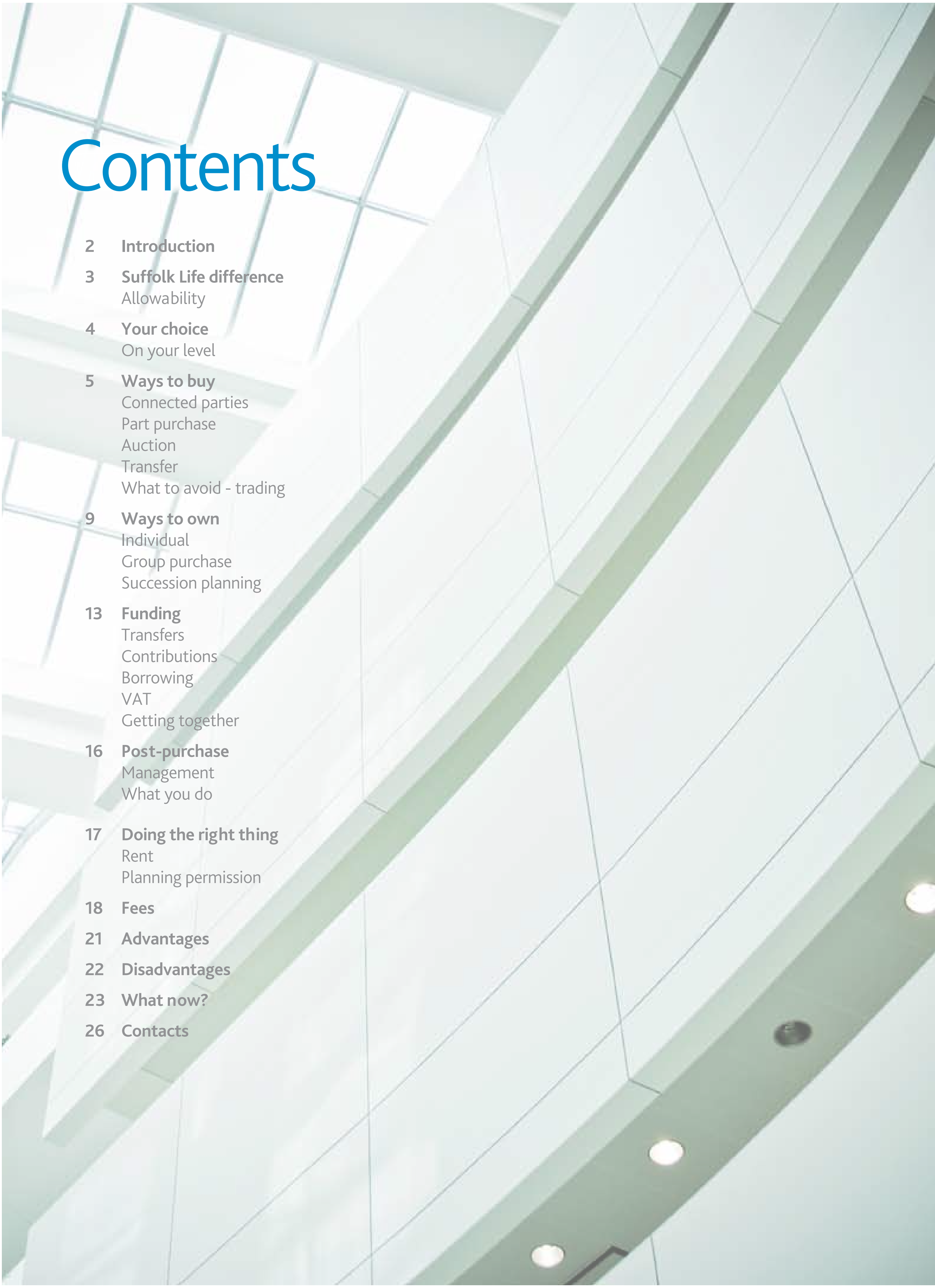
Property Guide

Everything you need to know

SIPP

SUFFOLKLIFE
THE INTELLIGENT APPROACH



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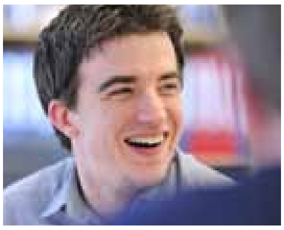



To understand our passion for property, you have to understand our roots.

In 1971 a local Ipswich solicitor Alan Catchpole founded Suffolk Life together with a group of other solicitors. Their goal? To use their combined pension funds to purchase their offices.

Thirty-nine years later we are now wholly owned by one of the UK's leading insurers, FTSE 100-listed Legal & General, and our pursuit of high-quality service remains undiminished. Building on this legal and professional background, we have built what we believe is a genuine centre of commercial property and pensions excellence.

Imagine moving home every day. On average Suffolk Life completes a property acquisition every working day and there is an expert team to look after all our clients. From fully qualified property solicitors and accountants to graduates, there isn't much our team hasn't seen. We already own over 2,000 properties on behalf of thousands of different investors, and this figure grows daily.

So when you ask the question, why should I consider Suffolk Life to look after my pension and property, our response is why would you look anywhere else?

Suffolk Life difference

Commercial property investment within a pension is a complicated area to say the least. Whether the property is a single storey office down the road or a barristers' chambers in the heart of London, you need people on your side who are not only experts in property but experts in pension legislation too.

We like to think we conduct our business the right way. Numerous investors and financial advisers rely on us to take care of the technical and legal aspects of property and pensions, so they can get on with their business with less distraction.

Allowability - property is property, isn't it?

If it's commercial and based in the UK, more than likely we'll accept it, be it freehold, leasehold or commonhold.

Some residential property may be allowable under certain conditions, for example if the property is used for employment or business purposes, like a caretaker's home or a nursing home.

