SEGMENTED SOLUTIONS LTD

"How to use a SSAS and other Planning Tools to Save Tax"

JUNE 2020

INTRODUCTION:

In the UK we are really lucky that there are such generous Tax benefits bestowed upon Approved Pensions. Contributions receive tax relief, investments grow free from tax and we can access a proportion of our retirement fund as 'tax free cash' when we reach 55. Then to cap it all the fund is free from IHT on our death. It is like having your very own tax haven here in the UK!

However there are the downside too – The maximum fund size we can accumulate is restricted to £1.07m (2020) and if we break the rules and take unauthorised payments, there are penalties of up to 55% to pay. Plus there are restrictions that mean we cannot invest into residential property within the pension, and as we are a nation of Landlords, this seems to be everyone's biggest issue.

If only we could wave a magic wand and keep all the good bits while eliminating all the bad!

Well the aim of this guide is to introduce you to SSAS planning with some key extras that can indeed achieve that for you – if that is what you want!

Please note, that nothing in this document is meant to replace getting proper advice and we are simply providing this for 'information' purposes to educated professional business owners and wealthy property investors.

WHAT IS A SSAS – QUICK RECAP:

A SSAS is a "Small Self-Administered Pension Scheme" established by a company and run by the Directors as they will be the 'Trustees' as well as the 'Members'.

It goes without saying – but the individuals concerned need to actually run a business in order for there to be a SSAS established!

But once HMRC have issued your SSAS with its Pension Scheme Tax Reference (PSTR) Number, and you have opened a bank account – you are good to go.

Attached to this FREE Guide we have included a SSAS Establishment Pack – which will take you through all the steps you need in order to get your SSAS up and running.

We are of course happy to talk directly with you to explore what you are trying to achieve, and hand hold you through the process – to make sure everything is done properly.

Grab a FREE Telephone Consultation with Paul Stewart our Technical Director: 07786 396722.

FUNDING YOUR SSAS - CONTRIBUTIONS:
So now you have a brand new SSAS – with a bank account open and you are ready to fund things. How much can you contribute? Where else can it get money?

First of all the Sponsoring Employer who established the SSAS is allowed to make contributions as an allowable business expense – in 2020 this tax relief will reduce your corporation tax by 19%. Whilst the Directors of the Sponsoring Employer are technically able to make 'personal' contributions, the tax relief works differently and is rarely done because the business which set up the SSAS wants all the tax relief itself.

When paying a pension contribution, there are complex rules that define what an individual is allowed to have by way of tax relieved pension contributions. The headline amount is called the Annual Allowance – which is £40,000. This can be reduced to as low as £4,000 if you earn above £240,000 and can be increased if you wish to make use of unused £40,000 annual allowances from the past.

However, a SSAS with multiple members can operate in 2 key ways which mean that larger contributions are possible:

The first is the SSAS itself might be set up as a 'Defined Benefit' arrangement. In this case the contributions per Member are calculated backwards from the 'income' being promised per year of service to retirement. For a 35-year-old the maximum contribution might massively exceed this £40,000 limit, as the SSAS needs money with which to buy the 'income' promised at retirement.

The second way is for the SSAS to accept contributions into its 'general' fund for the benefit of all current and all future members. From a technical viewpoint a SSAS is an Occupational Scheme where none of the funds are earmarked as belonging to any 1 individual. It is only when benefits are paid OUT that there needs to be earmarking of money to a specific Member.

The HMRC Pensions Rule Book allows contributions of £500,000 to be made by a company into the general fund of their occupational pension scheme before tax relief is spread over more than 1 accounting period. Again, subject to doing things correctly and for the exclusive benefit of the employer and their employees… SSAS contributions can usually be made that will reduce corporation tax down to an acceptable level, while enabling more than £40,000 to be invested into this tax-exempt regime.

We are happy to make sure you get the support and advice you need in order to maximise your SSAS contributions within the letter and the spirit of the Law.

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FUNDING YOUR SSAS – TRANSFERS:

Another source of money for your SSAS will be your existing pension arrangements. For example, you and the other Directors may have existing Self Invested Personal Pensions (SIPPS) or Money Purchase Occupational Schemes from previous employments.

All of those can be transferred into your SSAS and used to begin your investing. Many SIPP Trustees will worry that you are transferring into a SSAS because someone is trying to 'sell' you some exotic investment (usually a scam)… so there will be questions asked, but that is easy to deal with and you have a legal right to ask for a Transfer Value.

