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SSAS loan to the sponsoring employer

A Case Study

SSAS trustees can make loans to sponsoring employers using up to 50% of the net market value of the SSAS fund. Mr & Mrs Khan run their own successful company but want to invest in new equipment and are considering using a loan from their small occupational pension scheme to fund this.

Facts:

- Mr and Mrs Khan own their own manufacturing business, KB Tooling Ltd
- Mr Khan has an existing executive pension scheme worth £50,000
- Mr & Mrs Khan want to make a contribution to their pension of £40,000 each
- KB Tooling Ltd is a profitable business with a tax liability
- Mr & Mrs Khan want to use money from their pension to invest in new equipment for their business
- KB Tooling Ltd owns its business premises, which is estimated to be worth £150,000.

Process:

- Documentation is completed to convert Mr Khan's executive pension scheme to a SSAS
- KB Tooling Ltd, the sponsoring employer, pays a contribution of £40,000 for each of Mr & Mrs Khan to the SSAS
- The SSAS trustees are Mr & Mrs Khan and Dentons' Professional Trustee company - Denton & Co Trustees Limited
- KB Tooling Ltd's business premises are valued by an independent surveyor (who is either a Fellow or a Member of the Royal Institution of Chartered Surveyors and must be a Registered Valuer, whose opinion must comply with their professional standards) at £150,000
- Loan documentation is drawn up between the SSAS trustees and KB Tooling Ltd for a loan of £45,000 for a term of 5 years (the maximum permitted)
- KB Tooling Ltd grants the trustees a first charge over its business premises
- The trustees transfer £45,000 to KB Tooling Ltd to enable it to buy equipment for the business
- KB Tooling Ltd pays equal instalments of capital and (fixed) interest to the SSAS each quarter and the loan is repaid in full at the end of the term.

Advantages:

- SSAS has a secured investment with a fixed yield
- Client's business has a more willing lender (but the SSAS must not be a 'lender of last resort' where the business is unable to raise finance from anyone else)
- Client's business has been able to contribute to a pension scheme and raise capital to purchase equipment
- Client's business may be able to claim its contribution and loan interest payments as an expense for its tax purposes
- Loan interest is paid to the SSAS rather than to a third party lender, and builds up in a tax favoured environment.

Notes: Loans to a sponsoring employer can only be made if strict criteria are met relating to maximum amounts, repayments, loan term, interest rates and security.

Loans to individuals (including members), partnerships or trusts and companies connected with members (including companies that are associated with the sponsoring employer but do **not** participate in the SSAS) are not permitted.

Clients will need to negotiate 'commercial terms' for the loan.

If a loan to a sponsoring employer fails to satisfy any of the criteria, it will be an unauthorised employer payment and give rise to tax penalties.

Any security value which falls short of the secured debt may be treated as an unauthorised employer payment and could give rise to tax penalties on the sponsoring employer and the SSAS.

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Transactions between a SSAS and connected parties, such as a vendor or a tenant, are allowed provided they are conducted on an 'arm's length' commercial basis and an independent valuation is undertaken. Valuations must be carried out by a member (MRICS) or Fellow (FRICS) of the Royal Institution of Chartered Surveyors (RICS) who is also a Registered Valuer and whose report and opinion should comply with their professional standards.

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All statements concerning the tax treatment of products and their benefits are based on our understanding of the current law and HM Revenue & Customs (HMRC) practice. These are for general guidance only and do not constitute professional advice. The tax treatment depends on the individual client circumstances and may be subject to change. Whilst every effort has been made to ensure accuracy, no liability can be accepted for any errors or omissions.

If VAT may be applicable, you should seek specialist advice.

Whilst the names used in this case study are fictitious, the processes described have been used in actual cases.

Please note that every care has been taken to ensure that the information provided is correct and in accordance with our understanding of current law and HMRC practice, which are both subject to change.

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