Oakwood
FINANCIAL ADVISORS

Property Purchase Through Your Pension Fund

A key feature of self-administered pensions is the ability to purchase and invest directly in residential and commercial property.

What are the advantages of purchasing property through a pension?

a) Your property is purchased directly from your pension fund.

b) You and your employer (where applicable) can contribute to a pension on your behalf and receive tax relief on the contribution.

c) All purchase costs are met by the pension fund, i.e. stamp duty, solicitor's fees, property fit-out.

d) The rental income from your property is paid to the pension fund and is exempt from income tax.

e) There is no Capital Gains Tax on the sale of the property.

Are there any restrictions on what type of property you can purchase through a pension?

Yes, the investment must comply with the following revenue rules:

1. The vendor must not in any way be related to you, your employer (where applicable), its directors and associated companies.
2. The property cannot be sold or let to any connected parties. This would include any relatives, your employer or its directors and associated companies.
3. The development of a property with a view to selling on is not allowed.
4. Personal use of the property is prohibited.
5. On sale of the property out of the Pension/ARF this has to be to an independent third party.

Can I borrow to fund the purchase of the property?

Yes, you can fund the purchase a property through the pension with bank borrowings. The loan must comply with the following rules:

1. Maximum loan amount of up to 50% of the property value.
2. Loans must be on a limited recourse basis, i.e. the bank has security over the property only.
3. The loan term must be a maximum of 15 years.
4. The loan must be paid in full before retirement.

Who looks after the property management?

An independent Property Manager is appointed to manage the property from an approved list provided by the pension provider.

The Property Manager pays the rental income into the pension scheme bank account after discharging any expenses and provides rental accounts annually.

What happens to the property when I retire?

Your property can transfer in specie to an Approved Retirement Fund (ARF) when you retire. There is no stamp duty on the transfer and the rental income continues to be paid to the ARF exempt from income tax. There is no Capital Gains Tax if you sell the property in the ARF.

Potential downsides

As with any investment, there are potential drawbacks too.

The minimum entry level for investing in direct property can be high and this could impact on your liquidity, for example if you need to use all or nearly all your pension fund to invest. There are also high ongoing costs associated with property, both expected (insurance, maintenance, etc.) and unexpected (nasty surprises!).

A pension fund cannot be accessed until typically age 60. You need to ensure there is sufficient liquidity in your policy to pay out a potential tax free lump sum. If there was a property crash prior to your retirement then this may impact on your options. Also the property will more than likely transfer to an ARF. This is subject to mandatory taxable withdrawals of a minimum of 4% pa from age 61. Again there has to be sufficient rental income to cover the 4% and annual costs.

Before committing, you will also need to consider your overall investment strategy.

- After investing in the property, will your portfolio be adequately diversified?
- Is there a risk your pension fund will be over-concentrated in property?
- Will your investment leave you with sufficient liquidity to maintain your lifestyle?
- If there is a downturn in property values could this restrict or delay your timing to access your lump sum from the pension.

Costs in purchasing a property

When purchasing a property through your pension, you should consider some of the potential costs. These can include:

- Stamp duty
- Solicitor fees
- Insurance
- Local property tax
- Letting agent fees
- Service charges

These costs will vary depending on the type of property you purchase.

Risks

Please note the following:

- Investment assets such as equities, bonds, property, cash, currencies, commodities, interest rates, etc and derivatives of these and other investments can be volatile high-risk investments that can significantly fall as well as rise in value.
- Property purchase through your pension requires a certain amount of liquidity to be held to cover on going costs or periods where no rental income is received.
- Liquidity issues can occur at times where property values leading to a lack of liquidity and no market to sell a property.
- Past performance is not a reliable guide to future performance.
- In extreme circumstances, an investment provider (e.g., a country, a bank, an insurance company, other financial institutions, etc) may not be in a position to meet their obligations to investors, and in such extreme circumstance, investors may lose some or all of their original capital and/or returns on capital secure investments.
- The payment of any benefit from an investment with a third-party provider is subject to the provider's ability to make such payments.
- Tax changes and other changes in law and in practice may adversely affect the benefits payable from an investment.