Pensions and commercial property

Why should you include commercial property in a pension?

Pensions have been used to hold commercial property in one form or another since the 1970s. Historically, individuals who own businesses would naturally have premises to trade from, which when proactively considered, would mean pension schemes could be considered for ownership of these premises.

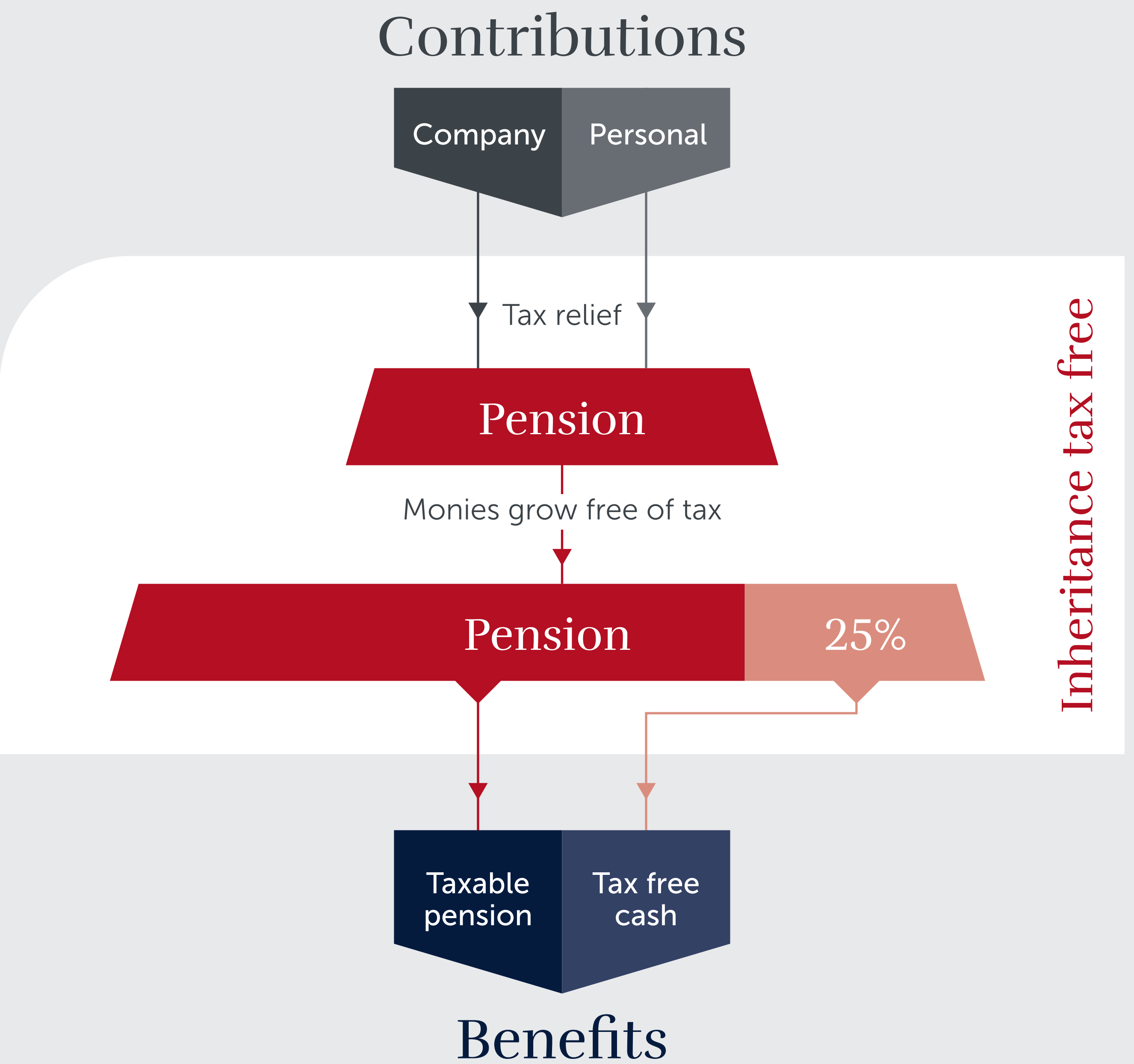
Pension schemes – overview

Pension schemes are one of the most tax-efficient structures available in the UK and in certain cases allow for interaction with an individual's business and indeed the holding of real assets, such as commercial property.

