Pension Fund (SSAS) Property Investment

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IIP

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Outline Proposal

Why Structure a Property Small Self-Administered Scheme (SSAS)?

Property investment takes many forms although the most common advantage that property investment has over competitor markets is that it is a tangible and, in most cases, an understandable asset class. It does not share the same volatility and unpredictability that relies upon fund managers and specialist analysts to administer as with financial market investing.

Whether you understand the property market and are looking for funding, new to the market yet keen to become involved in property, or someone looking for a hands-off, managed investment, there are a plethora of areas within property investment sphere to suit all investors' personal requirements and circumstances.

So how does a Property SSAS Work?

Initially, a SSAS strategy must be decided upon with your provider or independent financial advisor with a view to optimise tax efficiency and create fund growth. In addition, the modus operandi will be to compound that growth of the fund, the portfolio, and the business that the SSAS is attributed to.
The Property investment strategies employed using your Property SSAS are tailored to suit an individual's situation and investment needs. SSAS strategies could include but not limited to:

- *Investment by your SSAS into commercial property (this includes residential property that you are not residing in on a Buy to Let basis)*
- *Growth of the company property portfolio via a loan to your company from your SSAS.*
- *A tax-free growth strategy, by selling your company business premises to your Property SSAS. Rent received by the SSAS is not liable for income tax or capital gains upon sale, within the SSAS. In addition, tax is saved by the company as the rent you pay to the SSAS is an allowable business expense. Year-end profit is reduced due to the funds paid to the SSAS, again reducing the year-end tax bill.*

Why choose property over other financial market alternatives?

- Property has always been providing significantly greater returns than the average returns and offering far more security than those generated by for example the stock market or other alternative investments.
- The options are more diverse.
- Risk levels are more understandable and less volatile.
- Property is of real value that adds security to protect your funds.
- Property is a simple asset class to understand given most individuals own or have owned property, unlike shares and trading. Specialist knowledge of property or finance is therefore not essential.
- Strategies can be tailored to suit the investor requirements as well as that of the SSAS.

Properties

What type of properties can the SSAS invest in?

Commercial property

HMRC rules state that a SSAS can invest in commercial property directly. Examples of commercial property include land for development, high street premises, factories, car parks, hotels, pubs, care homes, designated student Halls of Residence and residential property not lived in by the pension fund 'owner'.

Residential property

HMRC rules state that a Property SSAS can only invest in commercial property. Put simply, this means any property deemed to be habitable is classed as residential property and therefore, a SSAS may not hold or invest. A SSAS may buy or hold land or property for development up until the point before it becomes habitable, at which point it must be sold to the company or a third party and released from the SSAS.

There are plenty of strategies that support you using your Property SSAS funds to 'indirectly' invest in residential property. These include:

"Loans to third party property developers,
Using the unique SSAS loan back facility to loan to your company for residential property investment,
Purchase of your business premises for tax efficiency and growth"

The Right Property

If you want to take advantage of the tax breaks available when you purchase property through a SSAS, then you will need to ideally restrict your search to commercial property and land and residential property that has yet to be developed.
Although technically it's possible to purchase residential properties, any residential investment comes with significant tax penalties. Commercial properties are without these penalties and provide exemption from Income and Capital Gains Tax on profits from the property.
The types of commercial properties to consider include, but are not limited to; shops, hotels, warehouses, factories, restaurants, and office buildings.
There are a few exemptions to the 'commercial-only rule' such as hospices and hospitals, prisons, student halls of residence, and care homes. You can also invest in commercial or agricultural land or land intended for future development.

The Process

Before the property is purchased, a RICS valuation and surveyor's report is required. This must be addressed to the Trustees of the SSAS in the first instance. In circumstances where purchases are being made from a connected party, a valuation and surveyor's report must be provided. The report must include the following information:

- A professional market value of the property.
- A rental value (if there is to be a new tenant; noting the proposed terms of the lease
- Rebuilding valuation (for insurance purposes).
- Confirmation as to whether a structural survey or any other further investigation is recommended (via a surveyor's report).

