



SSAS Guide

Small Self-Administered Scheme

Thank you for your enquiry to establish a small self-administered scheme.

This Guide provides members, or prospective members, with a summary of the main features of a SSAS.

What is a SSAS?

A SSAS is a registered pension scheme under Chapter 2 of Part 4 of Finance Act 2004, established by an employer to provide pension and death benefits for its directors and senior employees.

The scheme is established by trust deed and rules and all of the members will be appointed to act jointly as trustees of the scheme and scheme administrator for the purposes of Finance Act 2004.

As trustees, the members will be able to decide how the assets of the scheme are invested, subject to the limitations described below. Members will also have considerable flexibility over the form, and timing, of their benefits.

The trustees and scheme administrators will be legally responsible for ensuring that the scheme meets the requirements for registered schemes set out in Finance Act 2004.

Contributions

Contributions can be paid to a SSAS by the principal employer and any participating employer.

There is now no limit set by Her Majesty's Revenue & Customs ("HMRC") on the contributions that can be paid by an employer to provide benefits for its employees.

Contributions can be varied in line with profitability and there is no contractual commitment to pay any particular level of contribution. Contributions may be paid on a regular basis or as one-off, single contributions.

Contributions paid by an employer will be allowable as a deduction against corporation tax, provided that they are made wholly and exclusively for the purpose of its business. Where contributions are being paid for shareholder directors, or anyone connected with such a person, the employer should take advice from a tax adviser to check that the contribution will meet the 'wholly and exclusively' test before a contribution is paid.

Although there is no specific limit on employer contributions a member will face a tax charge, if contributions paid by, or on the member's behalf exceed the annual allowance.

Member contributions

A member of a SSAS may make contributions on a regular, or one-off, basis. Members not currently employed by a scheme employer (e.g. ex-employees or family members) may make contributions to the SSAS, subject to the agreement of the principal employer.

There is no minimum contribution level.

HMRC do not place a limit on the amount of contributions that may be paid by a member. However, there is a limit on the amount of tax relief available on contributions paid by members to all registered pension schemes (employer contributions are excluded for this purpose). For each tax year, a member may get tax relief on contributions paid up to the higher of:

- £3,600 (the Basic Amount); and



- 100% of UK earnings.

It is very important to note that if a member has registered with HMRC for enhanced protection or fixed protection the payment of any contribution to the SSAS will lead to the loss of this protection.

Payment of contributions in the form of property or shares

We may accept contributions in the form of commercial property. If you are interested, please ask your adviser for details of our requirements.

Annual allowance for contributions

The annual allowance is £40,000 for 2014/15 onwards.

If you exceed the annual allowance, you may be able to “carry forward” your unused annual allowance from the previous three tax years. Carry forward is subject to a maximum of £50,000 for each tax year up to and including 2013/14, and £40,000 from 2014/15 onwards. The amount you can carry forward is reduced by your annual allowance usage during those tax years.

If having made use of carry forward you still exceed the annual allowance, you will have to pay a tax charge on the excess. The tax charge will be based on the marginal rate of tax relief received on the contribution.

Transfer of pension benefits into a SSAS

A member's benefits under any other UK registered pension scheme can be transferred into the SSAS.

Transfers can take the form of a cash payment to the SSAS from the transferring scheme, or a transfer of investments held under the transferring scheme (“an in-specie transfer”).

Transfers to another pension scheme

A member can transfer the full value of their fund under the SSAS to another UK registered pension scheme, at any time.

The transfer can either be in the form of a cash payment or by an in-specie transfer of assets held by the SSAS to the receiving scheme.

The transfer will always be made direct to the trustees or administrator of the receiving scheme.

Investments Overview

The SSAS is a separate legal entity to the company, and the trustees, normally with the assistance of professional advisers, are responsible for determining and implementing the investment policy.