You may also have other pension benefits which are 'Defined Benefit' in nature, where your previous employer has promised you an income based on the length of service with them. These pensions can also be transferred into your SSAS, but will require an IFA to write and give formal 'Advice' which explains that you are giving up a potentially secure income in exchange for a single final lump sum which may or may not grow by enough to match the promised income you are giving up.

It is not for us to give advice, or even suggest that one arrangement is better than another, but if you do want to consider transferring your previous pensions into your SSAS – we can make sure that you get put into contact with the appropriately qualified IFA for your advice.

Most defined benefit schemes will REQUIRE that you prove that advice was given – by asking for a copy of the advice report.

In pure pensions legislative terms if you have a defined benefit scheme from the past and you are asking for it to transfer a cash value into your NEW scheme which is ALSO a defined benefit arrangement – there is no requirement for an IFA to provide transfer advice.

Again, where this situation is beneficial to all parties, we can assist with ensuring that you get access to the right advice and access to the right structures.

MY SSAS IS FUNDED – WHAT CAN I INVEST IN?

Once your SSAS has received contributions or transfers, it has money and can begin investing. As with all pensions there are things that are 'allowed' and things that are 'not allowed' in terms of investments.

The main questions we get relate to property. You ARE allowed to invest into Commercial Property, and you are NOT allowed to invest into Residential Property.

But before we get into the whole property investing subject, don't forget that your SSAS can invest into loans – which can be made to unconnected 3rd parties as well as to the Sponsoring Employer.

This ability to lend money to the Sponsoring Employer can prove helpful if your company has invested £300,000 into the SSAS but needs £150,000 in order to assist with cash flow.

When we are asked to establish a SSAS we always take time to discuss what contributions, transfers and loans might be required – before we discuss investments.

SSAS and PROPERTY INVESTING:

Without doubt this is the main topic people want to know about. In basic terms it is simple – the funds can be used, alongside mortgages, to invest into Commercial Property (including the property that the Sponsoring Employer operates from).

A SSAS can borrow a maximum of 50% of it's asset value in order to enable it to make a property purchase. One thing to remember is that the purchase price may include VAT – which is taken into account when working out the maximum borrowing.

If you have a SSAS with £500,000 of cash, it would only be able to borrow another £250,000 (which is 50% x £500,000). Making a maximum property investment of £750,000.

If the SSAS is VAT registered and a property transaction adds VAT to the price that needs to be paid, then this 50% limit is on the WHOLE price, meaning that the VAT element ends up further restricting the perceived LTV that can be achieved. In this example, the £750,000 purchase price would be INCLUDING the VAT payable on purchase.

Rent is then paid to the SSAS – tax free. When the property is sold any profits are tax free too. The value of the property is not included in any IHT calculations either, so basically a tax-exempt world within the SSAS.

But what about Residential Property Investing?

There are many people who suggest that 'indirect' investment into Residential Property is possible – but in our view, the HMRC Anti Avoidance Rules are quite clear – anything that is done to circumvent the rules for a tax advantage will be picked apart by HMRC pretty swiftly.

However, there are genuinely diverse investment funds on the market that sell units to investors – where the underlying investments include residential property. These unit trusts are bought and sold by pension funds all the time, quite legitimately.

In the UK there are Special Trusts called 'EXEMPT PROPERTY UNIT TRUSTS' or EPUTS. These are FCA Regulated structures which have freedom to buy and sell property of all types. They have no restrictions on borrowing, so can raise a 75% LTV mortgage if needed.

These EPUTS are exempt from paying tax too. It is the unit holders who pay tax on the profits made on selling units, or the income earned from the units which pay out an income.

Imagine if your SSAS were the unit holder – it would pay 0% tax on the profits made on the sale of units and any income paid to it would also be tax free, as the SSAS is an approved pension fund.

With the right planning it is possible for your SSAS to make use of an EPUT to invest into any type of property (commercial and/or residential), as well as being able to raise a mortgage that is higher than the usual 50% limit.

LIFETIME LIMIT RESTRICTIONS:

As already mentioned, an approved pension can only provide a certain level of 'tax exempt' fund – There is a Lifetime Limit (currently £1.07m).

This might seem like a large amount, but it does not take much for an investment of £750,000 to reach that level. Especially if the Directors involved are young and the pension has years to run its course.

