Grange Quarry Limited
Contribution to SSAS

PENTAX FINANCIAL AND LEGAL LIMITED

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CONTENTS

1. Introduction

We have been approached by Grange Quarry Limited to advise in relation to the UK taxation aspects of a proposal to make a contribution of £500,000 to the Grange 23 SSAS.

1.1. Information Provided

We have been provided with the Fact-Find Questionnaires which have been attached as an Appendix to this Report.

1.2. Scope and Limitations of this Report

This report deals with the Income Tax consequences of the proposed contribution for the members of the SSAS and the Corporation Tax consequences of the contribution by the contributing company. This report does not deal with any other taxation aspects. Specifically, it does not comment on the investment of those contributions, the taxation of investment returns in the SSAS or the taxation of sums paid out to members on retirement.

This report has been prepared bearing in mind the circumstances of the current accounting period for Grange Quarry Limited the SSAS pension and tax legislation and HMRC guidance in force at the date of the report.

Consequently, the commentary and any conclusions drawn in the report are specific to this period and should not be used for any other purpose.

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1.3 Commentary

Pension schemes are established because there is a wish to build a retirement fund.

The funds paid into the Scheme to do this are called "contributions".

A number of different Pension Scheme frameworks are available but with a SSAS the Sponsoring Employer (in this case Grange Quarry Limited) will typically make contributions into the SSAS on behalf of the Members.

When a contribution is made direct from the employer to a specific members fund within the SSAS this is called a standard or direct contribution.

Because the SSAS is an occupational scheme, it can be pre-funded by the Employer. In this instance the contribution is made to the general fund. This will be treated as an asset of the fund and invested in the same way as the member's individual funds. This type of contribution is called an advanced or indirect contribution.

The purpose of this report is to examine the taxation aspects of the proposed contribution of £500,000 by Grange Quarry Limited in light of the above.

2. Background

2.1. Grange Quarry Limited

Grange Quarry Limited is a UK incorporated company having being incorporated on 7th day of February 2000 with registration number SC203651.

It is a trading company, carrying on the activity of Quarrying ornamental and building stone, gypsum, chalk, slate and limestone.

Grange Quarry Limited prepares its accounts to 31st March annually. The most recent period completed was the year to 31st March 2023. We are informed that the Profit Before Tax for that year was £2,822,694.00.

In the current accounting period, the company anticipates making profits of approximately £2,500,000.

2.2 Grange 23 SSAS

The SSAS was set up in 2023 and its current members are:

Mrs Lynn Dodd

Mr Stuart Iain Dodd

2.3 Mrs Lynn Dodd

Mrs Lynn Dodd is employed by Grange Quarry Limited as a Company Director. This role currently commands a salary of in excess of £60,000 per annum but Mrs Dodd has resisted to take this income to reinvest back into the company for growth.

Mrs Dodd anticipates receiving other income of £134,615.00 from her other business interests in the year to 5 April 2024.

Pension contributions have been made he current tax year 2023/2024 as follows.

Name	Amount (£)
By Grange Quarry Limited	Nil
By Mrs Lyn Dodds	Nil
Total	Nil

2.4 Mr Stuart Iain Dodd

Mr Stuart Iain Dodd is employed by Grange Quarry Limited as a company Director. This role currently commands a salary of £60000 but as Mrs Dodds has resisted taking the income instead wishing to reinvest back into the company for growth.

In addition to this salary, Mr Dodd anticipates receiving an income from other businesses interests of £131,246.00 in the year to 5 April 2024.

Pension contributions have been made in the current tax year as follows:

Name	Amount (£)
By Grange Quarry Limited	Nil
By Mr Stuart Iain Dodd	Nil
Total	Nil

3. "Wholly and exclusively"

For accounting purposes, when a decision has been made by the company directors to make a pension contribution from company funds, that contribution will be deductible against profits for company accounts purposes in the year in which the decision is made.

The tax rules are very different.

For Corporation Tax purposes, a contribution will be deductible from profits for tax purposes:

- If they are incurred "wholly and exclusively" for the purposes of the trade, and
- In the accounting period when they are paid

Importantly, please note that it is not possible to claim a Corporation Tax deduction for amounts accrued, but not paid at year-end.

So, what does "wholly and exclusively" mean?

Essentially, the question is one of whether the expense was laid out for business or for other reasons. In the case of a company, there is the further complication of whether expenditure incurred for the private purposes of a director (or employee) is treated as incurred for the purposes of the trade of the company. As long as it can be seen to be part of the remuneration package of the director concerned, and as long as that package as a whole can be justified as having been incurred for the purposes of the trade, then the expenditure will normally be allowable for the company.

