



Small Self Administered Scheme (SSAS)



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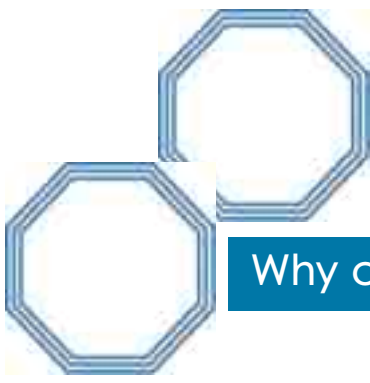
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Why choose a Small Self Administered Scheme (SSAS)?

Choosing a pension scheme for your company is an important decision. With over 30 years experience in managing SSASs, we here at Legal & General take great care to ensure that our [products are tailored to meet the individual needs of your business](#). Finding the right pension can be vital not only for providing you with an individually tailored retirement solution, but also for the efficient management of your company's financial assets. We offer cost effective and comprehensive administration services.

In this guide we'll explain why a SSAS may be suitable for you and what some of the key considerations may be in making that decision.

A Small Self Administered Scheme must have no more than 11 members, which means it's ideally suited for family controlled or small companies. Legal & General offers a highly flexible SSAS aimed at meeting the needs of controlling directors and senior executives.

The scheme allows you and your key staff to plan for retirement by using truly flexible investment solutions. As well as the normal range of insured funds you would expect from us, the scheme can be a vital tool in your business planning. It will allow you to make investment decisions that not only help you build your retirement fund but also permit you to invest in your business, enabling expansion; for instance, purchasing commercial property in a tax efficient environment, making a business loan to the company or purchasing shares in your own company. And that's not where the opportunities end – you can use the scheme to invest in a wide range of assets, such as stock, shares and collectives.



As a pension scheme registered with Her Majesty's Revenue & Customs (HMRC), both contributions and investments benefit from useful tax advantages which makes planning for your retirement as tax efficient as it is flexible.

Eligibility

All members of the Scheme would usually be controlling directors or key executives of the company. The Scheme is set up under trust, with all members acting as general trustees. It operates strictly according to the terms of the Scheme's trust deed and rules, which are written to allow as much flexibility as possible.

There is no legal requirement for an independent trustee. However, we will act as a corporate trustee, in conjunction with the general trustees, to ensure that the SSAS is operated within the rules and that no action is taken that may be in breach of HMRC regulations. The presence of a corporate trustee should also satisfy the pensions regulators' trustee knowledge and understanding requirements.

The information in this brochure is based on our understanding of current law relating to pensions.



Tax treatment



Contributions

The sponsoring employer of the SSAS (and any other participating employer) can pay contributions on behalf of the members.

Although there's no limit to the contributions that can be paid by an employer, they'll only be allowed as a deduction against corporation tax if they're made wholly and exclusively for the purposes of the business.

If an employer's total contributions to the SSAS and any other schemes exceed £500,000 in any year and constitute an increase of 210% or more over the previous year's contributions, then tax relief may be spread over a period of up to 4 years.

Clarification should be obtained from your accountant on the likely tax treatment of contributions.

Each member can make gross contributions of up to 100% of their annual earnings, or £3,600 if greater, each tax year and still get full tax relief at the

appropriate rate. This limit applies in total to all registered pension schemes that the member belongs to. The employer will be responsible for applying tax relief at the appropriate rate through the 'Net Pay' arrangement before paying the gross contribution to us. There is no minimum contribution.

If however, contributions to all of a member's registered pension schemes exceed the annual allowance, including any paid by the employer, the excess will be subject to a tax charge of 40%. HMRC has set the annual allowance for 2008/2009 tax year at £235,000. It will increase in stages to £255,000 for the 2010/2011 tax year and will remain at that level for all tax years up to and including 2015/2016. After that it will be reviewed on an ongoing basis.

Tax year	Annual allowance
2008/2009	£235,000
2009/2010	£245,000
2010/2011 to 2015/2016	£255,000

A member can pay contributions in excess of these limits, but would not get tax relief on the excess. The value of any tax relief will depend on individual circumstances.

