

SSAS

TECHNICAL KEY FEATURES

Introduction

This guide is designed to provide the key features of the Pension Practitioner .Com Small Self Administered Scheme (SSAS). It is based on our understanding of pension law and taxation at the time of print, this document does not constitute advice.

The structure of a SSAS

The Pension Practitioner .Com Small Self-Administered Scheme (SSAS) is an occupational registered pension scheme with 11 or fewer members. A SSAS is established under trust by an employer, known as the principal employer. The employer appoints trustees to the scheme, the Employer also invites members to join the Scheme, the members are invariably the trustees.

Non member trustees may also be appointed by the employer. The Trustees are responsible for most aspects of the Schemes including investment choice, payment of benefits and appointment of advisors. They may delegate part of their duties to 3rd parties such as an external Administrator or Scheme Practitioner.

A registered Administrator is required, their responsibilities include filing returns and dealing with all tax related matters with Her Majesty's Revenue and Customs' (HMRC) compliance and audit regime. Failure to adhere to those requirements results in a fine, the amount of which depends on the nature of the breach. Pension Practitioner .Com can fulfill all administration duties should the trustees wish, but the registered Administrator will be the member trustees of the Scheme or the Principal Employer, unless they agree otherwise.

We will be the registered Practitioner, this allows us to undertake the administrative functions for the SSAS trustees and registered administrator.

What is a principal employer

An employer is traditionally the person or company who hires you and pays your wages. A scheme can have more than once employer participating in it, but there must be recognised who the "principal" employer is. An investment company can sponsor the scheme. An employer is not restricted to a limited company, it can include a partnership or where an individual employs or contracts others to carry out work, that person could also meet the definition of a principal employer.

Who can be a SSAS scheme member

This is a very wide ranging definition, and covers any active member, pensioner member, deferred member or pension credit member of the scheme. Most people will initially be active members i.e. where there is an arrangement to accrue benefits under the scheme.

That person may become a pensioner member i.e. if the person is entitled to a payment of benefits under the scheme. A deferred member is someone who has accrued rights under the scheme and is neither an active member nor a pensioner member. A member of the scheme does not always have to be an employee of the business the person can, for example, be a spouse.

Who may contribute to a SSAS

Contributions can be accepted from the employer, member or a third party. It does not need to take the form of "money" it can include an asset, such as commercial property or land.

Tax relief may be given, the amount of the tax relief depends on a variety of factors. There is no limit on the amount that can be paid in, only a lifetime limit on the total pension fund accrued in a tax efficient manner. Protection is available from the lifetime allowance in certain circumstances.

Tax relief and contributions

Personal member contributions are tax deductible, provided they do not exceed the lower of the annual allowance or total earnings within the same tax year. Tax relief is only granted on contributions up to 100% of earnings in any tax year, to the annual allowance which is presently £50,000.

Employer contributions are similarly unlimited and will receive tax relief in the year they are made provided they are wholly and exclusively for the purposes of the employer's trade. Tax relief will be spread if they are over £500,000 and constitute an increase of 210% or more over the previous year's contributions.

If the total of the employer's contribution for a particular member plus the member's personal contribution exceeds the annual allowance then the member may have to pay tax on the excess. However see carry forward and unallocated contributions below.

Carry Forward

Tax relief on contributions in excess of the annual allowance can be given through unused annual allowances from the previous three qualifying tax years. This will be based upon a notional £50,000 annual allowance cap for each year, you will need to deduct any contributions paid during those tax years and any excessive contributions will need to be accounted for. We will work this out for you.

Non Allocated Contributions

Where there are two or more members in a SSAS, contributions paid by the business can be non-allocated, this can allow for tax planning where the business is seeking to pay more than the annual allowance for the current year, but the trustees are willing to allow the annual allowance excess to be spread over future tax years. We can give specialist guidance on this.

Tax efficiency

SSAS is a very tax efficient scheme, investments (other than dividend income) grow free from UK capital gains tax and income tax. Other tax efficient features include:

- In the event of death before the benefits come into payment, a tax free cash lump sum may be paid out - in most circumstances this will be whole of the value of the accrued fund.
- Lump sum death benefits can be paid until age 77, free from inheritance tax where the benefits have not been paid out;
- A tax-free lump sum can be taken after age 55.
- There is no compulsory requirement to purchase an annuity
- A scheme pension may be applied for.

Transferring in benefits from other schemes

Pensions can be transferred in or assigned from other pension schemes. The SSAS offered by Pension Practitioner.Com is not designed to accept contracted out benefits, although this can be included on a be-spoke basis. It is important that advice is sought prior to any transfer in of benefits; we do not provide investment advice.

Investment choice

There is no restriction on any investment choice however certain investments are taxable.

In summary you can invest in any area you deem appropriate for the scheme however residential property in the UK and/or Overseas is taxable. Personal chattels such as Antiques, Fine wines, work of art, etc... are taxable and should be avoided. Personal loans are also taxable in addition to loans family "connected" persons. If you invest in unquoted shares, provided that the Company is not connected to you then this is acceptable.

