BARNETT WADDINGHAM
beyond the expected

Authorised employer loans from SSASs

A unique feature of Small Self-Administered Schemes (SSASs) is that they are able to make loans to their sponsoring employers. These are called authorised employer loans. These loans are not possible from a Self Invested Personal Pension (SIPP).

Scheme loans

Loans can be made to sponsoring employers of a SSAS, but not to SSAS members or anyone connected to them. Where a SSAS is established by a partnership, loans cannot be made back to that business. Loans can be made to unconnected individuals and companies with the terms agreed between the trustees and borrower with no HM Revenue & Customs (HMRC) interference. Where lending to individuals, this can only be done if the lending does not require a Consumer Credit Licence.

The member trustees are responsible for the investment strategy for a SSAS, with the requirement that they should agree all investment decisions unanimously. Therefore all trustees need to agree to a loan from a SSAS.

For schemes where not all members are trustees and therefore not exempt from the standard investment restrictions imposed under the Pensions Acts, the trustees should not grant any new loans to any sponsoring employer of the scheme.

Conditions

To qualify as an authorised employer loan, certain criteria must be met, broadly:

- Term: no more than 5 years.
- Security: secured by a first charge.
- Interest rate: commercial rate of at least minimum of 1% above base rate.
- Repayments: at least equal annual instalments of capital and interest.
- Amount: no more than 50% of the net asset value of the SSAS in total.

The term can be extended for a further five years if, at repayment, the borrower is in genuine financial difficulties. The security must cover all outstanding capital and interest throughout the term of the loan and there can be no equal or higher ranking charges. The interest rate must be commercial and at least 1% above the average base lending rate of six high street banks specified by HMRC.

BARNETT WADDINGHAM
beyond the expected

Information needed before an authorised employer loan is advanced

1. Confirmation of the borrower. If the borrower is a connected company it should be a sponsoring employer of the SSAS. If not already, it must be adhered in advanced of the loan being made.
2. Details and valuation of the security. The valuation should be carried out by an appropriately qualified valuer and, if property, be dated within six months of the loan being drawn down. If the security is not property, we require the valuation to be more current.
3. A valuation of the assets of the SSAS in order to confirm that total loans will be no more than 50% of the net asset value of the SSAS.
4. The trustees and the borrower should agree the terms of the loan (ensuring that they meet the general conditions outlined above) and confirm to us so that we can prepare the necessary documentation.
5. A solicitor must be appointed in order to put the security in place before the loan is advanced: Barnett Waddingham does not insist on any specific solicitor being used and therefore the trustees are free to find the most suitable solicitor for their needs.

Tips for an efficient investment

1. Don't leave it to the last minute before deciding to provide a loan from your SSAS to your company. It often takes a bit of time to set up the loan - we need to check the basis of the loan meets HMRC requirements, cash has to be available in the SSAS and suitable security has to be identified and valued.
2. Obtain your solicitor's confirmation that the security is in place and enforceable before the loan is drawn down.
3. Unencumbered commercial property is the most efficient form of security. Whilst other assets such as residential property or plant/machinery can be used, these could incur tax charges (and will increase the cost of administration) if the loan fails.
4. As the loan will be repaid in equal instalments, your company should set up a standing order to make all repayments on or before the due dates. This will reduce the cost of administration and reduces the possibility of a tax penalty on late payment.
5. Tackle late payments immediately.

Please contact your Barnett Waddingham client manager if you would like to discuss any of the above in more detail.

ssas@barnett-waddingham.co.uk
0344 443 0200

www.barnett-waddingham.co.uk/ssas

Barnett Waddingham LLP is a body corporate with members to whom we refer as "partners". A list of members can be inspected at the registered office. Barnett Waddingham LLP (OC307678), BW SIPP LLP (OC322417), and Barnett Waddingham Actuaries and Consultants Limited (06498431) are registered in England and Wales with their registered office at 2 London Wall Place, London, EC2Y 5AU. Barnett Waddingham LLP is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities. BW SIPP LLP is authorised and regulated by the Financial Conduct Authority. Barnett Waddingham Actuaries and Consultants Limited is licensed by the Institute and Faculty of Actuaries in respect of a range of investment business activities.