

**A Guide to  
Small Self Administered Pension Schemes  
(SSAS)**

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## **Introduction**

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### **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. They are similar to SIPPs 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 and 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, and 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, and
- A percentage of the fund can be paid out as a tax free lump sum on retirement, or potentially all of the fund on death

There is no need to involve an Insurance Company or third party Administrator – with our expert guidance you can run the Scheme yourself – we have over twenty years of experience in this field.

Fees are usually paid by the company, which are tax deductible.

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

The above areas are now covered in more detail.

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## Contributions

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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.

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

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 now £50,000 p.a.

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.

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## Lifetime Allowance

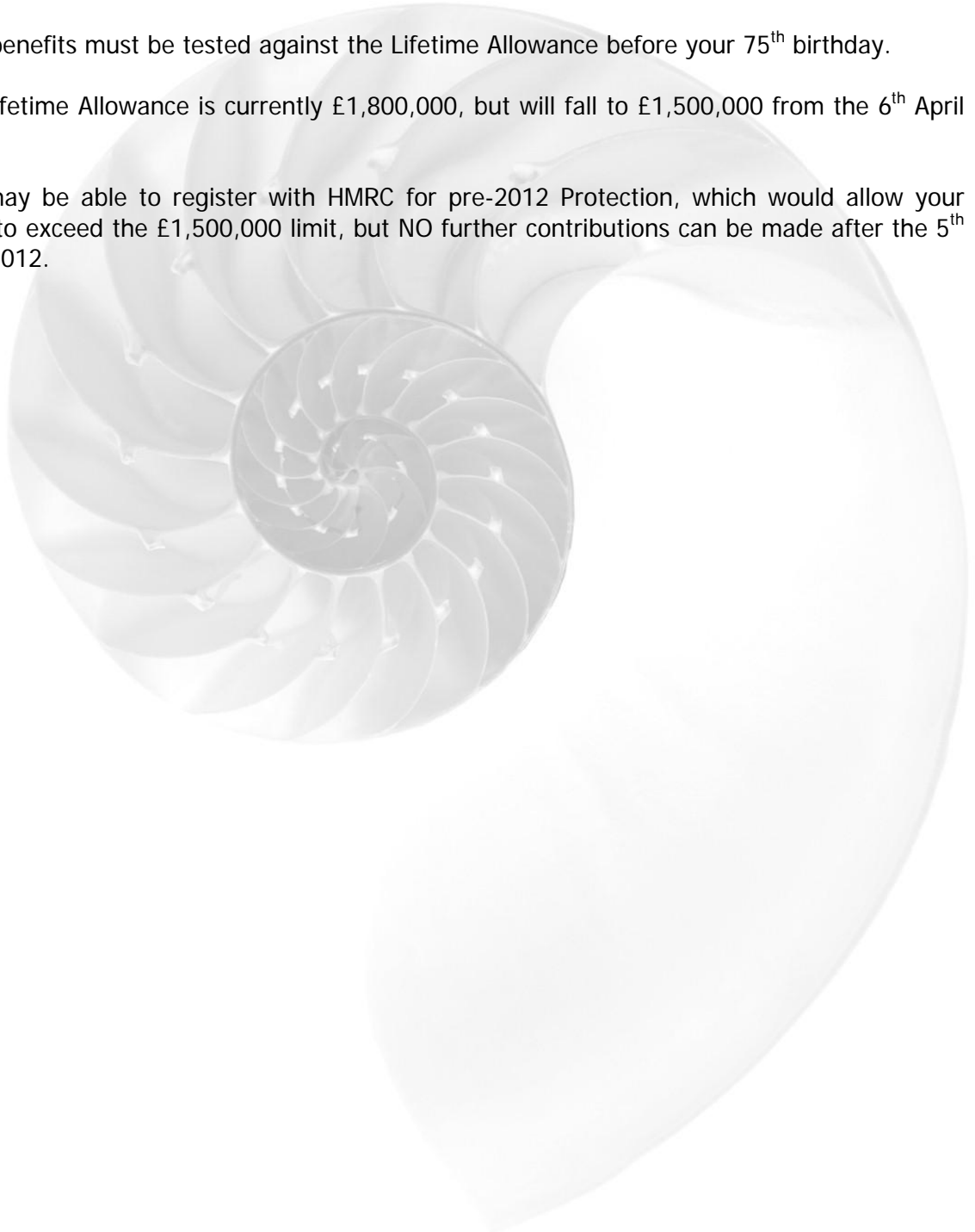
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The Revenue set a Lifetime Allowance on the total retirement benefits you can receive from all your pension plans without a tax penalty. If your benefits exceed this allowance, there is a Lifetime Allowance charge of 55% on the excess if it is paid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

