

BOOLERS

9 REASONS TO BUY YOUR BUSINESS PREMISES IN YOUR PENSION

You'd be forgiven for thinking that the growth in the digital economy means everyone is trading online. That's far from true. Many businesses still need a property, perhaps an office, shop, factory or industrial unit to trade from. If you are one of those businesses you essentially have two choices: buy or lease.

If you prefer the first option, there are many reasons to use a pension to buy the property. This article looks at some of those, as well as considering the potential risks and downsides too.

BUYING COMMERCIAL PROPERTY IN YOUR PENSION

There are two different types of pension which will allow you to buy commercial property; a Self-Invested Personal Pension (SIPP) or a Small Self-Administered Scheme (SSAS). Both have advantages and disadvantages; it is our job, as pension experts, to advise you on which is most appropriate for your circumstances. Assuming of course that buying a commercial property in your pension is the right thing to do in the first place.

1 TAX-RELIEF: GET THE TAXMAN TO PAY FOR PART OF YOUR PROPERTY

Pension contributions qualify for tax relief; in other words, a boost to your own contributions.

The system of tax relief can be complex. The exact rules depend on whether it is you, or your company, making the contribution. In simple terms:

Personal: A contribution of say £10,000 would receive tax relief of £2,500, meaning £12,500 is paid in to the pension. Higher rate taxpayers then claim an extra 20% through self-assessment and additional rate taxpayers even more.

Company: Pension contributions are treated as an expense when calculating your businesses profits and consequently the Corporation Tax due.

That process effectively gives tax relief of 20% in 2016/17 tax year and 19% in 2017/18.

The system of tax relief is one of the reasons pensions remain popular. As a business owner buying a property, it means the taxman has contributed significantly to the cost of buying your business premises.

2 RENT IS 'DEAD MONEY'

Many of us see paying rent as 'dead money', only helping the landlord to build their wealth.

Consequently, many business owners prefer to own their premises rather than leasing. Using your pension to buy the property is one way to achieve this.

3

RENT, RECEIVED TAX-FREE, BUT STILL A BUSINESS EXPENSE

If your pension owns your business premises you will still be a tenant, but your pension will be your landlord. And it is your pension, not a third-party landlord, which will receive your rent.

Not only does this rent boost your pension, it is received tax free. What's more, it is still treated as a business expense, reducing your profits and Corporation Tax bill. However, a formal lease must be put in place and arranged on commercial terms. To put it another way, you can't give your business a better deal than would be available in the open market.

Nevertheless, for the reasons contained in this article, many business owners would rather pay rent to their own pension than a third-party landlord.

4

NO TAX ON THE GROWTH

There are many reasons to own your business premises in your pension. But, it is still first and foremost an investment, which you hope will grow over time and provide you with an income in retirement.

If you were to own your business premises personally, or through a limited company, any profit when you sell it would potentially be taxable. This is subject of course to the usual Capital Gains Tax exemptions if you owned it personally.

However, owning the property through your pension means that no tax is payable if you ever sell it.

5

YOU ARE NO LONGER AT THE MERCY OF YOUR LANDLORD

Owning your premises gives you far more control. It's not a free ride; rent still needs to be paid on time and borrowing commitments must be met. But, no landlord can ever decide to sell up from under you, or arbitrarily and unfairly put up your rent.

6

BORROWING

Many businesses need to borrow money to help them buy a property; subject to certain rules, your pension can do the same.

Simply put, your pension can borrow up to 50% of its value to help fund the purchase of a property.

A pension can borrow from a bank, much in the same way your business would do. Most banks are used to lending to SIPP's and SSAS's, in fact many have specialist departments dealing with only these types of loans.

7

FLEXIBLE WAYS TO BRIDGE THE GAP

Even if you don't have enough money in your pension to buy the property outright, there are several options to help bridge the gap.

These include:

- **Additional pension contributions:** If you have spare capital, either personally or in your business, you could consider making a pension contribution to help bridge the gap. Subject to complying with the rules, this would of course qualify for tax relief
- **Multiple pensions, multiple owners:** It's possible for a single property to be purchased by multiple pensions. If you have other directors or partners, you could each use a SIPP to buy a proportion of the property. For example, four directors could each buy 25% of your chosen property
- **Joint purchases:** We are used to buying property jointly; a married couple buying a home is probably the most obvious example. There's no reason why your pension can't do the same. A pension could buy a property jointly with you as an individual, your business, or indeed almost any other third party

Of course, you could always borrow additional funds to bridge the gap between your pension's value and the purchase price of the property you want to buy.

8

A POSSIBLE CASH INJECTION INTO YOUR BUSINESS

If your business already owns your premises, arranging for your pension to buy it could give your business a valuable cash injection. On completion of the transaction, cash, previously held in your pension, would now sit in your business and the property would be owned by your pension.

The transaction must be on commercial terms and for a fair market price, which is generally decided after an independent valuation. However, it isn't without its drawbacks; if you or your business has made a profit on the property, the sale to your pension could trigger a tax charge. You will have fees to pay, including stamp duty, and you won't be able to access the income from the property until at least 55.

9

LOWER TAXES WHEN YOU DIE

If you own your business premises personally outside a pension it will be included in your estate when calculating any Inheritance Tax due on your death. However, assets held in a pension are outside of your estate for IHT purposes. There are other tax advantages too, which depend on when you die:

If you die before your 75th birthday: Regardless of whether you take an income or lump sum from your pension, your beneficiaries can withdraw all the assets tax free. Alternatively, they may prefer to retain the pension and take a tax free income. Both options are available irrespective of your beneficiaries' ages.

If you die after your 75th birthday: Your beneficiaries can still take a lump sum, or indeed retain the pension and take an income, but both options are then taxed at their marginal rate.

Disadvantages

Whilst there are many reasons to consider buying a property in your pension, there are also a number of disadvantages. These include:

Access: You cannot normally access your pension until you are 55; from 2028 this will rise to 57, in line with the rise in state pension age (SPA) to 67 and will remain 10 years below the SPA thereafter.

Trustees: A pension is a trust and the trustees must ensure that pension rules are adhered to. You, as the member, therefore cannot simply do as you please. For example, rent must be paid on time and be set at a commercial level. In other words, the trustees must treat your business as they would any other; expect no favours and no special treatment.

Liquidity at retirement: When they retire, most people take the maximum 25% tax free lump sum from their pension and then draw income down or buy an Annuity. If the only asset you hold in your pension is a property, liquidity may be an issue.

However, there are many solutions to this problem, and with careful planning it can be overcome.

Diversification: For many people who choose this route, their property is often the largest asset in their pension. This can lead to a lack of diversification with significant exposure to one asset class - commercial property. To some degree this can be offset by investing the rent received in assets which provide a degree of diversification, for example: equities, bonds or cash. This will also, at least partially, address the liquidity issue.

Risk: Your own financial future is inextricably linked to the success of your business. This is magnified by using your pension to buy your premises. If your business fails, rental payments will stop and you will be left with an empty property for which you will need to find another tenant.

Fees: All pensions have fees and charges. These may well increase if you decide to use your pension to buy a property.

A WORD ABOUT BOOLERS

As Chartered Financial Planners, and SIPP & SSAS specialists, we are perfectly placed to advise the businesses of Leicestershire and the surrounding counties on the advantages and disadvantages of buying commercial property in their pension.

If you would like to discuss the options you have, or are interested in buying a commercial property in your pension, we would be delighted to hear from you. Please call us on 0116 2407070 or visit us at www.boolers.co.uk