

## SIPP Adviser Case Study 6

### Property Purchase above borrowing limits

for professional adviser use only – not for private clients



John is considering a purchase of a commercial property he has seen with a good rental yield available for £185,000. After discussing his options with his Financial Adviser he wishes to purchase the property via a Self Invested Personal Pension (SIPP).

John is a key director of the business with earnings of £45,000. He has never previously had a pension plan, other than participating in the State Pension Scheme.

The business is going to pay the maximum pension contributions for him of £100,000 which is achieved by using two tax years at once (paying £50,000 for the current tax year and then a further £50,000 by creating a Pension Input Period ending in the following tax year). He is unable to use the carry forward facility, as he has not previously been a member of a registered pension scheme and therefore can't claim unused allowances.

His company accountant feels that employer contributions are warranted at that level, on the basis that they are wholly and exclusively for the purposes of the employer's trade, even though they exceed 100% of earnings for the year.

With a fund of £100,000 the maximum borrowings are £50,000. John's adviser discusses that the new SIPP borrowing limits will leave him with a shortfall, but there is a way of achieving his aims by splitting ownership for a period.

In this case, John's SIPP can fund up to £150,000 of the £185,000 purchase price. John's adviser recognises that an allowance for various costs should be made however (see later), and decides that around £140,000 of property could be purchased by the SIPP this year leaving a shortfall of £45,000. The company is willing to own the remaining £45,000 share of the property on a temporary basis in order to facilitate the transaction. At the start of the next tax year, the company's share of the property will be paid as an in-specie contribution to the scheme, using up £45,000 of his next year's £50,000 annual allowance.

So, although the borrowing limits have prevented the SIPP from wholly purchasing the property at outset, by straddling another tax year then the overall aims are eventually achieved, albeit with a temporary period of split ownership.

Note that this outcome assumes two phases of ownership, which would mean a set of legal fees for each transaction. If however the second payment (i.e. the one in the next tax year, equal to the balance of the value of the property) is definitely to be made, then the agreement can be drafted to reflect staged payment(s) upfront which could eliminate the need for a second set of legal fees.

John's adviser knows that many SIPPs will not accept this type of ownership, but Minerva SIPP will allow it, helping advisers in situations where the new borrowing limits might otherwise preclude the SIPP from acquiring the property altogether.

#### Important Notes:

- The SIPP would need a tenant (which could be their own business), paying a commercial rate of rent.
- Rental Income must be at least 110% of the amount of loan repayments (if fixed rate interest) or 130% if variable rate. If not, alternative arrangements may be acceptable with the agreement of InvestAcc Pension Administration Limited.
- Further contributions can be made, within available annual allowances.
- With any property purchase exercise, the timescales can sometimes be quite lengthy.
- As John is eligible for tax relief, we will claim basic rate relief from HMRC, and this takes time for us to receive. If the tax relief is essential to fund the purchase then early payment of the contribution should be considered.
- If John is entitled to tax relief at the higher or upper rates, then he can claim the balance via Self Assessment

- This is a simple example to show how the calculations work, and ignores various costs which would need to be taken into account – e.g. Minerva SIPP fees ; adviser charges ; stamp duty (for property purchases over £150,000) ; Value Added Tax ; legal fees ; valuation fees ; and costs involved in insuring and maintaining the property.
- Please refer to our latest [Property Purchase Guide](#) for more information on SIPP property purchase.

**Note: This case study is aimed solely at professional financial advisers, and is not for client use. Individuals or companies interested in Minerva SIPP should always consult a suitably qualified professional adviser. InvestAcc Pension Administration Limited do not provide financial advice.**

## To find out more contact

---

**Nigel Bennett**

**Business Development Manager**

t: 01228 538 988

m: 07557 524431

e: [nigel.bennett@investacc.co.uk](mailto:nigel.bennett@investacc.co.uk)

w: [www.minervasipp.co.uk](http://www.minervasipp.co.uk)