Your benefits must be tested against the Lifetime Allowance before your 75<sup>th</sup> birthday.

The Lifetime Allowance is currently £1,800,000, but will fall to £1,500,000 from the 6<sup>th</sup> April 2012.

You may be able to register with HMRC for pre-2012 Protection, which would allow your SSAS to exceed the £1,500,000 limit, but NO further contributions can be made after the 5<sup>th</sup> April 2012.



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## Permitted Investments

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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
- 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 disclosed for clarification.

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## Commercial Land and Property

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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 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 is sheltered from creditors of the Company, in an environment where all rental income and capital gains are free of tax.

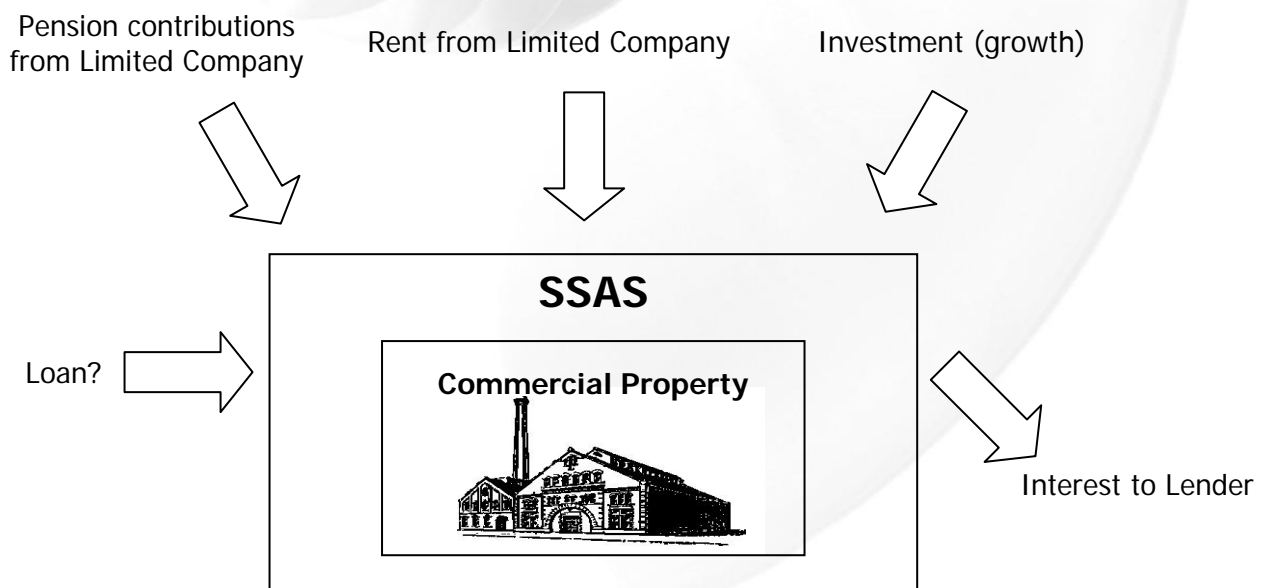
The Scheme Trustees may register for VAT.

