Making your pension work

Thomas Dickson explains just what's involved in buying a freehold dental practice through your Self-Invested Pension Plan (SIPP)

Pensions are the future. There is no doubt that a wise saver will have considered their future financial security and plan. This will also involve making sure they have sufficient assets in place to maintain their lifestyle throughout retirement.

For those dentists with a secure, guaranteed NHS pension scheme, the assets cannot be accessed until you reach the age of 55. However, for those with private pensions, although the age to access the money stays the same, there is a great deal that you can do in the meantime.

Control your future

Pensions do not have to work hard for you just when you've retired. A well-implemented pension scheme can also provide the opportunity for a dentist to control their future now, managing a portfolio of investments or even buying property.

Pensions are not the first thought in many investor's minds when they think of purchasing property. When it comes to taking the plunge and securing your own practice, practitioners either buy the freehold or simply lease the premises.

Buyers' market?

Arguably, there has never been a better time for practitioners to enter into the acquisition of commercial property. The financial sector is looking favourably on the dental market, while the new NHS contract is helping practitioners secure a more regular monthly income stream.

Buying the freehold directly is only one of the options. Many practitioners are choosing to explore another option: purchasing the property through a personal pension scheme.

What are the advantages?

While not for everyone, there are some definite advantages to buying commercial property through a Self-Invested Pension Plan (SIPP):

• The purchase avoids paying Capital Gains Tax (CGT) on the sale of the property. Although the rate of CGT has been lowered to 18 per cent, this is still a tax worth saving and there's every possibility this will be raised at some point in the future, to bring it into line with the highest rate of tax at 50 per cent.

• The pension fund can borrow against the security of the property. Practitioners are able to purchase a freehold property with 100 per cent finance, as lenders consider the profession to be a reliable ‘safe lend’. However, if a traditional mortgage is not available, for those who need to find a deposit before being able to access the capital, drawing from a pension fund can be an ideal solution.

• VAT can be reclaimed if the property is VAT registered.

Potential downfalls

As well as the obvious benefits of this opportunity, it is also wise to point out the potential downfalls. Most pension funds are implemented for good reason, and the assets are usually invested with a fair degree of diversification often combining a range of financial options, including stocks and shares, bonds as well as cash. Therefore, investing wholly in just one asset class – commercial property – is considered to be a relatively high-risk strategy.

Another disadvantage is that a SIPP containing a property is usually considerably more expensive to run. It’s also worth pointing out that technically the investor does not own the property, it is owned by the pension fund/trustees and any rental income or capital receipts from the sale of the property cannot be removed from the fund until retirement age is reached – the minimum retirement age is now 55.

Before making a decision on the most appropriate way to purchase a property, it is advisable to seek professional advice. There are many pitfalls that can befall a practitioner when taking this big step, and professional assistance from the start can save thousands of pounds, as well as hours of time.

About the author

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