The trustees can invest in a broad range of investments all of which accumulate free of income and capital gains tax. This includes:

- UK quoted stocks, shares, gilts and debentures;
- shares quoted on the Alternative Investment Market (AIM);
- stocks and shares traded on a recognised overseas stock exchange;
- futures and options, relating to shares quoted on a recognised stock exchange;
- unit trusts, investment trusts and OEICs;
- hedge funds;
- insurance company funds; and



- bank and building society deposits.

Commercial land and property

The trustees can invest directly in commercial land and property but apart from a small number of exemptions, there must be no residential element involved.

Purchasing property from the sponsoring employer can assist in raising funds within the business, whilst the trustees retain control of the property.

All property transactions must take place on an arm's length basis. If the property is being purchased, sold or let to a sponsoring employer, a member, or any connected person, the value of the property and the rental value must be confirmed by a chartered surveyor.

Connected for this purpose is defined in section 839 of the Income and Corporation Taxes Act 1988. The definition is quite complicated although does include the member, close members of their family and any business with which they are associated. The SSAS trustees may register for VAT, although we cannot provide any tax advice.

Trustee borrowing

The trustees can borrow funds to assist in the purchase of an asset or to create liquidity for the provision of benefits.

Trustee borrowing is restricted by HMRC to 50% of the net asset value of the SSAS, immediately prior to the borrowing taking place. This limit includes existing borrowing and any amount borrowed to finance VAT on the property purchase. The Trustees can borrow from any commercial lender, subject to their agreement to the terms.

Loans

The trustees may make loans to the principal employer, or any other company participating in the scheme, subject to HMRC rules.

Prohibited investments

Certain categories of investment are not permitted for a SSAS and these include:

- Antiques
- Residential Property
- Works of Art
- Unsecured loans to the business
- Plant & Machinery
- Personal Loans and loans to connected parties

If you wish us to consider any particular asset that is not referred to above then full details should be forwarded for clarification.

Member Benefits

The member's benefits will be determined by the value of his fund under the SSAS at the time benefits commence. The trustees will determine the value of each member's fund based on the contributions paid, transfers received and return on scheme investments.

There is no HMRC limit on the benefits that may be provided for a member under the SSAS.

However, if the total value of the member's pension savings, under all registered pension schemes, exceeds the 'lifetime allowance' then there will be an additional tax charge, called the lifetime allowance charge, on the excess. The lifetime allowance is currently £1.25 million.



Pension commencement lump sum

In general, a member may choose to receive a pension commencement lump sum up to the lower of:

- 25% of the value of the fund designated to provide their benefits; and
- 25% of their unused lifetime allowance.

If the member is entitled to a protected lump sum of more than 25% in respect of pension rights built up before 6 April 2006 (e.g. as a consequence of registration for enhanced or primary protection), then a pension commencement lump sum of more than 25% may be paid.

A pension commencement lump sum is currently payable tax-free.

Pension Benefits

After the pension commencement lump sum has been paid, the member's remaining fund will be designated to provide a pension in one of three ways:

Drawdown pension (capped drawdown)

The member's drawdown pension fund remains invested and the member can draw an income from the fund (income withdrawal), up to the maximum level set by HMRC. There is no minimum level of income, so the member can elect to receive a "nil" pension if they choose.

The member can choose to take a regular income and/or a series of one-off payments to suit their individual circumstances.

The maximum level of annual income is currently set at 150% of the Government Actuary's Department's (GAD) relevant annuity rate. This rate varies depending on your age and returns from Government securities and is applied to the value of your pension fund at the date the fund is first used to provide drawdown pension and at each subsequent review.

The maximum income level will be recalculated every three years.

From April 2015 there will be no maximum level income. A member can take the full fund designated to drawdown as income, subject to tax at their marginal rate.

Flexible drawdown

Flexible drawdown is an option allowing you, if you meet certain conditions, to draw funds from your SSAS without any annual limits.

You have the flexibility to withdraw all of the funds from your SSAS in one go, to draw a regular income over and above the "capped drawdown" limits to suit your ongoing requirements, or simply to draw additional funds to suit one-off circumstances.

