

**THE IPS PARTNERSHIP  
OVERSEAS PROPERTY PURCHASE USING IPS PENSION  
ARRANGEMENTS**

These notes should be read together with our guidance notes on UK property purchase.

UK Pension arrangements are permitted to purchase commercial property anywhere in the world. However, purchase of overseas property involves a number of issues which are often overlooked, and can often mean the use of a pension arrangement is either unviable or not possible. Before making any decision to proceed, the following points should be carefully considered:

Taxation

For many, the reason for purchasing property via a pension scheme is to benefit from the generous tax reliefs afforded to UK pension arrangements. However, the country of purchase may not recognise the UK tax exempt pension status, and levy tax charges on the rental income and capital gains from the property. Every country has different tax rules, and it is very important to investigate this issue carefully so that the taxation of the investment is known in advance.

It may be necessary to employ the services of a local accountant to calculate tax due and submit returns. This can add to the costs of the investment.

IPS does not provide accountancy facilities.

Legal Issues

IPS's pension arrangements are established as trusts. Many countries do not recognise a trust as a legal entity. It is therefore essential that legal advice is sought as to how a purchase should be registered – it may be possible for this to be done in the individual trustees names, or in the name of IPS' trustees company only.

Some countries will only allow the purchase of property by a company established in that country. In these cases there are additional complications with setting-up a company, and with that country's legal and tax rules for companies.

Legal, valuation, environmental and letting requirements in the country of purchase must all be adhered to, and translations of any documentation not in English will have to be provided to IPS, so they can be checked and verified. A lawyer with local knowledge and an ability to speak English might sound obvious, but one has to be found. For example, in Spain, debts or mortgage arrears are registered against the property rather than the individual, so a new

buyer could therefore find themselves liable for these. Appropriate searches and legal documentation are therefore essential.

IPS does not give legal advice.

### Letting the Property

Where properties are being let, in addition to the legal requirements to have a formal lease, arrangements must be made for the receipt of rent and payment of property expenses for refurbishment etc.

This typically requires a bank account to be opened for the pension scheme in the country of purchase and in the local currency. IPS must be a co-signatory to this account and must countersign all cheques and bank instructions. This can cause logistical difficulties firstly with opening the account, and secondly with the signature requirements.

### Borrowing

UK pension schemes can borrow up to half their net value for the purchase of property.

The mortgage, should one be required, is a complex feature. Should this be with a local lender, who has local knowledge, or a UK lender, who speaks the same language, and who is familiar, but who may have restrictions lending for property in the country of choice? Should you borrow in sterling or the local currency? The choice will depend to some extent on the how the mortgage will be repaid. For example, if rental income is paid in euros, it may make sense to borrow in euros so the mortgage repayments are not affected by currency fluctuations. There are a number of specialists in this area with offices in the UK who could be worth approaching.

IPS does not give mortgage advice.

### Insurance

Property and title insurance will be a necessity, both to comply with local law and for peace of mind. Title insurance, which applies to overseas properties, will protect the investor should it be revealed after completion that there is a problem with the legal ownership of the property. This will protect the pension scheme's investment, which after all is intended to provide for benefits in old age. IPS will not permit a property purchase without sufficient insurance.

### Currency risk and money transfers

The transfer of funds overseas to make the purchase is a more sophisticated issue than may be thought. With the amounts of money involved, a small fluctuation in currency rates could add a significant amount to the price of a property. A money transfer facility which helps with the timing of the transfer

can therefore be of considerable assistance. Specialist services are available for currency transfer.

In addition, rental income accumulated in another currency, and the eventual sale proceeds of a property will be affected by currency fluctuations. These funds must be repatriated to the UK before retirement or death benefits can be paid, and currency risk is therefore an issue that needs to be taken into consideration.

### Costs

The fees and costs of an overseas property purchase can add an additional 10 – 15% to the purchase price of the property. This must all be funded via the pension scheme. When checking the funding of an overseas property purchase, these costs must not be overlooked.

### Administrative responsibilities

IPS delegates the responsibility for collection of rents, insurance, arranging repairs, compliance with environmental, health and safety regulations to the member trustee(s) and does not therefore anticipate needing to charge on an annual basis for the ongoing ownership. IPS does, however, reserve the right to make an additional charge on a time cost basis, should the amount of work required not be covered by the standard fees quoted.

These responsibilities are accepted by the member trustee(s) by signing a Trustees' Resolution which indemnifies IPS should these roles not be carried out correctly.

### Fees

IPS's fee for UK property purchase is £500 plus VAT. As overseas property purchase is more complex, fees tend to be higher, and are typically in the region of £1,000 plus VAT.

### Conclusion

It must also not be forgotten that the investment is being made with the use of a pension plan offered by a UK pension provider, whose role is merely to facilitate the purchase and ensure the operation of the scheme complies with UK pension regulations. The investor must therefore be prepared to indemnify IPS against any legal or tax issues which may arise. IPS must not be expected to be a specialist in a field in which they do not operate.

This guideline is based on IPS's current understanding of HM Revenue & Customs regulations which can be subject to change.

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