A large amount of our acquisitions consist of purchases of:

» offices
» shops
» industrial units
» hotels
» farmland

We look at each acquisition on a case by case basis and consider all applications personally. Some of our more unusual acquisitions include:

» a zoo
» a fishing lake
» a football stadium
» a parking space
» a casino

Your choice

We've worked with thousands of different investors, financial advisers, solicitors, banks, valuers and surveyors over the years, and amongst other things it has taught us that choice is good. Our experience and training means that we can work with a wide variety of professionals. Some providers will either insist or strongly recommend that you work with their panel but why should you be forced into abandoning a professional you've worked with for years just so you can get a property into your pension?

Provided they are sufficiently qualified we see no problem why we can't use the professional of your choice.

On your level

You might be buying a property for your business using your hard-earned retirement savings that you've built up over many years. You know what you want to do, and you have some good connections. You don't want your pension to run up thousands of pounds in fees for answers to simple questions.

On the other hand, you may only have a basic idea of what you want to do - and need our help with the rest. Our teams are here to aid you through a streamlined process and make everything as simple as possible. We've got knowledgeable staff at all levels, so if you don't need to speak to a solicitor you don't have to.

You could be buying a property with several other investors, some with SIPPs of their own and some using their own funds. Some might borrow to help with the purchase - others won't. Some might be retired whilst others are still contributing to their pensions. We'll try our best to meet your requirements.

The last thing you need is someone who doesn't know your business or an elusive contact that you just can't get hold of at the right time. Even worse, a contact that doesn't know what they're doing and gives you the wrong answer.

"You need access to the best the company has to offer should you need it, someone who not only understands the business but knows your case and even checked through the application personally when it arrived."

DAVID MCLAUGHLIN
MANAGER, PROPERTY ACQUISITIONS

Ways to buy

Listed below are just a few of many options you have as an investor of how you can purchase commercial property. We like to be as flexible as possible when it comes to property acquisition and will review all applications on a case by case basis.

Connected parties

When an investor sells assets they hold in their personal name to their SIPP, this is an example of a connected party transaction.

Connected party transactions can be a great way for a property owner to get part or all of their property into their pension fund and then benefit from the tax advantages of a pension. This is also a way the investor can release cash from the SIPP by way of sale proceeds. Please see our 'Part purchase' section below for more information.

There are some considerations of course. For example a RICS qualified valuer would be required to advise us independently of the fair market value.

Similar care is required with unconnected transactions; although they can take place at a value differing from the valuer's opinion of market value. We would need a reasonable explanation as to why the price is higher/lower than the valuer's opinion of the market value in this instance however.

Part purchase

An individual may only have a small pension fund but own a high-value commercial property. A common question is asked by these types of investors: "What can I do?"

By owning the property they've already taken the first step. The second is to establish a SIPP with Suffolk Life. It is now possible to sell part of the property to the SIPP leaving the investor as owner of the remaining part whilst also releasing cash from their pension. Following this idea, if the investor contributes regularly, the SIPP can continue to grow and purchase more of the property. Over time, it is possible for the property to become wholly owned by the SIPP.

Suffolk Life allows the flexibility of being able to buy all or only part of the property. So, for example, if an investor owned their business premises worth £800,000 and needed £200,000 to purchase some equipment for their company, assuming there were sufficient funds available in the SIPP, they could sell 25% of the property to their SIPP. This would release the cash they needed and they would still retain ownership of 75% of the property. The investor - as a tenant - would have to pay rent to their SIPP for this 25% portion.

As with any property transaction, there are some elements of taxation to consider. The transaction would be classed as a disposal for Capital Gains Tax purposes for the seller and stamp duty land tax would also be payable by the SIPP on the purchase price.

Some investors have found it beneficial to sell all of a business premises to a SIPP as the property is then legally separate from the business: if the company were to fail, the property would not normally become available to creditors.

Using existing assets and pension funds to ease cash flow

Mark is the owner of MRG Limited, a small construction firm. Due to poor market conditions, his business is struggling and he is finding himself unable to pay his material suppliers.

The office where Mark's company is based is owned by MRG Limited and Mark hopes he may be able to release equity from the property to help the business out.

Mark meets with his financial adviser, Jane, for advice.

What can a SIPP do?

Mark currently has money invested in a few different pensions, altogether totalling in excess of £100,000. Jane primarily recommends he consolidate his plans into one SIPP, allowing more control over his pension. She informs Mark that in doing this, it is possible for him to 'sell' some or all of his property to the SIPP, leaving him with some money to use for his business.

Mark enquires as to whether it is possible to do a similar thing with the machinery he owns for his business, but Jane states it would not be feasible as it would incur significant tax charges.

Jane also explains that the transaction would be classed as a disposal for Capital Gains Tax purposes and that stamp duty land tax would be payable by the SIPP on the purchase price.

Together they discuss the value of the property and how much Mark would need to help his business along at this difficult time. He decides £100,000 would be sufficient. His property is worth £400,000, meaning he would have to sell a 25% share in his offices to his SIPP. A transaction of this value would fortunately not attract stamp duty land tax.

What happens next?

Jane and Mark take legal advice and decide that Mark's company should be the nominee in the process, holding the property in its name with 25% of the beneficial interest allocated to Mark's SIPP. The remaining interest belongs to the company itself.

The rent paid for the 25% SIPP-owned property would be passed to the SIPP and would be a tax deductible expense of the business. It would also be received by the SIPP, free of any tax. The rent would continue to accumulate in the fund. Mark could make further investments with this or build up enough cash to bring further tranches of the property into the SIPP.

25% of the property would be removed from the business, so if the business were to fail that portion of the property should not be available to creditors.

Death benefits

Mark had planned on leaving his business in the hands of his son when he passes away. However, in having 25% of the business's premises owned by his SIPP, he's worried about the possibility of this.

Jane explained that it depended on whether or not he had taken any benefits and what expression of wish he left. The assets could be used to provide his partner with an income or the pension assets could be passed to his son. There would be a tax charge if he had already taken benefits. A combination of the two would also be an option. If his partner continued to take an income from the pension upon Mark's death, the remaining assets could be left to their son on her death subject to a tax charge.

Summary

Jane shows Mark how his financial position will change if he follows her suggestions.

