SSAS KEY FEATURES

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INTRODUCTION

You should read this document carefully so that you understand how a SSAS operates.

The document is based on our interpretation of current legislation as at April 2023 and is intended as general guidance, rather than a definitive statement of law as it applies to you. It should not be relied upon for financial advice, detailed advice for an individual, or as legal advice.

The legislation referred to in the document, and upon which it is based, including the current tax regime and benefits, may change in the future. This may affect the amount of benefits that an individual may be entitled to.

If you are unsure whether a SSAS is suitable pension vehicle for you, please consult with an authorised financial adviser.

WHAT IS A SSAS?

A small self-administered scheme (SSAS) is an occupational pension scheme set up under trust with fewer than 12 members. The SSAS is registered with HMRC and governed by a trust deed and rules.

A SSAS is primarily set up for private and family run limited companies for the benefit of the owner directors and senior employees. The members are also trustees and so have considerable control and flexibility over the scheme assets and investment strategy.

WHY CHOOSE A SSAS?

A SSAS provides a tax-efficient environment in which a company's profits can be invested to provide significant retirement benefits for directors and other key employees.

A SSAS gives its members the opportunity to make their pensions work harder prior to retirement by giving them control over their investments. Unlike other pension schemes, the directors can invest their pension funds in their own company, for example through loans or by purchasing commercial property to lease back to the company at an open market rent.

In addition to being a tax-efficient fund, assets held in the SSAS will generally be protected from creditors of the company.

With the right advice, business owners can make their pension funds work for their business whilst building up substantial pension funds to benefit them and their families.

HOW IS A SSAS SET UP?

A SSAS is established under its own individual trust by the *sponsoring employer* for the benefit of the scheme members. All members of the scheme should be trustees, however membership is at the discretion of the *sponsoring employer*.

The SSAS is governed by a trust deed and rules and is a separate legal entity from the *sponsoring employer.*

Contributions to the scheme are usually paid in by the s*ponsoring employer* and treated as a business expense when calculating corporation tax.

The *sponsoring employer* pays the contributions into a separate bank account specifically set up in the names of the trustees. Funds can also be transferred from other external pension arrangements.

The money in this account is invested and grows with interest, dividends, rents and further contributions. In addition, any asset purchased or transferred 'in specie' may increase in capital value to build member funds.

Other companies may subsequently join the SSAS as *sponsoring employers*.

WHAT ARE THE TAX BENEFITS OF A SSAS?

Under current legislation, a SSAS enjoys considerable tax benefits, as follows:

- The company's contributions would normally qualify for Corporation Tax relief for the accounting period in which they are paid.
- Members can pay personal contributions (which would qualify for Income Tax relief) but it is normal for a SSAS to be funded by employer contributions, to reduce National Insurance liability.
- Investments are generally exempt from UK Income Tax and Capital Gains Tax (CGT).
- On retirement, a tax-free lump sum of typically 25% of the fund can be taken.
- There is no Inheritance Tax (IHT) on pension scheme funds.
- If a member dies before age 75, irrespective of whether they have drawn benefits or not, their entire remaining share of the fund may be paid free of tax to their nominated beneficiaries as a lump sum or income.
- If a member dies after age 75, payments to a nominated beneficiary will be subject to income tax at the beneficiary's marginal rate.
- Fees can be paid by the employer and would be treated as a business expense.