The annual allowance will not apply in the tax year in which benefits are taken.

Retirement benefits

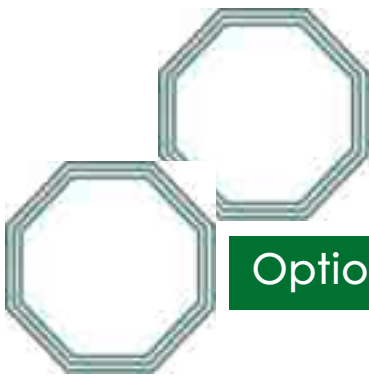
There are no restrictions on the value of the total benefits payable from an individual's registered pension schemes. However, anything over a certain limit, called the lifetime allowance, will be subject to a tax charge of up to 55% on the excess.

For the 2008/2009 tax year, HMRC has set the lifetime allowance at £1.65 million, rising to £1.8 million for the tax year 2010/2011 and will remain at that level for all tax years up to and including 2015/2016. After that it will be reviewed on an ongoing basis.

If an individual's benefits are all brought into payment at the same time, the lifetime allowance will usually apply only once. If alternative benefits (such as an annuity) are purchased or if benefits are brought into payment at different times, then on each occasion a percentage of the lifetime allowance will be used up. The payment of retirement benefits includes taking a cash lump sum, purchasing an annuity, or designating funds as an unsecured pension (USP).

Like other pension plans there are tax advantages. Investment growth is normally untouched by income or capital gains tax. However, it is not possible to reclaim tax paid on dividends from UK companies. Employee contributions receive tax relief and employer contributions will usually qualify for tax relief. In addition, benefits accrued under a member's other registered pension schemes could be transferred into the SSAS depending on the circumstances. Members should seek specialist financial advice if they are considering this option.

The law and tax rates may change in the future and the value of tax relief will depend on your individual circumstances.



Options available at retirement and on death

A pension for life

On retirement, the member can draw an unsecured pension income from the SSAS (subject to any legislative limits) or the member's fund may be used to buy an annuity from us or another insurance company. The latter is known as an Open Market Option for annuity purchase. The pension income, either as an annuity or unsecured income drawn from the SSAS, is subject to PAYE. After age 75, income can also be drawn as an alternatively secured pension (ASP). The Legal & General SSAS also allows you to draw income as a Scheme Pension.

Optional lump sum on retirement

The member may take a portion of their fund (up to 25%, although some members who have accrued pension savings prior to 6 April 2006 may be entitled to more than this) at retirement as a cash lump sum, in exchange for a reduced pension. There will be a tax charge if the total benefits exceed the individual's lifetime allowance.

Optional pension for the member's spouse

When arranging the member's benefits on retirement, where this is by way of purchasing an annuity, the option may be included to provide a pension for their spouse or dependant. A spouse's, registered civil partner's or dependant's pension can also be provided under USP or ASP, though there is no requirement to specifically designate funds for this purpose.

Lump sum/pension on death

If the member dies before retirement a lump sum return of fund would normally be paid, free of inheritance tax. However, the trustees must deal with the payment of any death benefits within two years of the member's death otherwise a tax charge of 40% will be made on the total benefits. The payment of death benefits is at the discretion of the trustees. Alternatively, the deceased member's fund can be used to provide a spouse's, registered civil partner's or dependant's pension. There will be a tax charge where total lump sum benefits exceed the lifetime allowance, although this can be avoided by using any fund over and above the allowance to provide a spouse's, registered civil partner's or dependant's pension.



A lump sum return of fund can also be paid where a member has commenced drawdown of benefits from the SSAS under USP and dies before the age of 75. However, their fund is then subject to a tax charge of 35%. No lump sum death benefit can be paid following death after the age of 75 under ASP (separate rules apply on death after the age of 75 – please contact our SSAS Department for further details).