Commercial property in terms of its use within pension funds, does not include any forms of holiday home or buy-to-let property. However, there are some exceptions around properties that can hold a residential aspect, but these are very specific, and you would need to contact a specialist in this area.

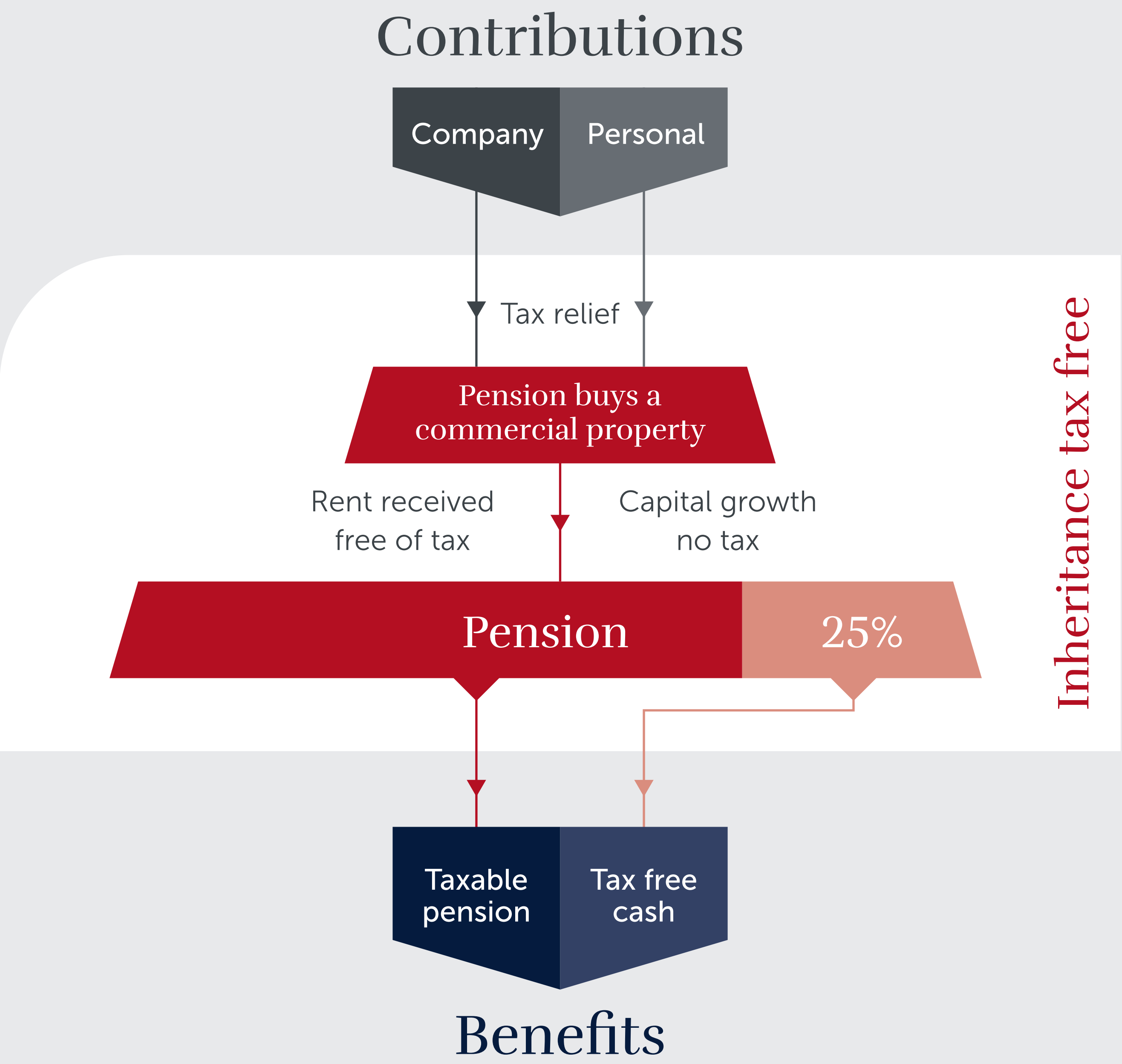
Pension schemes – tax benefits when investing in commercial property

