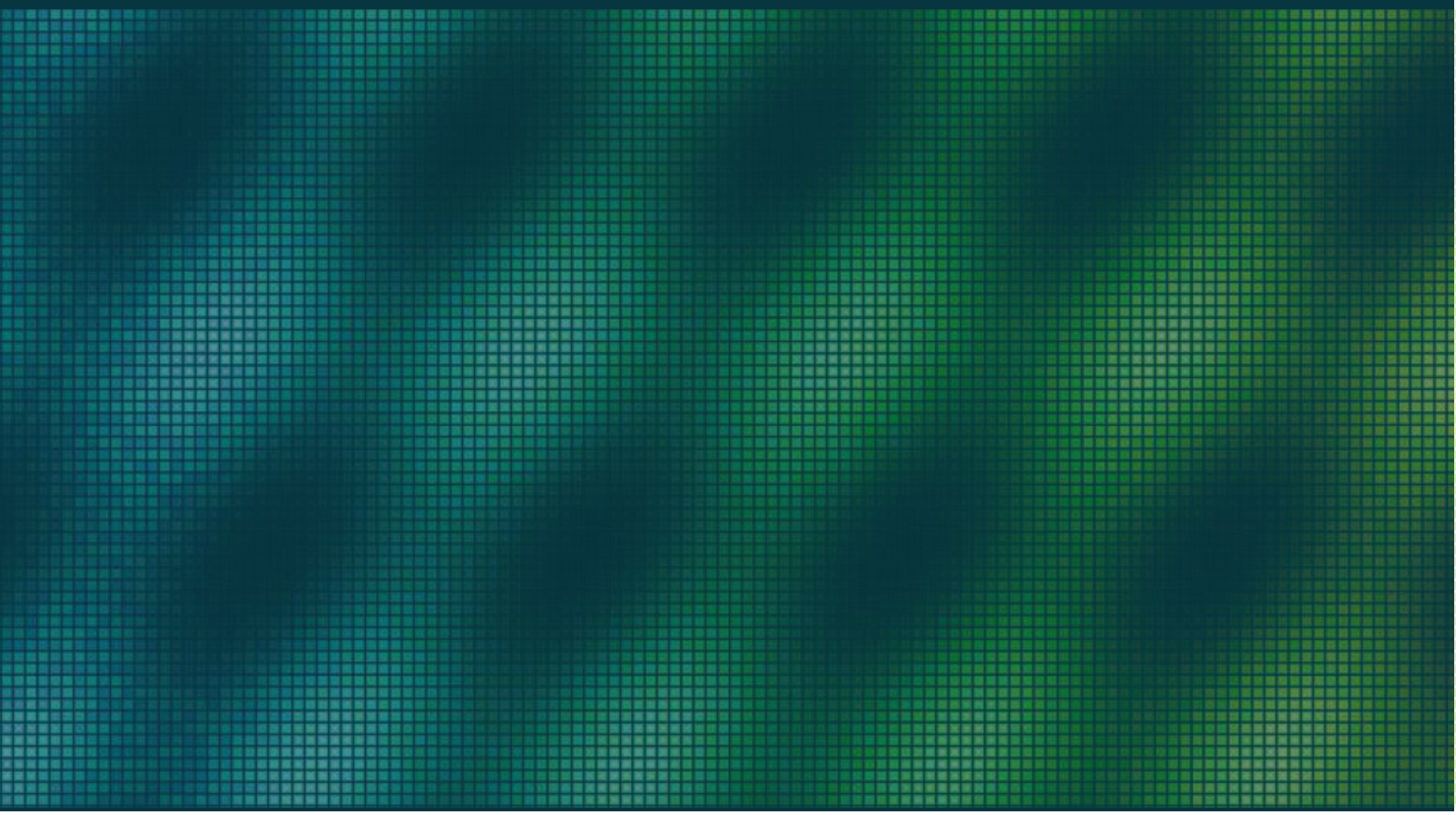


FACTSHEET FIVE

SIPP/SSAS Borrowing from a connected party

For professional advisers only

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SIPP/SSAS Borrowing from a connected party

Both SIPP and SSAS can borrow additional funds to assist in the purchase of commercial property. There are set rules that govern this and these limit the amount of the borrowing to 50% of the net pension value.

These rules also permit borrowing from either an unconnected or connected party.

Unconnected generally means an institutional lender such as a High Street bank or building society. Connected means either the SIPP/SSAS member or someone connected to them such as a business partner, spouse or their business.

So how does connected party borrowing work?

To ensure the loan is setup on an 'arms-length' basis, the client, as lender, must demonstrate that the terms are commercial. This means that they will need to:

- Seek out a comparable loan from a mainstream lender
- Ensure terms in the connected party loan match what is commercially available
- Consider arranging for a solicitor to create a standard security

Once @sipp confirms this is acceptable, the following steps can be taken:

To ensure the loan is set up on an 'arm's-length' basis, the client, as lender, must demonstrate that the terms are commercial. This means that they will need to:

1. Confirm the property is acceptable using the free @sipp review service
2. Establish the SIPP (or SSAS)
3. Arrange funding from transfers and/or contributions
4. Appoint a solicitor to purchase the property on behalf of the SIPP (or SSAS)
5. Arrange funding with the connected party lender
6. Complete the purchase of the property and commence rental payments which service the loan

What are the benefits of a connected party loan?

Some of the key benefits to consider on this include:

- ✓ All associated loan charges and interest are paid to the client/their business, not a bank
- ✓ Connected party loans are often faster to process compared to a bank
- ✓ Banks can insist on limiting a client to their panel of Royal Institution of Chartered Surveyors (RICS) member surveyors. If acting as lender, the client can use any surveyor of their choice and control associated costs.

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