

INVESTMENT GUIDE

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SECTION 1: INTRODUCTION

Want a pension that gives you more choice? Then choose a plan with wider investment power

A Small Self-Administered Scheme (SSAS) is a registered defined contribution (dc) pension scheme which gives the Managing Trustees wider investment powers than under a conventional insured arrangement. This makes it particularly attractive to controlling directors.

This booklet looks at why a SSAS could suit certain companies, the investments that are allowed, the duties of the Managing Trustees and the services particular to the SSAS Pensions Limited Small Self-Administered Scheme. The charges for these services are detailed separately in our "SSAS – Key Features" leaflet.

SECTION 2: HOW DOES IT WORK?

A SSAS is essentially an employer sponsored pension scheme with fewer than 12 people, where at least one member is connected with another, or with a trustee or the sponsoring employer, and where some or all of the scheme assets are invested other than in insurance policies. SSAS Pensions Limited Small Self-Administered Scheme is set up under trust, we will supply the relevant documentation and all members will be appointed as Managing Trustees.

Every registered pension scheme is required to have a Scheme Administrator.

The Scheme Administrator must enrol online with HM Revenue & Customs (HMRC) before they can register the SSAS. Contributions to the SSAS must not be paid by either the employer or a member until the scheme has been registered with HMRC. Any contributions, even if they are only paid to the Trustees' bank account before the scheme is registered, will not receive tax relief. For further information on the responsibilities of the Scheme Administrator please contact us.

The Managing Trustees must open a Scheme bank account. Contributions from the company and the members are paid into the bank account before they are invested at the Managing Trustees' discretion, subject to certain restrictions.

The structure of a Small Self-Administered Scheme could, for example, be as follows:

- Company and member payments
- Trustees' bank account
- Insurance Company investments

Self-administered part

- Commercial property e.g. company premises.
- Loans to employer.
- Deposit accounts.
- Open Ended Investment Companies (OEICs).
- Stock Exchange – e.g. equities.
- Securities etc. – e.g. gilts.
- Trustee Investment Bond.

There are clear benefits to holding assets under a registered pension scheme. For example, no capital gains tax liability arises when scheme assets are sold.

SECTION 2: HOW DOES IT WORK?

A SSAS:

- Gives the Managing Trustees wide investment powers.
- Is a possible source of loan capital to the company for business expansion purposes, which may help minimise reliance on a third party e.g. bank.
- May be able to buy the company's premises – the SSAS Managing Trustees act as the landlord, meaning that the members retain control.
- Can be a possible source of equity capital for business expansion purposes which could avoid partial surrender of control to external interests.
- Is a vehicle for the Managing Trustees to back their investment judgement.

A SSAS generally appeals to controlling directors who want:

- To retain control over their pension benefits.
- To use the self-investment facility to help the company's development.
- A greater say in the way pension contributions are invested.

SECTION 3: WHAT ARE THE TAX BENEFITS OF A SSAS?

SSAS – NOT TOO TAXING

- The company's contributions would normally qualify for Corporation Tax relief for the accounting period in which they are paid.
- The member's contributions would qualify for Income Tax relief. If the member is a Scottish taxpayer, the tax relief they will be entitled to will be at the Scottish Rate of income tax, which may be different from the rest of the UK in the future.
- The company's contributions would not be a taxable benefit chargeable to the scheme member.
- Investments are free of tax on capital gains. Investment income such as rental income from property and interest received on loans from the scheme, is currently free from UK tax.
- Any authorised lump sum paid at retirement would currently be tax-free.
- Lump sums on death-in-service before retirement would normally be free of Inheritance Tax.
- Pensions in payment would be taxed as earned income and paid through the PAYE system.

Please note that tax rules can change.

The value to an investor of the tax advantages of a SSAS will depend on personal circumstances, which may change.

SECTION 4: WHO'S INVOLVED?

TRUSTEES

There are two types of trustee in a SSAS Pensions Limited SSAS:

- A Managing Trustee.
- A Special Trustee.

There must be at least 2 Managing Trustees. Each member is required to be Managing Trustee and must be involved in all decisions. Where there is only one member participating in the SSAS, there must be a second Managing Trustee appointed, known as a non-member Managing Trustee. This could be, for example, the member's spouse.

SSAS Pensions Limited will be appointed as Special Trustee.

WHY MUST ALL MEMBERS BE MANAGING TRUSTEES?