- Pension schemes are one of the most tax-efficient structures available to UK investors. They benefit from tax relief when contributions are made, whether that be through a company contribution or indeed a personal contribution, depending on the prevailing contribution rules and limits at any given stage.
- Any growth is free of capital gains or income tax within the pension scheme structure.
- Currently, the ability to draw a 25% tax-free lump sum at the point of retirement (or at certain stages throughout retirement) is available for most pension funds in the UK.
- Pension schemes are also outside the estate for inheritance tax purposes, if planned for correctly.



So, what are the main advantages, from a tax perspective, of investing in commercial property via a pension fund's assets?

- Any contributions made to create the necessary deposit or indeed the total cash needed to buy the property will usually be tax relieved.
- The rent from the property and/or capital growth on the property over the long term would be exempt from tax. This is an especially important aspect if the tenant is connected to the beneficiary of the pension fund. This would mean any rent (which must be at a commercial rate) paid into the pension, while tax free, also benefits the members' business and would be a deduction against corporation tax, in much the same way as a pension contribution.
- In the event of the death of a pension scheme member, the property could be inherited through proper planning as a pension fund asset for the next generation, or even provide continued benefits for a spouse or a partner, without the need to sell the asset.



Business considerations

There are naturally benefits and pitfalls of owning commercial property within pension funds, but some of the business aspects to consider are:

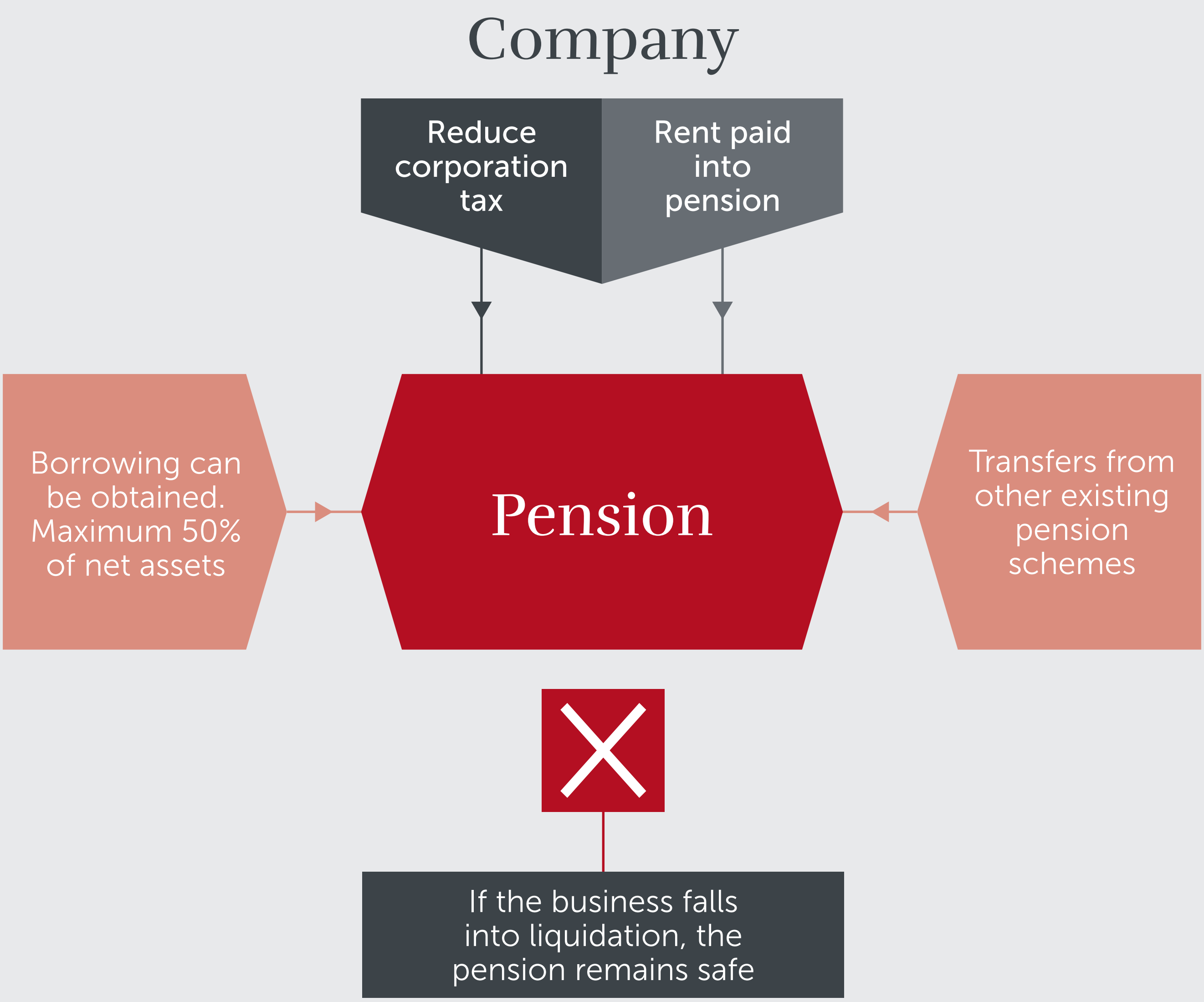
- In the event of the business failing, assets held within the company could be used to pay debts, whereas pension scheme assets are usually shielded from any insolvency or administration process.
- The pension scheme may also borrow but, with a maximum borrowing level of 50% of the net assets of the pension scheme.
- Rent paid would reduce profit and offset corporation tax. This is especially important for connected transactions.
- All interactions between connected parties (including any rental agreement) will need to be documented as commercial, including if the scheme was to purchase the asset from any connected party. An appropriately qualified professional will need to be engaged to provide the required written assurances.

