Introducing the Property Pension Trust...

OPTIMUS

"I don't need a pension, my property is my pension".

This is a commonly-held view amongst those pre-disposed to bricks and mortar investments and, on the face of it, you can see why. After all, residential property isn't allowed in a UK registered scheme and most commercial properties are out of bounds because their values generally overrun lifetime allowance restrictions.

The natural conclusion might be that, if you want your retirement funded by a property portfolio, there is little alternative but to take future tax hits such as IHT and CGT firmly on the chin.

However, there is an alternative in the form of property pension trusts which turn the traditional 'property-versus-pension' debate from a binary one into something far more interesting.

If you knew that property assets can be held in an IHT-free pension structure and not be constrained by the lifetime allowance, surely that would raise an eyebrow or two? Similarly, if through the same structure, you discovered there is also a statutory exemption from capital gains tax, would that not pique some interest? For many people, the answer will be a resounding 'yes' on both counts.

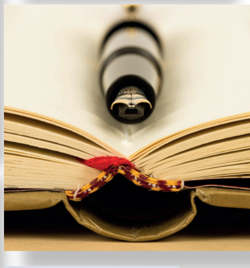
Let's take as an example a property portfolio acquired over time which comprises some assets sitting on capital gains and some that aren't (fairly common these days). For those properties with little or no gain, or where gains can be offset by losses, transferring them into a pension trust is worth some serious thought because, once done, any future uplift in value is protected from CGT. So, when the time comes that you feel the market has peaked, you can liquidate and reinvest gross. Doing so outside of the pension environment would result in you taking the CGT pain or staying invested against your instincts. The pension trust gives you freedom to stay fully invested in property, diversify away or execute some other hybrid investment strategy in the knowledge that, however you approach it, your assets will be outside of the IHT net thanks to a statutory exemption.

For those just starting to build long-term property investments, cash contributions to a pension trust can be used as the equity element for a geared portfolio, arranged by professional trustees in a regulated environment. The trustees will also lend an expert hand to all the other administrative and compliance burdens that arise from investing in property, leaving the pension saver to get on with their day job.

So, for property holdings, there is a compelling tax argument for a pension wrapper over a private portfolio in that income tax and SDLT are neutral between the two, but a pension trust is the only one statutorily exempt from both CGT and IHT.

Most pension trusts will enable the drawdown of benefits from age 55 but this can, if required, be deferred until age 75. Benefit delivery is highly flexible and not restricted to formulaic income calculations. In other words, pension freedoms apply here too and that can extend, in certain circumstances, to individual property assets being delivered in specie as benefits. For UK residents, there should be an element of return of capital which is not taxed, with the balance being taxed at marginal rates. There is no real difference here between the pension trust and how benefits would be treated in a UK registered scheme except that, in the property pension trust, the values tend to be much higher.

'Provides a tax benign environment for pension savings"



As for succession planning, the lump sum death benefits are not subject to IHT and it should be possible for the trustees to provide controlled future income streams to a member's chosen beneficiaries to fit in with their income tax environment. And being a trust, highly valued asset protection features come as standard.

All of this represents a powerful combination of tax effectiveness, flexibility, security and operational ease for property-based retirement savings. In so doing, the property pension trust provides a real challenge to the perceived wisdom that pensions and real estate investments must be mutually exclusive.

Time for a re-think?

Martin Hall
Director
Optimus Pension Administrators Limited