

# Shared ownership and phased transaction commercial property purchase

## CASE STUDY

Exploring how one business owner raised capital for expansion by freeing up money in their personal pension fund to buy a premises

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I own an engineering business from which I draw an annual salary of £70,000. In order to expand, my firm needs to raise capital. My company owns the business premises, which have been valued at £410,000 by an independent qualified surveyor from the Royal Institution of Chartered Surveyors (RICS). There is no lending on the property and it is not VAT elected.

My financial adviser recommends that my company sells the property to my pension fund, which in turn would lease the property back to my company. The rent will be set by an independent RICS-qualified surveyor. As tenant, my company will retain use of the property and cash will be released from the pension fund to fund corporate expansion.

I have a OneSIPP with a current value of £200,000. I also pay a personal single contribution of £16,000 (net) into my pension fund to help cover the costs associated with the acquisition of the property. Basic rate tax relief on this contribution will also be paid directly into my pension fund by HMRC. Any higher rate tax relief can be claimed through the self-assessment tax system.

There are insufficient funds in my pension fund to acquire the property outright. My financial adviser recommends I phase the transaction and use the Sanlam Investments and Pensions shared ownership facility.

### Year one

My company already owns the property and my OneSIPP will meet all the costs as the only 'purchaser'. My firm will need to meet any costs incurred as 'seller'.

Assets	£
Property value	£410,000
Existing fund in OneSIPP	£200,000
Single contribution (including basic rate tax relief)	£20,000
Plus borrowing	£110,000
Total in OneSIPP	£330,000

If the purchase was from a third party then the costs would be split between my OneSIPP and my company on a 75/25 basis, as they would both be purchasers.

Structure of transaction	%	£
John's OneSIPP	75	307,500
Company	25	102,500

During the first year:

- Sanlam Investments and Pensions purchases 75% of the property from my company, which is held as an asset of my OneSIPP.
- My company receives £307,500 in cash but must pay corporation tax on any capital gain.
- My business pays the equivalent of 75% of the market rent into John's OneSIPP.
- The rental income and capital growth from the part of the property held in my OneSIPP are tax free, and rental payments made by my company are treated as business expenses for tax purposes.
- The rent received covers the repayments in respect of the borrowing to the lender.
- I apply for £4,000 higher rate tax relief on my pension contribution, so the net cost to me is £12,000.

### Year two

The property is revalued at £425,000. The outstanding borrowing has reduced to £98,000 and £15,000 of cash has built up in the fund.

I wish to make a further pension contribution so more of the property can be held as an asset of my OneSIPP.

My current year's earnings are £70,000. By carrying forward my unused annual allowance, I can make a contribution of £45,000 net. With basic rate tax relief, this means that a total of £56,250 will be credited to my OneSIPP. I will be able to claim higher rate tax relief through the self-assessment tax system.

Sanlam Investments and Pensions can purchase the remaining interest in the property from the company on behalf of my OneSIPP.

### OneSIPP holdings

Property	£318,750
Cash	£15,000
Borrowing	-£98,000
Current net fund value	£235,750
Plus single contribution (including tax relief)	£56,250
Sub total	£292,000
Max additional borrowing available is 50% of £292,000 minus existing borrowing of £98,000	£48,000

The cost of purchasing the remaining share of the property is £106,250 (£425,000 less £318,750).

The available funds total £119,250 (including £15,000 of cash, a single contribution of £56,250 and additional borrowing of £48,000).

During the second year:

- Sanlam Investments and Pensions now owns 100% of the property, which is held as an asset of my OneSIPP.
- My company receives cash of £106,250 but must pay corporation tax on any capital gain.
- My business now pays the equivalent of 100% of the market rent into my OneSIPP.
- I apply for higher rate tax relief on my pension contribution.

### Further information

Speak to your local relationship manager (you can find details on our website), contact our property team on 0117 975 2289 or email [property@sanlam.co.uk](mailto:property@sanlam.co.uk)

