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Small Self-Administered Scheme Guide

jch:

pension management

Contents

Introduction

The Key Features of a SSAS:

A Small Self-Administered Scheme (or Member Directed Investment Scheme) allows company directors to maintain control of their pension arrangements in a flexible and tax efficient environment. These Schemes are ideally suited for shareholding directors of small to medium sized limited companies (although are often also used by Partnerships). They are similar to SIPPs (Self Invested Personal Pensions) but do not require a third party provider as your Company sponsors the Scheme instead.

The Scheme is governed by a Trust Deed and Rules, is a separate legal entity from the sponsoring Company and is run by its Trustees.

Company contributions can be varied in line with profitability and there is no contractual commitment to pay any particular level of contribution.

The Trustees can invest the Scheme assets in a wide range of areas including:

- Conventional assets such as cash deposits, quoted and unquoted equities, fixed interest stocks, and unitised funds

- Commercial land and property, assisted by external borrowing if required, to lease to the Company or a third party

- Secured loans to the Company on commercial terms for the purpose of its trade

There are various tax benefits available including:

- Contributions are allowable as an expense against corporation tax

- Investments accumulate free of income and Capital Gains Tax (CGT), and

- A percentage of the fund can be paid out as a tax free lump sum (known as a Pension Commencement Lump Sum/Tax Free Cash up to 25%) from age 55, or potentially all of the fund on death (up to your Lifetime Allowance)

There is no need to involve an Insurance Company or third party Administrator – with our expert guidance you can run the Scheme yourself.

Administration fees are usually paid by the Company, which are tax deductible.

Flexibility and control can be maintained beyond retirement and/or sale of the Company, as pensions can be paid out of the accumulated Scheme assets, thereby deferring the purchase of an annuity indefinitely if appropriate.

Contributions

There is no contractual minimum contribution and the Company can vary the contributions in line with profitability.

Company contributions can be an allowable expense for corporation tax purposes and Members are not assessed to income tax on any contributions paid by the Company (within Carry Forward and Annual Allowances).

Consideration is normally given to the contribution amount shortly before the Company year end, and the contribution needs to clear the Company’s bank account prior to the year end to ensure tax relief on the contribution is received in the year of payment.

A transfer of a previous pension doesn’t count towards the Annual Allowance.

It is unusual for Members to pay personal contributions and in most cases only the Company pays contributions into the Scheme to ensure maximum tax efficiency. The maximum tax efficient contribution level for members is £40,000 p.a. (though you may be able to carry forward three prior years of unused Annual Allowance). Depending on your earnings this could be reduced on a sliding scale to a minimum of £4,000, or if you’ve drawn any pension income, £4,000 (the Money Purchase Annual Allowance. This isn’t applicable if using a non-flexible annuity purchase).

Contributions **may** be acceptable in the form of a transfer of assets i.e. “in-specie” (a Latin term meaning “in the actual form”) contributions such as shares or property.

Lifetime Allowance

HMRC set a Lifetime Allowance on the total retirement benefits you can receive from all your pension plans without a tax penalty. If your benefits exceed this allowance, there is a Lifetime Allowance charge of 55% on the excess if paid as a lump sum, or 25% if taken as a pension.

Your benefits must be tested against the Lifetime Allowance before your 75^{th} birthday.

The Lifetime Allowance is currently £1,073,100 (2020/21) **unless** you applied and qualified for one of the various Lifetime Allowance Protections where available and applicable.

Permitted Investments

SSASs have been designed to allow maximum flexibility with regard to your choice of investment strategy and the Trustees will be the legal owners of all assets held within your fund.

