CURTIS BANKS

Case study

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Connected tenants

Summary

A mother purchases her son's business premises to provide an investment for herself and stability for her son.

The Challenges

Nadia's son Omar runs a small art gallery. Over the past five years he's faced the possibility of having to relocate twice due to the owners of the premises deciding to sell up. He hopes to be able to purchase his own premises in the future, but hasn't the funds to do so at the moment, having just bought his first home and having only limited pension savings.

The neighbouring property, which is actually a better fit for Omar's business, has just been put on the market for £300,000. Omar may consider renting the new property, but he would still face the possibility of having to move if the new owners decided to sell again.

Nadia would like to help provide some stability for her son and his business. She has a pension worth approximately £400,000 which is mostly invested in equities, but limited savings outside of the pension. Nadia has heard about property investments using a SIPP, but is unsure if it will be possible when her son will be the tenant. She and Omar approach Timothy, Nadia's financial adviser, for help.

The Actions

Timothy confirms that Nadia can purchase the property using her pension and lease it to Omar's business, as the rules allow for transactions between 'connected parties'. However, he explains that there will be more conditions than if Nadia was purchasing the property herself.

Timothy explains that the pension provider will be the legal owner of the property, and it must demonstrate to HMRC that it acts as any other commercial landlord would on the open market. As such, with connected party transactions, it must make sure that everything happens at market value.

This isn't a concern for Nadia when purchasing the premises to begin with, as she has no connection with the current owner. However, it will be important when drawing up the new lease for Omar's company. The provider will need a valuer to confirm a market rate of rent for the premises; Nadia and Omar can't simply agree an amount between them.

Timothy also tells Nadia that if Omar fails to pay rent, the provider would have to pursue Omar for the money; it cannot allow any concessions without breaking HMRC's rules. Nadia and Omar both accept this condition.

Timothy also wants to talk to Omar about his pension arrangements. Omar knows that he should be saving more, and Timothy confirms this. He also explains that if Omar builds his own pension, he could purchase part of the property from Nadia in the future, and potentially purchase all of it further down the line.

Results

Timothy arranges for Nadia to move her pension to a SIPP, and she uses part of her fund to purchase the property. Nadia and Timothy are able to choose a solicitor and valuer for the SIPP provider to use to complete the purchase. The valuer confirms the market rate of rent for Omar's company to pay.

Nadia is also reassured by having a succession plan for the property: Omar will increase his pension contributions immediately and plans to purchase at least part of the property from her before she retires, leaving more cash available should she wish to withdraw it.

Important points to consider

The value of pension funds may fall as well as rise. Your money is tied up until you take your benefits. Benefits can generally be taken any time after age 55. Always take financial advice to find out if a SIPP is suitable for you.

Contact details

If you'd like to speak to us about anything on this fact sheet, please contact us on:

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We may record and monitor calls. Call charges will vary.

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