

LENDING TO YOUR BUSINESS

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A SSAS may lend money to the company used to establish the SSAS. If your company changes, or you establish a new company in the future, that company can also join your SSAS.

Investment into your business from your SSAS can be a preferable way with which to raise funds for business expansion, asset purchases— your business can receive needed finance, and the interest from the loan will be used to grow your SSAS rather than be lost to a bank.

Loans to a sponsoring employer are a unique of a SSAS.

There are certain requirements that need to be adhered to, and certain restrictions imposed, to ensure that, as far as is possible, your SSAS will be able to recover its losses if the borrower defaults on its repayments.

It is also important to recognise what a loan cannot be used for – they must be used for genuine commercial purposes and cannot be used to provide finance to try and keep an ailing company afloat. For this reason, it is important that suitable business plans, accounts and company projections are sought and fully considered before any decision to grant a loan is finalised.

Also, since a loan cannot be made to a scheme member or to anyone connected to them, this option is not available when the sponsoring employer is a partnership or an LLP.

The areas that need to be addressed before a loan can be granted are:

Security:

The loan will need to be secured throughout the full term as a first charge against an asset of – at least – equal value to the face value of the loan including interest. There is no requirement that the asset itself be owned by the borrower, so an asset owned by a third party can be used as security, so long as its value is sufficient, and that there aren't any higher-priority charges

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against it. This security can be replaced by another asset at any time, so long as the replacement security used is at least equal to the lower of the market value of the original security or of the outstanding loan amount (including interest).

If, for any reason, the loan ceases to be secured by any charge at all, then a tax penalty will apply; similarly, if no security ever existed, or if the security exists but not as a first charge, then a tax penalty will also apply. Also, a tax penalty will apply if, for whatever reason, a transaction occurs which deliberately reduces the value of the security used.

Whilst there are few limitations on what can be used as security, the easiest and most commonly-used asset is commercial property. Other fixed assets, such as intellectual property, shares and residential property can also be used; however, these all have their own drawbacks, pitfalls and potential tax implications, and so further guidance should be sought if these are to be used. It is also possible to secure a loan against a floating charge over a business. In this case, an accountant's opinion should also be sought to ensure that the value of the assets covered by the charge is more than adequate to act as allowable security for the loan.

Loan term

The maximum term of a loan to a sponsoring employer can be no longer than five years; however, it isn't inconceivable that the borrower experiences a period of financial distress during the term of the loan, and so it is allowable to extend (or 'roll over') the loan period for up to five further years from the standard repayment date under these circumstances. This 'roll over' can only be done once per loan.

FACT SHEET

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Repayment Instalments

Loan repayment instalments can be no less frequent than annually – we allow for monthly, quarterly and annual repayments. For annual instalments, all loans must be repaid in equal instalments of capital and interest for each complete year of the loan, with each loan ‘year’ beginning on the anniversary of the date the loan was made and ending on the last day of the following 12-month period. If the loan is for less than a complete year, the incomplete year is treated as the final year of the loan.

Interest rates

The minimum interest rate a scheme may charge is calculated to be 1% above the average of the base lending rates of the six leading high street banks – any rate less than this will be deemed an unauthorised amount.

There is no cap on the rate charge, and the rate can be fixed or variable for the loan term. Terms must be commercial, however, and done at arms-length.

Loan amount

A SSAS is able to loan up to 50% of its net value (to be taken immediately before the loan is made), whether this is comprised of one loan, or a series of smaller loans. If, when a loan has been granted, it is found that this 50% limit has been breached, an unauthorised payment will be deemed to have been made and a tax charge will be applied to the excess.

This 50% limit is only tested on the day a loan is granted – a subsequent drop in the value of the assets of the scheme will not, of itself, cause the loan to be deemed unauthorised.

A loan cannot be ‘topped up’ – any further advances made after the original loan was made are to be treated as new loans and are deemed to have been made (and so be tested) on the day the advance was made.

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We will supply the documentation (digitally) to ensure the validity of any proposed security, ensuring that the registration of this security as a charged asset with Companies House and the Land Registry (where appropriate) is carried out, and keep a track of all due and received loan payments. We will issue notifications where repayments are overdue, inform you immediately when a default on a loan has occurred, and assist in recovery proceedings when this proves necessary.

You will be able to view all lending details, repayments received and overall amounts still owing on all lending from your scheme on your Retirement Capital account dashboard.

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