CONTRIBUTIONS AND ANNUAL ALLOWANCE

- The sponsoring employer and members can pay contributions into the SSAS.
- There is no specific requirement to contribute and companies and members can pay at intervals that suit their circumstances.
- This can be on a regular basis, as one-off contributions or a combination of both, or in certain circumstances by 'in-specie' contributions.
- The current tax-free level of annual contribution (the *annual allowance*) is currently £60,000 per person (increased from £40,000 per annum with effect from 6th April 2023). Contributions that exceed the *annual allowance* are subject to tax.
- The annual allowance applies for each tax year, i.e. from 6th April to 5th April.
- You can 'carry forward' any *annual allowance* that you have not used from the previous three tax years to the current tax year. The amount of the unused *annual allowance* can then be added to this year's *annual allowance.* If you feel this might be relevant to your planning, please contact us to calculate the relevant figures.
- Once pension income has been drawn, a member's *annual allowance* may be restricted to £10,000 per annum.
- Tax relief on company contributions is granted by the local HM Inspector of Taxes and they are deducted as an expense in calculating the profits of a trade, profession or investment business.
- For a trade or profession, employer contributions are deductible if they are incurred wholly and exclusively for the purposes of the trade or profession. For an investment company, employer contributions are deductible if they are classed as an expense of management.
- A SSAS is not registered for relief at source and tax relief on member contributions would need to be obtained via the member's self-assessment tax return.
- Member contributions in any tax year are restricted to the greater of £3,600 gross or 100% of relevant UK earnings which are chargeable to Income Tax.
- In certain circumstances, contributions can be paid in the form of assets other than cash e.g. property etc. (called 'in specie' contributions). You should take advice before paying such contributions as there could be tax consequences for you.

HIGH EARNERS

The Government have reduced tax relief on contributions for *high earners*, affecting individuals who have a *threshold income* over £200,000 per annum and an *adjusted income* (taxable income plus pension contributions) of over £260,000 per annum.

For individuals with a *threshold income* of less than £200,000 – the standard limits for *annual allowance* and *carry forward* continue.

For every £2 of *adjusted income* over £260,000, the *annual allowance* will be reduced by £1 (from the standard £60,000) to a minimum of £10,000. This means that anyone with *adjusted income* of over £360,000 will have a *tapered annual allowance* of £10,000.

LIFETIME ALLOWANCE (LTA)

The pension rules limit the total pension funds (including *protected rights* policies) for most people to a *Lifetime Allowance* (LTA).

- The *Standard Lifetime Allowance* is currently £1,073,100 per person.
- Your funds are tested against the LTA on various occasions, typically each time you *crystallise* funds to pay benefits, when you reach age 75 and upon death.
- Under the previous legislation, if you exceeded the LTA, you would be subject to a tax liability on the excess, at the rate of 55% if the excess was drawn as a lump sum and 25% (over and above any income tax applying in any event) if the excess was drawn as pension income.
- **The Government announced in the Spring Budget 2023 that, from 6th April 2023, the LTA charge would be removed.**
- **The Government also announced in the Spring Budget 2023 that the LTA will be fully abolished from 2024/25, through a future Finance Bill.**
- You may previously have been exempt from the Standard LTA limit and associated tax liability if you had 'protected' a higher fund value by ceasing contribution or 'benefit accrual' and registering for one of the following types of protection:

Type of Protection	*Lifetime Allowance Limit*	*Relevant Date*
Enhanced Protection	Unlimited	6th April 2006
Primary Protection	Personal LTA	6th April 2006
Fixed Protection 2012	£1.8m	6th April 2012
Fixed Protection 2014	£1.5m	6th April 2014
Individual Protection 2014	£1.25m - £1.5m	6th April 2014
Fixed Protection 2016	£1.25m	6th April 2016
Individual Protection 2016	£1.00m - £1.25m	6th April 2016

- Unless you have *enhanced protection*, a form of *fixed protection* or specific lump sum protection, the maximum tax-free lump sum is restricted to £268,275, 25% of the Standard LTA, currently £1,073,100.
- The Government announced in the Spring Budget 2023 that individuals who hold a valid enhanced protection or any valid fixed protections (applied for before 15 March 2023) will, from 6 April 2023, be able to accrue new pension benefits, join new arrangements or transfer without losing this protection. They will also keep their entitlement to a higher tax-free lump sum.

WHAT INVESTMENTS CAN A SSAS MAKE?

Under the pension rules, certain investments such as residential property or *tangible moveable property* (e.g. art, antiques, classic cars and plant & machinery) will incur penal tax charges.

