

Commercial Property Renovation.

A case study

Mr Ferguson is planning to buy a rundown social club with the intention to renovate the club to create a public house and develop the upper floor into office space, which could be let out. He intends to fund the proposed purchase as an investment through his pension scheme.



The facts

- Mr Ferguson has three separate personal pensions valued at around £190,000, which he intends to consolidate by transferring them into a Dentons SIPP
- Mr Ferguson has personal savings earning little interest, which he can lend to the SIPP to augment the funds needed to fund the renovation
- Any transaction such as a loan to the SIPP by a connected party (the member) must be established on demonstrably commercial terms and documented
- The Dentons SIPP operates with the member being a co-trustee alongside Dentons' trustee company, Denton & Co. Trustees Limited. It is up to the member trustee to decide who should undertake property management and which solicitors and surveyors should be used. Dentons does not restrict this.

The process

- Mr Ferguson completes Dentons' Commercial Property Questionnaire
- The questionnaire captures the data necessary for Dentons to ensure the property is fully commercial, that it meets other acceptance criteria and that there are sufficient funds to cover the property purchase price, associated expenses and expected renovation costs as well as a cash holding for the SIPP's default bank account
- Dentons accepts the property, along with the required renovation work
- Mr Ferguson establishes a Dentons SIPP and arranges the transfers from his three personal pension funds into the SIPP
- Dentons sends instructions to the solicitor named on the Commercial Property Questionnaire who is to act for the SIPP trustees being Mr Ferguson and Dentons' bare trustee company (Denton & Co. Trustees Limited). However, Denton & Co. Trustees Limited will not be named as co-owner of the property - it will have a Restriction placed on the Land Register through a Declaration of Trust preventing the property from being sold or mortgaged without its consent
- The property purchase is from an unconnected third party and therefore, a professional opinion of valuation although useful is not a requirement.

The process continued...

- The transfers into the SIPP are subject to a 30-day mandatory cancellation rights period. Once this period has expired, the SIPP funds can be used to pay the property deposit and complete the property purchase
- Mr Ferguson arranges for his solicitor to prepare the documentation on the loan from him to the SIPP having obtained evidence of commercial like-for-like terms.

The result

- Once the renovations are complete the pub on the ground floor is let to an unconnected public house company for £20,000 per annum and the offices on the upper floor to an unconnected company for £6,000 per annum
- The rents received by the SIPP are then used to service and repay the loan from Mr Ferguson
- Mr Ferguson uses his own solicitor for the property transaction
- Mr Ferguson manages the property himself and the SIPP avoids having to pay additional management costs
- The leases provide tax-free investment income to the SIPP
- Any gain in the value of the property is free from capital gains tax.

Notes

- > If for any reason the business was going to change how the building is used, the public house and/or office will require planning permission for a 'Change of Use'
- > The Declaration of Trust is a transparent tax neutral arrangement. The SIPP or SSAS Member(s) as trustees will be the registered owners of the property at the Land Registry and there will be a Restriction placed on the Land Register to prevent sale or mortgage of the property without the consent of Dentons' bare trustees company.
- > If the contractor of the renovation is a connected party, it will be necessary for quotations to be obtained from unconnected contractors to establish whether the connected contractor is charging a market rate for their services
- > 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 fees schedule.
- > Dentons will arrange for the property to be insured under a block policy arrangement unless alternative arrangements are already in place or the property is a leasehold and the freeholder arranges the insurance.
- > This case study is for Financial Adviser use only and not for use by retail clients
- > 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
- > Dentons will not provide advice on the suitability of investments but reserves the right to refuse to hold any proposed investment in the scheme
- > 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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