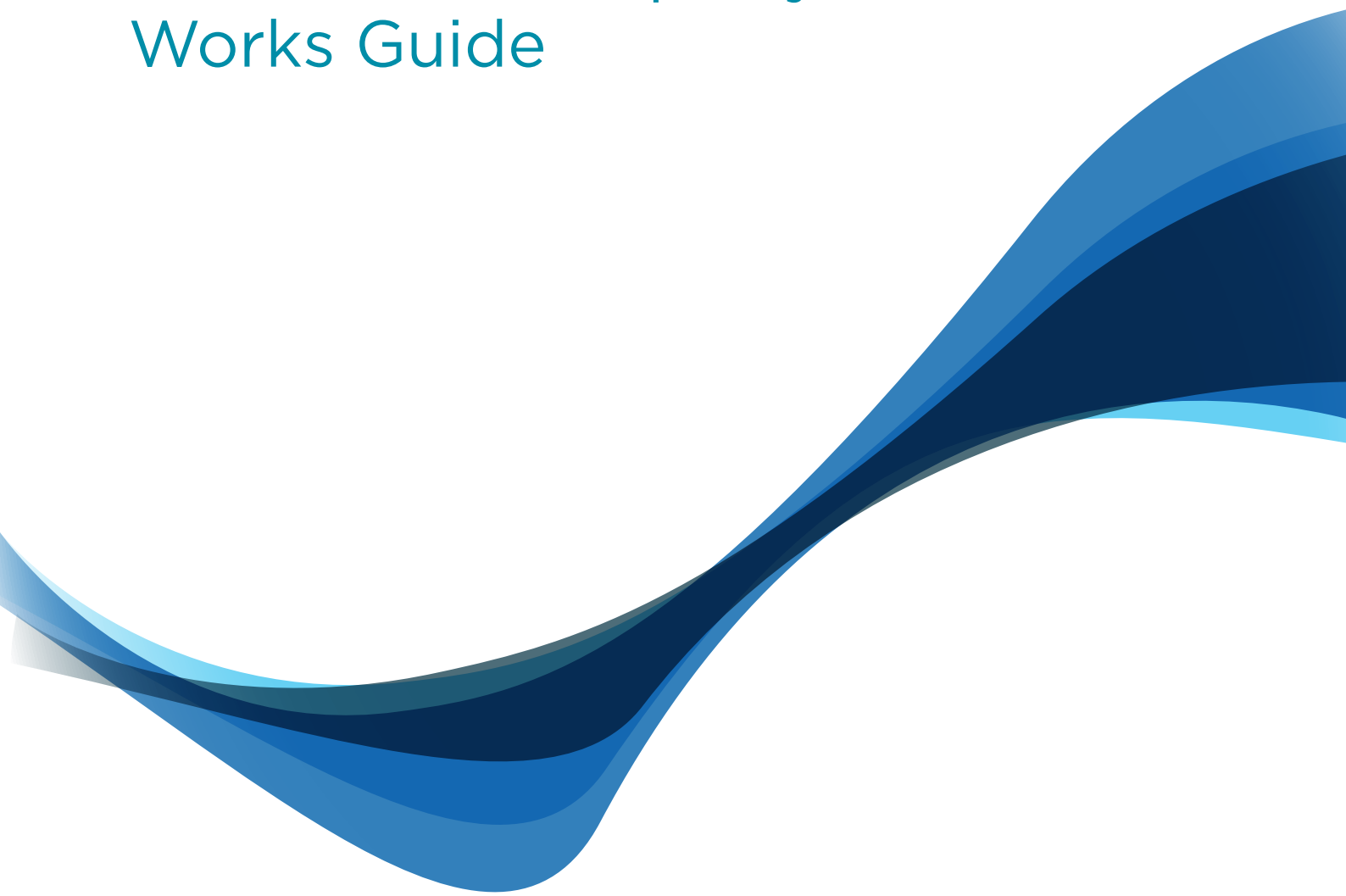


Commercial Property Works Guide



Contents

Introduction	1
Landlord works	2
Valuation	2
Funding	3
Residential development	3
VAT	3
Fees	3
Tenant works	4
Retrospective consent	4
Commercial Property Works Form	6

Once a property has been purchased by a James Hay SIPP, you or your Tenant may wish to undertake works such as refurbishment, alterations, extensions or development. These must be documented and undertaken correctly to ensure that normal property requirements are fulfilled in respect of the SIPP.

