lines are recorded and open Monday to Friday 9:00am-5:30pm.

What are the tax advantages?

- When you use the funds from your SIPP to buy a commercial property to be used as your own business premises, you will have to pay rent at commercial rates to the SIPP. However, as usual, rent should be an allowable business expense, so it will reduce the tax you pay on any profits from your business.
- Also, the rent you pay into your SIPP, less any loan repayments, generally grows free of income tax and capital gains tax. The value of your investment can go down as well as up so you might not get back the amount you put in.

The above is based on our understanding of current taxation, legislation and HM Revenue and Customs practice, all of which are liable to change without notice. Tax rules can change and the impact of taxation (and any tax relief) depends on your circumstances.

What type of property can my SIPP buy?

- Your SIPP can buy freehold, leasehold or commonhold commercial property in the UK. This means any property that will primarily be used for commercial purposes. Each property will need to be reviewed on its own merit and some commercial property may not be acceptable to Curtis Banks due to allowability requirements. Every property is also subject to due diligence prior to purchase therefore although in theory allowable, the specifics of the property may mean that we are unable to accept the same
- If the property to be purchased is currently owned by you or a party connected to you the property will need to be purchased for Market Value as advised by a RICS registered valuer. Where the property to be purchased adjoins property owned by yourself we have specific queries that must be confirmed by a valuer to ensure no marriage value, no interconnection with residential property and no impact to marketability or saleability.
- Note that a red book valuation will be required in all cases.

How do I arrange the purchase and management of my SIPP's property?

Professional services

You are free to request the appointment of your own solicitor, valuer and any other provider of professional services required for the property purchase.

The solicitors will carry out various checks on the property you wish to be bought, covering areas such as planning issues and site history. We will then let you know if the purchase is able to proceed.

The valuer will provide an overview of the property to be purchased, will note the market value of the property alongside the market rent that the property should be let for alongside commercial terms for any lease. In addition the valuer will comment on specific points such as Japanese Knotweed, whether the property is considered taxable property or not and whether composite panels were noted on the property to name but a few.

We will require an environmental search to be carried out on the property via our third party provider.

Additional professionals such as an EPC assessor, accountant, property manager, lender etc. may be required dependant on the specifics of the transactions.

Mortgage requirements

Your SIPP can borrow up to 50% of the net value of your Pru Flexible Retirement Plan to help you buy commercial property. You can ask for a commercial lender of your choice to be used and arrange terms directly with them.

We can accept borrowing from a high street lender or personal borrowing from yourself or company of which you are a Director. Evidence of market rate interest will be required for any personal borrowing.

Stamp Duty Land Tax/Land and Buildings Transaction Tax

Confirmation as to whether Stamp Duty Land Tax or Land and Buildings Transaction Tax is payable and the amount of the same will be confirmed by the solicitor during the transaction.

Existing leases and new tenants

Your SIPP can buy a property that has an existing lease if we are satisfied that the lease does not contain any unsuitable obligations or liabilities.

Rent

If your SIPP buys a commercial property, you or the tenant (including your business, partnership or company) must pay rent based on normal commercial terms. If the tenant is unconnected from yourself, terms can be agreed between yourself and the tenant.

The rent from the property will be paid directly into your SIPP and used to make any loan repayments or cover any liabilities that apply.

Property management

Once the property is bought, Curtis Banks will manage the property internally, including:

- invoicing and collecting rent
- insuring the property
- accounting for VAT if applicable
- arranging for loans to be repaid.

In some scenarios, including multi tenants, part ownership or where repair obligations remain with the Landlord an external Property Manager will need to be appointed to manage the property.

For more information on how Curtis Banks Property New Business team can help you, please call **0370 850 6063** or speak to your financial adviser. Lines are recorded and open Monday to Friday 9:00am to 5:30pm.

Property development

It is possible to develop the property through your SIPP. If you wish to explore this option please call the Developing Property team on **0370 850 6063** who will be able to discuss our specific requirements for the same. Lines are recorded and open Monday to Friday 9:00am-5:30pm.

Are there any fees?

- Fees for property purchases can vary depending on the complexity of the transaction.
- For property management, you will also need to pay fees based on the amount of work required to effectively manage the property.
- Fees for solicitors, valuers, etc acting for the purchase are payable in addition.
- These will also be paid from your SIPP. There will be normal SIPP administration and investment charges to pay, depending on the type of investment held.
- Charges and costs may vary in the future and may be higher than they are now.

For more information on the fees, please call us on **0370 850 6063**.

How are the fees paid?

- All our fees will be paid from your SIPP. This means that they will not, currently, be subject to VAT.
- For group property purchases (where funds from different Prudential SIPPs have been pooled), the fees are split according to the individual SIPP's interest in the property.

How do I start the process?

If you do not already have a SIPP you can contact your financial adviser for more information. If you want to hold a commercial property in an existing SIPP, your financial adviser can supply you with a Property Form that you should complete and return to us. This will ask you to provide details such as:

- the value of the property you want to buy
- your solicitor, surveyor and any lender involved
- any tenants and existing leases
- the source of any additional funds required.

We will then contact you or your financial adviser with details of what to do next.

Important information

Here are a few important points that you should consider when choosing whether this option is right for you:

- In common with other investments that can be held in a pension, property can fall in value as well as rise. You could get back less than invested.
- A pension is a long-term commitment. You can start taking your benefits from the age of 55, even if you're still working. You might be able to take your benefits earlier than that if you're in ill health.

The Government has confirmed its intention to increase the minimum age from which you can access your personal or occupational pension from 55 to 57 on 6 April 2028.

- Selling property may take a long time and can be difficult to sell. You may not be able to sell/cash in this investment when you want to, especially if the monies are required to pay death benefits as there is a tax charge if these are not paid within two years of notification.
- You should be aware that borrowing to invest can be a risky strategy as there is a chance that the investment growth rate will not outweigh the interest rate on the money borrowed.
- SIPP charges may be higher than for Personal Pensions and Stakeholder Plans or where the size of the fund is relatively small i.e. under £50,000.
- Fixed charges will have a greater proportionate effect on smaller investments than they will on larger ones.
- Under HM Revenue and Customs rules, any death benefit lump sum which has not been paid within 2 years of the date we are notified of death, will be subject to tax. This applies to both uncrystallised and crystallised (e.g. Income Drawdown) funds. Any lump sum and any income/annuity payments will also be subject to tax if the customer died on or after the age of 75.
- For Income Drawdown:
 - the value of the fund may be eroded, especially if investment returns are poor and a high level of income is taken.

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