Please note, the rules don't give a spouse or registered civil partner or any other person any right to a particular amount of benefit on a member's death. It'll still be up to the trustees to decide how funds remaining will be applied, in the event of a member's death.

Early retirement option

The member can start drawing benefits from age 50 (minimum age increasing to 55 after 6 April 2010) even if they continue in the company's employment.



Range of investment options

Our SSAS offers a wide variety of investment options. The trustees can invest in funds which are managed exclusively by the insurance company asset managers and some external fund managers, using the trustee investment contracts. Our wide range of investment funds are shown in the Group Portfolio Plus Funds guide for insured funds. These funds operate free of UK income and capital gains taxes.



The beauty of a SSAS is its unrivalled flexibility in offering members a truly diverse range of investment choices, in addition to the ability to invest in our range of insured funds.

- Stock exchange securities (either with a full or AIM listing)
- Bank and building society deposits
- Loans to the sponsoring employer
- Unit and investment trusts
- Open ended investment companies (OEICs)
- Real Estate Investment Trusts (REITs)
- Other insurance company funds
- Commercial property
- Land for commercial development
- Shares in the sponsoring employer.

Certain assets, such as those classed as 'prohibited investments', for example, residential property or 'wasting assets' such as plant and machinery, are permitted, although these will attract tax charges. There will also be tax penalties if the member, a sponsoring employer or a connected party has use of a scheme asset without paying an open market rent. A connected party includes the member's spouse, registered civil partner and any relatives, as well as sponsoring employers or other companies controlled by the member and/ or their relatives. All transactions must take place on an arm's length basis reflecting normal commercial terms, as determined by a suitably qualified valuer, to avoid any tax charges arising.

We offer a flexible range of services to suit all schemes, from the simplest through to the most diversified and complex. In this way we can offer you a package that meets the servicing needs of your scheme.

Two of the most widely used investments are commercial property purchase and trust fund loans and these are covered in more detail on the pages which follow.

Features

The SSAS enables you to gain the following important benefits for your company:

Purchase commercial property in a tax free environment

The pension fund is able to purchase commercial property, including your current company premises, in a tax free environment (see later in this document for an example).

Business loans to the company

The scheme is allowed to make loans to the company subject to HMRC legislation (see later in this document for an example).

Purchase the company's own share capital

The scheme can purchase the company's own share capital, although restrictions apply.

The value of the investments which make up your fund can go down as well as up, so the value of your fund is not guaranteed. It is particularly important to remember this if you are close to taking your benefits.



Commercial property purchase

Trustees can acquire commercial property in two ways:

- i) Purchase on the open market
- ii) Purchase or in specie transfer from the company.

Whilst schemes will commonly purchase property from the scheme's sponsoring employer, enabling the company to retain use of their premises, the trustees may purchase premises from and/or for lease to, an unconnected third party.

If the property is being purchased from, sold back or leased to a connected party, the transaction must be completed at the market value, in order to avoid tax charges.

The benefits of buying commercial property

- Rent payable is allowable as a business expense, with no tax payable by the SSAS on the rent received.
- The trustees have no liability to capital gains tax on the sale of the property.
- In a sale and leaseback, the company retains use of the property.
- The pension scheme is a separate legal entity from the company so the property, along with the other scheme assets, would normally be protected from creditors in the event of liquidation.
- Should the tenant experience financial difficulties, it may also affect the rent received by the SSAS and, depending on the type of property and other economical factors, the value of the property. The SSAS is therefore exposed to the financial risk of the company to a greater extent than it would have been had it not invested in its own property.
- The property is registered in the names of the general trustees, enabling them to retain control of the day to day management of the property.



Points to consider when purchasing property as a scheme asset.

The 'use' of the property

The property must be let for a commercial rent. Failure to pay a commercial level of rent to the SSAS will result in tax charges being raised.

The state of the property

The property needs to be in a good state of repair and a sound investment in its own right.

