

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. The lender must be a bank or building society.
- 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.

Please note, the option to part-buy a commercial property is not available in Scotland.

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.
- If your SIPP is buying land immediately next to land that is owned by you or someone connected with you, a valuation will always be needed to confirm that your SIPP is paying a fair value for the land.
- Note that valuations 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 permission, site history and environmental issues. We will then let you know if the purchase is able to proceed.

The valuer will help you confirm if the property meets up-to-date regulations. For example, asbestos regulations and disability discrimination requirements.

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. The lender must however be a bank or building society.

Stamp duty land tax

Stamp duty land tax is currently payable at the following commercial rates and can change:

Up to £150,000	Zero
The next £100,000 (the portion from £150,001 to £250,000)	2%
The remaining amount (the portion above £250,000)	5%

In Scotland, the Scottish land and buildings transaction tax is payable in place of stamp duty land tax, and in Wales, the Welsh Land Transaction Tax is payable in place of stamp duty land tax.

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.

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

Property management

Once the property is bought, Curtis Banks Group property management team will deal with:

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

For more information on how Curtis Banks Group property management team can help you, please call **0370 850 6063** or speak to your financial adviser.

Property development

It is possible to develop the property through your SIPP as long as:

- the work increases the value of the building
- we have seen a range of quotes and the construction is carried out by an independent contractor who is registered under the Construction Industry Scheme
- we get written confirmation of all the work being carried out
- all costs associated with the development are paid from the SIPP.

Your SIPP is able to borrow to develop the property, subject to the limits referred to earlier.

For more information on how Curtis Banks Group property development team can help you, please call **0370 850 6063** or speak to your financial adviser.

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.
- Additional annual fee for VAT elected properties: £161 each year. The £161 each year relates to the property, not the member.
- 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.

Why choose Prudential?

The Prudential Assurance Company Limited:

- has funds under management of £117 billion as of 30 June 2023.
- is rated A+ for financial strength by Standard & Poor's, as of February 2024. This is one of the highest ratings currently given to any UK Life Assurance Company.

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.

pru.co.uk

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