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BORROWING BY A SIPP OR SSAS

How much can a SIPP or SSAS borrow?

A SIPP or SSAS can borrow up to 50% of its net assets. So if a SIPP has total assets of £100,000, it can borrow up to £50,000. Hence it could buy an asset worth up to £150,000.

What if there are existing borrowings?

The 50% limit applies to total borrowings. So if a SIPP has assets of £100,000 and existing borrowings of £20,000, the SIPP can borrow a further £30,000.

Note that the 50% limit applies to net assets, not gross assets. In other words, in the above example, whilst the gross assets (including the existing borrowings) are £120,000, the net assets (after deducting the borrowings of £20,000 which are of course owed to the lender) are £100,000. Hence the total permitted borrowings are £50,000, and as £20,000 has already been borrowed, only £30,000 of new borrowings would be allowed.

How is the current value of the fund determined?

Market value is used. That is the total market value of any crystallised and uncrystallised assets. Any purchased annuities are excluded from the calculation of the net assets

What about VAT on a property purchase?

Any short term borrowings for VAT on a property purchase must be included within the overall 50% limit.

What can the borrowings be used for?

Almost anything the trustees want! Usually it is for investment purchases, typically to buy a property. Note that a SIPP cannot borrow money to loan it to a connected company – although a SSAS can. See our "loans" leaflet for more details. Note that money cannot be borrowed in order to loan it on to an ailing unconnected company

So is a 100% mortgage possible?

Theoretically, yes! If a SIPP had assets of £1M say, it could borrow £500,000 and use the full £500,000 borrowings to purchase a commercial property worth £500,000. The issue though is – would the lender loan such a 100% mortgage? Possibly, if it has security on the other assets of the SIPP. This is one for the banks etc to "think outside the box"!

What terms must apply to the borrowings?

Normal "commercial" terms. So if an independent lender is willing to loan money on an interest only basis, then that is acceptable.

Who can the money be borrowed from?

The money can be borrowed from an independent financial institution eg bank or building society, or a connected company, or indeed the SIPP member or a SSAS member. But as stated above the terms must be commercial and if the borrowing is from a connected party, independent certification that the terms are "commercial" will be required eg a letter from a bank saying that they would lend that sum of money with the same security on the same terms. If any borrowing from a connected party is on non-commercial terms, HMRC will impose penal taxes.

Who takes out the borrowings?

Remember that it is the trustees of the SIPP or SSAS who take out the borrowing and accordingly they will be responsible for agreeing the terms and conditions etc, not the member

We do not give financial advice. nor do we advise on the suitability of a SIPP. No comments here are intended as such. The above information is based on our understanding of the legislation governing pensions at the time of writing. Before taking any action you should consult a qualified financial and/or tax adviser. Levels, bases of and reliefs from taxation may be subject to change.

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