> “Commercial property has proven to be an extremely effective asset for pension schemes since the 1970s and it still holds a significant relevance to this day.

Member benefits

Ultimately, any investment by pension fund trustees must have the best interests of the scheme's beneficiaries at heart. Therefore, in principle, while buying commercial property from a tax perspective can be advantageous, the long-term practical benefits that commercial property can provide to its members is substantial. These can include:

- Consistent rental returns to underpin pension income requirements in retirement.
- Pension schemes can borrow 50% of the assets that are currently held within a pension scheme to allow a property, or further properties, to be purchased.
- Inter-generational planning as aligned with businesses, can benefit from the pension scheme holding the commercial property.
- Upon sale of a business, dependent on the situation, it may be that the purchase of commercial property is not needed by the acquiring business and, as such, holding it in the pension scheme will create long-term inter-generational benefits.
- The ongoing rental receipt will allow for diversification, either by paying off the borrowing and subsequently buying further property or investing in a wider range of assets that have liquidity to provide flexibility in retirement.



Other points to consider

- Pension fund assets can be pooled by multiple individuals to purchase commercial property.
- If a pension scheme purchases the business's commercial property, any equity within the property cannot then be used as security for direct borrowing by the business. However, with the use of a small self-administered scheme (SSAS), this ability can be created by undertaking a loan from the pension fund (as per detailed rules) directly to the company. This is a complex area of planning and requires specialist advice.
- Holding a real asset brings comfort and control when planning for investment returns and retirement objectives.

Summary

There are so many moving parts when considering the purchase of a commercial property within a pension fund. It is, therefore, essential you have providers and advisers who are experienced in the delivery of purchasing a commercial property within pension funds. Mattioli Woods has been a market leader for over 30 years in this particular field of complexity. Our systems are open and allow for as much control as possible, but with protected methods, to invest in commercial property using your pension assets, either through a SSAS, self-invested personal pension (SIPP) or indeed both, through multiple members and family members, should this be the need.

Get in touch

For more information or to arrange a meeting, please contact:

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