Before

Mark has a spread of pension funds totalling in excess of £100,000, which are not currently performing to his satisfaction.

He also owns a business property worth £400,000, but his business is struggling with cash flow in the current market.

After

Mark consolidates his funds into a SIPP, which now has a 25% interest of his property. The plan's value is still just over £100,000 after taking account of fees.

£100,000 cash, less any Capital Gains Tax, has been released to his business to use as he wishes.

The business pays an agreed market rent to the SIPP.

Ways to buy

Auction

In some circumstances it is possible for the SIPP to purchase a property from an auction. However, prior to auction, satisfactory due diligence would need to have been undertaken and we would need to ensure that the SIPP has adequate funding in place. The investor would then bid on behalf of the SIPP, up to an agreed level.

An alternative route for this type of transaction is for the investor to bid personally and, if successful, transfer the contract over to Suffolk Life. Again prior to taking on the contract, we would need to be happy with the due diligence carried out by the solicitor and ensure adequate funding was in place. It is worth noting that there is an element of risk with this route as, following a successful bid at auction there is no obligation for Suffolk Life to accept the contract to which the investor is committed.

Transfer

It may be the case that you already own a property within a pension with another provider and wish to transfer into a SIPP with Suffolk Life. This type of transaction is called an in specie transfer.

The good news is that no stamp duty land tax would be charged for the property transfer. However a solicitor would be required to carry out the usual due diligence work, therefore solicitor's fees are likely.

In the case of a transfer, it is important to contact us in early course.

If there is an existing bank loan on the property, it would be a good idea to make early contact with the lender to explain what is proposed, as the lender will need to be involved.

A property valuation may be needed. We will confirm this to you at an early stage.

Our charges for transferring in specie can be found in the Fees section on page 18.

What to avoid - trading

Trading is where an investor buys a property with the intention of making a quick profit, i.e. turning it over quite quickly before moving on to the next and so on. This is not an appropriate activity for a pension fund, and would lead to taxation and possibly other action by HMRC.

Investments in property are intended to be long-term investments within the SIPP and therefore we would normally expect them to be held for a substantial period of time. This is not to say that the investor cannot choose to sell the asset if he/she receives an attractive offer for it. However if this were to be performed frequently HMRC may become interested and seek to argue that trading has occurred.

Proposals need to be looked at on a case by case basis, and may also require separate professional advice.

People and experience are the foundation on which the Suffolk Life culture is built. We continue to invest heavily in our staff, and many of our highly skilled property team are professionally qualified. This is backed up by a robust IT platform, which we believe provides us with a genuine competitive advantage. Our expertise and flexibility in handling property within SIPPs is all part of our intelligent approach.

Ways to own

Individual

No frills - just simple property investment in one person's SIPP.

The property is owned by Suffolk Life Annuities Limited, who hold the property on behalf of the SIPP. Investors may purchase a commercial property through their SIPP for many different reasons but commonly they do so to purchase the premises for their business. Property ownership via a SIPP is usually a straightforward investment and can be invaluable to individuals who cannot afford to own a property personally yet have sufficient funds in their pension.

Group purchase

Property acquisition in this way is usually beneficial for business partners who wish to purchase their offices/business premises. For example, three directors may collectively have £300,000 in their SIPPs, therefore their SIPPs can buy a property with an overall cost of £300,000. Bearing in mind, however, that each SIPP can borrow up to 50% of its net fund value, it may be possible for the SIPP to buy an asset with an overall cost of £450,000.

The directors' individual SIPPs would be entitled to a proportionate share of the rent, tax-free.

It is not necessary to purchase all of the property using their SIPPs and if this is the case then the transaction will be structured as a 'nominee' purchase. The legal title of the property could be retained by the investor or their company, with a trust deed allocating a share of the ownership to Suffolk Life (on behalf of the directors' SIPPs), with the company holding the remaining share on trust for itself.

Fees would be similar to an individual acquisition, but split proportionately between the investors, as per their portion of the ownership.

For our acquisition and management costs, please see our Fees section on page 18.

SIPP borrowing entitlements have meant that more and more investors are looking to purchase property jointly

It is relatively straightforward for an investor to make a property purchase through a SIPP along with another party.

Arranging the purchase

Stephen and Graham are brothers. Together with their father Alex they are considering a joint purchase of a commercial property they have seen, with a good rental yield, available for £600,000. Each of them has quite different individual financial positions. They have therefore met with an accountant who has referred them to Adam, a financial adviser, to discuss the options on how best to make the purchase.

For the purposes of simplicity it is assumed that the purchase price of £600,000 includes costs and disbursements associated with the purchase.

Adam takes the time to review each of the family in person, and is soon able to verify that their individual circumstances are indeed quite different. He learns that despite being a high earner Stephen has little in the way of pension provision but he does have a high level of cash from a recent bonus, whereas Graham has already built up £260,000 via his money purchase pension. The father Alex is 77 years old, already retired and in receipt of his pension from annuities.

Stephen would like to make plans to fund his eventual retirement whilst Graham would like to take more control over his. Their father Alex would like an investment to give him a better return on his capital to supplement his annuities. Adam outlines a number of options to Stephen and Graham, and thinks SIPPs may be the most tax advantageous way to purchase property.

Adam explains that based on his earnings Stephen could contribute a lump sum of £32,000 into a SIPP and benefit from £8,000 in tax relief. Outside of this he could also claim back additional tax relief in his annual self assessment. Graham can transfer his £260,000 pension fund to a new SIPP. The father Alex however really only wants to invest £150,000 of his savings into this project and is too old to consider a pension. With £40,000 + £260,000 + £150,000 = £450,000 they are short of the purchase price.

Before borrowing

	Within the SIPP	Outside the SIPP
Stephen's SIPP	£32,000 + £8,000 = £40,000	£0
Graham's SIPP	£260,000	£0
Alex	£0	£150,000
TOTAL	£300,000	£150,000
	OVERALL TOTAL	£450,000

Adam suggests that they borrow the remaining £150,000 to fund the acquisition. Whilst at his age the father Alex is not interested in this, Adam explains that each of Stephen and Graham's SIPPs can borrow up to 50% of their net value. A commercial loan for £150,000 is raised via the nominee route, and the trust deed allocates £ £20,000 of the debt to Stephen's SIPP and £130,000 to Graham's.

