

Investing in commercial property through the OneSIPP or TPP

AT A GLANCE

Sanlam Investments and Pensions can purchase commercial property and hold it as an asset of one or more individuals' pension funds under our OneSIPP or Transfer Pension Portfolio (TPP)

Important information: This document is for use by financial advisers only. It is not intended for onward transmission to a private customer and should not be relied upon by any other person. The information contained in this document is correct as at 1 June 2020. We reserve the right to review our charges from time to time. More detailed information can be found in the *Guide to commercial property*, *Guide to charges* and *Key features* documents.

Why use Sanlam?

- Sanlam has over 30 years' experience and a proven track record of acquiring commercial property as an asset of pension funds.
- Dedicated property team.
- Free feasibility reports.
- Commercial property can be held under our OneSIPP or our TPP, or over both products where appropriate.
- Sanlam offers varied solutions to assist when structuring property deals and will be the legal and beneficial owner of the property. Solutions include:
 - shared ownership and phased ownership of a property
 - in-specie transfers
 - VAT option.
 - multiple member OneSIPP facilitates pooling of member funds
 - Funds may be combined from OneSIPP and Transfer Pension Portfolio to buy a property

Acceptable commercial property

(subject to meeting Sanlam's criteria)

- warehouses
- retail units
- offices
- arable agricultural land.

This list is not exhaustive and other commercial property may be considered at Sanlam's discretion.

Tax benefits

- Rental income tax free.
- Capital growth tax free.
- Rental payments are treated as a business expense for tax purposes.
- Property not part of the scheme member's estate for inheritance tax (IHT) purposes.
- Scheme member contributions or contributions made by a third party will attract income tax relief, which can be used to fund the purchase.
- Employer contributions will attract corporation tax relief if they satisfy the 'wholly and exclusively' test, meaning they are made for the purposes of the business.

Other considerations

- Rent must be at the market value if tenanted by a connected party, such as the scheme member or scheme member's business.
- Sanlam will only use a firm of solicitors from its panel.
- Connected party transactions must be at market value as determined by an independent qualified surveyor from the Royal Institution of Chartered Surveyors (RICS).
- Residential property is not permitted, bar certain limited exceptions. This is because it is classed by HMRC as taxable property and as a consequence is subject to tax penalties.
- Leasehold properties should have a minimum term of 99 years remaining on the lease.
- Sanlam cannot accept development projects.
- Sanlam reserves the right to sell a property at their discretion where their requirements are not met, for example, if loan repayments cannot be paid.

Minima details

- Minimum initial contribution for self-investment is £25,000 per client (minimum monthly £100 gross).
- Minimum initial contribution for limited instruction is £2,000 single gross contribution.
- Minimum property value to be purchased by Sanlam for shared ownership is initially £50,000. Subsequent tranches are subject to a minimum property transfer value of £10,000.

Value-added tax (VAT)

Supplies of land and buildings are usually exempt from VAT unless the VAT Option to Tax is invoked (usually by a previous owner). VAT is currently 20%.

- VAT is payable on the purchase price, unless it is treated as a 'transfer of a going concern' (TOGC).
- VAT is payable on the rent payable.
- VAT on property alterations and other expenses can be reclaimed.
- VAT is chargeable upon disposal, unless a TOGC.

Transfer of a going concern (TOGC)

TOGC allows a tenanted building to be transferred VAT-free if certain conditions are met. The purchaser must have opted to tax the property, notified HMRC from the date of the transfer, registered for VAT, and ensured there is a property rental business (tenancy) in existence.

VAT option

The Sanlam VAT option is a facility available whereby Sanlam Life & Pensions UK Limited (SLP) pays and reclaims the VAT on a property purchase. The benefit of this service is that the VAT does not have to be paid from the OneSIPP or TPP and does not affect the maximum authorised borrowing that is available. The charge for this service is currently 0.8% of the net property purchase price.

Borrowing

The maximum amount of authorised borrowing by the pension fund is 50% of the net fund value immediately before the borrowing takes place. This is a requirement in the pensions tax legislation. If borrowing goes above this amount it is classed as unauthorised borrowing and harsh tax penalties will be incurred.

Exiting OneSIPP or TPP with a property as an asset

Should a scheme member wish to transfer out of a OneSIPP or TPP, scheme benefits become payable on retirement or death, or find their fund is subject to a pension sharing order after a divorce or dissolution, the following must be considered:

- There must be sufficient cash in the fund to give effect to a transfer request, pension sharing order or to pay benefits. If there is insufficient cash available the property may have to be sold.
- Further cash may be generated by additional borrowing. For a OneSIPP, additional contributions can come from other scheme member(s) or further members linking their policies to the same fund.
- Any proposed additional borrowing must be retested against the 50% limit.
- Scheme members may elect to drawdown their pension while retaining the property as an asset of their fund if cash levels permit.
- Part or all of the property may be transferred in-specie to the beneficiary in settlement of a death benefit claim subject to our shared ownership criteria.

Property charges

Full details of all property charges are available in the OneSIPP and TPP *Guide to charges*.