

PROPERTY PURCHASE GUIDELINES

Buying a property with your self-directed pension



Buying a Property in your Pension

Property is a popular investment choice within self-directed pensions. There are significant benefits to buying a property in your pension, however there are also some rules that must be followed. We have outlined some of the benefits of, and rules to be followed, when buying a property in your pension.

It is important that you talk to a Financial Broker before deciding on any investment for your pension. You should discuss the information contained in this document, along with all relevant legislation, in detail with your Financial Broker.

BENEFITS OF BUYING A PROPERTY IN YOUR PENSION

- Your purchasing power is far greater in a pension. Between Income Tax, PRSI & Universal Social Charge, you can lose up to 52 cents for every €1 taken in salary. However, for every €1 contributed to a pension scheme €1 is available for investment
- Currently the pension is exempt from Irish Income Tax. There is no income tax on rental income generated from the property
- Currently any gain made from the pension on the ultimate sale of the property will be free from Capital Gains Tax
- You choose the property you want (residential or commercial) and you agree the price you want to pay for it. All associated costs (legal, stamp duty, registration etc) are paid from the pension
- You have control over how the property is managed within your pension (note the requirements outlined below)
- Joint purchases between two or more pensions can also be facilitated (once a suitable co-ownership agreement is put in place).
- At retirement, the property can be transferred in-specie to a self-directed ARF (no stamp duty) and the rental income can contribute to your income in retirement
- Borrowing to purchase a property is allowed in certain circumstances but there are restrictions and risks to be considered

REVENUE RULES WHEN BUYING A PROPERTY IN A PENSION SCHEME

Revenue have a number of rules that need to be adhered to when buying a property in your pension:

1. The vendor (seller) must be at arm's length from the pension and, where applicable, also the employer including its directors and associated companies – no buying from a connected person or entity.
2. The purpose of the acquisition is not for disposal or letting to the employer where applicable, including its directors and associated companies – no letting to a connected person or entity.
3. The acquisition and development of a property with a view to its disposal is not regarded as a tax-exempt scheme investment.
4. Personal use is not permitted.
5. All rental payments must be sent to the pension bank account from the tenant/property manager.
6. The disposal of the property is on an arm's length basis – no selling to a connected person or entity. The sale price must represent market value and a supporting independent valuation may be required.

Borrowing

The legislation allows for a PRB and PRSA to borrow but precludes an ARF from doing so. There are rules that apply to any loan granted to a pension:

- The Loan is limited recourse only – the lender can take security over the property only
- Maximum loan term of 15 years or to Normal Retirement Age (NRA) if sooner
- Repayments must be made on a capital and interest basis throughout the period of the facility
- The pension cannot borrow retrospectively – you borrow to buy, not to refinance
- Maximum LTV of 60% - this is more a bank rule than a Revenue rule!

Any proposed use of borrowing to assist in the purchase of a property via your pension must first undergo a full assessment by Quest Retirement Solutions Ltd (“Quest”). This assessment will include ongoing liquidity requirements and will be outlined in full to you once a completed Property Investment Questionnaire is provided to Quest. Quest reserves the right to refuse to proceed with any investment and/or to proceed with any borrowing requirement.

HOW DO YOU BUY A PROPERTY THROUGH A QUEST PENSION?

1. In conjunction with your Financial Broker, identify the property you wish to purchase and agree a purchase price directly with the vendor/estate agent. (If agreeing a price with the vendor indirectly, we will require an independent valuation to ensure market value is being paid.) Where required a booking deposit can be paid by you personally and refunded to your solicitor from the pension once proceeding with the purchase, however you should ensure this is refundable in the event the purchase does not proceed.
2. Complete and submit the Quest Property Investment Questionnaire and provide supporting property details (e.g. brochure, web link etc) for review of the property as allowable for purchase under Revenue rules. It is also advisable to submit bank transfer instructions to facilitate payments to be made as needed.