Once a surveyor has been appointed to act on behalf of the Trustees, it must be made clear to them that they are advising the Trustees of The SSAS and not the individual Member Trustee(s). The 'Business' is the owner of the assets.

The Key Rules

1. Five-year maximum repayment term

To ensure that no penalties are imposed by HMRC and the maximum protection for the SSAS pension scheme and its members, the SSAS provider will ensure that the SSAS loan-back rules are adhered to. One of these rules is that the loan must be repaid across a maximum term of five years. Therefore, both parties must be comfortable that the loan can be repaid within this time.

On rare occasions, should there be any valid and unavoidable issues with repayment due to the borrower experiencing financial difficulties then it may be possible for the outstanding loan to be rolled over for a further five years. However please note that this will only be done once and will not be treated as a new loan.

Failure to appreciate the specific parameters of a SSAS loan-back could significantly impact upon its overall viability and should therefore be carefully considered by the scheme, its members, and any other stakeholder.

2. Equal capital and interest repayments

Capital and interest payments must always be equal. For example, if Michael and Jasvir wanted to borrow £250,000 at a fixed interest rate of 3% compounded over a 5-year term the amount payable would be calculated as follows:

Total amount that needs to be repaid = £289,818.52 (made up of £250,000 capital and £39,818.52 of the interest). Therefore, the amount payable each year would be (£250,000 + £39,818.52) / 5 = £57,963.70

3. Maximum loan of 50% of total SSAS pension scheme assets

The standard lending rules state that 50% of the value of the scheme can be borrowed (or ‘loaned back’) – so, in an example where the total pension pot is worth £500,000, the maximum available to be loaned would be £250,000.

4. Annual APR is at least 1% above the national base rate

Although a SSAS loan-back is different from a high-street loan – in that it is agreed between a member and their pension scheme – the interest payable must still be set at a commercial rate. Evidence would need to be obtained to confirm that the interest rate payable would be available in the open market and the loan was on commercial terms.

Please note that the loan back rules stipulate that the interest rate should be set at least 1% above the average base rate of high-street lenders.

