

INFORMATION SHEET

AUTHORISED EMPLOYER LOAN FACILITY

THE SOVEREIGN

SMALL SELF-ADMINISTERED SCHEME

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Sovereign Pension Services is a trading name of Sovereign Pension Services (UK) Limited which is a company registered in England and Wales, number 4826217. Registered office: Sovereign House, Port Causeway, Bromborough, Wirral CH62 4TP, United Kingdom.

Sovereign Pension Services (UK) Limited acts as the HMRC Scheme Administrator to each individual SSAS.

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SSAS - Authorised Employer Loan Facility

Cash is often considered the lifeblood of any Small and Medium-sized Enterprise (SME) and despite the ability to claim corporation tax relief against the value of any contributions it pays to the SSAS, the thought of the depletion of those cash reserves often presents the owners/directors with a headache.

One of the key features of a SSAS that sets it apart from other pension schemes, particularly SIPPs, is the unique ability to lend funds back to the Scheme's Principal Employer or other employers that participate in the Scheme.

Therefore, after having had a profitable year and looking at a significant corporation tax bill, a SSAS (in the form of a loan back facility) can assist with a mitigation strategy and can also provide the company with liquidity to meet capital expenditure for the next year or possibly fund any expansion plans.

An "Authorised Employer Loan", to give the facility its official name, is subject to HMRC scrutiny and any facility must comply with five "key tests" laid down within Finance Act 2004:

1. Maximum loan amount

The maximum permissible loan is limited to 50% of the net asset value of the SSAS (less any previous outstanding loans).

2. Loan Security

The loan must be secured by way of a first legal charge over assets that are at least equal in value to the initial capital value of the loan plus the total interest that will be due under the facility.

3. Interest Rate

The loan must carry a minimum interest rate 1% over the average base rate of the six main clearing banks. However, HMRC would expect to see a commercial rate of interest charged.

4. Term

The maximum term of the loan is limited to five years. There is no minimum term.

5. Repayments

Regular payments of capital and interest are required at least annually, although it is encouraged that these be made monthly or quarterly.

Choice of suitable security is crucial to a successful outcome and it will be necessary for solicitors to be appointed to be sure the asset is unencumbered and capable of having the required first legal charge attached to it.

A professional valuer, with appropriate qualifications, must be appointed to verify the value of the security before funds are advanced.

Authorised Employer Loans are not for the faint-hearted as failure to meet any one of the key tests during the course of the loan will result in serious, punitive tax charges being imposed by HMRC.

The normal timescale is around two months, so the timing of an application needs to take into account the timing of any contribution payments from the employer if cash is tight, but used correctly the SSAS loan facility can be a highly effective corporate planning tool for the owners and directors of UK based SMEs.

For further information please contact ssastrustees@sovereigngroup.com