As the Managing Trustees are not restricted to investing in insured policies, they would normally require authorisation under the Financial Services and Markets Act 2000. However, if all the members are Managing Trustees and the day to day decisions are taken by them, a special exemption applies. Additionally, the fact that all members are Managing Trustees enables them to take advantage of exemptions from several onerous administration requirements under the Pensions Act 1995, providing certain other requirements are met.

WHO IS THE SPECIAL TRUSTEE?

The Special Trustee will be an independent person or body with considerable experience of occupational pension schemes. They will be independent from the employer and members of the scheme. One of their main duties is to ensure that if the SSAS is wound up, the termination provisions in the scheme rules are followed precisely. SSAS Pensions Limited can undertake this function for a SSAS – see 'Services', Section 7.

The Special Trustee will be a co-signatory of the scheme bank accounts.

WHEN SHOULD THE TRUSTEES MEET?

The Managing Trustees will have to meet to:

- Decide how the regular and any special payments (such as single payments) will be invested.
- Decide on any action to be taken when a member chooses to draw benefits after reaching pensionable age. This decision will have to be reviewed on a regular basis.

The Managing Trustees should meet at least once a year. A representative from SSAS Pensions Limited can be available to attend an initial meeting then every third year.

WHAT CAN THE MANAGING TRUSTEES INVEST IN?

- Insurance policies.
- Units in a managed pension fund.
- Unit trusts/collective investments including OEICs.
- Stock exchange investments.
- Bank/building society accounts.
- Commercial property and land.
- The company - self-investment.

SECTION 4: WHO'S INVOLVED? (Continued)

HOW CAN THE MANAGING TRUSTEES INVEST IN THE COMPANY?

There are 3 main ways:

- By making a loan to the company.
- By purchasing shares in the company.
- By purchasing property owned by the company and leasing it back.

SECTION 5: GUIDING YOU THROUGH INVESTING

i) LOANS TO THE COMPANY

The Scheme can make loans to the employer but these are subject to particular restrictions:

- The loan must always be secured by a first charge on an asset of at least equal value to the face value of the loan including interest.
- The rate of interest charged on the loan must be on commercial terms and be at least 1% more than the average base lending rate charged by the six largest high street banks, rounded up to the nearest multiple of 0.25%.
- The loan must be repaid over a period of no more than 5 years.
- At the time the loan is made it must not exceed 50% of the net value of the Scheme's assets.
- The loan must be repaid in equal instalments of capital and interest over each complete year of its term.

Where any of these conditions is not met an unauthorised payment charge will be levied on the amount of the loan.

ii) PURCHASING SHARES

Important note: It is the Managing Trustees' responsibility, as the Scheme Administrator, to ensure that there are no taxable property issues when purchasing shares. SSAS Pensions Limited will not be held liable for any tax charges which arise as a result of such an investment.

For further information see HM Revenue & Customs Technical Manuals at: <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm122000#IDA000QB>

The Scheme may invest in shares of the sponsoring employer – there are limits on this however. No more than 5% of the net Scheme's assets may be invested in the shares of any one sponsoring employer. Where there is more than one sponsoring employer, no more than 20% of the net assets may be invested in their shares in total, the 5% restriction still applies in relation to each individual employer.

iii) PURCHASING THE COMPANY PROPERTY

Any property purchase between connected parties e.g. family members or co-directors as described in Section 1122 of the Corporation Tax Act 2010, must be done on a commercial 'arm's length' basis i.e. a normal commercial transaction between two or more persons where the property is purchased at its market value – the price the property would reasonably be expected to fetch on a sale in the open market*. This principle must also apply to the terms under which the property is leased to the company. HMRC may impose tax penalties where there is any 'value shifting' from the SSAS. Value may be shifted by either increasing the value of an asset or decreasing a liability of a scheme member or sponsoring employer without actually creating a payment.

*This value will normally be determined by an independent surveyor.

SECTION 5: GUIDING YOU THROUGH INVESTING

(Continued)

CAN THE MANAGING TRUSTEES BORROW MONEY?

Yes, however there must be a genuine commercial reason for the borrowing and the funds must be used for the benefit of the SSAS.

The maximum amount they can borrow is 50% of the value of the net scheme assets. Any existing borrowing has to be taken into account. There is no need to re-test the level of borrowing if there is a fall in the net asset value of the SSAS.

ARE THERE ANY INVESTMENTS THE MANAGING TRUSTEES CANNOT MAKE?

