



SSAS Practitioner.com

The SSAS specialist. Lowering fees, enhancing retirement.

Brochure

SSAS Practitioner.com

Small Self Administered Scheme

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Introduction

The purpose of this brochure is to explain features of the SSAS Practitioner.com SSAS. We do not offer investment advice. We recommend that any decision to establish a SSAS with SSAS Practitioner.com should be based on recommendations from an individual authorised to provide investment advice. No part of this brochure should be taken as investment advice.

Outline of a SSAS

A SSAS is an occupational pension scheme consisting of up to 11 members. A SSAS is established by an employer, known as the Principal Employer, via a Trust Deed and Rules. Under our Trust Deed and Rules, the Principal Employer appoints Trustees to the Scheme and invites Members to join the Scheme; the Members are also always Trustees.

The Trustees are responsible for the scheme's investment decisions and must sign for all investments and transactions on the scheme's bank account.

The Trustees may out-source some or all of their responsibilities to third parties, i.e. to a traditional pension Administrator or to a Practitioner such as SSAS Practitioner.com. Legally a SSAS requires a registered administrator whose responsibilities include dealing with tax-related matters and filing scheme related returns to Her Majesty's Revenue and Customs (HMRC). Fines can be imposed by HMRC for failure to adhere to these requirements. SSAS Practitioner.com will fulfill all of the scheme's administration duties and liaise with HMRC on behalf of the Trustees where possible.

SSAS Practitioner.com will be registered with HMRC as the SSAS's Practitioner. We run the scheme and deal with all duties imposed on behalf of the Trustees.

The Trustees are expected to abide by the rules of the scheme, as detailed in our Trust Deed and Rules, and must inform SSAS Practitioner.com immediately should they no longer be legally entitled to act as a Trustee.

A SSAS can have more than one employer participating in it, but there must be a single employer who has the title 'Principal Employer'. Employers are usually Limited Companies or Partnerships, but they don't have to be; they could even be a PLC

SSAS Practitioner.com SSAS

Our SSAS allows a group of individuals, such as directors of a Limited Company, or Partners in a Partnership, to:

- Save for retirement in a tax-efficient manner.
- Take a pension and a tax-free lump sum on retirement (retirement can be taken on a tax-advantageous flexible basis if required).
- Pool member contributions to obtain potentially greater investment opportunities.
- Control the scheme's investments (decisions are made by the Trustees and/or their financial adviser).
- Transfer pension policies into the scheme (as long as these originate from contracted-in arrangements).
- Complete Expression of Wish forms to determine who funds are passed to in the event of death.

It also allows members to make use of other tax-efficient procedures such as purchasing commercial property, lending money and borrowing money (see below).

Membership of the scheme

A 'Scheme Member' is defined as any active member, pensioner member receiving benefits, deferred member or pension credit member of the scheme. Most people will initially be active members, i.e. they will be in the scheme to accrue benefits under the scheme. Any individual may become a pensioner member if the person is entitled to a payment of benefits under the scheme. A deferred member is someone who has rights under the scheme but is neither an active member or a pensioner member. Members of the scheme are usually employees of the Principal or associated employers, but there is no requirement for them to be.

Contributions to the SSAS

Contributions can be made from the SSAS's Principal or associated employer, a member or a third party. Contributions do not necessarily take the form of money, but can also be made in the form of assets such as shares, commercial property or land. Certain investments are subject to prohibitive taxes and include residential property or personal chattels. Tax relief accrues on legitimate contributions, the amount of the tax relief depending on a variety of factors. Annual limits are in place regarding contributions (the 'Annual Allowance') and there is a lifetime limit on the total pension fund accrued in a tax-efficient manner (the 'Lifetime Allowance'). Prior to 5 April 2009 protection was available from the lifetime allowance in certain circumstances.

Details of the 'Annual Allowance' and 'Lifetime Allowance' can be found on our website,

www.ssaspractitioner.com/ThebenefitsofaSSAS/ContributionsAllowances



Making Contributions and receiving Tax Relief

Personal contributions from members receive tax relief provided they do not exceed the lower of the annual allowance or total PAYE-related earnings within the same tax year. Tax relief on personal contributions is only granted on contributions up to 100% of earnings in any tax year, up to the Annual Allowance. Presently, if earnings are in excess of £130,000 pa contributions are limited to £20,000 pa. However, if earnings are lower than £130,000 pa full tax relief can be claimed for the entire contribution.