In the case of a direct contribution (one made for a specific member), if HMRC considered that the package of remuneration (for example, salary plus pension company pension contribution) was "excessive", then they could seek to disallow the excess deduction against profits for Corporation Tax purposes. For directors, it is usually difficulty for HMRC to determine what the excess is because, to do this, they need to determine the "going rate" for a director. HMRC say this:

> "You should accept that the contributions are paid wholly and exclusively for the purposes of the trade where the remuneration package paid in respect of a director of a close company, or an employee who is a close relative or friend of the director or proprietor (where the business is unincorporated) is comparable with that paid to unconnected employees performing duties of similar value." (HMRC Business Income Manual 46035)

Given the huge range of factors which will influence the level of director's remuneration, that is almost impossible to achieve.

In situations where the total remuneration package is significantly higher for a particular director than has been provided previously, it would make sense for the reasons for the increase to be identified and to be set down in a Directors board minute. Such reasons might include:

- Exceptional performance by the director/team/division
- Reward for taking on additional responsibilities.
- Levelling up of previous remuneration packages.

4. Annual Allowance carry-forward

4.1. The Annual Allowance

The annual allowance is how much can be saved towards a pension each tax year without a tax charge applying. For schemes such as SSAS, pension savings is the aggregate of contributions from all sources paid during the tax year.

The standard annual allowance has increased to £60,000 from tax year 2023/24.

For tax years 2016/17 to 2022/23 it was £40,000.

An individual can have an annual allowance lower than the standard £60,000 if the total of their income and employer contributions in the tax years is over £260,000.

The allowance can be as low as £10,000 - this is known as the 'tapered annual allowance'.

Note that different figures applied for the purposes of the tapered annual allowance in earlier years.

In the event that the total of employee and employer contributions in a tax year exceed the annual allowance then, subject to the use of carry forward allowances (see below), the excess should be reported on the member's Self Assessment Tax Return for the period concerned with income tax being payable on the excess at a rate of 45 per cent.

4.2. Carry-forward.

If the annual allowance in a particular tax year isn't fully used, it's not necessarily lost. That unused allowance can be carried forward to a later tax year. This may make it possible to pay more than the current year's allowance without incurring an annual allowance tax charge. So someone who didn't have the available funds or the earnings in earlier years can carry forward the unused amount to a year when their circumstances are different.

You can carry forward unused allowance from up to three tax years, so when looking at a year where contributions will exceed the annual allowance, any unused allowances from the three previous tax years can be brought forward to cover (or reduce) the excess.

The ability to carry forward is subject to the following rules:

- It's only possible to use carry forward after the current year's annual allowance has been fully used up.

- Unused allowance can be brought forward to the current tax year from the previous three tax years - starting with the earliest year first.
- The unused allowance in the carry forward years is based on the annual allowance in the relevant year including any tapered annual allowance which applied in that year.
- The person had to have been a member of a registered pension scheme at some point during the carry forward year in question. There's no need for any contributions to have been made to the scheme in that year.

4.3. Application

Mrs Lynn Dodd and the company accountants report that contributions have not been made for her in any of the last four tax years.

Mrs Dodds will have had an annual allowance of £40,000 in each of the last 3 tax years meaning that on 3rd April 2023, £120,000 of those allowances would be available to be carried forward into the following tax year using unused allowances.

Together with her annual allowance of £60,000 in this tax year, that means that up to £180,000 could be contributed to the SSAS on her behalf in this tax year. Assuming that there are no personal contributions for the remainder of the year, which would then mean that up to £1800,00 of the proposed £500,000 contribution could be allocated to Mrs Dodds fund within the SSAS.

Mr Stuart Iain Dodd also reports that contributions have not been made for him in the last four tax years.

Mr Stuart Iain Dodd will have had an annual allowance of £40,000 in each of the last 3 tax years meaning that on 5 April 2023, £120000 of those allowances would be available to be carried forward into the following tax year using unused allowances.

Together with his annual allowance of £60,000 in this tax year, that means that up to £180,000 could be contributed to the SSAS on his behalf in this tax year. Assuming that there are no personal contributions for the remainder of the year, this means that up to £180,000 of the proposed £500,000 contribution could be allocated to Mr Dodds fund within the SSAS.

5. Contributions to general fund

In the case of an advance contribution, one that is not made in relation to a specific employee, the Corporation Tax treatment should still be determined by the "wholly and exclusively" rule and the timing of the contribution payment. In paragraph 46030 of their Business Income Manual, HMRC make the following comments:

> "In deciding whether a contribution to a registered pension scheme is allowable, the same rules apply as for any other expense (with the exceptions of whether a payment is capital and the timing of the deduction - see BIM46010). In particular, any contribution must be paid wholly and exclusively for the purposes of the trade for it to be deductible.