5. First legal charge must be granted

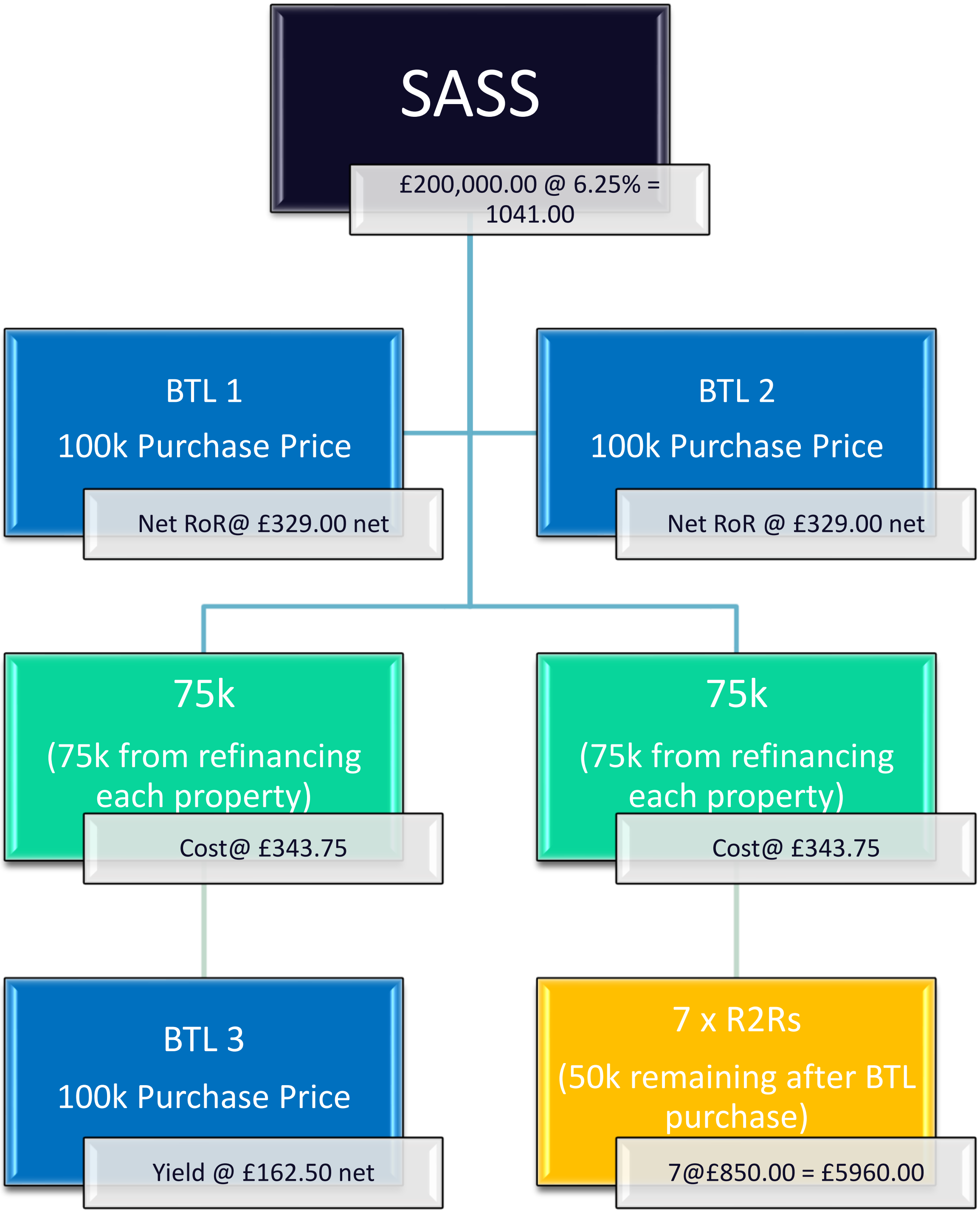
In return for the loan the sponsoring employer (the borrower) must grant the pension scheme a first legal charge over an asset. This means that there cannot be any other outstanding loan against the asset which would take priority over the SSAS’s legal charge.

The asset must be worth at least the same as the value as the loan. For example, if a loan of £250,000 was being taken and the sponsoring employer had premises worth £300,000 which was not subject to a prior charge then the property could be used as security and the pension scheme would take a first legal charge over the property. Please note that the value of the asset would need to be independently determined by a valuer.

“SSAS pensions: small self-administered schemes | MoneyHelper”

IIP Proposal Using SASS Property Investment

SSAS withdrawal example



1. Agree with the SSAS provider and trustees that the funds can be drawn down for the purchase of property.
    - £200,000.00 equates to 50% of the total pension fund size.
    - Loan RoR set at 6.25% (1% above base rate)
    - Drawdown used as a first charge on the asset(s).
    - The above should satisfy the pension provider.
2. Two Buy to Let properties purchased at circa £100,000.00 yielding a combined net RoR of £658.00pcm
3. Both BTL properties to be refinanced at 75% Loan to Value at a rate of 5.5% at a cost of £687.50 combined
4. A third BTL property is bought at circa £100,000.00 with a net RoR seen at £162.50pcm
5. The remaining £50,000.00 from the refinance is used to acquire 7 further properties with a net RoR of £850.00 per unit totalling £5950.00.

Summary:

The BTLs have been purchased to satisfy the pension drawdown requirements as 'assets' as opposed to being 'income generating' vehicles. They do of course act as the leverage enabling the model to generate revenue. In addition, they have the 'capital growth' element still attached.

The revenue comes from the R2Rs and in total, produced s a monthly RoR of **£6083.00.**