This guide has been written to help you understand the processes involved. It is, however, only a guide.

Property transactions must satisfy all HM Revenue & Customs (HMRC) and other regulatory requirements, as well as James Hay Partnership's scheme rules. These may vary from time to time.

Please read this guide carefully.

If you have any further questions please call your Customer Support Team, or our general enquiry number 03455 212 414.

Please note the following terms throughout this document:

'Connected party' as defined under s 161(8) Finance Act 2004, ss 993 to 995 Income Tax Act 2007 and ss 450, 1122, 1123 and 1124 Corporation Tax Act 2010, connected parties are members, close relatives, partners or any company associated with a member or their family

'Product' means any of the relevant James Hay SIPP products offered by James Hay Partnership

'Valuer' means a person who is a qualified member of the Royal Institution of Chartered Surveyors or equivalent body

'We/Us' refers to any of the Trustee Companies associated with James Hay Partnership

'Works' refers to any item of alteration, refurbishment, development or physical change proposed for the property

'You' refers to the SIPP member(s)

This guide covers any property transaction undertaken by us.

Please complete the 'Commercial Property Works Form' at the end of this guide to provide us with the information we need to progress your application for works to the property.

Introduction

There are many reasons why you, or your Tenant, may wish to undertake works at the property. Within the pension environment, however, these must be documented and paid for on a commercial arm's length basis to safeguard the Product and to avoid the risk of creating an unauthorised benefit, triggering tax charges on you personally and scheme sanction charges on the Product. At all times, we must make sure any risk to the investment or to us is identified and dealt with.

It should be noted that the Product cannot pay for works that are the responsibility of the Tenant under the terms of any existing occupational lease, for example, decoration, or items that are specifically for the benefit of the Tenant's business, e.g. themed shop fitting. If the Tenant is connected and the Product pays for such works, this would be an unauthorised benefit triggering the aforementioned tax charges.

If the proposed works are of a nature that a commercial landlord would pay for, these can be paid for from the Product and would not constitute an unauthorised benefit.

We will therefore need to decide if the works are Tenant or Landlord works before we can agree to the Product paying for the proposed works.

Where there is no Tenant and works are proposed as part of a strategy to make the property more generally lettable or as part of a negotiation with a specific incoming tenant, these will be Landlord's works. If, however, the incoming Tenant is connected, the rental valuation for HMRC compliance must be taken after or assuming the works paid for by the Product are completed.

Works to improve the Energy Performance Certificate (EPC) rating or to comply with other statutory obligations will always be Landlord works if the property is vacant, but if tenanted this will be determined by the terms of the lease. If there is a lease which does not make the responsibility clear, the Product may be able to pay for such works subject to independent advice.

Landlord works

If you wish the Product to pay for the proposed works and there is an existing Tenant, we must establish that these would constitute Landlord works. Such works may include extensions or major refurbishment. We would normally expect Landlord works to increase the value of the property and/or the rental value (and in any event not to reduce either value). It may be possible to take out borrowing to assist with the payment for such works – please see the section below for our requirements.

In the first instance, please provide a fully costed specification of the proposed works to us for an initial review. If the property is managed by our agent, CBRE, please send the specification to them.

If the contract value of the works is over £30,000, we will require a JCT (Joint Contract Tribunal) contract to be entered into, with the trustee(s) noted as the employer. Before signing the contract, we will need to ensure sufficient funds and/or agreed borrowings are in place. We will also need to include our standard limitation of liability wording in the contract to limit our exposure to the value of your SIPP fund.

Other than for minor improvements, a project manager (a qualified surveyor or architect) must be appointed. This can be our managing agent (CBRE) or a suitably qualified alternative of your choice. Their fees will need to be agreed by you but will be paid from the Product.

If the Landlord works are of a nature that planning permission will be required, you will need to arrange for the application to be submitted to the local authority but associated fees can be met from the Product.