After borrowing

	Within the SIPP	Outside the SIPP
Stephen's SIPP	£20,000 + £40,000 = £60,000	£0
Graham's SIPP	£130,000 + £260,000 = £390,000	£0
Alex	£0	£150,000
TOTAL	£450,000	£150,000
	OVERALL TOTAL	£600,000

Ownership and debt

Adam makes sure that each party understands the distinction between their share in ownership and their share of debt. He makes it clear that whilst Alex has a beneficial ownership of 25% (and thus 25% of the rent apportionment) he has no debt. Graham's SIPP on the other hand has a beneficial ownership of 65% and therefore 65% of the rental income, but is responsible for 86.7% of the debt. Stephen's SIPP owns 10% beneficial share but is responsible for 13.3% of the debt.

	Share of ownership	Share of debt
Stephen's SIPP	10%	13.3%
Graham's SIPP	65%	86.7%
Alex	25%	nil

The future

At his age, Alex is unsure how long into the future he will want to keep the property, but he is happy in the knowledge that his sons can buy his share from him in whole or in part at market value at any point in the future, either via their SIPPs or as individuals. Adam advises that the trust deed will need to be updated to reflect this and solicitors will need to be instructed to deal with the transfer.

Succession planning

It is common that when a business owner comes to retire, they may wish to transfer their business assets to another person, possibly a son/daughter or a business partner.

Through a SIPP with Suffolk Life it is possible to transfer property, or part of a property, to another SIPP at market value. Under the Suffolk Life schemes where a property, or share in a property, moves between SIPPs there is no change in the legal or beneficial ownership of the property as, overall, Suffolk Life Annuities Limited is the owner. Due to this, no stamp duty land tax or VAT is payable, and there would also be no need to employ a solicitor unless you request one.

CASE STUDY

Peter wishes to take his tax-free cash but the only asset of his SIPP is property

Peter's company, Wakeley & Co, has successfully been in business since 1971.

Aged 62, Peter is looking to start winding down and initially become part time with a view to retire fully and maybe sell his business in about 5-10 years. Peter has a substantial pension which purchased a property a number of years ago from which he runs his business. Peter used the majority of the remaining cash within his SIPP and some accumulated rent to renovate the property last year and hence there is no liquidity in the fund to pay his pension commencement lump sum or an income to replace all of his earnings as he winds down.

Peter consults Sarah, his financial adviser who also advises his children, to discuss the issue.

Sarah realises Peter is in a good position in that he owns his company's property through a Suffolk Life MasterSIPP. Sarah suggests that Peter sell his SIPP's property to his children through their own SIPPs so that he can release money in order to take benefits from his SIPP.

Fortunately, his daughter Kim already has her own SIPP with Suffolk Life which she has been contributing into since her late teens. David, his son, has a few different pensions. Since these are the two children who are most interested in Peter's business plans, Sarah explains that if David were to consolidate his pensions into one Suffolk Life SIPP, then Kim and David would be able to use their SIPPs to purchase some or all of the property from Peter's SIPP. Because Suffolk Life Annuities Limited owns the property there will be no change to the property ownership. Instead, Suffolk Life will reallocate the SIPP plans for which the property is held in accordance with the investments made by David and Kim's SIPPs.

Process

As there is no change in ownership of the property, there would be no stamp duty land tax charged, nor any VAT implications. However a valuation would be needed to ensure the internal reallocation takes place at market value. Suffolk Life provides all the paperwork for the process ensuring the property is allocated correctly between the SIPPs. Suffolk Life will not require the involvement of a solicitor, though the investors have the right to take legal advice should they wish.

Peter has some doubts. Even though he is considering retirement, he would still like to work part time in the business. He also worries that his children might not be able to afford the whole price of the property outright.

Sarah reassures both of Peter's doubts by explaining that it is not necessary for Kim and David's SIPPs to purchase all of the property at once; they could own 25% each for example, leaving Peter's SIPP with 50%. This allows Peter's SIPP still to own half of the property and releases 50% of the fund for his retirement.

Sarah further explains that due to the flexibility of the MasterSIPP, each child's SIPP could own a different amount. For example, Kim's SIPP could own 20% and David's SIPP could own 60%, releasing a significant proportion of the property value to Peter's SIPP to use as his pension and still allowing his SIPP to hold 20% of the business' premises.

Peter and his two children would enter into a group investment agreement which sets out the agreed ownership proportions between their SIPPs. It also sets out the process to be followed in the event of a death or if one of them wishes to dispose of their SIPP's share.

Fees

Peter is concerned about the cost of the process. Sarah reassures him that because Suffolk Life have conducted many re-apportionment exercises, they have managed to get their cost typically between £500-£700. This is payable from the SIPP funds involved in the re-ownership. The valuation charge is in addition but Peter sees this as quite reasonable.

Summary

Peter is now able to retire at his own pace and even remain partially invested in the property until he chooses to buy an annuity.

Funding

Funding a pension for property is no different to funding a pension for shares, investment trusts, deposit accounts, or any other asset you could invest in. There are several methods of funding, and which strategy is right for you will depend on your own personal situation.

Transfers

Transfers of protected and non-protected rights can be brought into your SIPP from other pension funds.

In specie transfers are accepted, meaning that your current investments don't have to be sold before transferring to us. However, in practice, most investors transfer other pension arrangements across as cash, ready to make their property purchase.

Contributions

Regular or single contributions are fine, and they can come from yourself, a third party or your employer. Contributions can be paid net or gross depending on your circumstances.

Borrowing

It is possible for a SIPP to borrow up to 50% of its net fund value. This is a highly attractive feature of a SIPP and one which is used by many of our investors. The ability to borrow does not cease when benefits are being paid from the SIPP – it can be done at any time.

The terms of the loan typically vary from case to case as they are often dependent on a variety of factors (e.g. degree of risk to the lender).