Your SSAS can be invested in any of the following ways:

- Unlisted shares
- UK quoted stocks, shares, gilts and debentures
- Shares quoted on the Alternative Investment Market (AIM)
- Warrants, Futures and Options
- Permanent Interest Bearing shares
- Stocks and shares traded on a recognised overseas stock exchange
- Authorised unit trusts, investment trusts and OEICS (Open Ended Investment companies)
- Insurance company funds
- Deposit accounts
- Commercial property and land
- Hedge funds

Certain categories of investment may result in tax charges. These include:

- Residential property and associated land from which you derive personal benefit
- Personal chattels (capable of private use)
- Loans to connected parties such as Scheme Members, their relatives and partnerships in which they are partners

If you wish us to consider any particular asset that does not clearly fall into any of the allowable asset classes then full details should be discussed for clarification.

Commercial Land and Property

The Trustees can invest tax efficiently in commercial land and property.

Land and property can be purchased from and/or leased back to the Company. An independent professional valuation must be obtained to ensure that the transaction is on a commercial "arms length" basis.

The purchase of commercial property in a SSAS has proved very popular as the property is effectively purchased with funds that have enjoyed the benefit of tax relief. Purchasing property from the Company can assist in raising funds for the Company whilst the Trustees retain control of the property.

Any property held in the Scheme may be sheltered from creditors of the Company, in an environment where all rental income and capital gains are free of tax.

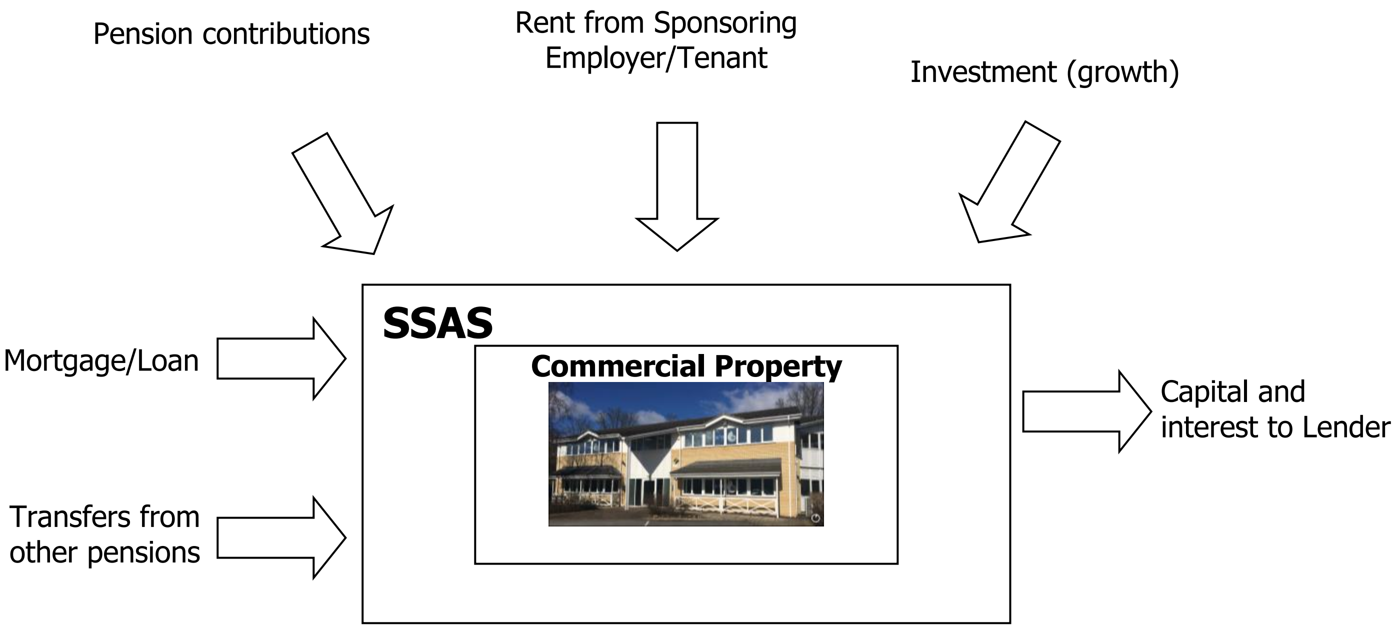
The Scheme Trustees may register for VAT.