### Property Purchase

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

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

Actual process of monies received and paid out:



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## **Commercial Land and Property (cont...)**

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Any gain on the property is free of Capital Gains Tax, 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 – there is more cash available from your own resources
- The Scheme Trustees have no liability to Capital Gains Tax on a subsequent sale, as capital growth is free of UK tax

When the pension scheme is set up, the Limited Company is installed as a tenant of the property and therefore the rent paid by the Company to your pension is an allowable expense for Corporation Tax. 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), associated costs i.e. stamp duty etc, and the appropriate lease agreements with the Company. 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**

	<b>Company Purchase</b>	<b>SSAS Purchase</b>
Taxable Profit	£98,000	£98,000
Pension Contribution	NIL	£98,000
Taxable Profit	£98,000	NIL
Corporation Tax (using 20%)	£19,600	NIL
Profit after tax	£78,400	NIL
Property purchase	£100,000	£100,000
Borrowing	£21,600	£2,000
<b>Money retained in Company/Pension</b>	<b>£78,400</b>	<b>£98,000</b>

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## **Borrowing**

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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.



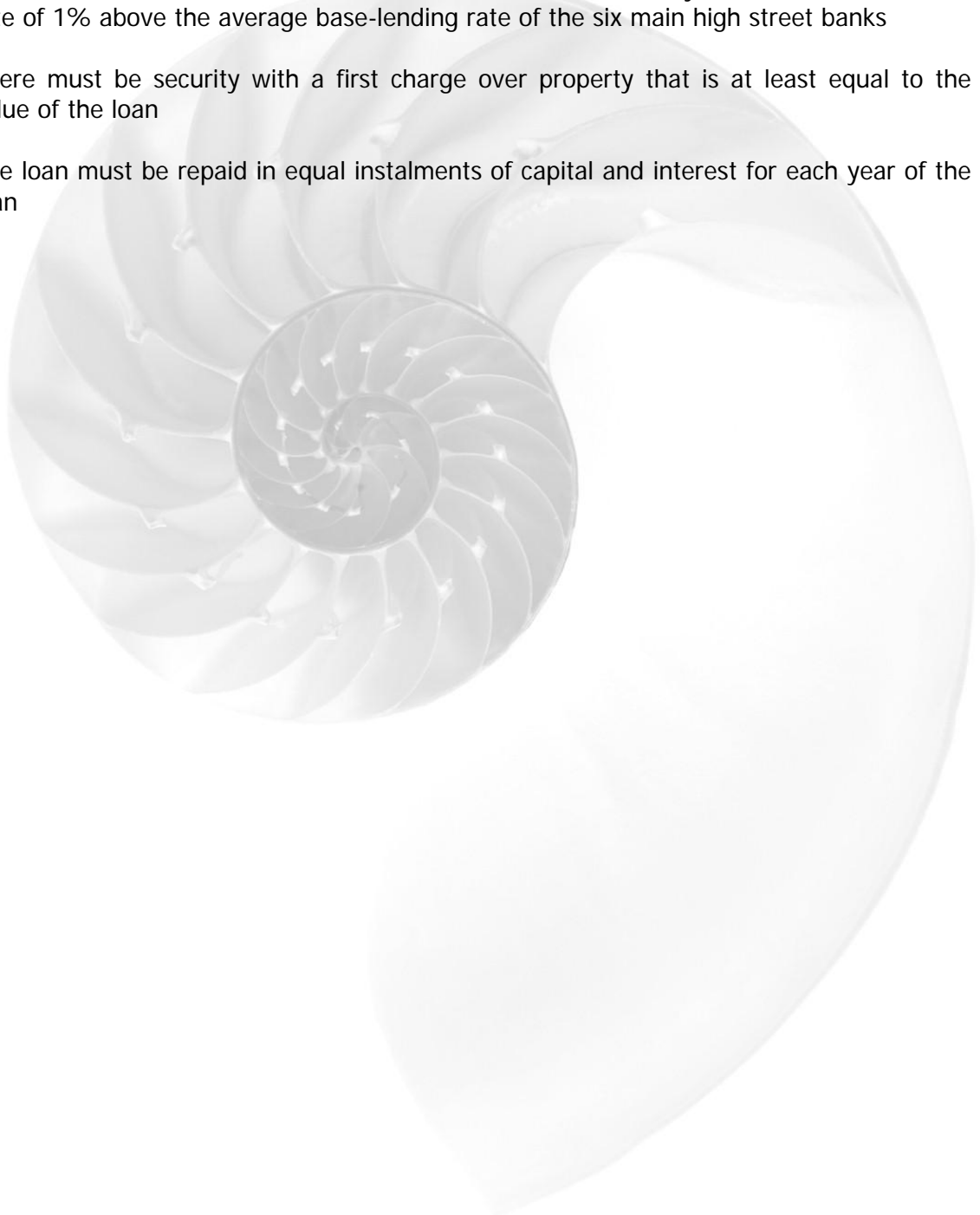
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## Loans