A list of the main investment categories is given below:

Cash deposits

Quoted equities on recognised worldwide stock exchanges

Gilts, Bonds and Fixed Interest Stocks

Investment Trusts

Quoted equities on the London

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Investment Companies

Insurance company funds

Institutional deposits

Shares in the principal employer (please seek advice prior to this investment)

Shares in private companies (unconnected rules apply)

Secured loans to the employer

Secured or unsecured loans to unconnected parties

Offshore funds

Land

Commercial Property

Industrial property

Taxable investments

Residential property

Unsecured loans to the business

Fine wines

Works of art

Vintage/Classic cars

Antiques

Rare books

Stamps

Yachts

Gold Krugerrands

Loans to member trustees or their families

Jewellery and gemstones

Property purchase

Buying and investing in property is very tax efficient.

Where property is acquired from a connected party or the business, an independent valuation is required. That property must be acquired on commercial rates. The property can be sold or “contributed” to the Scheme, the usual tax concessions apply.

A business looking to raise cash, could sell the property to the Scheme if it held assets such as other pension investments arising from transfers in, the property once sold allows the members/directors of the business to retain assets in the Scheme. If there are insufficient funds available within the SSAS the trustees can borrow up to 50% of the net value of the SSAS’s funds to buy the property. The trustees take on the borrowing, which is not reflected in the employer’s accounts. The property held by the scheme is typically leased to the business at normal commercial terms. The growth in the value of the property is free from CGT and income tax.

Off plan “residential” investments

There has been much speculation about off-plan residential investments. Off-plan residential property investment can be transacted via Pension Practitioner .Com. However, the land must not have been previously used for residential purposes and the property must be disposed of prior to the property being fit for purpose in a certain manner. Where the investment is for a short term profit, the transaction is likely to meet the badges of trade test and as such the scheme will need to pay the income tax due. Due to the complexity of this transaction, specialist advice must be sought.

Loans

Loans are restricted to a maximum of 50% of the net SSAS fund. Such loans must be secured against assets by way of a first charge. The nature of the asset can be a fixed or floating asset. The maximum term permitted is five years, with the interest being at least 1% above the average base-lending rate of the six main high street banks. It is not possible to make loans to the member or anyone connected to them, unconnected third party loans are acceptable. Loans to third parties are not restricted to 50% of the fund and need not be secured.

Share in the Principal Employer

Investment in the shares of the principal employer or any other associated employer is restricted to less than 5% of the fund in any one such employer; and less than 20% of the fund in shares in all such employers.

Borrowing

The maximum the SSAS can borrow is 50% of its net fund value at the date of the loan. There is no restriction from whom the lending may be made from or the terms of the loan. Any borrowing in excess of 50% must be held outside the SSAS.

Taking the benefits from the SSAS

There is no requirement to retire from employment to take the benefits. There is no requirement to purchase an annuity.

A quarter of the accrued fund is usually taken tax free; the balance can be taken as taxable income. Members may start to take their benefits at any time from age 55. Benefits must have commenced by age 77. When a member takes benefits from the scheme the total value of their pension funds from the SSAS and any other pension arrangements they have will be tested against the current lifetime allowance. If the lifetime allowance is exceeded, there may be a tax charge.

Pension

Pension benefits will be treated as earned income, there are a variety of pension options available, the most common are:

- An unsecured pension, where the pension is taken from the fund via income withdrawal
- A scheme pension, paid over the member's lifetime. This is paid also from the scheme and is a form of annuity albeit paid out of the resources of the scheme.
- An annuity, which is secured by placing the funds with an insurance company

Dependants

A dependant is defined widely it can include the following:

a spouse at date of death;

a child under 23;

a child over 23 dependent on grounds of physical or mental impairment;

a person who is not a spouse or child of the member, but

- is financially dependent on the member;

- has a financial relationship with the member and a mutual dependency;

- is a person who is dependent on the member on the grounds of physical or mental impairment.

Death before benefits are paid

A lump sum up to the current lifetime allowance can be paid tax-free. Funds in excess of the lifetime allowance will be taxable. The whole fund may be used to pay dependants' pensions.

Death after benefits are paid out

Where the member dies after taking benefits separate conditions apply as per the following:

Before age 77

A lump sum death benefit can be paid of the full value of the fund as a lump sum less tax at 55%. Alternatively, dependants/spouse's pension can be paid from the SSAS which is taxed as earned income for the life of the spouse.

After age 77

No lump sum death benefit can be paid as a general rule; with the exception of a guarantee of continuing instalments as a lump sum within 5 years of death following commencement of pension income. Depending on the type of pension chosen will reflect the death benefit rules applying. Generally speaking, dependants'/spouse's pensions can be provided via a SSAS and will be taxed as earned income. If a member dies and there are no dependants to whom benefits can be paid the fund can be:

- redirected to other members of the scheme according to the prior wishes of the member;
- retained by the trustees to be reallocated to other members;
- returned to the employer less a 35% tax charge;
- given to a charity, previously nominated by the deceased member, tax-free.

Winding up the Scheme

The SSAS may be wound up at anytime, members benefits must be first secured, with any non allocated funds being paid back to the business less a 35% tax charge.