# A Guide to utilising your pension plans to invest in your business

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Ellis Bates are here to enhance people's lives by delivering peace of mind, enabling financial freedom and helping clients achieve their goals.

# Welcome to our Guide to utilising your pension plans to invest in your business

Whether you are a family-run business, owner-managed or Board led, every business can have the same challenges with raising funds to achieve plans and goals.

There are multiple ways to utilise your pension plans in a business setting including providing a cash injection into your business and buying your own commercial premises.

There are several options for you to consider and lets take a look at the difference in terms of eligibility and governance.

## Key differences difference between a Small Self-Administered Scheme (SSAS) and a Self-Invested Personal Pension (SIPP)

Both are regulated in the same way as far as HM Revenue and Customs (HMRC) are concerned, they are both investment regulated pension schemes, so subject to the same rules on borrowing, lending and investment.

However for each scheme, HMRC legislation is applied differently, so you need to be aware of the following before proceeding:

### SSAS (Small Self-Administered Pension Scheme)

A SSAS is a small, self-administered pension scheme, usually a defined contribution workplace pension, which offers additional investment flexibility. They are generally set up to allow a small number of senior staff in a company to build up and pool pensions to create a pot of money, typically to buy the commercial property associated with their business or to make loans to the business.

### SIPP (Self Invested Personal Pension)

A SIPP is a flexible and tax-efficient pension and is designed as a pension you manage yourself or with the help of a qualified financial adviser. A SIPP offers greater investment opportunities than a standard pension, including company shares (UK and overseas), collective investments such as open-ended investment companies (OEICs) and unit trusts, investment trusts and commercial property and land.

## Typical Investment Options for SIPP and SSAS

- Stocks and Shares
- Insured funds
- Mutual funds
- Deposit account
- Commercial Property
- Unit trusts
- OEICS
- Equities
- Gilts Loans
- Borrowing
- Offshore funds

## Disallowed Investment Options

As a regulated investment pension, HMRC has investment exclusions and include:

- Residential property (either in the UK or overseas)
- Tangible Moveable Property

Tangible moveable property means any asset that can be touched and moved and includes items such as:

- Machinery
- Works of art
- Jewellery
- Antiques
- Gem stones

## Key Points of difference between a SIPP and a SSAS

| SIPP | SSAS |
|---|---|
| Personal pension | Occupational pension |
| Master trust (usually) | Individual trust |
| Member not always trustee | All members are trustees |
| FCA-regulated | TPR-regulated |
| Relief at source | Usually net pay (although often only employer contributions are made) |
| Assets held in individual SIPP arrangement | Assets are pooled |
| Funds must be transferred out on death (either as a lump sum payment or to another pension) | Beneficiaries can join the scheme or have funds transferred elsewhere |
| Groups can be formed for property purchase - property held as joint tenants between individual SIPPs | The SSAS holds the property |
| Cannot make loans to connected parties | Can make loan to sponsoring employer |
| Ability to loan up to 50% of net fund value | Ability to loan up to 50% of net asset value |

## What are SIPP Fundamentals

A SIPP is held by an individual, and a collective will need to each use there own SIPP to raise the desired funds for investment purposes, be it loans for the company, shares or to collectively purchase the company's commercial property for example.

There is no limit to the number of participants to any 'collective' strategy.

There are different types of SIPP but in order to gain the widest choice of investment options, including buying commercial property and commodities, you will need a Full SIPP. These will need a greater level of investment support from a qualified adviser than a DIY or 'light' SIPP and therefore will incur higher charges.

### Tax relief made on contributions made into a SIPP

As with all pensions, SIPPs provide favourable tax treatment. Once in a SIPP wrapper, your savings will grow free from UK income tax and capital gains tax. SIPPs are governed by the same tax and contribution rules as other pensions. Anyone living in the UK who pays into a SIPP is eligible to claim pension tax relief, including low-income earners.

Tax relief is paid on your pension contributions at the highest rate of income tax you pay.

- Basic rate taxpayers receive 20% pension tax relief.
- Higher rate taxpayers can claim 40% pension tax relief.
- Additional rate taxpayers can claim 45% pension tax relief.

## What are SSAS Fundamentals

Membership is generally limited to no more than 12 members and these are often the directors, senior executives or key individuals/family members within the trading company but can be extended to non-company members too.

A SSAS is trust based and all 12 members become trustees and must make decisions unanimously.

A SSAS can also be used for family trusts.

### Sponsoring employer

Each SSAS scheme must have a sponsoring employer (with at least one employee) and this will typically be a company, and the status can be limited, partnership, sole trader or investment company.

Each scheme must have a scheme administrator and along with registering the scheme with HMRC must comply with all the specific reporting requirements.

It can take several weeks and months for the scheme to be checked and accepted by HMRC while they carry out their due diligence, far longer than setting up a SIPP.