The following investments are generally permitted (subject to certain conditions and limits being met):

- Cash and Deposits
- Commercial property and land
- Hotels, care homes and public houses
- Agricultural land
- Real estate investment trusts (REITs)
- Syndicated property investment (commercial)
- Stocks and shares
- Insured pension funds, including trustee investment plans (TIPs)
- Unit trusts and open-ended investment companies (OEICs)
- Investment trusts
- Structured products
- Authorised collectives, platforms and investment portfolios
- Loans to a *sponsoring employer* (must be secured)
- Loans to genuine *unconnected* parties
- Gold bullion
- Hedge funds
- Unlisted shares

In addition, the trustees can borrow up to 50% of the net asset value of the SSAS.

Please note that the above list of investments is not exhaustive. If you wish to discuss whether a particular investment is acceptable or not, please do contact us.

Some investments are higher risk than others. You should understand the risk profile attached to different investments and discuss this with an authorised financial adviser, if you have one. ARC Trustees does not provide investment advice. We recommend you speak to an authorised financial adviser prior to making investment decisions.

We will permit any asset provided:

1. the asset does not give rise to a tax charge under the pension rules
2. we can obtain satisfactory title to the asset
3. ownership of the asset will not give rise to an unacceptable liability or risk

PROPERTY PURCHASE

As mentioned above, the SSAS is able to purchase commercial property as well as commercial and agricultural land. Please note:

- The scheme may purchase property from any party, including from you personally or from your company
- It may not own or 'have an interest in' residential property
- If the site has a mixed use, say a shop with residential uppers, it may be possible to split the ownership etc.
- Once purchased, the property or land can be leased to your company or an *unconnected* third party
- The SSAS may borrow up to 50% of its own net asset value (calculated before the new property). The SSAS may even borrow from a *connected* party, provided the terms are commercial.
- The scheme may purchase land and develop a building
- Care homes, hotels and designated student Halls of Residence are not treated as residential property. There are also some job-related properties that are exempted (such as a pub or restaurant with a landlord's flat).
- The SSAS may elect for VAT, if appropriate

As noted above, the SSAS can buy commercial property from a party connected to the SSAS (such as the *sponsoring employer*, member or relative of a member).

There are a number of advantages to this:

- Buying from your company or a member can release SSAS money to the business or member, which has been a useful tool in difficult economic times.
- You enjoy tax relief on the contributions used to purchase the property, so that the property is purchased in a tax-efficient manner.
- The company pays rent to the scheme, thus reducing the bottom line of taxable profits within the company.
- Capital gains realised upon sale by the SSAS are not liable to tax.
- The asset is held outside the personal or company ownership which protects it from the possible clutches of a liquidator.
- The property can be passed down through generations of family.

LOANS

The SSAS may lend to a *connected* company, provided it participates in the SSAS as an employer and subject to the following five conditions:

1. **Maximum Loan Amount** - restricted to 50% of the net asset value of the scheme at the date the loan is taken, less any existing loans.
2. **Term of Loan** - maximum term is 5 years from the date the loan was advanced. The total amount owing, including interest, must be repaid by the loan repayment date.
3. **Repayments** - Loans must be repaid in equal instalments of capital and interest throughout the term.
4. **Interest rates** - The minimum interest rate the scheme may charge is calculated as 1% above Base Rate.
5. **Security** - The loan must be secured by a first charge on a suitable asset of at least the equivalent value to the loan plus interest. The asset charged need not be owned by the borrower. Although HMRC will permit any asset, certain assets may create tax problems and liabilities in the event of default.

TRANSFERS-IN

A SSAS can accept transfers from other registered pension schemes. This means that if you have existing funds under other pension schemes, you should be able to transfer them to the SSAS thus consolidating your pension arrangements.

If a member does not want to disturb the investment within an existing plan, it may be possible to transfer the assets ‘in specie’, i.e. in their existing form, without having to surrender the investments before transferring them.

The benefits under the SSAS may be different to those under the previous scheme, for example there may be a penalty for transferring or you may be giving up guaranteed benefits.

For the avoidance of doubt, ARC Trustees does not provide advice on transfers and you should consult with an authorised financial adviser before any such transfer.

RETIREMENT BENEFITS

MINIMUM AGE

The minimum age for drawing lump sum and pension benefits is currently age 55 (increasing to age 57 in 2028).

