Sanlam Wealth

# Multiple-member SIPP

CASE STUDIES

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

**Important information**: This guide 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.

## Scenario 1

Mr and Mrs Williams are directors of a successful furniture manufacturing business. They currently rent the building from which their business operates but have recently been approached by their landlord who has decided to sell the premises. They wish to purchase the building and have negotiated a purchase price of £200,000 but do not have sufficient capital within the business in order to fund the purchase. The property is not VAT elected.

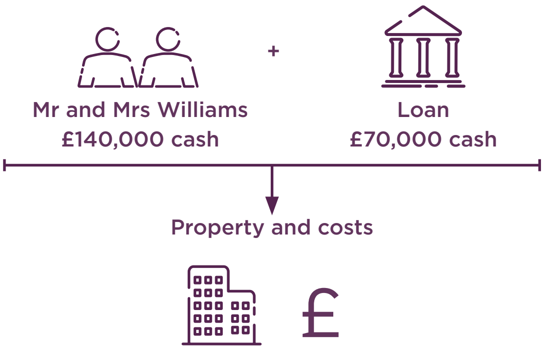
They have spoken to their financial adviser who recommends that they pool their respective pension pots, which are currently jointly valued at £140,000, in order to purchase the property through a OneSIPP with Sanlam.

### Case structure

Sanlam sets up a single multiple-member SIPP (MMS) and each member has a share of the fund in accordance with the amount they have invested.


As the clients still have insufficient funds to purchase the property outright they decide to use a bank loan to fund the balance required:

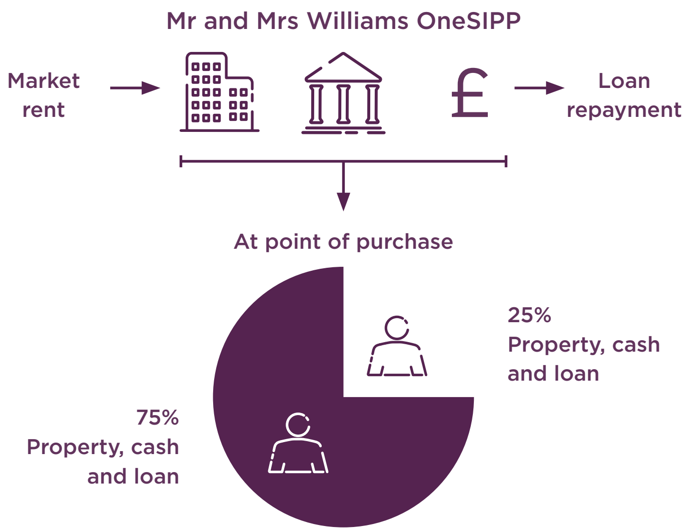
| Assets | £ |
|---|---|
| Property value | £200,000 |
| Existing funds in OneSIPP | £140,000 |
| Loan (max 50% SIPP value) | £70,000 |
| Plus borrowing | £110,000 |
| **Total available funds** | **£210,000** |




During the purchase process, Sanlam produces an *MMS risk deed* for signature by the clients which details Sanlam's requirements when holding property on a group basis. It highlights the importance of an investment strategy and the need to agree a suitable voting procedure to enable decisions to be reached concerning the property. A MMS co-ordinator will also be nominated to provide instructions on the other members' behalf.

### Outcome

The above case structure allows Mr and Mrs Williams to hold 100% of the property within their OneSIPP with a further £10,000 available to meet all of the associated purchase costs. Their business will remain as tenant and lease the property back with the rent being paid into their OneSIPP to cover the ongoing loan re-payments. With the tenant being a 'connected' party, market rent will be set in the lease as assessed by a qualified surveyor from the Royal Institution of Chartered Surveyors (RICS). All assets and liabilities are apportioned within the fund in accordance with the share each member holds.



## Scenario 2

Four friends, Messrs Smith, Taylor, Jennings and Carter wish to purchase a commercial property from which Mr Smith's business, Smith Management Ltd, will operate. They have negotiated a purchase price of £120,000 with the third-party property owner who has confirmed that the property is not VAT elected.

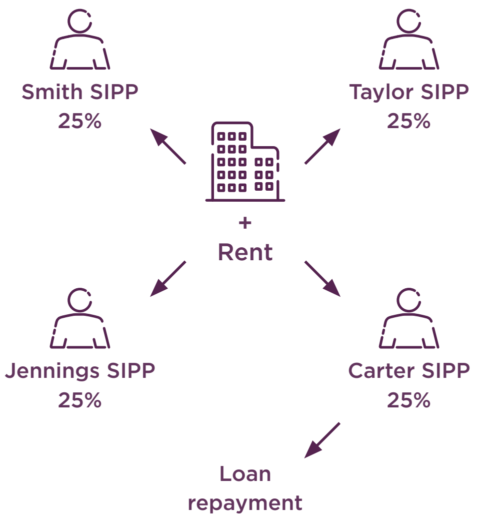
They have spoken to their financial adviser who has recommended using their pension pots to purchase the property. The clients have different amounts to invest but wish to hold 25% of the property each. Therefore, Sanlam creates four separate OneSIPP funds to meet this requirement.

### Case structure

The clients' fund values are as follows:

| Assets | £ |
|---|---|
| Property value | £120,000 |
| Smith SIPP | £50,000 |
| Taylor SIPP | £45,000 |
| Jennings SIPP | £47,000 |
| Carter SIPP | £30,000 |
| **Total available funds** | **£172,000** |

As the clients wish to hold the property equally, £30,000 worth of property is held in each SIPP. Additional funds are also required in order to pay 25% each toward all associated property costs.




Based on the above, while the other clients have sufficient funds, Mr Carter would need to make an additional single cash contribution in order to cover his share of the property fees. Alternatively, Mr Carter could look to make up the shortfall in funding through lending. With each client having their own SIPP fund, the bank loan could be a maximum of 50% of the net fund value (just prior to loan drawdown) of Mr Carter's SIPP and would be attributed solely to his SIPP.

The other clients would need to be aware of the loan as they would be 'jointly and severally' liable as the bank would have the first legal charge over the entire property, not just Mr Carter's 25% share. Therefore, should Mr Carter's SIPP have insufficient cash available to make the required monthly loan repayments and the bank decided to foreclose on the loan, all four members would be affected should a forced sale of the property be required.

If this is not possible, the property percentage to be held in Mr Carter's SIPP would be reduced, and the proportion of the property held in the other three clients' SIPPs would be increased subject to their agreement.

As the clients are not related and do not have a close business relationship, Sanlam would treat this arrangement as an unconnected MMS. Again a MMS risk deed would need to be signed by all fund members. However, the clients would also be required to discuss the long-term implications of this agreement with a legal professional. Owing to there being a weaker connection between the members, a managing agent would also be appointed in order to manage the property.

### Outcome

The above case structure allows all four friends to pool their resources and hold a commercial property equally while still having additional funds to pay for all property related costs. Mr Smith's business will lease the property with the rent being equally split between the SIPPs and, if a loan is required, the rent paid to Mr Carter's SIPP will be used to cover the ongoing loan re-payments. With the tenant being a 'connected' party, market rent will be set in the lease as assessed by a RICS-qualified surveyor.

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