Alternative quotes must be provided to us to ensure that normal commercial rates are being paid. The contractor must not be connected to you. All contractors' invoices for agreed Landlord works will need to be addressed to the relevant corporate trustee and counter-signed by you to confirm your agreement to the amount being paid.

The commencement of landlord works is not permitted until we have received all required works information detailed in this guide. As a result, James Hay reserve the right to withhold the payment of contractors' invoices until works have been approved and our requirements met.

Except in the case of repair works (where there is no Tenant responsible for these) Landlord works should add appropriate capital and/or rental value to the property and must not just be for the convenience of the Tenant. The increased rent will be as advised by the Royal Institution of Chartered Surveyors (RICS) valuer (see below) and applied immediately once the development has been completed. If there is an existing lease in place, we will normally appoint one of our panel solicitors to draw up the relevant Deed of Variation to be signed by the Tenant to record the revised terms.

It is the responsibility of you and your professional advisors to let us know the date of completion of the works and provide copies of the Architect's Final Certificate (where there is one) and the Building Regulations completion documentation.

Please note that for major works, the property insurer must be notified and contract works insurance must be taken out. It is imperative that the chosen contractor ensures that there are adequate controls in place particularly when there are any heat works being carried out. If there are heat works to be carried out, these must be done so under a hot works permit and insurers must be notified prior to any hot works commencing.

Whilst major refurbishments are being carried out, it may be possible to de-list the property from non-domestic rate bills. If you feel this may apply, please seek confirmation from the professionals overseeing the works project.

Valuation

Once you have notified us of the nature of the works, we will make a decision as to whether they are to be considered Landlord or Tenant works. In most cases, or if you disagree with our decision, we will need this confirmed to us by an independent RICS valuer. This can be CBRE or a RICS valuer appointed by you.

The RICS valuer will need to acknowledge that their advice will be relied upon in the event HMRC audit the file. The valuer will also need to advise the market value and rental value pre and post works, if the works are improvement rather than repair.

The valuer's invoice can be paid from the Product and will need to be addressed to the relevant corporate trustee.

Repair works will be Tenant works if the lease is fully repairing and insuring (FRI), but in cases where the property is vacant or the lease is not FRI, repair works may be Landlord's works. If the interpretation of an occupational lease is necessary or the property is subject to multiple lets, we may require the advice of a solicitor to determine this point. Any legal fees incurred are payable from your SIPP funds.

Funding

For Landlord works, funds must come from the Product to pay for the works. Funds may be introduced by way of contributions, transfers from other schemes and/or secured lending, which together with any existing funds would need to be at least equal to the cost of the works proposed and any recoverable VAT payable, if applicable. Funding must be in place before the works can proceed.

If you intend to borrow money to pay for the works, the funds must be provided by a commercial lender acceptable to us and the loan offer must be addressed to the Trustee.

You will need to arrange the loan on terms acceptable to you and provide the details to us, we will check the terms also comply to HMRC and our requirements.

Legislation restricts the aggregate amount your pension fund can borrow to a maximum of 50% of the net value of your SIPP at the time the loan is actually drawn down.

We will check the value of your fund prior to drawdown and confirm whether the borrowing proposed is within the 50% limit. We will take no responsibility for a change in fund value after that point. If the fund value changes after that point, there may be tax implications if it transpires you have borrowed more than 50% of the net value of your Product.

All mortgage payments, both capital and interest, must come from your Product and must not be paid by you direct to the lender. In a normal situation loan repayments should be serviced from the rental income and you must take account of this when arranging the repayment schedule with your chosen lender.

Residential development

Residential development cannot be carried out to any property held by the Product and the property must be sold before such development is commenced.

The Product can, however, pay for the cost of obtaining planning permission.

Please note that since September 2020, a wider range of commercial properties are allowed to convert to residential use without the need for a planning application. Despite the Government's changes in planning law, it is still the case that any property suitable for use as a dwelling is taxable within a SIPP environment and so not acceptable as an asset in any of our products, even if it was in commercial use when the investment was first made.

VAT

If Landlord works are being undertaken, and the property is not currently VAT opted, you will need to decide whether you wish to VAT opt so that VAT on the cost of the works can be recovered. HMRC must be asked for permission to VAT opt and information must be provided along with the uplift in rent following the works. VAT cannot be reclaimed until consent is received from HMRC, which can impact cash flow and should be taken into consideration by you.