The borrowing will need to be from a conventional High Street lender; however we are quite happy to deal with the lender of your preference.

It is also possible to borrow for the purpose of developing land owned by the SIPP, again up to 50% of the net fund value. This can be complicated though, and there are many issues that can arise from developing land, the main risk being when part of the work may be carried out by the SIPP investor. The work should be correctly priced and there can be no question of the individual benefiting more than they should. To help overcome this and several other hurdles, typically a main unconnected contractor will be appointed to oversee the development work to ensure as few complications as possible.

VAT

It is important to bear in mind when planning a property purchase the amount of VAT that may be charged.

Often, there will not have been a VAT election made over the property to be purchased. Therefore, unless substantial refurbishment (in which contractor's costs include VAT) is planned, VAT will not normally be an issue.

However, when Suffolk Life buy a property which the seller has already elected for VAT, VAT will be payable on the purchase price by Suffolk Life. Generally, the VAT can be recovered, but it will require funding from the SIPP until it is reclaimed.

We will ask the solicitor acting for us to let us know in early course if VAT is likely to be payable so that we may seek early instructions on this point.

With many farmers and landowners struggling to make ends meet, we show that it isn't just office buildings that are suitable for SIPPs

Together with his son, William farms over a thousand acres in Kent. Like many farmers William has struggled with rising costs combined with falling prices for both livestock and cereal. William's family has been farming for generations, and he wants eventually to hand over the farm to his son. His wife Louise has been working for many years to help make ends meet. Although retirement is not yet an option for them both, it is fast becoming a consideration.

They meet with their financial adviser Tony to discuss their financial situation.

The SIPP option

Having conducted a full review of their circumstances, Tony outlined the potential benefits of using a SIPP to purchase part of the farmland in order to free up some cash for him and his wife.

He was able to show to William that by consolidating his existing pension policies, totalling around £200,000, into a SIPP he could take greater control over his pension. Both were also pleased to find that after her years at work, Louise had also managed to accrue a £100,000 pension fund made up of both protected and non-protected rights. Between them, Tony explained how they could purchase some of their farmland through a connected party transaction.

Tony explained some more of the detail to the couple. Whilst the farmland and the associated commercial buildings could be purchased by the SIPP, the family home and its garden could not; neither could any of the livestock or crops. William asked about his farm machinery, into which he'd invested a significant amount over the years, and Tony told him that would not be feasible because it would incur significant tax charges on the SIPP.

Having established what was possible, Tony explained the connected party transaction in more detail. He outlined how they as a couple could transfer their existing pension funds into SIPPs, and then sell part of their farmland to their SIPPs at market value. The sale proceeds received from the SIPPs would increase the cash flow of the business to tide them over and help increase efficiencies on the farm. In addition, Tony explained that the transaction would be classed as a disposal for capital gains tax (CGT) purposes and that stamp duty land tax would be payable by the SIPPs on the purchase price.

Retaining control

William and Louise would enter a tenancy agreement with the SIPP provider, paying a market rent in return for use of the land.

The rent paid by William and Louise would be a tax deductible expense of their business and would also be received by the SIPP, free of any tax.

At first, William was concerned that he would lose control over the land. However, Tony assured him that, although he would no longer be the legal owner of the land, the SIPP provider would follow their instructions provided they complied with HMRC rules. The land would be separated from his home and removed from the business and hence if the business was to fail the land would be not become available to any creditors.

Death benefits

William still had some doubts over what would happen when he eventually passed away, and what would happen to the land. Tony explained it depended on whether or not he had taken any benefits and what expression of wish he left. The assets could be used to provide his wife an income or the pension assets could be passed to his son. There would be a tax charge if he had already taken benefits.
A combination of the two would also be an option. If Louise continued to take an income from the pension the remaining assets could be left to her son on her death subject to a tax charge.

Summary

Retaining control was important to William, and he was reassured. Tony showed them how their financial positions would change.

Before

William and Louise both have various pension funds with a number of providers, totalling £300,000.

After

William and Louise both have SIPPs, which own farmland with a total value of £300,000.

£300,000 cash, less any CGT, has been released to them.

They pay an agreed market rent to the SIPPs for the land they farm.

Funding

Getting together

Part ownership is very common, and presents an attractive means for investors to start investing in a property. Not everyone has a pension fund of sufficient value to buy a property outright. How many of us bought our first house outright with savings? The answer is to part purchase - the SIPP buys part of the property, and the third party the remainder. Of course, the third party could be you, the investor.

Joint ownership by SIPP investors:

There is no limit to the number of investors with SIPPs at Suffolk Life who may pool their funds together. Our largest case is a group of 80 barristers who use their SIPPs collectively to own their chambers. In a case of purchasing together, investors will sign a group investment agreement which sets out what would happen in the case of a death or if one of them wanted to realise their investment.

We have no requirement that ownership percentages in the asset are equal. Furthermore, joint investors can borrow different amounts towards the purchase price of their share in the property, so long as investors do not borrow more than 50% of the net value of their SIPPs.

For property syndicates, many SIPP providers will require each investor to take out a separate loan for their borrowing. This complicates matters and will likely result in higher bank administration fees. Under the Suffolk Life structure, only one loan agreement is required and we internally apportion liability for the loan between the various SIPP plans. Not only this, we also do not charge a set acquisition fee per investor. Instead there is one charge for this and it is split between the investors as per their share of the property.

Joint ownership with a third party:

It is also possible to purchase a property jointly with a third party not using a SIPP with Suffolk Life. Please see our case study on page 10 for an example of this.

“We are committed to helping meet the objectives of advisers and plan holders in acquiring the property they choose to hold in a SIPP, and providing the highest quality investment administration.”

PETER WEIR PROPERTY DIRECTOR

Post-purchase

You're paying us a yearly fee, plus acquisition and management fees, to hold a property for you. Of course you will want to know what we do in exchange for our property fees.

