

How to invest in Commercial Property with a SSAS Pension

For anyone not aware, an SSAS pension is one which involves up to 11 people – generally senior members of staff within a limited company but also sometimes employees or family members – building a pension pot, either from scratch or through transferring existing pension funds. Once set up, the SSAS pension is managed independently by the members, most of whom will generally act as trustees. An SSAS pension shares many of the advantages of other defined contribution schemes, in that contributions made into the scheme are eligible for tax relief and members can start to withdraw from the scheme after the age of 55, with one option being to take out 25% of the accrued pension as a tax free lump sum.

Where an SSAS pension differs from others is that the members have complete control over how the money in question is invested, and one of the options open to them is to invest in commercial property. The details of the investment will vary from case to case, including exactly how it is funded and what is done with the commercial property once it has been purchased, but there are some basic principles which underpin the decision to invest in commercial property and these include the following:

- Any income derived from the commercial property which has been invested in – such as rent – will be tax free
- The fact that multiple scheme participants and family members can pool their money within an SSAS greatly increases the funds likely to be available for the investment
- If the property is sold at a later date and a capital gain realised, capital gains tax will not have to be paid
- Once assets such as property are held by an SSAS pension they are usually fully protected from claims pursued by personal or business creditors
- Control over what is done with the commercial property rests fully in the hands of the members of the SSAS pension

Investing in a commercial property via an SSAS can help to grow the value of that SSAS in a number of different ways. Rental income generated by the commercial property will be paid directly into the SSAS pot, for example while, more simply, any increase in the value of the commercial property will increase the value of the SSAS pension as a whole. More indirectly, the property may have been purchased in order to facilitate the growth of the business as a whole (i.e. new commercial premises to enable expansion), and this growth will directly lead to more funds being paid into the SSAS pension pot.

There are some limits on the type of commercial property an SSAS pension is allowed to invest in, although it can invest in properties – and land – based in the UK or overseas. The types of property and land which an SSAS is allowed to invest in include the following:

- Shops
- Hotels
- Warehouses or industrial business units
- Factories
- Cafes/Restaurants

- Office buildings
- Land which has been earmarked for commercial development
- Marine berths
- Nursing homes
- Public houses
- Gymnasiums
- Garages
- Agricultural land

In general terms, investment in residential properties is not permitted or, if it is possible, is likely to come with the kind of tax penalties which render it financially unappealing. There are some types of property which don't fit exactly into the category of either commercial or residential, such as nursing homes, student accommodation, hospitals and care homes, and it is possible to invest in properties of this kind.

Many members of SSAS pensions opt to invest in commercial property as a means of expanding the business at the same time as helping to build the pension pot further. This works in the following manner:

The SSAS has built a pension pot worth £500,000, and the business has reached the point at which it needs to purchase larger premises in order to continue growing. A commercial property worth £500,000 is identified and (following all standard due diligence) the funds from the SSAS pension pot are used to purchase said property. Following purchase, the property is owned by the SSAS pension, and the pension scheme lets the property back to the business for an agreed rental rate. Every time the rent is paid, rather than going to a third party landlord, it goes into the SSAS pension pot. In this way the premises have been secured as an asset of the pension, the business has been able to expand and the pension pot itself will continue to grow through both regular member contributions and the rental income being generated.

In other cases, a business might opt to purchase commercial property to further business expansion and own this property as a business asset rather than a pension asset, and here again the SSAS pension pot can be utilised. The SSAS pension can make a loan of up to 50% of its total value to the limited company for a maximum period of 5 years, a process known as a 'loanback'. Given the fact that an SSAS pension can involve as many as 11 individuals there is every chance that the pension pot in question will, over time, mount to a considerable sum. A pension pot worth £2.5 million, for example, would be able to fund a loanback to the limited company in question on up to £1.25 million. These funds could be used to invest in property to help the company expand, and would be repaid over five years with an agreed interest rate in place. Rather than being paid to a third party lender, as would normally be the case, the interest would go straight into the SSAS pension pot. A loanback of this kind could also be used to facilitate the purchase of property not connected to the business, in effect allowing the members of the SAAS pension to fund investment and drive returns on that investment by borrowing from themselves. As well as purchasing land or commercial property directly, an SSAS pension can borrow 50% in addition to the value of the pension pot in the shape of a pension mortgage, thus increasing the purchasing power of the pension and the potential for future returns on the investment. It should also be noted

that commercial property purchased directly by an SSAS pension can then be passed to children and other beneficiaries without incurring inheritance tax, as the property will be treated as an asset of the pension rather than part of the estate of the deceased.