One thing to remember is that this 'Lifetime Limit' only kicks in when benefits are taken, so if there are 4 Directors and 4 adult children involved in your SSAS, the funds can be paid out to the right person up to the Lifetime Limit - leaving the rest of the money within the SSAS for the 'others'.

Another planning concept is that of growth – if your SSAS were to only grow by 1% p.a - a SSAS fund of £800,000 would potentially never reach the Lifetime Limit as the £1.07m is indexed each year in line with inflation – which would probably be MORE than the 1% growth.

In simple terms the SSAS would never catch up!

There are advisors who use QROPS's to get around the Lifetime Limit – they simply take the funds from the SSAS/SIPP or wherever and add it all up in value and transfer it all into the Qualifying Recognised Offshore Pension (QROPS). This transfer causes a crystallisation event – where HMRC will be advised of the Transfer and they will make a note of how much of your £1.07m has been used up. All growth within the QROPS is outside of this limit.

This raises several issues for us in terms of overall planning efficiency:

1st - There is a need to make a report to HMRC about the transfer, which may not be desirable.
2nd – Using up most of your Lifetime Limit in this way will make NEW contributions to your SSAS nearly impossible because HMRC will know that you are 'at your limits'.
3rd – Taking benefits from a QROPS cannot be controlled in the same way as for our last structure, so it may result in less than tax efficient retirement planning.

Where clients are worried about hitting Lifetime Limits, we can put additional planning in place which limits the growth within the SSAS to 1% pa.

All the rest of the growth would belong to our final structure – the QNUPS.

WHAT IS A QNUPS?

A Qualifying Non-UK Pension Scheme (QNUPS) is a type of offshore pension that 'Qualifies' under HMRC rules for a number of tax benefits. Many people confuse them with a QROPS (Qualifying Recognised Offshore Pension Schemes). They are different – in that the QROPS is 'recognised' by HMRC as one that is able to receive transfers from other 'approved' pensions (such as ex-employer's schemes, SIPPS and SSAS's).

A QNUPS is used for making contributions where no tax relief is given on the contributions – but there are still major tax benefits associated with using a QNUPS to shelter investments from capital gains tax, income tax and of course inheritance tax.

Investments within a QNUPS are not restricted in the same way as for a QROPS or a SSAS – so making them the ideal tax shelter for Residential Property.

When taking benefits from a QNUPS – (from the age of 55) a 'tax free lump sum' of 25% of the fund is available. This forms part of the allowable limit on tax free cash under the normal pension's rules – but we do have planning available that will work around that and enable tax free benefits to be paid from age 55 from a QNUPS. The rules we use to achieve tax free access to funds from a QNUPS are related to annuity rules which follow HMRC's own guidance and accepted practice.

Our Lifetime Limit planning effectively allows growth above 1% to be within the QNUPS while the base 1% is earned within the SSAS.

If this planning impacts you, we will pick it up when establishing your SSAS and let you know more at the time.

HOW CAN I USE A QNUPS – ALONGSIDE MY SSAS?

There are a whole range of amazing uses for a QNUPS – they can invest into shares in your business and pay 0% tax on any dividends or growth in the shares. With the Entrepreneur's Relief being restricted to only £1m – putting shares into a QNUPS can shelter ALL the future profits from CGT, not just the first £1m.

A QNUPS can also grant loans to your UK company and all interest charged is received in the QNUPS free from tax – but is still an allowable expense for the company taking on the loan.

Where a Director has a 'Director's Loan' in excess of £350,000 we can take the loan and make it a 'contribution' to the QNUPs. The company now owes the QNUPS the money and all interest paid will be received tax free by the QNUPS and as before – the interest will be an allowable expense within the company, which reduces the corporation tax payable.

An example of using a Director's Loan could look something like this:

Loan = £500,000. Interest rate = 8%.

Employer pays £40,000 into the QNUPS as interest on the loan. The QNUPS pays no tax and the £40,000 can be invested just like in a normal pension – without tax!

The added bonus is that that any loan capital repaid will fall outside the estate for IHT purposes – saving even more in tax and making the QNUPS an idea tax shelter.

Your FREE Tax Consultation will let us tell you more based on your specific situation.

SUMMARY:

Using a SSAS properly and bringing an EPUT and QNUPS to the table makes effective tax planning possible for anyone who want it. No need to move abroad to some tax haven!

All of this is perfectly possible from Aberdeen to York.

What we ask is that you invest some time in speaking with us to determine your best strategy going forwards. As with all planning – the best time to discuss thing was… yesterday!

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