Management

We provide a high-quality property management service for all of our acquisitions, including:

- invoicing and collecting rent
- arranging property insurance on the SIPP's behalf
- renewing leases
- making repayments of loans charged on the property
- arranging rent reviews and re-valuations
- providing suggestions on how to deal with legal complications with tenants, adjoining landowners and public authorities.

By performing all these actions, you can get on with your day-to-day life without worrying about your SIPP purchase. However, if you do need any help we offer comprehensive support throughout all stages of the acquisition and ownership of the property. We can offer technical assistance from our dedicated services teams whenever you have a question. Our property team have been highly trained to give you all the support you need.

To keep you up to date we send yearly annual statements which have been praised for their detailed and transparent explanations of each pension plan. These include illustrations for the future so you aren't hit with any surprises down the line. However if at any time you want to know exactly how your plan is doing, simply contact your adviser who'll access our online secure portal and can let you know instant results. Please note: the value used for property in our annual statements may not always be current.

What you do

You must accept ultimate responsibility for getting the best out of the property pension investment, however we will use reasonable endeavours to keep the important dates under review and wherever possible send reminders about action that is needed.

You should also if possible periodically keep an eye on the property and report its condition to us. If anything changes, we'd like to know.

An important thing you must do if you are also the tenant of the property is pay the market rent for the property owned by the SIPP and also comply with the other lease terms. The rent monies will be paid into the SIPP - perhaps for other investments or to meet loan repayments - therefore you do not lose out at all. Please see our 'Doing the right thing' section on page 17 for more information on this.

Doing the right thing

Managing a commercial property can be difficult enough. In a pension it can be more complicated, but we try and make it as easy as possible. Not every SIPP provider works in the same way though.

Sometimes it might seem tempting to cut corners, but we know doing things properly is the right way, and is also important so as to avoid regulatory action.

Rent

It often makes good financial sense for many small business owners to put their premises into their pension. From dentists and vetinary practices to fishing lakes and football grounds - we've seen most of what's possible. When times are tough (and sometimes even when they aren't) it can be tempting to skip the rent payment. After all, it is your pension - who's going to worry?

Answer - HMRC worry, and with strict legislation concerning this area, it is important rent payments are kept on top of. As part of our property management services, we take on the duty of chasing for rent payments when they are due.

Each missed rent payment is potentially an unauthorised payment in the eyes of HMRC, and that comes with an unpalatable tax charge which could be up to 70%.

Planning permission

It is possible for an investor to acquire bare land through their SIPP with the specific intention of developing it (or perhaps the property is already owned and the investor wishes to develop it).

A SIPP is generally not permitted to hold residential property. However, the SIPP can hold land with the benefit of a residential planning permission, though to ensure compliance with HMRC rules the SIPP will need to dispose of the property before the residential planning permission is implemented or acted upon.

Prior to any development works being carried out, appropriate planning permission needs to be obtained. The SIPP will either have acquired the property with the benefit of the planning permission or will need to obtain the planning permission itself.

Whenever building works are required, we will have to demonstrate to HMRC that the works are properly payable through the pension fund and that the works have been fairly priced. To this end, it is important that Suffolk Life are made aware whenever building works are planned. If you have any queries, we will be happy to talk this through in more detail.

Fees

A SIPP that can accept commercial property can normally handle many other types of investment too - and our SIPPs are no exception.

The fees below relate to our Suffolk Life MasterSIPP and only highlight those costs specific to direct property investments. Please see the full Suffolk Life MasterSIPP Schedule of Fees before deciding on your investment needs.

For existing Suffolk Life SIPPs generally established before October 2007 please refer to our Suffolk Life SIPP (Deed Poll Scheme) Schedule of Fees.

Basic fees	Fees	When is the fee taken?
SIPP establishment charge	£300 + VAT	at outset
annual SIPP administration charge, (including a reconciled annual statement)	£490 + VAT per annum	in advance
making contributions to the SIPP, or varying existing arrangements for regular contributions	£25 + VAT	upon completion of the transaction

Transfers in	Fees	When is the fee taken?
in cash where the adviser fulfils our requirements	nil	
in cash (per transfer)	£75 (max £300) + VAT	upon completion of the transaction
in specie (basic fee)	£100 + VAT	upon completion of the transaction

Alongside the fees for the SIPP are those fees specifically relating to the property investment itself
No property is the same, and the level of work required for each can vary - sometimes significantly. That's why some of our fees are time-costed, so that you only pay for the work that is actually undertaken. Time-cost isn't a blank cheque - the following are based on our average fees charged (please note that VAT is not payable on all property fees unless otherwise stated).

	Fees	When is the fee taken?
annual property facility fee (per pension plan per property)	£100 + VAT	in advance
purchase / transfer in specie acquisition fee*	principally time cost estimated at around £1,700 to £1,900	upon completion of the transaction
annual property accounting fee (for properties partly owned by Suffolk Life)* - covering correspondence with nominee, chasing nominee for accounting information and reconciling their accounts, and obtaining and recording details of the property insurance where it has been agreed we will arrange the insurance	principally time cost estimated at around £600	in arrears
annual property management fee (for properties wholly owned by Suffolk Life)* - please see our 'Management' section on page 16 for what this covers	principally time cost estimated at around £700	in arrears
additional annual fee for VAT elected properties*	£150	in arrears

* These fees are only payable per property. In the case of joint or group ownership, the fees are paid pro rata between the investors.

