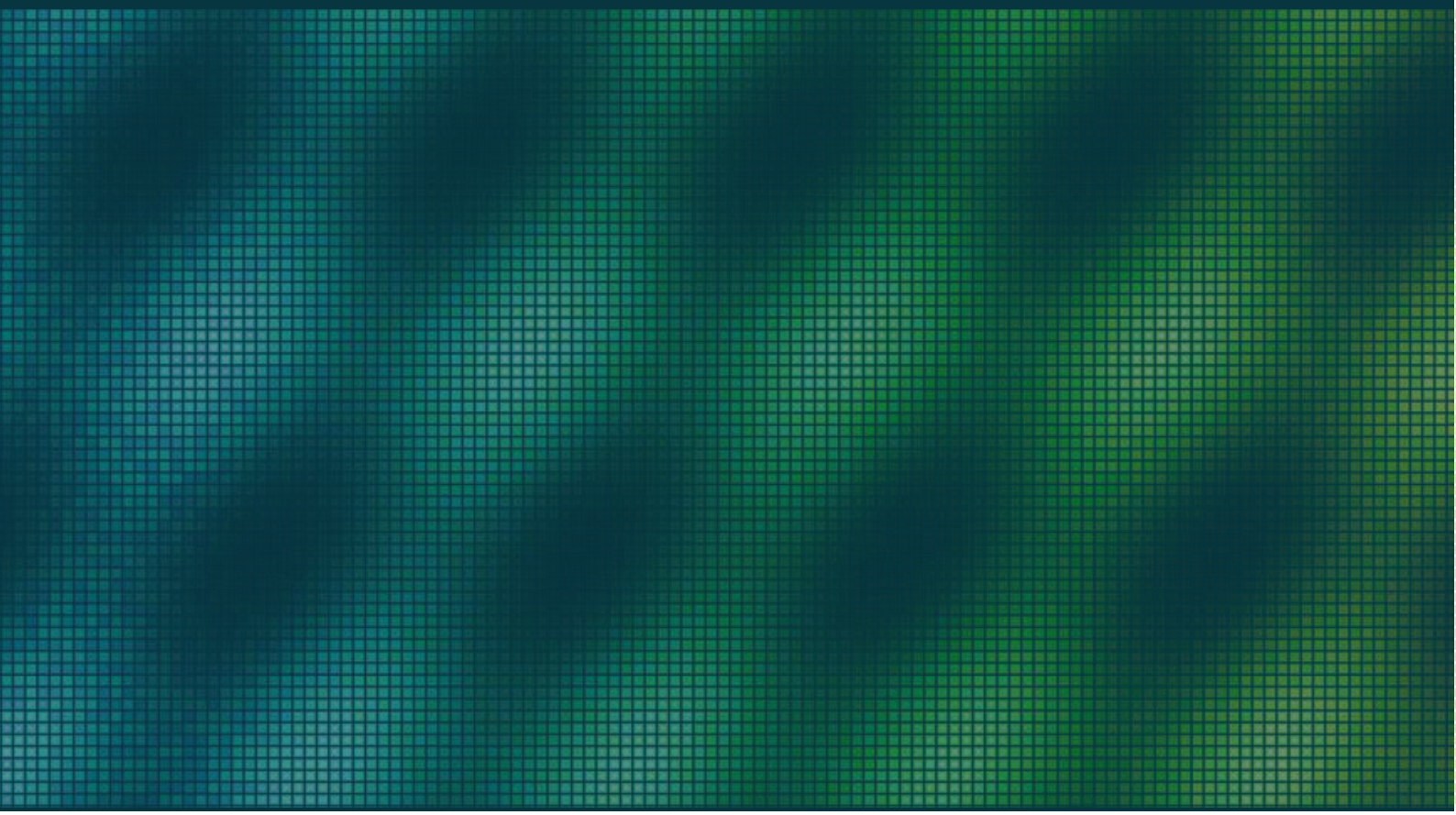


FACTSHEET FOUR

How to purchase a mixed-use property using a SIPP or SSAS

For professional advisers only

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How to purchase a mixed-use property using a SIPP or SSAS

In England and Wales, it is relatively commonplace to purchase mixed types of property – for example, a flat above retail space in a town setting. Where this is on offer, a SIPP or SSAS can only purchase the commercial space.

Frequently, the whole property (the flat, the shop and the land it sits on) is on offer as a combined Freehold title

Why is this an issue?

A residential property cannot be held in a pension scheme. If it was, the value of the property purchased would be deemed as an unauthorised payment amount. In such a situation, both the scheme member and the scheme would be liable to tax charges from HMRC starting at 40% and 15% respectively. Should the amount be more than 25% of the pension value, an additional 15% surcharge could be added.

Clearly, we must ensure that any solution implemented removes the risk of such penalties

The solution – Creating a leasehold title

Within freehold titles, it is possible to create a long leasehold. This means that we can create a title that will be acceptable for SIPP/SSAS investment.

1. The client makes an offer to purchase the freehold title from the vendor at £X;
2. A RICS surveyor produces a 'red book' valuation that includes the proposed leasehold value (commercial element) and market rent;
3. The SIPP is established, and a solicitor appointed to represent it and also the client personally;
4. The solicitor transfers the freehold title and simultaneously creates a long leasehold for the commercial space – at least 50years, though likely 99 or more;
5. The freehold title transfers to the client – they own the residential and freehold interest of the commercial property;
6. The SIPP owns the leasehold title of the commercial property only, with no connection to the residential property.

OUTCOMES

Out neat solution has ensured that:

The seller only sees one sales transaction for the freehold title – a single offer and payment. This is important as they likely won't want the cost and complexity of creating a leasehold prior to sale

We have created a barrier between the non-permitted residential and acceptable commercial property

The client can now choose to lease the residential property as a dwelling, or possibly convert it to commercial use and sell to the SIPP (or SSAS) at a future date

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