They cannot hold investments, directly or indirectly in:

- Personal property e.g. works of art, vintage cars or jewellery.
- Residential property unless it is occupied by an employee as a condition of their employment. The employee cannot be 'connected' with the employer or any member of the SSAS.

SECTION 6: WE'VE GOT THE ANSWERS

ARE THERE ANY HMRC REQUIREMENTS?

If there are any 'reportable events' HMRC will require an Event Report to be filed online. Upon request from HMRC, a Registered Pension Scheme Return may need to be filed online. Please contact us for further information.

SSAS Pensions Limited will act as Scheme Practitioner for the HMRC Managing Pension Schemes service. In this capacity, SSAS Pensions Limited can complete and file the above reports on the Scheme Administrator's behalf.

HMRC may also require a quarterly report advising them of any tax liability incurred by the Managing Trustees. This report, together with the payment of any tax liabilities, must be dealt with by the Managing Trustees or their accountants.

ARE THERE ANY PENSIONS REGULATOR REQUIREMENTS?

- Schemes with more than one member must be registered online with The Pensions Regulator.
- The Pensions Regulator will require a scheme return to be completed and filed online via their Exchange service. SSAS Pensions Limited can, upon request and receipt of the relevant information, complete and file the return online on the Managing Trustees' behalf.

CODE OF PRACTICE OF DEFINED CONTRIBUTION (DC) SCHEMES

Trustees need to be able to demonstrate compliance with pensions legislation and good practice scheme governance arrangements. The DC code, Code of practice 13: Governance and administration of occupational defined contribution trust-based pension schemes and DC regulatory guidance provide detailed information that will help trustees embed DC quality features and practices in their scheme.

For further information and basic level guidance, please go the Pensions Regulator website:

www.thepensionsregulator.gov.uk/trustees

SECTION 6: WE'VE GOT THE ANSWERS (Continued)

WHEN CAN A MEMBER DRAW BENEFITS?

Although some products may not allow deferral beyond age 75, benefits may be taken at any time from the minimum pension age and it may not be necessary for the member to have stopped working. Further details relating to retirement can be found in the "SSAS Member's Booklet".

SECTION 7: SERVICES

Considerable knowledge and experience of the relevant legislation and HMRC practice is often needed to ensure that no undue difficulties are encountered. It is this knowledge and experience which SSAS Pensions Limited offers to Managing Trustees and their advisers.

TRUSTEES

It is a requirement of legislation that a SSAS is established under trust if it is to be registered with HMRC and benefit from all the tax advantages available. We will provide all relevant documentation for consideration and completion. Each member must be appointed as a Managing Trustee and SSAS Pensions Limited will be appointed as the Special Trustee.

BANK ACCOUNT

Every SSAS must have a bank account and the Special Trustee must be a co-signatory to the account. SSAS Pensions Limited should authorise all transactions on the account. When opening the account, the Managing Trustees should ascertain the Bank's requirements for appointing SSAS Pensions Limited as co-signatory.

ADMINISTRATION GUIDE

We will provide the Managing Trustees with a comprehensive Administration guide to assist them with their responsibilities, as Scheme Administrator, in administering the scheme.

LOANS TO COMPANY

If the Managing Trustees wish to grant a loan to the company for a commercial purpose, we will provide some of the relevant documentation for consideration and completion. The Managing Trustees' Solicitor will provide the relevant security documentation.

TRUSTEE MEETINGS

A representative of SSAS Pensions Limited can attend the initial trustees' meeting in order to explain requirements and to assist with getting the scheme up and running on an efficient footing. Thereafter, the representative can normally be available to attend meetings on a triennial basis.

ACCOUNTS

The Managing Trustees should arrange for preparation of scheme accounts, which they should sign off. The company's accountants may be used for this purpose.

For the purpose of completion of the Registered Pension Scheme Return, accounts should be prepared to 5 April each year or, if audited, any date during the fiscal year.

SECTION 8: CHARGES AND IMPORTANT NOTES

CHARGES

Full details of charges for our services are provided on the separate Key Features leaflet. Charges, terms and limits may change.

IMPORTANT NOTES

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future. Tax rules can change.

The information contained in this booklet is based on SSAS Pensions Limited's understanding of current legislation and is correct at the time of publication.

This material is for use by UK Financial Advisers and Trustees of the scheme only and should not be distributed to or relied upon by any other person.

CONTACT US

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