As with any property purchase or disposal, there are some banking charges to take into account	Fees	When is the fee taken?
day to day debits and credits (including BACS and cheque payments)	nil	
CHAPS payments	£30 + VAT	upon completion of the transaction
creation of temporary overdraft facility	£35 + VAT	upon completion of the transaction
renewal of temporary overdraft facility (every 3 months)	£100 + VAT	upon completion of the transaction

Fees

At some point you will want to start to draw income out of your SIPP - after all, pensions are ultimately about retirement (the level of income taken is subject to regulatory limits, and is paid via payroll) SIPPs offer flexibility in how benefits are taken. You don't have to take income each year (unless you are taking an alternatively secured pension) and so when income isn't drawn, some fees will not apply.	**Fees**	**When is the fee taken?**
establishment of each unsecured income (UI/ASP) designation	£155 + VAT	upon completion of the transaction
annual income facility fee where income is taken	£155 + VAT	in advance
review of income limits (carried out every 5 years, or annually if you are taking an alternatively secured pension)	£155 + VAT	upon completion of the transaction

Sale or disposal There will come a time when the property needs to be sold, for any reason. Equally, especially where a property has been purchased jointly, the investors may wish to vary the proportion of ownership as one buys a share from another.	**Fees**	**When is the fee taken?**
sale, disposal or in specie transfer out	principally time cost estimated at around £600 to £800	upon completion of the transaction
variation of proportion of property ownership (per property)	principally time cost estimated at around £500 to £700	upon completion of the transaction

Leaving Suffolk Life	**Fees**	**When is the fee taken?**
exit fee	nil (however there may be divestment charges, please see our full Schedule of Fees for this information)	

"We don't just acquire property for SIPPs, we manage it too. That means dealing with a whole host of issues from invoicing and collecting rent, arranging loan repayments, revaluations and rent reviews, to organising property insurance and leases. With qualified solicitors at hand we're also well equipped to tackle any legal complications that could arise with tenants, adjoining land owners or public authorities. Our team is experienced and approachable, and we pride ourselves on giving a smooth and effective service, whatever the task."

OLIVER CRICHTON DIRECTOR OF PROPERTY

Example fee scenario

A client wishes to purchase a commercial property (which is not VAT elected) through a pension. Their adviser helps them establish a Suffolk Life MasterSIPP and purchase the client's chosen property.

There are fees to take into consideration for the property acquisition and general MasterSIPP fees, as well as paying for a valuation, solicitor's fees and stamp duty land tax (if applicable).

The annual property management fee covers various aspects of managing the property, including the invoicing and receipt of the rent from the tenant.

There may also be third party fees payable from the SIPP, for example, valuer's fees for rent reviews.

How does VAT apply to fees?

Plans are written under a trust arrangement, and therefore the fees are liable to VAT at the standard rate. Insurance arrangements are, however, exempt from VAT, and as a commercial property is held via a self-invested insurance policy, no VAT will currently apply. We will calculate all the VAT liabilities and collect these from your plan as appropriate.

What would our costs for this be?

MasterSIPP initial fees	
SIPP establishment charge	£300
TOTAL	£300
Acquiring the property	
Handling the purchase (estimate)	£1,800
TOTAL	£1,800
Ongoing charges	
MasterSIPP annual administration fee (taken in advance)	£490
Property facility fee (taken in advance)	£100
Property management fee (estimate)	£700
TOTAL per annum	**£1,445**

The property acquisition fee and property management fee are exempt from VAT. All other fees are subject to VAT.

Property acquisition and management fees are principally time-cost estimated.

It is important to take into consideration other professional costs that may be charged when purchasing a property.

Please see Schedule of Fees for more information. This can be found at www.suffolklife.co.uk/slmastersipplit or contact us at ifaenquiries@suffolklife.co.uk or 0870 414 7000.

Advantages

A pension is a really useful means of owning a property. There are significant advantages and benefits for an investor, particularly when they are also a tenant.

Selling company owned property to a SIPP

» When the property is ultimately sold by the pension fund, there is no capital gains tax (CGT) liability as capital growth is exempt from CGT when the property is owned by the SIPP

» The assets in the SIPP including the property should fall outside the investor's estate for IHT purposes, other than if benefits are ultimately provided by an alternatively secured pension

» Rent paid to the SIPP is a deductible business expense and hence could reduce the income/corporation tax liability of the tenant

» The rental income received by the SIPP is tax free and hence when used to pay a mortgage can reduce the borrowing at an increased rate

» As an asset of the SIPP, the property would not generally be accessible to creditors in the event of an individual or company becoming insolvent

» Releases capital back into the business to help with cash flow

Succession planning

» It is simple for the SIPP investors to sell part or all of the property to another SIPP investor or to an 'outside' SIPP purchaser

» If there are younger investors in a SIPP property syndicate, it may be possible to retain the property within the SIPP when older investors retire. This will typically involve the retiring investors selling all or some of their SIPP's share in the property to young investors so they have sufficient liquidity to take pension benefits.

Of course, because the property would already be owned by Suffolk Life, there would be no stamp duty land tax payable for transfers to other Suffolk Life investors

Borrowing

» SIPP can borrow up to 50% of the net fund value

» No individual or corporate liability or credit checks because loan is in the name of the SIPP provider

Retirement options

» Rental income should be known and regular so income payments can be planned

» A regular stream of rent can help maintain the fund value although this is not guaranteed

Death benefits

» Property could be paid to a beneficiary as an in-specie death benefit to avoid the need for sale of property on death, provided enough cash is available for any tax charges

Disadvantages

However, there may also be some downsides which must be considered.

Ownership

» Property is owned by the SIPP so some individuals may feel they have a lack of control
» If the investor is the tenant and wants to give up the lease normally a surrender premium will be applied
» There is still liability for the investor (if they are the tenant) to continue to pay rent even if experiencing financial difficulty
» The investor may not wish to pay the fees associated with property investment via a pension (including SIPP fees, property acquisition costs and any ongoing charges)

Selling company-owned property to a SIPP

» The property cannot be used as collateral for future loans taken out by the company
» The company will now have to pay a market rent
» The SIPP provider is obliged to chase tenants for rent even if they are the SIPP investor or a person or company connected to the investor

Retirement options and death benefits

» The property will need to be valued when benefits are drawn or loans are considered. On these occasions the SIPP will incur the cost
» If a sale is required for any reason, this could be at an inopportune time
» Holding a property in a SIPP may mean that there is insufficient cash available to pay benefits at retirement

Borrowing

» Loan repayments and other expenses such as business rates and service charge will still need to be maintained if the property is empty. This may result in other assets or the property having to be sold

Liquidity and diversity

» If the property represents the main asset of the SIPP it would leave its investment holdings poorly diversified
» Property can be illiquid if the SIPP needs to sell the property for any reason

What now?