## Regulation

As an occupational pension scheme, a SSAS is regulated by The Pension Regulator (TPR) and all schemes must be registered with them as soon as accepted by HMRC.

## Tax relief on contributions made into a SSAS

Contributions into the SSAS are made by the members of the scheme and/or the employer. Individuals will earn tax relief on contributions and the employer contributions may be deductible against profit but this will need to meet certain criteria.

A SSAS can run on a net pay or relief at source basis and must be set up accordingly. Any higher rate or additional rate tax payers will still need to claim through self-assessment as usual.

The employer will benefit from Corporation Tax Relief if the 'wholly and exclusively' rules are met.

## SIPP vs SSAS for commercial property purchase

There are several reasons an owner and or Board of Directors may be looking to either buy their company's commercial property and/or create a cash injection into the business.

The owners(S) may be looking to retire but want to retain the commercial property personally with no capital gains implications. The business may simply want to own the property which has been previously leased.

In a SSAS, pooled assets are owned jointly by the members, and split according to contributions and transfers in and out. If the scheme is being used to raise money for the property purchase, there will be one loan only and in the name of the pension scheme.

In a SIPP, each participant in the property purchase will use their own SIPP to raise funds and may hold other assets outside of this purchase within their SIPP. They will own a fixed percentage of the property, dependent on the share paid of the purchase price.

As each lender will need security, it is typical for each SIPP holder to use the same lender to buy the commercial property they will jointly own.

## Fees comparison SIPP vs SSAS

All providers charge different fee levels but in general:

- A single member SSAS will cost more than a SIPP
- With multiple members, a SSAS becomes more cost effective
- With a SSAS, fees are payable by the sponsoring employer, so tax deductible

## Loans to sponsoring employer

In these challenging times, there may be many reasons why a business is looking for a cash injection and a SSAS or SIPP loan can provide the platform to do so.

A significant advantage of a SSAS over a SIPP is that the scheme can make a loan to the sponsoring employer. The loan has to meet several criteria including interest rate, term, security, loan amount and repayment terms.

The loan can be up to a maximum of 50% of net assets.

With a SIPP you can borrow up to 50% of the net fund value.

The loan has to be paid back at an agreed commercial rate and the repayments are usually covered by the rental payment for the property from the company. Interest on the loan must be charged at a commercial rate which must be at least 1% higher than the average base rate of the 6 main UK clearing banks.

It is again vital to seek qualified advice in this area as breaches in the loan criteria can result in unauthorised payments which become taxable by HMRC.

## Shares in sponsoring employers

A SSAS, as an occupational pension, can under certain circumstances buy shares within the company, up to a maximum of 20% of assets held in the scheme. However, in practice, the rules surrounding share ownership in a SSAS are complex and again need expert financial advice to ensure compliance with HMRC.

With both a SIPP and a SSAS, as with all pensions, the beneficiaries will receive death benefits by way of flexi pension drawdown.

A SIPP beneficiary must have their own pension or a junior SIPP.

With a SSAS there is an additional option of the beneficiary becoming a SSAS member.

If a SIPP member dies, the jointly owned may potentially have to be sold to the other members unless the beneficiary wishes to continue to own the share of the property and will necessitate a change of ownership and incur the necessary legal costs.

Any changes of members do not incur any such changes or costs within a SSAS as the property is owned by the scheme's trust.

## Transfer flexibility

A SSAS will normally allow transfers from other pensions if members want to consolidate their pensions and use their funds. Equally, you are able to transfer out of your SSAS into another pension.

There is also the option to convert to an Executive Pension Plan (EPP) within the SSAS and this will protect the EPP benefits (GAR, protected lump sums etc) and potentially boost the SSAS scheme's ability to purchase property and make loans the sponsoring employer loans.

As with all pension and tax related matters, it is vital to seek qualified financial advice to ensure compliance and maximisation of all allowances and benefits and compliance to HMRC rules.

*"It's difficult to know which route to go with financial advice & planning. After reviewing several companies, we elected to use Ellis Bates as they seemed very balanced and informative, and were competitive. Having a locally based Adviser was also appealing. So far they have been very communicative, responsive to ad-hoc requests and the plan has performed well through the turmoil of the last year, so overall I would recommend Ellis Bates as a stable and reliable provider."*

*"A very professional financial advice service from start to finish. I was kept informed from start to finish of the process and Ellis Bates delivered exactly as they said they would."*

*"I use Ellis Bates primarily to manage my pension.
Over the last ten years they have been superb. Regularly keeping me informed and supporting me with sound professional advice. I could not have a better company looking after me. recently Ellis Bates have helped in my wife and I's updated wills and also Power of Attorneys for future peace of mind for our children. We would certainly recommend them."*

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