

A Guide to
Small Self Administered Pension Schemes
(SSAS)

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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. 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
- Some of the benefits can be paid out as a tax free lump sum on retirement or death

There is no need to involve an insurance company or third party Administrator – with our expert guidance you can run the scheme yourself – our consultants 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 the 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.

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.

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.

Members may pay up to 100% of their taxable earnings as a personal contribution in any tax year and receive tax relief at their marginal rate of tax. 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 levels for members are:

- £235,000 for 2008/09
- £245,000 for 2009/10
- £255,000 for 2010/11

Contributions may be acceptable in the form of property i.e. "in-specie" contributions.

Legislation Update:

In his 2009 Budget the Chancellor announced changes to the tax relief available on pension savings for individuals whose income is £150,000 or higher.

The Government intends from 6 April 2011 to restrict tax relief for individuals with an annual income of £150,000 or more. Relief will be tapered away so that for those earning over £180,000 relief will be worth 20 per cent, the same as a basic rate taxpayer.

In anticipation of that new restriction, the Government is introducing new rules to apply from 22 April 2009 to restrict higher rate tax relief on pension contributions for individuals.

The restrictions will apply to those:

- whose income is £150,000 or higher
- who change their normal ongoing regular pension savings, and
- whose total pension savings exceed £20,000

Lifetime Allowance

The Revenue set a lifetime allowance on the total retirement benefits that 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 you take it as a pension.

Your benefits must be tested against the lifetime allowance before your 75th birthday.

The lifetime allowance has already been announced by HMRC for the following tax years:

- £1.65million for 2008/09
- £1.75million for 2009/10
- £1.80million for 2010/11

Permitted Investments

SSASs have been designed to allow you 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.

Commercial Land and Property

The Trustees can invest tax efficiently in commercial land and property and some residential property subject to certain limiting criteria.

Land and property can be purchased from and/or leased back to the company and if this is the case then 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.

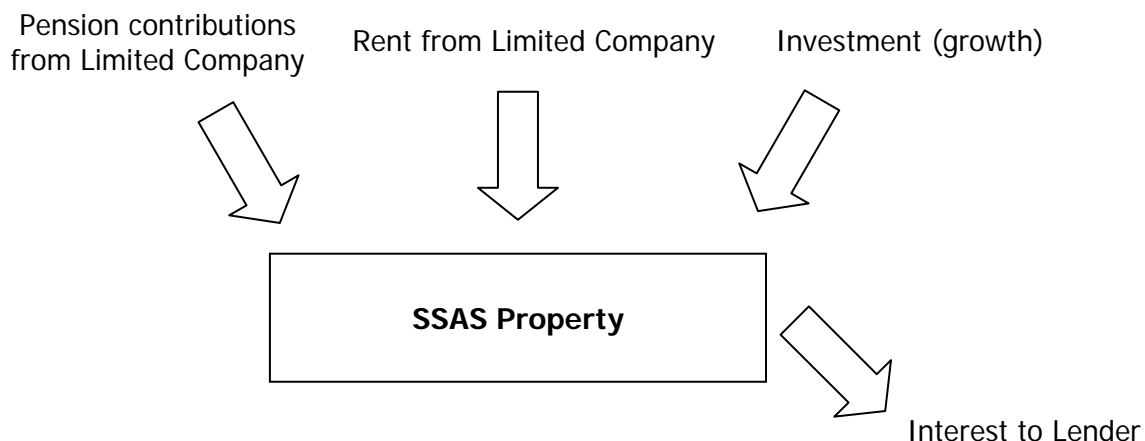
The Scheme Trustees may register for VAT.

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:



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.

Commercial Land and Property (cont...)

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 for income tax 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

	Company Purchase	SSAS Purchase
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
Money retained in Company/Pension	£78,400	£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, and this includes 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 1% above base rate
- 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

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.

Connected Party Transactions

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 and if it does will make a tax charge.

Payment of Benefits

There are a variety of benefit options available that you can receive 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 between ages 50 (55 from 2010) and 75 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 50th 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 two 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 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.

Payment of Benefits (cont...)

Pension Fund Withdrawal (PFW)

The concept of PFW 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, until you reach age 75.

The amount that can be withdrawn each year is subject to a maximum based on 120% 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 PFW limits are calculated at your pension date and are reviewed every five years thereafter.

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

PFW allows you to decide on the most opportune time to buy an annuity taking into account your own 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 own personal circumstances.

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.

A spouse or dependent entitled to a pension may elect to take PFW rather than purchase an annuity.

In the event of the death of a spouse or dependent during PFW, the whole value of the fund can be paid to nominated beneficiaries, minus a one off 35% tax charge.

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

Payment of Benefits (cont...)

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 PFW then the value of the fund may be paid to your spouse or dependent net of a 35% tax charge. If there is no spouse or dependent then the fund, net of a 35% tax charge, may be paid to your nominated beneficiaries.

If a spouse or dependent elects for PFW 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 the PFW the value of the fund can be paid to nominated beneficiaries subject to a 35% tax charge.

Under phased drawdown the segment of the fund not drawn is not subject to tax on death before age 75.

Alternatively Secured Pension (ASP)

ASP is effectively PFW after age 75! The maximum income is 90% of the relevant annuity that could have been bought at the time and the minimum is 55%. These limits are reviewed annually.

ASP was originally a concept that was designed for those with specific religious beliefs. The Government has therefore introduced levels of taxation upon death that generally makes it unattractive for tax planning. In some circumstances, the tax charge could be as high as 82%.

Establishment and Ongoing Administration of a SSAS

We offer a full range of bespoke services to establish and operate a SSAS including the Investment Strategy planning, Actuarial, Trustee and Administration systems required.

Notes

It should be noted 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 investment advice on any transfer to and from a SSAS.

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