Please be aware this timeline is purely indicative and the time a transaction may take will be dependent on all the parties involved, including the lender (if any), solicitors and valuer. Any timeframes mentioned here refer to working days only.

ACTION:
Adviser
Property form per property and an application form per investor to be completed

ACTION:
Suffolk Life
SIPP is established

ACTION:
Suffolk Life
Instructions are sent to:
» Solicitor
» Bank
» Valuer

+5 days

ACTION:
Suffolk Life
Receive satisfactory reports and documentation from solicitor

+14 days

ACTION:
Suffolk Life
Valuation is received and forwarded onto the solicitor and adviser

ACTION:
Suffolk Life
Query/resolve any issues from due diligence, valuation or lending documentation/funding

ACTION:
Suffolk Life
Receive completion documents from solicitor and request completion statement

ACTION:
Suffolk Life
Acquisition completion

+4 weeks **+4-8 weeks** **+8-12 weeks**

ACTION:
Suffolk Life
Receive loan agreement from bank

ACTION:
Suffolk Life
Confirm to the parties we are able to proceed

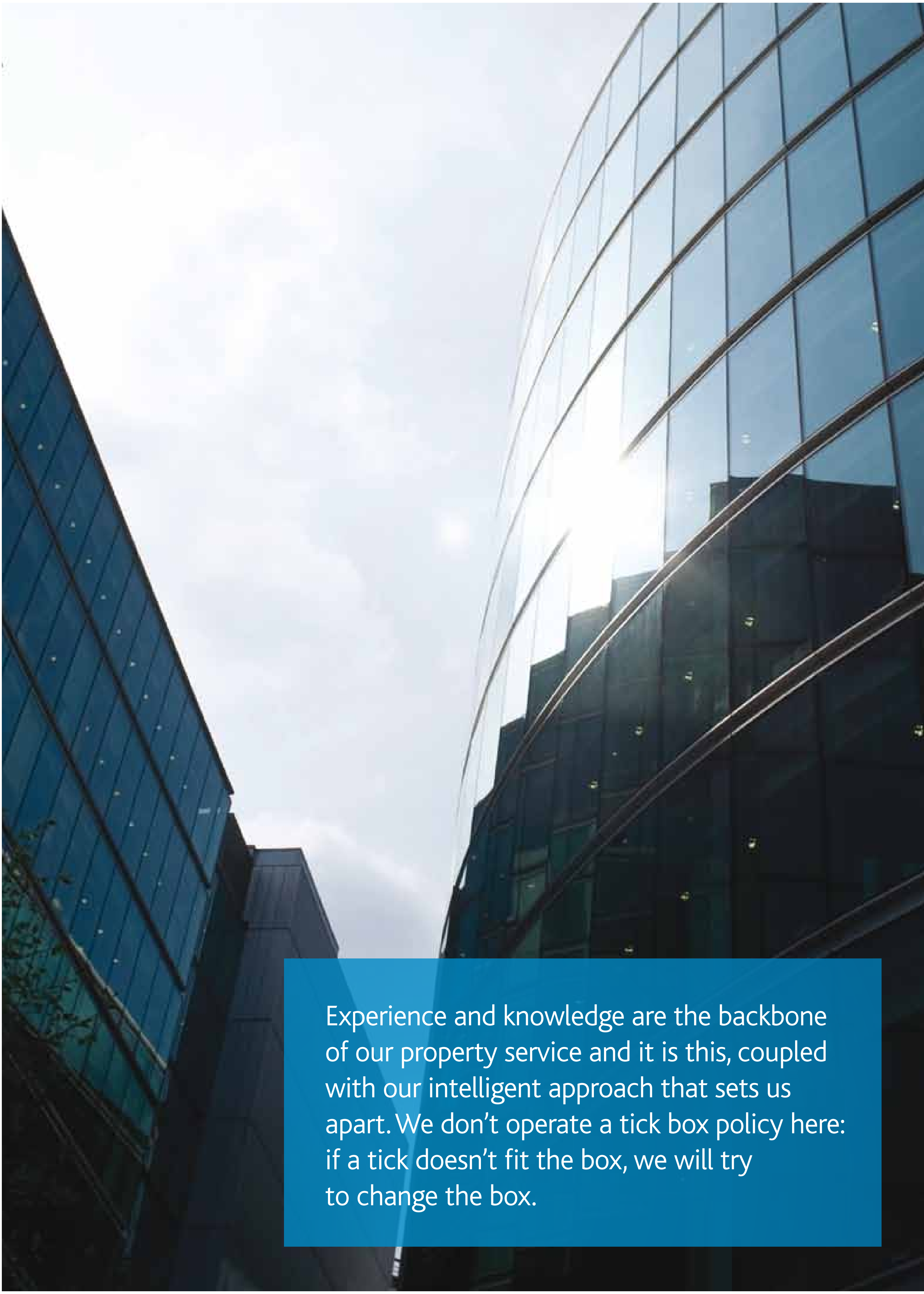
ACTION:
Suffolk Life
Send completion monies to solicitor along with all necessary contractual documents duly signed

For commercial property investment with Suffolk Life, you will need:

» MasterSIPP application form (for new plans)
» Property form
» Key Features
» Schedule of Allowable Investments
» Schedule of Fees
» Property insurance notes
» Terms and conditions

Please read through our Key Features and Schedule of Fees thoroughly, and if you are interested in other potential investments then ask your adviser for the Schedule of Allowable Investments.

Your adviser will be able to advise you on the suitability for your own specific situation. Should you agree, they will help you complete both the property and application forms.



Experience and knowledge are the backbone of our property service and it is this, coupled with our intelligent approach that sets us apart. We don't operate a tick box policy here: if a tick doesn't fit the box, we will try to change the box.

Commercial property contacts

Every property is different and questions will always arise. Our property experts are waiting to hear from you.

Acquisitions:
Oliver Crichton - Director of Property
David McLaughlin - Manager, Property Acquisitions

Management:
Oliver Crichton - Director of Property
Richard Baker - Manager, Property Management

General contact details:
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