LUMP SUM

You will usually be able to draw a lump sum calculated as 25% of the accumulated value of the relevant member's share of the fund. You *crystallise* funds in order to draw benefits.

The total lump sum (i.e. for all your pension plans combined) is restricted generally to £268,275, 25% of the Lifetime Allowance (LTA) of currently £1,073,100. Individuals who hold protection status will have a higher limit for this purpose.

You should generally have the flexibility of drawing your total lump sum in stages, with the quantum of 'undrawn' lump sum changing with the value of any *uncrystallised* funds.

Certain individuals may gain a higher lump sum under the pre-2006 pension rules. Please note that, in order for you to receive this enhanced lump sum (known as a *scheme specific lump sum*) based on the old rules, you will need to draw it in one go (rather than have the flexibility of drawing it in stages).

PENSION INCOME

You may draw your pension income either by purchasing an annuity from a provider of your choice or by drawing an income directly from the SSAS. This second option is often referred to as income drawdown.

Under the new *flexi-access drawdown* rules, there are no limits on the level of pension income you may draw. This applies if you are drawing benefits for the first time after 6th April 2015.

If your benefits are already in payment under the pre-6th April 2015 *capped drawdown* rules (i.e. income subject to a maximum limit), you may either remain in *capped drawdown* or switch to *flexi-access drawdown*.

Once you have drawn income under *flexi-access drawdown*, your maximum contributions will reduce to £4,000 per annum, with no *carry forward* option available. This is known as the *Money Purchase Annual Allowance*.

Pension income is subject to tax at your marginal rate (e.g. 20%, 40% or 45% depending on whether the payments take you into the higher rate tax thresholds).

DEATH BENEFITS

Death benefits will be paid to a member's nominated beneficiaries at the discretion of the trustees. In principle, the beneficiary need not be a spouse or financial dependant.

The death benefits payable upon a member's death, depend on the member's age:

- Upon death before age 75, irrespective of whether you have drawn benefits or not, the entire remaining fund may be paid to your nominated beneficiaries as either a tax-free lump sum or tax-free *flexi-access drawdown*.

- Upon death after age 75, payments of either a lump sum or *flexi-access drawdown* to a nominated beneficiary will be subject to income tax at the beneficiary's marginal rate.

There is no inheritance tax (IHT) on pension death benefits.

Upon death at any age, provided there are no financial dependants, one may leave part or all of the remaining fund free of tax to charity.

Beneficiaries in receipt of death benefits paid as *flexi-access drawdown* can nominate *successors* to continue to receive lump sum or drawdown benefits upon their death. The tax status of the subsequent benefits depends on whether the beneficiary died before age 75 rather than the age of the original member at death.

RISK FACTORS

The fund and the benefits it provides are not guaranteed. They will depend on future investment performance and financial conditions when you draw benefits.

All investments carry some risk. The value of investments (and any income received from them) can fall as well as rise and you may not get back what you have invested.

Certain investments such as property can be illiquid and may be difficult to realise if funds are suddenly required e.g. to pay benefits or transfer.

Please note that while ARC Trustees Limited is authorised and regulated by the Financial Conduct Authority (FCA), a SSAS is not an FCA-regulated product and, as such, does not come within the remit of the FCA. It is, however, registered with The Pensions Regulator, and is a Registered Pension Scheme under Part 4 of the Finance Act 2004.

ADDITIONAL NOTES

The information contained in these Key Features is provided based on our understanding of current law, practice and taxation which may be subject to change.

Whilst every care has been taken in preparing the information provided, ARC Trustees Limited does not guarantee the accuracy or currency of the content and no legal responsibility can be accepted in any consistency in any respect with the Trust Deed and Rules or HMRC practice

In the event that the information in the Key Features contradicts the Trust Deed and Rules or HMRC practice the Trust Deed and Rules or HMRC practice as applicable shall prevail.

The law of England and Wales will apply in all legal disputes.

HOW DO I CONTACT YOU?

If you require any further information or would like to discuss your circumstances with us, please contact us at:

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