

SSAS – KEY FEATURES

Introduction

This guide is designed to provide the key features of the Pension Practitioner .Com 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 12 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, and 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 scheme 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 a pension 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 fulfil all administration duties should the trustees wish, but the registered administrator will be the member trustees of the scheme, unless they agree otherwise. We will be the registered practitioner; this allows us to administer the scheme.

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 one 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 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. Residential property or personal chattels must not be held by the scheme. Tax relief may be accrued 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, up to the annual allowance which is presently £230,000. 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 will have to pay 40% income tax on the excess. This additional tax does not apply in the year in which a member takes their full benefit entitlement from the scheme. Third party payments made are offset against the member's allowance in that scheme year. The person benefiting from the payment accrues tax relief.

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 75, free from inheritance tax;
- A tax-free lump sum can be taken after age 55 (age 50 until 2010).
- There is no compulsory requirement to purchase an annuity
- A scheme pension may be applied for; the residual funds on death are not treated for inheritance tax purposes at this time, although this is subject to review at this time.

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 to family “connected” persons. If you invest in unquoted shares, provided that the company is not connected to you then this is acceptable, however we recommend that you speak to us prior to any unlisted security investment.

A list of the main non taxable investment categories is given below:

Quoted equities on recognised worldwide stock exchanges

Gilts, Bonds and Fixed Interest Stocks

Investment Trusts

Quoted equities on the London

Futures and options

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Unit Trusts and OEICS

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

Plant & Machinery

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, 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 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.

Shares 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 or the terms of the loan.

Taking the benefits from the Scheme

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

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 (age 50 until 5 April 2010). Benefits must have commenced by age 75. 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. Protection is available in certain circumstances.

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. Where the member dies after taking pension and lump sum benefits separate conditions

apply:

Before age 75

A lump sum death benefit can be paid of the full value of the fund as a lump sum less tax at 35%. Alternatively, dependants' benefits can be provided.

After age 75

No lump sum death benefit can be paid as a general rule. Depending on the type of pension chosen will reflect the death benefit rules applying. Generally speaking, dependant/spouse's pensions can be provided 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.

Inheritance tax implications may arise however this liability can be reduced through careful pension planning.

Disclaimer:

The information and opinions should not be relied on as authoritative or definitive, and whilst they have been compiled in good faith, there is no representation or warranty, express or implied, as to their accuracy or completeness. The information should not be used as the basis of any decision nor as a recommendation of our services nor their suitability.