



Pension and Investment Opportunities

Introduction

As an emerging economy with long term future growth prospects Bulgaria creates an opportunity outside of the main stream for many areas of investment activity.

Whilst as a new entrant to the EU agricultural club Bulgaria will not enjoy the same privileges as say France or Italy. It will nevertheless be entitled to distribute its produce within the EU without incurring any penalties. This creates an enormous advantage and will over time create pressure to revalue the Bulgarian asset.

This chapter reviews a strategy and considers options for the astute investor. However this is a guide only, it is not financial advice and you must use an Independent Financial Adviser before deciding on the most appropriate investment for your particular needs.

SIPP (Self invested Personal Pension)

A SIPP is a personal pension where you are able to choose the investments yourself. You can think of it as being a bit like a vehicle into which you can place a multitude of investments and, like ISAs, there is no Capital Gains Tax to pay on profits.

SIPPs are basically subject to the same taxation rules as personal pensions regarding lump sum receipt and draw down of money when retired. They have the same limits on contributions, the same 25% restriction on the tax-free lump sum on retirement and the same restrictions on how you can take your money once you've retired.

Acceptable SIPP investments include stocks and shares, investment trusts, unit trusts, and even commercial property.

For commercial property, a SIPP can borrow up to half of its value. Therefore a £50,000 fund will be able to buy a property worth £75,000. You can then lease the property on commercial terms to a third party or even to your own business.



REIT (Real Estate Investment Trust)

This is a fund, which is intended to be tax efficient and to enable the investor to be completely hands off and invest in multiple properties in several places thought the world or indeed in one country location if this was the choice of the investor.

Of course the fund is subject to various administrative charges. However, if the fund is UK based it will not have to pay tax on rental income or chargeable gains, which in turn helps you as you take more of the profits. You still pay income tax on dividends, and tax on capital gains, unless you invest through a Self Invested Personal Pension (SIPP). Not only are pension funds protected from capital gains tax, but you'll get income tax relief in the normal way.

How to invest in the Bulgarian property Market

The difference in value between UK and Bulgarian agricultural land is considerable with a multiple factor of several times. There is an expectation that over the next decade this differential will narrow, additionally an increase in line with inflation will also be seen. This is the background to an investment opportunity which should see very good growth but initially will generate very little yield. (It is expected that the yield will improve over time as tenants are found to farm and manage the land).

Currently there are several REIT funds which specialise in the Bulgarian Market and it is possible through a SIPP to invest in these funds, this is the perfect solution for an investor who sees such an opportunity but who does not want to physically manage the process.

An alternative solution is to create a Bulgarian Company to use as an investment vehicle which gives you total control of the investments. This creates an issue in respect of satisfying the UK Pension Fund requirements so it is necessary for the Bulgarian Company to be owned by a UK company. (The UK company must be solely in support of the Pension fund and can not be a trading company)

This is quite straightforward to set up and requires that the UK company has oversight by a SIPP trustee to ensure that all activities remain compliant with UK legislation.

The charges will of course have to be met for accountancy in the UK and Bulgaria but as the company will not be trading heavily, the accountancy work load should be minimal.

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The company can then on your behalf invest in Bulgarian Assets which can be land or commercial property but not residential property.

For example commercial property could be bought in the city and leased long term, with the likelihood of excellent interest and capital appreciation over the medium term.

Alternatively and covered in some depth is the current opportunity to invest in Agricultural land.

Realisation of Assets

It needs to be considered that under current legislation the eventual sale of the asset will be chargeable to Bulgarian Tax at the prevalent rate because Bulgarian law does not recognise A UK pension fund (this may change but of course there are no guarantees). However no additional UK tax will be levied and no capital gains tax will be applied in the UK.

Example of Potential Return of Agricultural Land Investment

Currently Agricultural land is available for between 300 GBP and 600 GBP per acre this compares to above 4000 GBP for an equivalent quality of land in the UK.

Agricultural land does not react the way the mainstream UK property market does instead it tends to increase more slowly over time in line with inflation.

Over the next 10 years with inflation at around 2.5% compounded the UK asset should increase around 30%.

Therefore a typical investment of 1 acre 4000 GBP will increase in value to around 5200 GBP .

The equivalent plot purchased for 350 GBP in Bulgaria is likely to experience an accelerating increase in value and will likely achieve a value of 25% (conservative) or more of the UK valuation.

Therefore after 10 years the target price is 1300 GBP / Acre equivalent to an increase of almost 400 %.

This level of gain provides justification to create such a personal investment vehicle, the charges involved should not have a significant effect on this investment and the likelihood of additional income from leasing the asset will also have a positive bearing. The goal is for the rental income to meet or exceed the sum of all charges levied against the scheme.

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Lack of Gearing

Consideration is required when choosing the agricultural investment opportunity because of the poor initial returns it will not be possible to service loan repayments so it will not be possible to enjoy any gearing by borrowing additional funds. This option would otherwise be possible in a commercial opportunity.

Bulgarian Managing Agent

To manage the investment on your behalf it is necessary to instruct a Bulgarian Managing Agent. The sponsor of this book BPLI have the necessary back ground to assist you in setting up the legal framework both in the UK and Bulgaria and to enable this investment to take place. They have specialist financial agents who they recommend to set up you SIPP and act as independent trustees of your UK Company.

The Bulgarian Charges levied by BPLI are extremely reasonable and are charged at 25 Eu /Hr for administration plus 5% charge on land purchase. This currently works out at approx 15 GBP / Acre. In addition mileage is charge at 0.6 Lv BGN / Mile (20P) finally Accountancy charges for a non trading company are approximately 250 Eu / year.

Time Scales

This opportunity to assemble such a pension fund based solely on Bulgarian Agricultural Land is somewhat limited and the likelihood is that the price increase will close the gap considerably faster than the cautionary expectations provided in this chapter.

As a result the opportunity to see substantial gains over the medium term is likely to be short lived and the likely entry cost will act as a brake.

However as long as it is possible to purchase good quality land at below 750 GBP / acre this will be a worthwhile investment and should in the medium term perform considerably better than a mainstream investment in the UK stock market.

A Final Note

To achieve an anticipated gain of 400% over 10 years requires a good deal of active participation by the investor however in choosing this route you should enjoy considerable returns and not suffer the high administrative charges normally associated with pooled managed schemes.