

# NEW DAWN FOR BUY-TO-RENT AS A PENSIONS OPTION?



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**Mark Kennedy-Stewart** examines some of the implications for investors of impending changes in pensions legislation.

**UPCOMING** changes in Pensions Legislation, due in April next year, could herald changes in the buy-to-rent property market.

For a relatively new sector, buy-to-rent has had a lot of publicity and has proved a popular investment option – UK wide it is reckoned to be worth £50 billion. Certainly over the last decade it has looked increasingly attractive to smaller investors who have become disenchanted with the traditional pensions offering.

For example, a major driver into buy-to-rent has been the fact that current pension legislation forces the purchase of annuities. Following the last Stock Market crash, larger sums have been needed to generate the same income, threatening retirees with the prospect of a smaller income from what have come to be called cash purchase schemes, which have pretty much replaced final salary schemes. Little wonder that people are looking at buy-to-rent as an alternative.

Now, with the tax efficiency enabled by new Pensions Reforms, buy-to-rent may just be about to attract still more investors.

From April 6 2006 it will be possible for property investors to use an existing vehicle, the Self Invested Property Scheme or SIPP, to invest on a commercial basis in a single property of their

choice. SIPP, which must be set up with a recognised or authorised provider or professional trustee, will enable this single commercial property to be held in a pension, so that it incurs no tax on any rental income nor any capital gains tax on any profit on sale.

Sound too good to be true?

Well, maybe. Because any rental income cannot be touched till retirement, nor any property sold till retirement; and income taken from rental once the investor is retired will be taxed.

So what are the benefits?

In the first place there's the mid term capital gains which will accrue on a SIPP property, while no tax is paid. And while details of the new legislation are still to be confirmed, there's the possibility that investors will no longer have to amortise debt over ten years and prior to retirement; that they might never have to sell their properties (to buy annuities); and that they may be able to transfer funds free of inheritance tax.

This last point is, of course, the big one. It would mean that many property investors could rest easy in the knowledge that their children would inherit their pension funds tax-free.

Other positive plusses for reformed SIPP have been



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mooted. For example, if connected party transactions become acceptable, then it may be possible to sell your home to your SIPP and rent it back to yourself.

Finally, as someone who runs a commercial property investment company, I shall be watching with interest to see if some proportion of the £1.3 trillion invested UK wide in inshore pension funds is released onto the property market as a

result of these pensions changes; and just how much that increases property prices- and adds to the value of my present portfolio! *pe*

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