3. On receipt of a solicitor's completion statement, we will complete a liquidity review to ensure there are sufficient available funds in the pension to proceed.
4. The total funds required to close the purchase must be in the pension bank account before we can sign the contracts or pay the deposit balance. Where borrowing, the required letter of offer must be in place from the bank. You will counter sign the bank instructions to transfer funds.
5. The overall purchase process will be managed by Quest in conjunction with the selected solicitor.
6. The property will be conveyed into the name of the trustees of the pension, using the tax registration number 6398660U. Quest will be the legal owner of the property and you will be the beneficial owner of the property.
7. You will sign off on all payments relating to the property purchase.

A few additional items of note:

It is the client's responsibility to ensure that there is adequate insurance in place on the property asset, based on up-to-date rebuilding costs, with the policy to be held in the name of the ARF, PRB or PRSA (i.e. Joe Bloggs ARF / John Smith PRSA / Mary Bloggs PRB etc), and with the interest of the pension noted as the interested party. The appropriate insurance for each property is something that the client should receive relevant advice on, however we require that, at a minimum, all residential and commercial properties have buildings, public liability, and employer liability cover (i.e. Landlord Insurance), with contents insurance as an optional add on. Apartments are usually covered under a block insurance policy, but this should be clarified by the client's appointed advisor. The premiums for these property insurance policies should be paid from the pension bank account.

If you wish to register a property for VAT then an accountant / tax agent must be appointed to the scheme to look after the initial registration and also the monthly VAT returns. Quest are not tax advisors and will not provide any advice on whether you should register for VAT nor will we administer the VAT registration or returns. However, we must be provided with copies of the registration & monthly return documents for the file.

Important note - it is the overall pension scheme that is registered for VAT, not just the property within it. Therefore, any invoices raised on any other aspect of the scheme are also subject to VAT.

How can I fund the purchase?

Where sufficient funds are not readily available within the pension to complete your chosen property purchase additional funds may be sourced from any of the following:

- Transfer existing pensions into your Quest pension (get advice from your Financial Broker)
- Employer contributions- PRSA only
- Personal contributions
- Borrowing – where available and subject to various requirements as outlined above

Note: Where the pension does not have sufficient funds (plus our minimum liquidity requirements) to complete the purchase Quest cannot formally engage with any party or release any funds from the pension.

POST PURCHASE RULES

Once the purchase is complete the ongoing management of the property must be arranged in the following manner to ensure ongoing compliance with Revenue rules:

- A professional property let and management agent ("property agent") must be appointed to manage the property on your behalf. The property agent will liaise with tenants in relation to all matters regarding the properties including property maintenance and repairs, waste management, rent disputes etc and where applicable will manage communications between apartment block management companies and tenants for all matters relating to tenants such as painting in common areas, applications for key fobs, changing of alarm codes etc.
- Rental deposits and rental income must be paid into the pension bank account by the tenant or via your property agent. The property agent will have ongoing responsibility for ensuring rent is collected on a timely basis in accordance with the lease agreement and will enforce the terms of the lease agreement where payments are late or not received. The property agent will ensure that all rents charged are within allowable limits in rent pressure zones.
- Copies of all PSRA approved lease agreements and property agent agreements must be provided to Quest
- All tenancies must be registered by the property agent with the RTB, in line with legislation, and all commercial leases must be registered by the property agent with the PSRA. All ongoing RTB, PSRA or local authority engagements must be carried out by the property agent.
- Where any refurbishment works/repairs are required these can be discharged from the pension – subject to sufficient funds being available within the pension. All such works must be carried out at arms-length i.e. by "unconnected parties" and must be supported by invoices/contracts where applicable.
- Quest will arrange for the payment of LPT for any residential properties held within the pension. This tax will be deducted from the pension bank account each year as required.

- Any property held within a pension must be valued at least every three years by a professional, independent valuation agent. This valuation requirement is annually where owned by an ARF.

QUEST FEES

Quest will apply a once off administration fee of €1,000 per property where property is being bought through your self-directed pension. This fee relates solely to services provided by Quest and are not related to any third-party fees including appointed solicitors. This fee does not currently apply where the property is being purchased via a PRSA.

Please note that the provision of this product or service does not require licensing, authorisation, or registration with the Central Bank and, as a result, it is not covered by the Central Bank's requirements designed to protect consumers or by a statutory compensation scheme.