If the property is managed by our managing agent, we will opt upon your instruction. In other circumstances, you will need to do this yourself and send us a copy of HMRC's consent.

Fees

If works take place within the Product an additional fee may be charged to cover the cost of our administration of the development.

Tenant works

Under the terms of any existing lease, the Tenant will be responsible for certain repairs and redecoration and for such items the Tenant does not need the Landlord's (i.e. the Product's) permission. It may be that the Tenant has not carried out works which are their responsibility, and enforcement action may be needed. This is commonly referred to as "dilapidations". If a Tenant does not repair as they go along, liability for dilapidations can accrue which can be collected at the end of the lease term as financial payment. You will need to appoint surveyors to deal with this. Generally Tenant failure to do works is not intended to be covered by this guidance note.

If the Tenant wishes to carry out more extensive works such as their own improvements, it is usual for the lease to require the Landlord's consent, which will be given by way of a Licence to Alter.

If the property is managed by our managing agent (CBRE), the Tenant will need to make the application (request for

consent) to them. In all other cases, the application will need to be made to you in the first instance.

The Tenant will need to provide a specification of the proposed works with the application and details of the solicitor who will act on their behalf in relation to the Licence (should they choose to be represented).

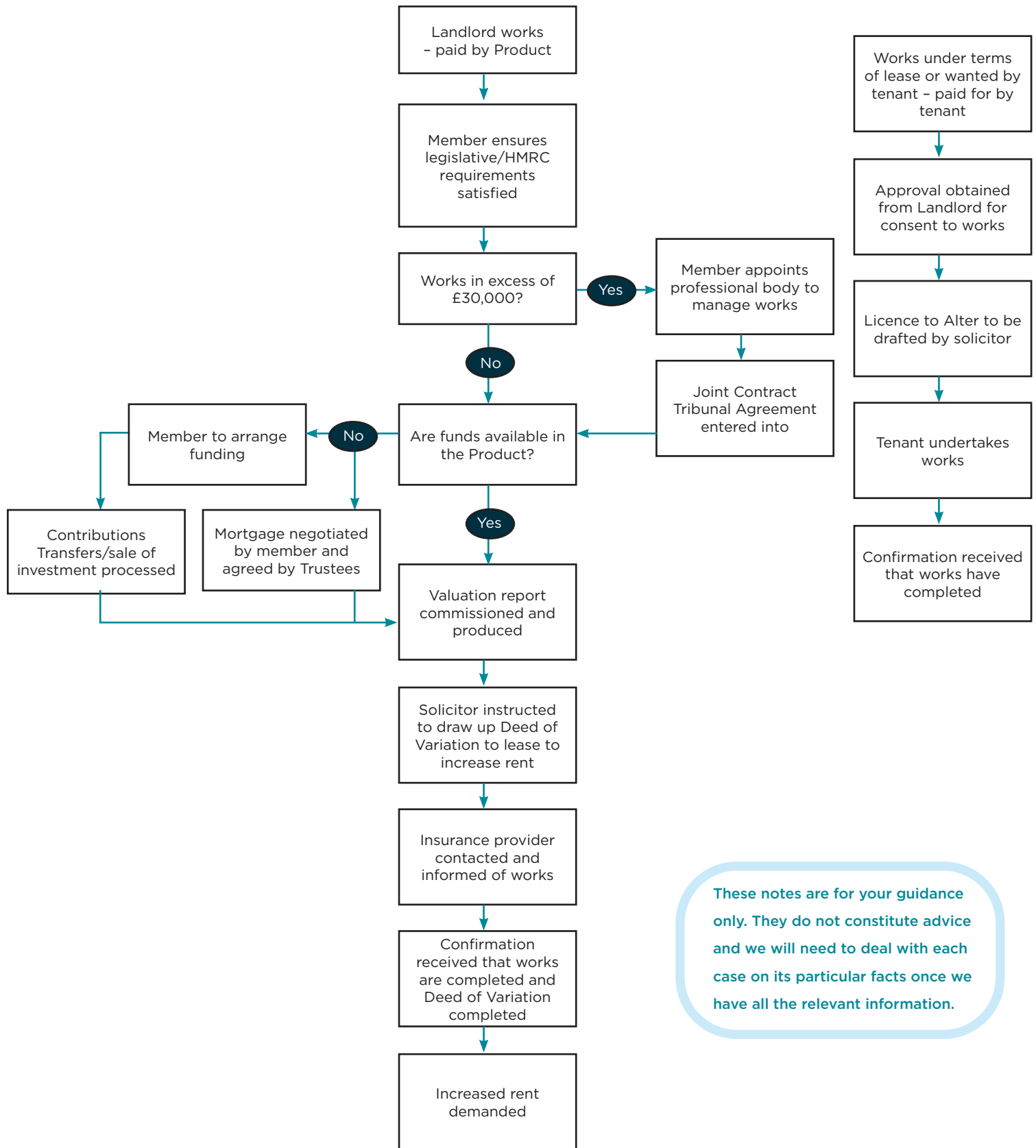
Once the application has been reviewed, and providing it is agreed consent will be granted, a solicitor will need to be appointed on behalf of the Product. A solicitor from our panel of solicitors who are familiar with our requirements can be appointed to prepare the Licence to Alter. A list of our approved panel solicitors can be found on the Commercial Property page of our website at www.jameshay.co.uk.