Employer contributions receive tax relief in the year they are made provided they are deemed by HMRC to be 'wholly and exclusively' for the purposes of the employer's trade. In order for the scheme to gain tax relief, employer contributions are limited to the Annual Allowance. Again, if earnings are in excess of £130,000 pa contributions are limited to £20,000 pa, but if earnings are lower than £130,000 pa full tax relief can be claimed for the entire contribution. If the total of the employer's contribution for a particular member plus the member's personal contribution exceeds the Annual Allowance, the member will be liable to 40% income tax on the excess. This additional tax does not apply in the year in which a member retires, i.e. takes their full benefit entitlement from the scheme. The member benefiting from the contribution accrues tax relief.

The Tax Efficiency of a SSAS

A SSAS is highly tax efficient:

- Investments (other than dividend income) grow free from UK capital gains tax and income tax.
- In the event of death before the benefits come into payment, a tax-free cash lump sum may be paid out; usually this will be whole of the deceased member's accrued fund.
- Lump sum death benefits can be paid until age 75, where the member is in drawdown, free from inheritance tax. A tax-free lump sum can be taken after age 55.
- Lump sum death benefits can be paid after age 75, when the member is in drawdown, albeit with large tax charges. Bear in mind many schemes without the flexibility of a SSAS require an Annuity to be purchased at 75, meaning no post-75 death benefits can be paid whatsoever.
- There is no compulsory requirement to purchase an annuity. A Scheme Pension may be applied for up to age 75. A ten year guarantee is possible and the residual funds on death may be reallocated to dependants or other people for inheritance tax purposes.



Transferring other pension schemes to the SSAS

UK Pension benefits and policies can be transferred in, or assigned to the SSAS Practitioner.com SSAS. A SSAS cannot accept contracted-out benefits. It is important that you take advice from a financial adviser before requesting the transfer of any benefits into your SSAS; we do not provide investment advice.

Investments allowable in a SSAS

Any investments are allowable in a SSAS, but some investments are taxable. Investments can be made in any area the Trustees (or their financial advisers) feel appropriate for the benefit of Scheme Members.

A non-exhaustive list of the main non-taxable investments:

- Commercial Property and Land
- UK quoted shares, stocks, gilts and debentures
- Stocks and shares quoted on a recognised overseas stock exchange
- Shares in the sponsoring or connected employers (subject to limits)
- Futures and options quoted on a recognised stock exchange
- OEICs, unit and investment trusts
- Hedge funds
- Insurance company funds
- Bank and building society deposits
- Cash deposits in any major currency
- Gold bullion
- Secured Loans to associated or unassociated companies (subject to limits)

Investments in shares not listed on any major stock exchange are acceptable. However, if there is any connection to members of the SSAS the investment is limited to 5% of the SSAS fund value.

The following non-exhaustive list of investments is taxable, and although allowable, these investments are not recommended due to prohibitive tax charges:

- Antiques (including vintage cars)
- Residential Property
- Works of art
- Unsecured loans to the business
- Plant & Machinery
- Personal loans and loans to “connected” persons (including business associates and family).

Using a SSAS to purchase Commercial Property

A SSAS can be a particularly tax-efficient vehicle with which to purchase Commercial Property. Funds within the SSAS belonging to several members can be pooled for this purpose, as they can for any SSAS investment. Once the property is purchased a market rent must be paid by the tenants and accrues in the SSAS free of income tax. Commercial Property can be purchased from a connected party or on the open market from an unconnected party.

If property is purchased for the scheme from a connected party (e.g. the business or members of the SSAS and their families) an independent free-market valuation is required. This must be carried out by a FRICS-approved surveyor and the property must be bought at the free-market rate as determined by the surveyor. Commercial property held by the scheme must legally receive a commercial rent from its tenant(s). There is no need for a free-market rental valuation to be carried out if the property is leased to a third party, but if it is subsequently leased to a connected party the surveyor's valuation must include the rental rate to be paid.

Property sold to the SSAS by, for example, a connected company can particularly benefit a cash-poor company. Also commercial property can be transferred into the SSAS as an 'in-specie' contribution to the scheme. As commercial property is an allowable investment, tax relief would be available on the contribution which is offset against corporation tax.

Gearing is allowed, and the SSAS can borrow up to 50% of the net value of the scheme to finance property purchase. In reality the limits imposed by the majority of the banks are far in excess of this, making borrowing fairly straightforward for a SSAS. As the SSAS is a separate legal entity from the company, it is important to remember that any borrowings taken on are not reflected as debts in company accounts. As with any allowable assets in the scheme, property grows free from CGT and the income, rent, is free from income tax.



