

CASE STUDY

SSAS Loan Back Scenario

John and Neil are directors of an expanding and profitable business and looking to invest £80,000 to develop a new product that they anticipate will rapidly deliver increased profits.

The company owns the premises it trades from (recently valued at £200,000) with no borrowing and is holding surplus cash at bank of £35,000.

A commercial lender has agreed, in principle, to lend the additional £45,000 required to fund the project.

John and Neil's financial adviser suggests however that a SSAS loan back could provide a better, more tax efficient solution.

Solution

Before starting their own business John and Neil had amassed pension benefits totalling £140,000 across a number of schemes.

Working alongside the company's accountant, their adviser recommends that the company establish a SSAS, transfer in their existing pension arrangements and make a tax relievable company pension contribution to the scheme of the £35,000 surplus cash.

This results in a total SSAS fund of £175,000, of which the company can immediately borrow back a maximum of 50%, using the business property as security.

This effectively creates a loan facility of £87,500 which is more than sufficient to fund their project.

John and Neil are delighted with the proposal and agree to proceed without delay. A SSAS is established and the transfer of the existing pension funds arranged. At the same time, a solicitor is appointed to draft a formal loan agreement and security document between the SSAS (as the lender) and the company (as the borrower). As soon as the pension transfers are received and loan agreements are signed, the loan is advanced.





Benefits

- Company pension contribution of £35,000 attracts corporation tax relief.
- Company must pay a commercial rate of loan interest to the SSAS but John and Neil do not mind doing this as it simply accrues in the SSAS to provide them with eventual retirement benefits and, being an allowable expense of the business, it will also offset corporation tax liabilities. It is preferable to paying interest away to a commercial lender.
- As profits increase corporation tax liabilities can be mitigated by making further company pension contributions to the SSAS.
- Loan back facility could be used to fund future projects.
- There may be an opportunity in future for the SSAS to purchase the existing business premises or fund larger premises should the business continue to expand.

The SSAS is a flexible and tax efficient vehicle that will not only provide valuable retirement benefits but can assist the directors in building a successful and profitable business.

Please note:

This case study has been created for general guidance only to highlight the potential benefits of a SSAS and is intended for use by Financial Advisers only. This case study does not constitute professional advice and should not be used by retail clients. The names used in this case study are fictitious, however, the case study is representative of an actual case administered by Westerby.

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Additional expenses will be charged in relation to the loan back facility. These will include legal fees, registration of the legal charge at Companies House and fees due in relation to a professional valuation of the assets used as loan security.

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