The principles underlying the 'wholly and exclusively' test are long established and apply equally to pension contributions as to any other trading expense. More detailed guidance on the test is at BIM37000 onwards.
However, it is important to emphasise that as part of the cost of employing staff, pension contributions are likely to be allowable, including the situation where one party makes a contribution on behalf of another.

It will be relatively rare in the context of pension contributions to have to consider whether there is a non-trade purpose for the employer's decision to make the contribution. The guidance that follows considers circumstances in more detail where there may be a non-trade purpose for contributions.
However, when considering this guidance it should be borne in mind that whatever the circumstance it will always be a question of fact as to whether there actually is a non-trade purpose for the contribution and that for the most part even in these circumstances the contribution will be wholly and exclusively for the purposes of the trade of the payer."

Thus, if it can be demonstrated that the payment of this contribution is made for business purposes then the deduction of the payment against profits for tax purposes should be achieved. There are a number of reasons why a company might make such a contribution, including:

- Providing a fund to incentivise current employees.
- Rewarding future employees for their efforts
- Providing the means to create a flexible remuneration package.

Again, we would normally advise that the reasons for making an advance contribution should be documented by way of a Board minute in order to support the claim that it is being made for business purposes.

Funds held in the general fund can still be invested by the Trustees in the same assets as those in individual member's shares of the SSAS. Thus, the combination of member's funds and the general fund can provide significant levels of investment, the returns from which will, of course, grow tax-free within the SSAS.

6. Future allocations

To the extent that funds have initially been contributed to the general fund, these will subsequently be allocated to individual member's funds within the SSAS.

Such transfers will be treated as employer contributions so far as each member is concerned and will be measured against the member's annual allowance as noted in Section 4 above.

Income tax charges will arise for a member if the total of contributions made to their scheme, or to their part of the SSAS exceed the annual allowance.

As noted above, the current annual allowance is £60,000 and the appropriate level of allocation from the general fund to members should be considered each year as part of the company's remuneration policy.

Whilst the ability to carry -forward unused annual allowances remains for the members of a SSAS, it is important to remember that unused allowances are lost in not used by the end of the third year following the year in which the allowance arises.

7. Corporation Tax treatment and "spreading"

7.1 Commentary

Employer contributions can normally only be treated as a deduction for the accounting period in which the contribution is paid - they can't be carried forward or back to a different chargeable period.

But when large employer contributions are made to a particular scheme, sometimes part of the tax relief due has to be spread over two or more years. Relief on employer contributions will be spread if:

- they exceed 210% of the contributions the employer made to the scheme in the previous chargeable period and
- the amount of the relevant excess is £500,000 or more.

The relevant excess is any amount paid over and above 110% of the contributions in the previous chargeable period. If no payments were made in the previous chargeable period - for example, if a scheme has only just been established in the current period - then tax relief on any employer contributions in the current period won't be spread.

If there is a relevant excess, the number of years over which relief will be spread depends on the size of the relevant excess involved:

Amount of relevant excess	Period of spreading of tax relief
£500,000 or more, but under £1M	2 years - the relevant excess payment is split equally (1/2) over the current chargeable period and the next chargeable period.
£1M or more, but under £2M	3 years - the relevant excess payment is split equally (1/3) over the current chargeable period and the next two chargeable periods.
£2M or more	4 years - the relevant excess payment is split equally (1/4) over the current chargeable period and the next three chargeable periods.

If an employer contributes to more than one scheme, the spreading rules are applied separately to each scheme.

7.2 Application in Conclusion

As can be seen in the body of this report, the company accountant's commentary and the company Board meeting minutes there is ample justification of this level of company contributions.

From the £500,000 contribution made by Grange Quarry Limited £180,000 will be allocated to Mrs Lynn Dodds utilising her annual allowance for this tax year and her maximum unused relief using carry forward for the previous three tax years. Another £180,000 will be allocated towards Mr Stuart Iain Dodd on the same basis as the other director utilising his unused annual allowances.

The remaining £140,000 is to sit in the General fund until the next fiscal year i.e. 2024/25 then £120,000 of this will be used to allocate their maximum annual allowance of £60,000 each.

It must be noted clearly the amount to be contributed by Grange Quarry Limited that will be in excess is not sufficiently large to be caught by the spreading rules above.

As well as recording the reasons for the payment in a Board minute, which will prove to be helpful in the hopefully unlikely event of an HMRC enquiry, we would recommend that specific disclosure of the contribution be made on the face of the Corporation Tax computation with an analysis of the amounts allocated between Mrs Lynn Dodd and Mr Stuart Iain Dodd.

The contents of this report have been generated from information supplied by the directors of Grange Quarry Limited and their company accountants.