Property Purchase

The maximum borrowing that can be utilised by the SSAS is 50% of the Scheme assets before the purchase.

Joint purchases (with the Company or other third parties) can also be considered.

The actual process of monies received and paid out:



Commercial Land and Property (cont…)

Any gain on the property is free of CGT, the rental income is tax free and the Company is eligible for corporation tax relief on the rent, so extremely tax efficient.

The main advantages of buying your property within your pension Scheme are:

- An initial saving in cost – in effect it costs less to buy a property if the purchase is via a pension fund as the contributions have attracted corporation tax relief

- The Scheme Trustees have no liability to CGT on a subsequent sale, as capital growth is free of UK tax

When the pension Scheme is set up, the Limited Company (or other tenant) is installed as a tenant of the property and the rent paid by the Company to your pension is an allowable expense for corporation tax in the usual way. There is no tax liability on the rent received by the pension Scheme.

As with an ordinary property purchase all of the normal procedures need to be actioned such as instructing your Solicitor, instructing a Surveyor (who will also set the commercial rent to be paid to the SSAS by the Company/Tenant), associated costs i.e. stamp duty etc, and the appropriate lease agreements with the Company/Tenant. Your pension Scheme can register for VAT and you will need to speak to your Accountant with regard to this specialist area (or we can introduce you to a VAT specialist).

Example of Commercial Property Purchase:

	Company Purchase	**SSAS Purchase**
Taxable Profit	£98,000	£98,000
Pension Contribution	NIL	£98,000
Taxable Profit	£98,000	NIL
Corporation Tax (using 19%)	£18,620	NIL
Profit after tax	£79,380	NIL
Property purchase	£100,000	£100,000
Borrowing	£20,620	£2,000
Money retained	**£79,380**	**£98,000**

Borrowing

The Trustees can borrow funds to assist in the purchase of property or to create liquidity for the provision of retirement or death benefits.

Trustee borrowing is restricted to 50% of the pension fund value before the purchase takes place, to include existing borrowing and any amount borrowed to finance VAT on the property purchase.

Loans

The Trustees can lend money, up to 50% of the Scheme assets (or 100% to an unconnected third party), to the Company as long as the loan is to assist with the trade of the Company and is on commercial terms:

- The loan must be documented for a fixed term, maximum 5 years, and at an interest rate of at least 1% above the average base-lending rate of the six main high street banks

- There must be security with a first charge over property that is at least equal to the value of the loan plus total interest

- The loan must be repaid in equal instalments of capital and interest for each year of the loan

Unquoted Shares

The Trustees can invest in unquoted company shares, although because of possible significant tax charges or complex restrictions imposed by HMRC, it is imperative to check the possible advantages of any proposed share purchase first with your Accountant and Solicitor.

Your SSAS can invest in the shares of the Principal (Sponsoring) Employer or other associated employers up to a limit of 5% of the fund value in any one such employer, and limited to 20% or less of the fund value in all employers. This limit applies whether the Principal Employer is a Limited Company, Partnership or plc. Care needs to be taken when investing in the Principal Employer as any share purchase may result in the SSAS owning unauthorised assets i.e. HMRC deem direct ownership of office equipment or vehicles owned by the Company to be unauthorised which would result in a tax charge.

Connected Party Transactions

Transactions between the Trustees and connected parties are fully allowable provided they are on an 'arms-length' commercial basis i.e. an appropriate independent valuation is undertaken, by a qualified individual.

HMRC are keen to ensure that no "value shifting" takes place, if it does HMRC will make a tax charge.

Payment of Benefits

There are a variety of benefit options available on retirement, or that your spouse, dependents or nominated beneficiaries, can receive in the event of your death.

A broad summary of the options is provided below, although it is strongly recommended you seek our advice when considering your own circumstances:

Retirement

You can draw benefits at any time from age 55. At this date you can use all or part of your fund to provide you with a tax free lump sum and an income.