The fees associated with the Licence will be met by the Tenant who has requested consent.

Retrospective consent

If works have already been carried out at the property (whether Landlord or Tenant works) please contact us as soon as possible and provide the information requested above. We will need to ensure the correct retrospective treatment for documenting and paying for such works as appropriate to ensure HMRC and scheme rules are adhered to.

James Hay process flow for works on a commercial property held within a SIPP product



These notes are for your guidance only. They do not constitute advice and we will need to deal with each case on its particular facts once we have all the relevant information.

Commercial Property Works Form

1. Name of pension product in which property is held:

- | | |
|---|--|
| <input type="checkbox"/> Modular iSIPP | <input type="checkbox"/> Partnership SIPP or IPS Family SIPP |
| <input type="checkbox"/> Private Client SIPP | <input type="checkbox"/> Wrap SIPP |
| <input type="checkbox"/> IPS SIPP, IPS (2008) SIPP or
IPS Pension Builder SIPP | |

2. Property address:

3. SIPP member's name and reference number(s):

4. I/We confirm it is proposed that works are carried out at the property and I believe these are:

- Landlord works
- Tenant works
- Mixed Landlord and Tenant work

Please explain the reason for your allocation of the works in question 4:

5. The value and breakdown of the works proposed are as follows:

Landlord works

£

Tenant works

£

Mixed Landlord and Tenant work

£

Total

£

Where a Deed of Variation or Licence to Alter is required, I acknowledge that James Hay Partnership will appoint a panel solicitor.

6. If Landlord works, please answer the following questions:

6.1 I/We will instruct: (name and address of Valuer)

to undertake a market and rental valuation of the property to show pre-and post works values. The valuation report and invoice will be addressed to the relevant trustee(s).

6.2 My preferred architect/surveyor to act on behalf of the Product to oversee the works is:

(name and address of architect/surveyor)

I/We confirm I/we have agreed fees with the above as follows:

£

This figure has/has not (please delete as applicable) been included in the works costs noted in question 5.

6.3 Is lending required?

Yes No

If yes, please supply a copy of the offer letter, if available, and complete the following:

Bank or building society

Contact name and address

Amount of loan

£

Term

Periodic repayment amount

£

Repayment frequency

6.4 Balance of funds will be provided from the following sources - transfers and/or contributions:

Source

Amount

£
£
£
£

6.5 I/We enclose:

- Specification of works
- Alternative quotes

My chosen contractor is:

My chosen contractor is:

- Connected
- Unconnected

6.6 Do you wish to VAT opt the property?

- Yes
- No

7. Signed by member(s)

Date

D	D	M	M	Y	Y	Y	Y
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We are able to provide literature in alternative formats. For a Braille, large print, audio or E-text version of this document call us on 03455 212 414 (or via the Typetalk service on 18001 03455 212 414).

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