

PROPERTY PURCHASE GUIDELINES

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 scheme, 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 scheme.

Benefits of Buying a Property in your Pension Scheme

- 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 scheme.
- You have control over how the property is managed within your pension scheme (note the requirements outlined below).
- Joint purchases between 2 or more pension schemes 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 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 scheme:

- The vendor (seller) must be at arm's length from the pension scheme and the employer including its directors and associated companies – no buying from a connected person or entity
- The purpose of the acquisition is not for disposal or letting to the employer, including its directors and associated companies – no letting to a connected person or entity
- The acquisition and development of a property with a view to its disposal is not regarded as a tax-exempt scheme investment
- Personal use is not permitted
- All rental payments must be sent to the pension schemes bank account from the tenant/property manager
- The disposal of the property is on an arm's length basis – no selling to a connected person or entity

Borrowing

Can I borrow through my pension to buy a property? Yes. There are rules that apply to any loan granted to a pension scheme:

- 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 scheme cannot borrow retrospectively – you borrow to buy, not to refinance
- Maximum LTV of 60% - this is more a bank rule than a Revenue rule!

How do you buy a property through a Quest pension scheme?

1. Identify the property you wish to purchase and agree a purchase price directly with the vendor/estate agent. (Where required a booking deposit is paid by you personally and refunded to you from the pension scheme once proceeding with the purchase.)
2. Contact Quest and notify us of your intention to buy the property. You will need to complete our Property Purchase Application Form in order to proceed.
3. You can select a firm from our panel of experienced solicitors or nominate another solicitor of your choice to act for the pension scheme in the purchase.
4. The overall purchase process will be managed by Quest in conjunction with the selected solicitor.
5. The property will be conveyed into the name of the trustees of the pension scheme.
6. You will sign off on all transactions relating to the property purchase.

A few additional items of note

- Buildings insurance must be arranged as part of the purchase process. The interest of the pension scheme must be listed on the policy.
- Where a property is being purchased at an auction the full legal pack made available prior to the auction must be reviewed by a solicitor who must confirm good title before we can engage on the process on behalf of your pension scheme.

How can I fund the purchase?

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

- Transfer existing pensions into your Quest pension scheme (get advice from your advisor / broker)
- Employer contributions
- Personal contributions
- Borrowing – where available

Note: Where the pension does not have sufficient funds to complete the purchase Quest cannot formally engage with any party or release any funds from the pension scheme.

Post Purchase Rules

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

- Rental income must be paid into the pension scheme bank account – either by the tenant directly or via a professional property agent
- A professional property agent can be appointed to manage the property on your behalf – this is the Revenues preferred option
- If you, the client, wish to manage the property directly then the following rules apply:
 - Rent must be sent directly to the pension scheme by the tenant without deduction.
 - You are responsible for ensuring all residential property tenants are registered with the Private Residential Tenancies Board
 - You will sign a Service Level Agreement with the pension scheme verifying that you will abide by the rules above and manage the property in the manner required
 - You cannot receive any payment for self-managing a property
- Copies of all lease agreements and property agent agreements must be provided to Quest
- Where any refurbishment works/repairs are required these can be discharged from the pension scheme – subject to sufficient funds being available within the pension scheme. All such works must be supported by invoices/contracts where applicable.
- Quest will arrange for the payment of LPT for any residential properties held within the pension scheme. This tax will be deducted from the pension scheme bank account each year as required.
- Any property held within a pension scheme must be valued at least every three years by a professional valuation agent. This valuation requirement is annually where owned by an ARF.

Quest Fees

Quest charge an upfront administration fee for the purchase of any property via a Quest pension scheme. The level of charge depends on a number of variables which are outlined on the Property Purchase Application Form.