Lending money from the SSAS (Loanbacks)

Under current legislation it is possible to lend up to 50% of the net value of the fund to a connected party. 'Loanbacks', as they are known, must be secured against assets by way of a first legal charge. This is to ensure the Trustees do not lose any of their retirement fund and can reclaim monies against any defaulted loans. The maximum loanback term is five years. The rate of interest payable is set by HMRC; their latest rate is available on our website or by calling SSAS Practitioner.com and is charged at 1% above the average base-lending rate of the six main high street banks.

It is not possible to make loans from the SSAS to a Scheme Member or anyone connected to them, but unconnected third-party loans are acceptable. Loans to third parties can utilize 100% of the fund value and do not need to be secured.

Using the SSAS to purchase shares in the Principal Employer

Using the SSAS to invest in the shares of the Principal Employer or other associated employers is limited to 5% or less of the fund value of any one such employer, and is limited to 20% or less of the fund value of all employers. It is worth noting that this limit applies whether the Principal Employer is a Limited Company, Partnership or Plc. Caution needs to be applied when investing in the Principal Employer. Purchase of shares may result in the SSAS owning unauthorized investments in the eyes of HMRC, e.g. office equipment or vehicles owned by the company which are taxable within a SSAS.

Borrowing

The maximum the SSAS can borrow is 50% of its net fund value at the date of the borrowing. There is no restriction on the term of the borrowing, or where the monies are borrowed from. Borrowing can be particularly useful when utilized in conjunction with purchase of commercial property.

Withdrawing benefits from the Scheme

SSAS members do not need to retire from employment to take benefits from the scheme. Usually a minimum of 25% of the accrued fund is taken as tax-free cash and the balance is drawn down (and subject to tax). Members may start to take their benefits at any time from age 55. Benefits need to start before age 75. When the commencement of benefits takes place, the total value of a member's SSAS share, combined with other pension funds he/she may have, will be checked against the Lifetime Allowance. If the value of a member's total pension arrangements is greater than the Lifetime Allowance, there may be a tax charge unless the fund has been protected against the Lifetime Allowance prior to 5th April 2009. Please check our website for details of the drawdown limits and the prevailing Lifetime Allowance.



Pension benefits

Pension benefits are taxed as earned income. There are several options with regard to taking a pension:

- An unsecured pension (USP), where drawdown is taken from the fund via income withdrawal until age 75.
- An alternatively secured pension (ASP), where drawdown is taken from the fund from age 75. The maximum drawdown tends to be slightly less than under USP prior to age 75.
- A Scheme Pension at age 75 or over (a guaranteed pension paid from the scheme irrespective of fund performance). The level of pension is determined by an actuary and guaranteed for up to 10 year irrespective of death. The level of pension is likely to be in excess of that provided by an ASP.

A member may also use their accrued fund share to purchase an Annuity from an Insurance Company.

Death prior to commencement of benefits

The member's accrued fund, up to the current Lifetime Allowance, can be paid as a tax-free lump sum. Funds in excess of the Lifetime Allowance are taxable. Alternatively, the whole fund may be used to pay dependants' pensions.

Death Before age 75 after commencement of benefits

The member's accrued fund, up to the current Lifetime Allowance, can be paid as a lump sum less tax at 35%. Alternatively, the whole fund may be used to pay dependants' pensions.

Death After age 75

Death whilst taking benefits after age 75 is more complicated and under current legislation results in an effective 85% tax charge on any lump sum payment. The type of pension chosen will affect the death benefit rules applying. Dependant's or spouse's pensions can be provided and are taxed as earned income. In the event of a member dying with no dependants to whom benefits can be paid, the fund is:

- redirected to other members of the scheme in line with the wishes of the deceased member
- retained by the trustees to be reallocated to other members at the trustees discretion
- returned to the employer with a 35% tax charge
- given to a charity in line with the wishes of the deceased member, tax-free.

Definition of Dependants

Dependants are defined as those people to whom your remaining funds are paid in the event of your death, and are selected via the Expression of Wish Form. A non-exhaustive list of dependants includes:

- The member's spouse at death
- an individual under age 23
- a person who is financially dependent on the member



Disclaimer:

This brochure contains generic details of the SSAS Practitioner.com Small Self Administered Scheme. Full particulars of each scheme can be found in its own Trust Deed and Rules.

The law and the tax implications are believed to be correct at the time when this brochure was prepared; no responsibility is accepted for any inaccuracies.

You should take independent financial advice to satisfy yourself as to the suitability of a Small Self Administered Scheme (SSAS).