Value

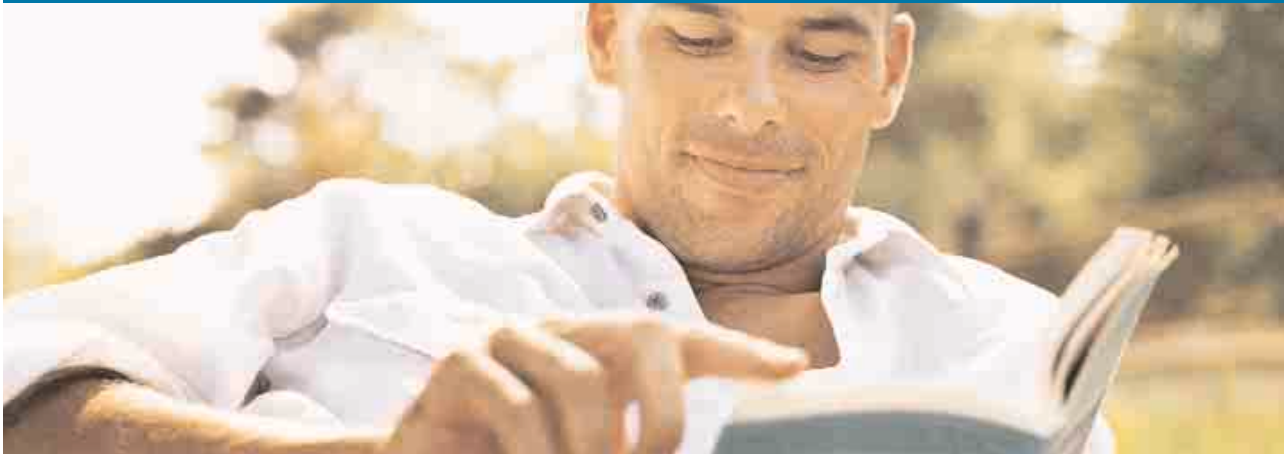
The property must be purchased at the full market value, which must be set by an independent valuation. This valuation should include a statement setting out the full commercial rental value of the property.

Capital gains tax (CGT)

Where a property is bought from the business, there may be a CGT liability to the company.



Commercial property purchase (continued)



Borrowing

- i) If the scheme assets are insufficient to buy the property, the trustees are permitted to borrow the outstanding balance needed to achieve the purchase. Borrowing by the scheme is limited to 50% of the value of the fund net of any borrowing
- ii) Borrowing can be arranged from a financial institution, the employer or a connected party, but must be carried out on normal commercial terms to avoid tax charges.
- iii) Borrowing is in the name of the trustees not the individual directors nor the company.
- iv) Security will usually be required by a commercial lender.

The length of the loan should not normally exceed 10 years. HMRC expect a loan to be paid back as quickly as possible taking into account potential liability issues as a member nears retirement.

Loans will normally be arranged on a capital and interest repayment basis. The rental income received by the

pension scheme would be used to meet the repayments on the loan. (Repayments of capital can, if necessary, be supplemented from any ongoing contributions).

Liquidity

Property may be held as an investment whilst the member draws a retirement income from the scheme. However, the trustees should ensure that the scheme is in a position to purchase an annuity, or provide benefits in the form of an Alternatively Secured Pension, without becoming involved in a forced sale of the property. This is all the more important in times of depressed property values or if the asset involved is the company's trading premises.

Value added tax (VAT)

If the scheme is VAT registered the trustees can reclaim any VAT charged to them on subsequent property development or on properties subject to VAT. The trustees must then also charge VAT on rent. VAT registration is available as an option through our SSAS.

An example

ABC Limited has a SSAS that has been in existence for just over a year. They wish to buy the freehold of a new property valued at the purchase price of £350,000 + VAT.

Following an initial contribution and the transfer in of existing pension arrangements, the Scheme's assets are now valued at £290,000.

The maximum borrowing would be (50% of the £290,000 fund value)	£145,000
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Total costs	
Purchase price of the freehold property	£350,000
VAT at 17.5%**	£61,250*
Stamp duty at 3%	£12,338
Allowance for additional costs	£4,500
Total	£428,088

Finance	
Current fund value	£290,000
Maximum borrowing	£145,000
Total	£435,000

Interest on the £145,000 loan for year one at 6.50% = £9,425
(Payable from the scheme)

Rental income must be paid at the Open Market Value otherwise tax charges will be incurred.