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The Trustees can lend money, up to 50% of the Scheme assets (or 100% to an unconnected third party, which doesn't have to be secured), 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 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
- The loan must be repaid in equal instalments of capital and interest for each year of the loan



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## Unquoted Shares

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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 Employer or other associated employers up to a limit of 5% of the fund value of any one such employer, and is limited to 20% or less of the fund value of 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 ownership of office equipment or vehicles owned by the Company to be unauthorised and would result in a tax charge.

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## **Connected Party Transactions**

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

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



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## **Payment of Benefits**

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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 in considering your own circumstances:

### **Retirement**

You can draw benefits at any time from age 55 without any penalty. 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 55<sup>th</sup> 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 and 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 for up to 10 years 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 purchasing the annuity. 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.

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## **Payment of Benefits (cont...)**

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### **Income Drawdown**

The concept of Income Drawdown was introduced by the Finance Act 1995 and it enables monies to be paid to you directly from the fund rather than by purchasing an annuity.

The amount that can be withdrawn each year is subject to a maximum based on 100% of the annuity rates provided by the Government Actuary's Department. There is no minimum amount, so you could just take your Tax Free Cash if you prefer.

The limits are calculated at your pension date and are reviewed every 3 years thereafter, but every year once over age 75.

Monies can be withdrawn at irregular intervals to suit individual circumstances as long as the payments are in accordance with the above limits.

Income Drawdown 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.

Further contributions may be made after benefits have commenced under certain circumstances.

### **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.

### **Pension Flexible Drawdown**

Under Flexible Drawdown 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!

To be able to do this you must meet the Minimum Income Requirement (MIR), a Government safety net so you can't spend it all and fall back onto State Benefits.

To meet the MIR an individual must have a secure pension income of at least £20,000 (either in their own right or as a dependent) in payment in the tax year they opt for Flexible Drawdown, which can come from a combination of:

- State pensions
- Lifetime annuities (although for With Profits or Unit Linked annuities only the guaranteed minimum amount can be counted)
- Scheme pensions (only as secured by annuities unless at least 20 members receiving Scheme Pension)
- Top up payments from the Financial Assistance Scheme, and
- Secure pensions from Overseas Pension Schemes

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## **Payment of Benefits (cont...)**

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### **Death before Pension Date**

In the event of death before pension date the full value of the fund (subject to the restriction below and reaching age 75) can be paid to your nominated beneficiaries.

The benefits on death are normally written under 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 or dependent entitled to a pension may elect to continue to take Income Drawdown rather than purchase an annuity.

In the event of the death of a spouse or dependent during Income Drawdown, the whole value of the fund can be paid to nominated beneficiaries, minus a one off 55% tax charge.

### **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.

If death occurs during Income Drawdown then the value of the fund may be paid to your spouse, dependent or your nominated beneficiaries net of a 55% tax charge.

If a spouse or dependent elects Income Drawdown we will calculate the revised maximum limit at the date of death based on the spouse's or dependent's fund value and annuity rates provided by the Government Actuary's Department for the spouse or dependent.

In the event of the death of the spouse or dependent during Income Drawdown the value of the fund can be paid to nominated beneficiaries subject to the 55% tax charge.

