Case Study

PSG Technical Consultancy
Pension Based Funding

Loan to a Limited Company

A Small Self Administered Scheme (SSAS) is an occupational pension scheme usually established by an employer limited company for its directors and senior managers. SSASs are most suitable for the business partners who control a limited company and these business partners will often be family members, although this is not necessarily always the case.

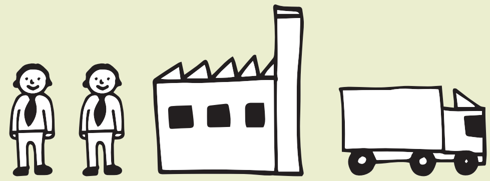
The limited company which establishes the SSAS is called the Sponsoring Employer and the members who join the SSAS are appointed as Member Trustees which enables them to control and self-direct the investments made by the SSAS.

A number of employer related investments may be made by the SSAS Trustees to assist in the development and expansion of the business and its trade, including: secured loans, unquoted share purchases, intellectual property purchases and commercial property purchase and leaseback.

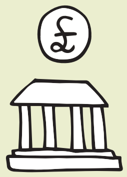
The SSAS is tax approved and may provide significant tax efficiencies to the Sponsoring Employer.

the pension solutions group

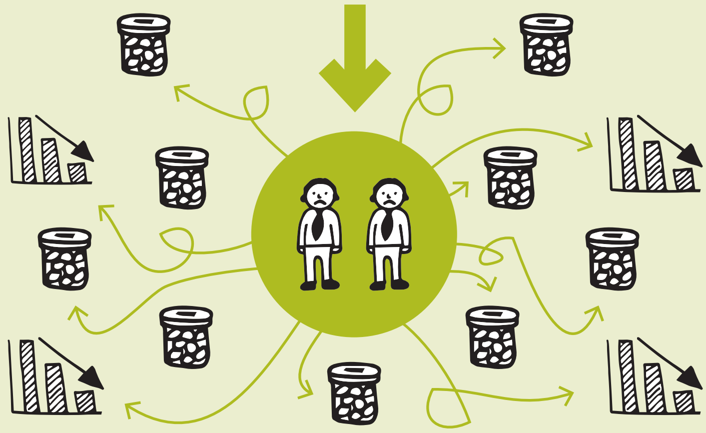
Pension Based Funding: Loan to a Limited Company



Two business partners (the clients) run a Limited Company that manufactures steel products for the construction industry. They operate from a commercial property, owned by the company, worth £250,000 (confirmed by an open market valuation) with no outstanding mortgage;



Traditional commercial bank lending opportunities are either not attractive or not available at all and alternative funding sources are prohibitively expensive, leaving little scope to deal with the cash-flow issues in the business

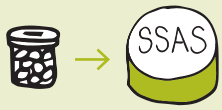


The business cannot keep up with demand for its products due to lack of cash which is clearly stifling growth and limiting profits.

Both clients have built up pension savings over the years totalling about £150,000 but these are spread across a number of insured pension arrangements and SIPPs. Their existing pension scheme investments are performing poorly and added to that, there is a duplication of costs and charges associated with their schemes. Also, the clients have little in the way of control or opportunities to make these pensions work well for them. Neither of the individuals have received any pension contributions for years.

ACTION NEEDED

The Limited Company established a PSG SSAS with the clients appointed as the member Trustees and PSG providing Scheme Administrator and Independent Trustee services.



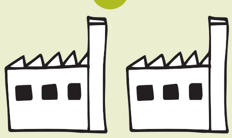
The clients transferred their existing pension schemes, as cash, into their new SSAS to consolidate their pension savings into one scheme, under the direct control of the SSAS Trustees.

£75,000 LOAN

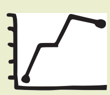
The Trustees lent £75,000 from the clients SSAS (maximum loan of 50% of the net asset value of the SSAS) to the clients' Company, secured by a first charge and backed by an open market property valuation, for the purpose of business expansion.

5 YEAR FIXED.

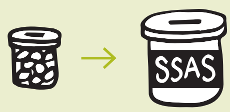
The loan was made for a term of 5 years, at a fixed interest rate of 4.5% (calculated at 4% above bank base rate), with equal quarterly in arears capital and interest repayments.



The company used the funds provided to finance its trade, enabling expansion leading to increased turnover and profitability.



The SSAS Trustees invested the scheme's remaining cash into other permitted investments, self-directed by the clients.



The company paid pension contributions annually into the SSAS in subsequent years to mitigate Corporation Tax and to grow the client's pension savings.

Capital repayments, loan interest received and pension contributions received were invested for further capital growth and investment return.

Tax and other advantages

- Consolidation of existing pension savings into a SSAS leads to savings in terms of running costs, charges and fees.
- Poor investment performance, high charges and lack of control have been replaced by the SSAS which works alongside the company for mutual benefit.
- The SSAS enables the clients to self-direct all aspects of their pension investment.
- The SSAS also provides the broadest investment flexibility to the clients, greater than that of a SIPP, given that the SSAS Trustees can make sponsoring employer secured loans which a SIPP cannot.
- In cases such as this one, SSASs receive loan capital repayments and interest on the loan instead of a bank receiving them, thus building up the pension fund at the same time as providing valuable funding to the company, enabling the clients to uniquely control both the lender and borrower.
- Profits generated by the trading activity funded by the SSAS loan, can be used to drive business growth.
- Corporation Tax may be mitigated by pension contributions made by the company into the SSAS which are a deductible business expense for Corporation Tax computation purposes.
- Loan interest is a deductible business expense for the company.
- The SSAS establishment and annual administration costs are deductible business expenses for the company.
- When sufficient profits allow, the company can potentially pay substantial pension contributions using up unused carry forward relief from previous years when the clients were not receiving pension contributions.
- the SSAS Trustees can make a new loan available to the company as the SSAS fund grows and as the original loan is paid back, as long as the security is of sufficient value to cover the existing loan and any further loan made.

Alternative options

A charge could be taken over alternative unencumbered assets owned by the company or the clients personally, including property, intellectual property or other tangible assets, subject to a sound open market asset valuation.

Other applications

A SSAS Sponsoring Employer Loan is a useful and tax efficient way to structure a commercial property development loan on a phased drawdown basis.

See PSG's separate case study:
Commercial Property Development Loans

Important legal notice:

For more information

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