April 2024

PENTAX FINANCIAL AND LEGAL

FACT FIND QUESTIONAIRE

PENSION CONTRIBUTION PLANNING

Scheme name	Grange23 SSAS
Sponsoring employer	Grange Quarry Limited

FACT FIND QUESTIONAIRE – PLEASE COMPLETE FOR EACH CURRENT MEMBER

Name	Stuart Iain Dodd
Date of birth	22/6/1974
Name of employing company	Grange Quarry Limited
Job title	Director
Current salary	Pension contribution paid in lieu of salary

DETAILS OF OTHER INCOME IN CURRENT YEAR

Source (interest, dividends etc)	Amount in current tax year
Salary Hazelberry Developmentd	£14,400
Payrolled benefit in kind Hazelberry Developments Ltd	£1,981
Partnership profit from S&L Dodd	£20,000
Bank interest received in year (total)	£4,865
Dividends Hazelberry Developments Limited	£90,000

DETAILS OF OTHER PENSION CONTRIBUTIONS IN THE CURRENT YEAR

Source (employer, funded by self etc)	Amount and regularity
Nil	Nil

DETAILS OF PREVIOUS PENSION CONTRIBUTIONS

Tax year	Income per tax return	Employer contributions	Employee contributions
Nil	Nil	Nil	Nil

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OTHER INFORMATION

Type of business carried on by the company	Quarrying aggregates
Anticipated profit before tax in the current financial period	£2,500,000
Profit before tax for the previous financial period	£2,882,695.00

POTENTIAL FUTURE EMPLOYEES

Role	Potential start date	Individual identified (Yes/No)
n/a	n/a	n/a

Notes about recent trading activity	See accountant's note
Notes about predicted trading activity	See accountant's note

Confirmation

I confirm the details contained on this form are correct at the date of completion.

Name	
Date	

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FACT FIND QUESTIONAIRE

PENSION CONTRIBUTION PLANNING

Scheme name	Grange23 SSAS
Sponsoring employer	Grange Quarry Limited

FACT FIND QUESTIONAIRE – PLEASE COMPLETE FOR EACH CURRENT MEMBER

Name	Lynn Dodd
Date of birth	22/11/77
Name of employing company	Grange Quarry Limited
Job title	Director
Current salary	Pension contribution paid in lieu of salary

DETAILS OF OTHER INCOME IN CURRENT YEAR

Source (interest, dividends etc)	Amount in current tax year
Salary Hazelberry Developmentd	£14,400
Partnership profit from S&L Dodd	£25,350
Bank interest received in year (total)	£4,865
Dividends Hazelberry Developments Limited	£90,000

DETAILS OF OTHER PENSION CONTRIBUTIONS IN THE CURRENT YEAR

Source (employer, funded by self etc)	Amount and regularity
Nil	Nil

DETAILS OF PREVIOUS PENSION CONTRIBUTIONS

Tax year	Income per tax return	Employer contributions	Employee contributions
Nil	Nil	Nil	Nil

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POTENTIAL FUTURE EMPLOYEES

Role	Potential start date	Individual identified (Yes/No)
n/a	n/a	n/a

Notes about recent trading activity	See accountant's note
Notes about predicted trading activity	See accountant's note

Confirmation

I confirm the details contained on this form are correct at the date of completion.

Name	
Date	

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Farries, Kirk & McVean

Chartered Accountants

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Our Ref: GMcG/HL/GRANGE

04 April 2024

Mr D Arkley

Dear David

Grange Quarry Limited

The company anticipates profits of around £2.5 million in the year to 31 March 2024. The pre tax profit in the year to 31 March 2023 was £2,882,694.00. The business currently enjoys consistent good trading activity and has every reason to believe that the forthcoming year to 31 March 2025 will be showing profits at similar levels.

I understand the company has made a £500,000 contribution into the scheme. The purpose is to provide a reward for the Directors and founders of the company Stuart and Lynn Dodd who have worked tirelessly over the last 24 years to build the business to the extent that they have. The have over this period taken very low levels of salary and dividend to allow the company to grow. Now that the company has reached a level where it makes consistent annual profits, it was felt appropriate that an additional sum to contribute to the Directors pension scheme was appropriate to reward them for the achievement in building the company to the extent that they have.

Yours sincerely

Grange Quarry Limited
Tundergarth Mains, Tundergarth, Lockerbie, DG11 2PU

Minute of Board Meeting held at Grange Quarry Limited on 27 March 2024

It was resolved that the company make a contribution of £500,000 to fund a pension scheme for the Company Directors. This was granted on the basis of the consistent profits achieved of the company and to provide a reward for the Directors and founders of the company Stuart and Lynn Dodd.

The company has more than adequate funds to meet this level of contribution and the Directors felt it appropriate to proceed with it at this point.

....
Mrs L Dodd
Director