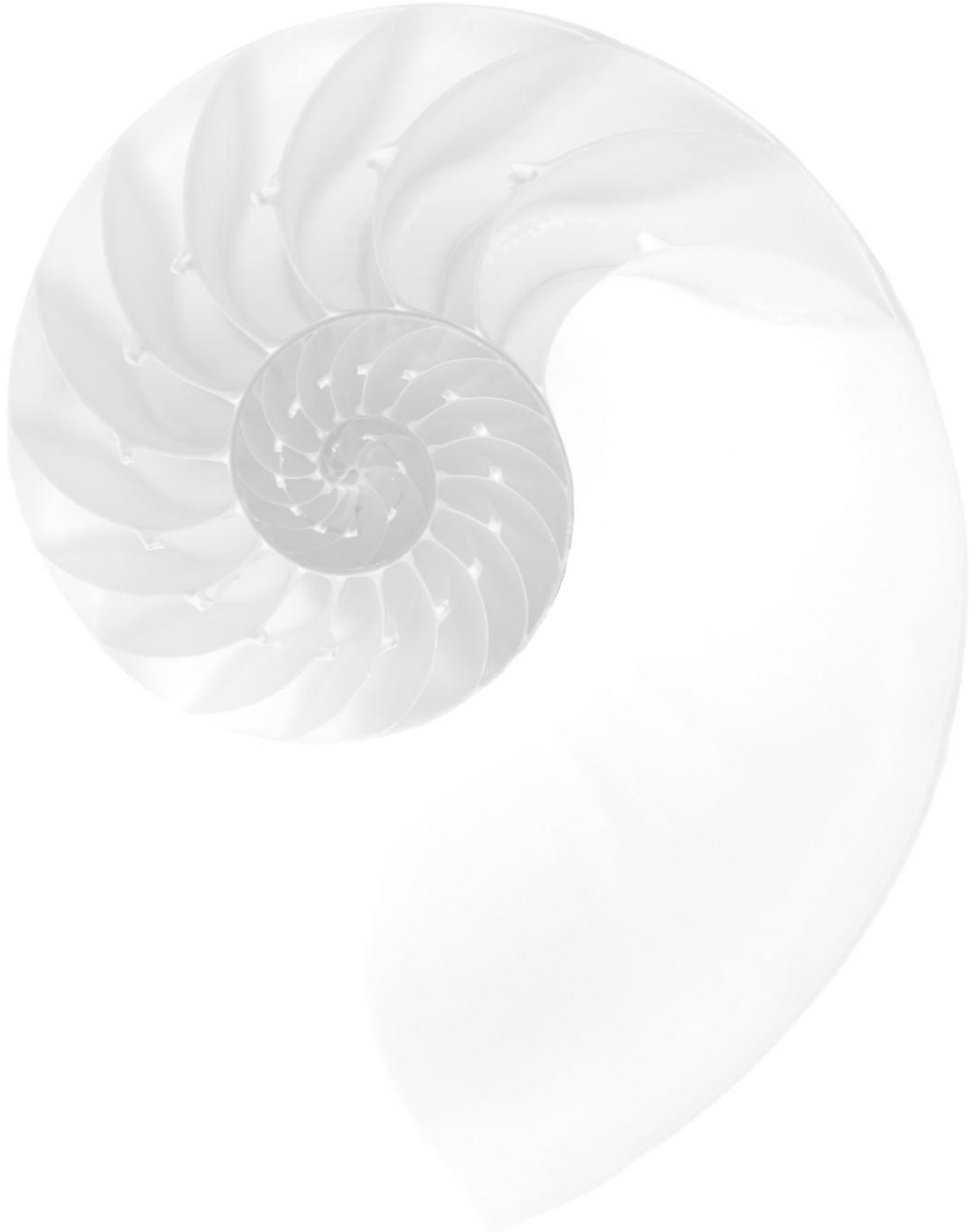
Under phased drawdown the segment of the fund not drawn is not subject to tax on death before age 75. After age 75 the 55% tax charge applies regardless.

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## **Establishment and Ongoing Administration of a SSAS**

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



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## Notes

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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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