It may be possible to retire earlier than your 55th birthday if you are in serious ill health or are in a specialised occupation.

You can draw benefits from your Scheme irrespective of whether you continue to work.

At retirement you can elect to receive a tax free lump sum of generally up to 25% of the value of your fund. The date you commence benefits is referred to as your crystallisation date. You can have several crystallisation dates if you only take part of the fund each time.

After payment of the tax free lump sum, your residual fund can be used to provide you with an income that will be taxed under Schedule E.

This income can be provided in one of three ways:

Annuity Purchase

This involves passing your fund (after payment of your tax free lump sum) to an insurance company of your choice who in return will provide you with a regular income throughout your life. The income may increase during the course of payment, may be guaranteed i.e. paid irrespective of whether or not you are alive, and may then continue, normally at a reduced level, to your surviving spouse or dependents.

The annuity available will depend on the value of your fund and annuity rates at the time of purchase. It may also be possible to obtain 'impaired life' annuity rates which will provide a higher income if you are in poor health.

The insurance company will usually pay the income to you net of tax and will deal with all aspects of PAYE.

Payment of Benefits

Flexi Access Drawdown (FAD)

FAD, introduced in April 2015, enables monies to be paid to you directly from the SSAS rather than by purchasing an annuity.

There is no minimum or maximum amount, so you could just take your Tax Free Cash if you prefer.

Monies can be withdrawn at irregular intervals to suit individual circumstances.

FAD allows you to decide on the most opportune time to buy an annuity taking into account your personal circumstances and annuity rates in force from time to time.

Under FAD there's no limit on the amount of income that can be drawn each year. It may be possible to take the entire fund in one go if you wish, but above the 25% Tax Free Cash all subject to income tax of course!

Further contributions may be made after benefits have commenced under certain circumstances, so careful planning is required.

Phased Retirement

Your individual fund can be divided into as many "segments" as you like so that benefits can be taken gradually to suit your personal circumstances.

Death before Pension Date

In the event of death before pension date the full value of the fund can be paid to your nominated beneficiaries.

The benefits on death are normally written under an Expression of Wish or discretionary trust and therefore any lump sum payments should not be subject to Inheritance Tax (IHT). Specialist advice will need to be given taking into account your own individual circumstances.

A spouse, dependent or nominated beneficiary entitled to a pension may elect to continue to take Drawdown rather than purchase an annuity.

In the event of the death of a spouse, dependent or nominated beneficiary during Drawdown, the whole value of the fund can be paid to your nominated beneficiaries, tax free before age 75 (and subject to the beneficiaries marginal tax rate thereafter).

Payment of Benefits

Inherited Pensions

Now on death, irrespective of whether you've drawn any benefits, the full value of your pension fund can be left intact to your chosen beneficiary(s). The fund can then continue to benefit from the tax efficient pension trust wrapper and the beneficiary may be able to draw all or any amount now and in the future completely tax free (to age 75 and up to the applicable Lifetime Allowance).

Death after Pension Date

In the event of death after pension date and after an annuity has been purchased, the benefits payable will be determined by the terms of the annuity contract.

A SSAS therefore is a true family trust wrapper, allowing the value of your pension to cascade down the generations if you prefer.

Establishment and Ongoing Administration of a SSAS

We offer a full range of bespoke services to establish and operate your SSAS and our sister company, jch: investment management (www.jchim.co.uk) can provide specialist financial planning and investment advice if required.

Notes

Please note that legislation regarding taxation could be subject to changes that cannot be foreseen.

This guide is based on our interpretation of legislation and HMRC practice, which may be subject to change at any time. Every care has been taken to ensure accuracy but it must be appreciated that neither the Company nor its Representatives can accept responsibility for errors or omissions.

The guide is provided for information purposes only and does not constitute a recommendation, implied or otherwise. You are strongly recommended to take professional advice on any transfer to or from a SSAS.

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