A great addition to an adviser's toolkit

Gemma Fenton explains the advantages offered by a SSAS

A SSAS is a really useful planning tool for advisers and is often overshadowed by SIPPs, but there are advantages to using a SSAS rather than a group SIPP.

There has been a significant increase in the enquires into Talbot and Muir and the Curtis Banks SSAS team in Bristol, both part of the Curtis Banks Group.

Passing on assets

For business owners, the passing on of assets and succession planning is a high priority. For them, a SSAS is an ideal scheme, in particular if there are illiquid assets or where a sale would be detrimental, such as a business premises or unquoted shares.

This is a relatively simple process. If a member of the SSAS wishes to retire or leave the pension scheme, this can be funded by cash which should have accumulated in the SSAS bank account or other liquid assets, leaving the more illiquid assets intact for future members to utilise.

Loanbacks

Another benefit of a SSAS is that loans can be made to a sponsoring employer provided they meet the requirements set out by HMRC which cover, security, term, amount, interest rates and repayment terms.

In basic terms a loanback cannot exceed 50% of the fund value, which is tested at outset so if the value of the fund drops there won't suddenly be a tax charge. The interest rate is a minimum set by HMRC at 1% over bank base rate and the loan must be secured as a first legal charge over an asset. The repayments must be equal capital and interest payments payable at least annually and the term of the loan cannot be more than five years.

The loanback is then used by the sponsoring employer for business development purposes and allows these funds to be utilised by the business.

Loans to unconnected parties

A SSAS can also make loans to unconnected parties, which need to be on commercial terms but the restriction of security and interest rates etc do not apply.

Property purchase

As with SIPPs, SSAS can purchase commercial property. This could be an existing business premise, which the SSAS purchases and sale proceeds are returned to the business creating business liquidity or it could be a new premises. The business uses the pension fund to purchase the building as opposed to finding an alternative source of funding. Rent is then paid to the SSAS.

Opportunities

For advisers there is a great opportunity not only to set up a new SSAS for clients, but also to help firms that have found themselves with an over-priced or poorly run SSAS. This is often due to the Scheme Administrator duties having been left to un-suspecting scheme member, who has unwittingly allowed the scheme to drift into dangerous territory where they face heavy fines and penalties. There is no need to break-up these schemes as they can simply be moved to a new administrator who can offer the required levels of administration and regulatory oversight.

It is important to undertake due diligence on the potential SSAS administrator, understanding the size of the business, number of staff, company accounts and the allowable assets. Taking a good look 'under the bonnet' could allay future concerns and ensure the administrator is committed to the sector and can provide the service clients need for the long term.

So, a SSAS is something that clearly has a place in planning for business clients, it isn't just established firms looking at SSAS, the millennial generation is also taking more control of their pension planning alongside their business proposition. As a specialist area, it is important to work with a professional firm so advisers can provide a better experience and retirement for clients.

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Loanback Case Study:

Jessica Tiley, SSAS Manager, Curtis Banks

Bob and Janet Goodwood own a successful sawmill and have spotted an opportunity to build high end wooden garden furniture, but they need to invest in new machinery costing £50,000. They considered leasing or hiring but have decided they would like to buy it outright.

Good Wood Ltd have retained profits in the business and could afford to buy the machinery but their financial adviser presents an alternative solution via a loanback from their SSAS.

The directors make a significant contribution into their SSAS of £100,000, which reduces the company profits by £100,000, providing a corporation tax relief reduction of £19,000. The company then approaches the trustees of the SSAS regarding a loanback and agrees to lend the company £50,000. The company uses this £50,000 to purchase the machinery.

The loanback facility within the SSAS makes sound tax relief planning and Good Wood Ltd not only managed to secure the machinery but saved corporation tax and made a large contribution to their pension scheme.

To be eligible for a loanback the following must be considered:

1. The loanback must be secured and repaid in equal regular instalments and be for a bona fide business purpose
2. The interest rate is a minimum set by HMRC at 1% over bank base rate
3. The loan must be secured as a first legal charge over an asset
4. The term of the loan cannot be more than 5 years
5. Loanbacks cannot be for more than 50% of the net asset value of the SSAS