* If the pension scheme registers for VAT, then the VAT of £61,250 paid to purchase the property can be reclaimed, although VAT must then be charged on the rent.

** 15% for a year.

Please note interest rates are examples only and the allowance for additional costs will include such items as solicitors fees and disbursements, and surveyors fees and could exceed the amount shown.



Loans

A loan from the pension scheme to the business is a unique facility of the SSAS. Although there are no arrangement fees to be paid, as security is required on the loan, solicitor fees will be incurred.

The maximum loan is 50% of the value of the fund net of any borrowing. Loans can be made to the sponsoring employer but NOT to a member of the scheme or their relatives.



All loans must be made on commercial terms and the following five key tests must be satisfied:

- Security

The loan must be secured throughout the term by means of a first charge on company assets, which are at least of equivalent value to the face value of the loan including interest. There must be no other charge on the asset that would take priority over the scheme's charge.

If there is no security in place, or the loan ceases to be secured, tax charges will arise. It is possible to replace the security as long as the value of the outstanding loan capital and interest is covered.

- **Term**

Loans must be for a fixed term which cannot exceed five years. However, it is possible to rollover the loan for a further five year term if the employer is having difficulty making repayments. A loan can only be rolled over once. Tax charges will arise if the loan is not repaid within the specified term.

- **Interest rate**

Interest must be charged at a commercial rate that cannot be lower than that charged on unpaid corporation tax self assessment (generally 1% over the average bank base rate) to avoid tax charges.

- **Repayments**

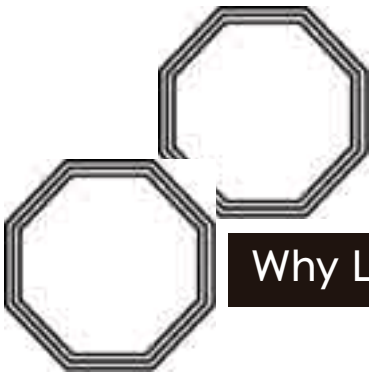
All loans must consist of regular repayments of capital and interest in equal annual instalments throughout the term of the loan, to avoid tax charges.

- **Early repayment**

Loans may be voluntarily repaid at any time. However, the loan must be repaid in full if the borrower:

- Breaches the terms of the loan agreement
- Ceases to carry on business
- Becomes insolvent or, if the money is needed to settle a claim on the fund, for example, on death.

For further details on investments or any other aspect of our SSAS scheme, please contact your financial adviser or contact the Legal & General SSAS Department by phone on **01737 375 720** or **01737 375 724**. Call charges will apply. We may record and monitor calls. Alternatively, you can email us at **SSAS_SIPPDept@landg.com**.



Why Legal & General?

Choosing your pension provider is a long term decision and you need to be certain that whoever you select will be as committed to your business as you are. Here at Legal & General we have a long history of working in partnership with our clients and a strong reputation for service.

Our SSAS has been designed to offer you a flexible solution to changing investment needs. Whichever options you select you can be confident that our experienced team will be there to help you. In addition our SSAS client managers are available to attend meetings with you to discuss any aspects of SSAS business face to face and tailor a scheme and service package to achieve your aims.

Your financial adviser can arrange this for you.




About us

The Legal & General Group, established in 1836, is one of the UK's leading financial services companies.

Over 5.8 million people rely on us for life assurance, pensions, investments and general insurance plans. The Legal & General Group is responsible for investing over £304 billion worldwide (as at 30 June 2008) on behalf of investors, policyholders and institutions.

Authorised and regulated by the Financial Services Authority
Legal & General Assurance Society Limited
Registered in England No. 166055
Registered Office: One Coleman Street, London EC2R 5AA
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www.legalandgeneral.com

W12237 02/09 Approval Number: H96382

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