The flexible drawdown option is only available to you if you are able to meet a Minimum Income Requirement (MIR). In order to meet the MIR you must have secure retirement income of at least £20,000 per annum. Income from state pensions and lifetime annuities qualifies for the MIR, but income from drawdown pensions and non-retirement income does not.

Additionally, if you make a contribution to any pension scheme (or accrue benefits in a final salary scheme), you may incur significant tax charges.

You cannot use flexible drawdown if contributions have been paid to a registered pension scheme in your name in the same tax year



Lifetime Annuity

Purchasing a lifetime annuity involves passing the value of the member's fund (after payment of any pension commencement lump sum) to an insurance company, chosen by the member, who will then provide the member with a regular, taxable, income throughout their life.

The annuity available will depend on the value of the member's fund and the annuity rates at the date of purchasing the annuity. It may also be possible to obtain 'impaired life' rates, which will provide a higher income for a member who is in poor health.

If an annuity is purchased, the trustees will cease to have any involvement with the investment of the member's pension fund. This may be a price worth paying if security of income is an important issue.

Taxation of pension payments

All pensions paid will be subject to income tax under PAYE.

If a lifetime annuity has been purchased, the insurance company will be responsible for the payment of income tax.

You are not forced to take lump sum or pension benefits from your SSAS at any time.

However the tax charges applied to lump sum death benefits paid from your income drawdown fund will also apply to the un-drawn part of your fund from your 75th birthday.

Death benefits

Death benefits will be paid as a lump sum or may be applied to provide pension benefits for a spouse, civil partner or dependant, either under drawdown or by annuity purchase. Death benefits are payable at the discretion of the trustees of the SSAS. You may nominate the individuals you wish to receive benefits and your wishes will be taken into account. You may complete a new nomination at any time.

Lump sums paid on death are normally free of any Inheritance Tax but we cannot guarantee that this will be the case. Any lump sum death benefit paid from an income drawdown fund will be subject to a tax deduction. This is currently under review.

Governing documentation

The SSAS is a scheme registered with HMRC under Chapter 2 of Part 4 of Finance Act 2004. It is governed by a trust deed and rules between the principal employer and the trustees, as amended from time to time.

This Member's Guide summarises the main provisions of the trust deed and rules and of the HMRC regulations that apply to the SSAS and generally to registered pension schemes. However, in the event of any discrepancy between this document and the trust deed and rules the trust deed and rules will prevail.

Unauthorised payments

This Member's Guide describes the main forms of authorised payments that can be paid by a registered pension scheme. We cannot be compelled to make any payment or investment that is not authorised by Finance Act 2004.



If an investment transaction is carried out between the SSAS and a connected person, including the principal, or a participating, employer, a member, or someone connected with the member or an employer, and it is not carried out at market value, then this will also create an unauthorised payment.

The amount of the unauthorised payment will be the difference between the actual value of the transaction and the market value. Non-payment of rent by a connected person will also generate an unauthorised payment. Excessive borrowing will also lead to a tax charge against the SSAS.

The scheme administrator is required to report any unauthorised payments to HMRC. If an unauthorised payment is made, then the relevant member, or the person who receives the payment (including the principal, or a participating, employer), will be subject to a tax charge of between 40% and 55% of the payment.

The scheme administrator of the SSAS will also be subject to a further tax charge of between 15% and 40% of the payment, depending on the amount of the tax charge that the member has paid. In extreme circumstances, HMRC may de-register the SSAS in which case a further tax charge of 40% of the value of the SSAS will be payable to HMRC.

The information contained in this Member's Guide is provided based on our understanding of current law, practice and taxation, which may be subject to change. The law of England and Wales will apply in all legal disputes.

This document contains generic details of a Small Self-Administered Scheme. The legal and tax implications of the SSAS are believed to be correct at the time when this document was prepared.

You should take independent financial advice to satisfy yourself regarding the suitability of a SSAS. Cranfords does not provide independent financial advice.

If you required any further information or clarification on any point please do not hesitate to call.

Telephone Enquiries

0844 410 0037

E Mail Enquiries

admin@cranfords.biz