

## Case study

### SSAS loanbacks

Let us look at a typical client situation.

Joe Stephens is a Director of Stephens & Son Engineering Limited. He is drawing earnings by salary and dividends which total £140,000.

Joe's wife is now on the payroll for a relatively nominal salary.

Other than the special annual allowance of £20,000 for the 2010/2011 tax year, Joe doesn't envisage paying any further pension contributions following the restriction on tax relief introduced in 2010, unless of course the rules are relaxed.

Joe's father Jacob started the business and originally set up the SSAS, but his father transferred into a SIPP when he went into drawdown pre A day. He is invested in equities and gilts via a Discretionary Fund Manager. His portfolio is now worth £800,000 and he is receiving the maximum income of £50,000 per annum. Jacob is still a shareholder of the business but has no involvement day to day.

This leaves Joe and now his wife Elizabeth as the only members of the SSAS, which is invested broadly as follows :-

Warehouse	-	£200,000
Mortgage	-	(£70,000)
Cash	-	<u>£ 10,000</u>
Total		<u>£140,000</u>

The current allocation is 90% Joe and 10% Elizabeth.

To date rents and ad hoc pension contributions have been used to reduce the mortgage so there is very little cash.

The main trading premises are owned by an investment company Stephens Property Limited based on advice of their accountant. Both Joe and Jacob are shareholders.

Joe is looking to expand the business but is finding it difficult and expensive to raise finance at present. It hadn't even occurred to him that the pension scheme can help.

The above situation provokes the following queries :-

- a) Would Jacob be willing to rejoin the SSAS?
- b) What is the main trading premises owned by Stephens Property Limited worth and is there any outstanding borrowing?
- c) Does the Company own plant and machinery, without existing financing, or debenture in favour of the company bankers?

1. Jacob can rejoin the SSAS and transfer the existing assets in specie (his maximum pension can continue to be paid via the SSAS).

The balance sheet of the SSAS is now :-

Warehouse	-	£ 200,000
Mortgage	-	(£70,000)
Portfolio	-	£ 800,000
Cash	-	<u>£ 10,000</u>
Total		<u>£ 940,000</u>

2. The maximum loan back is 50% of £940,000, i.e. £470,000. To generate the cash, part of the portfolio could be liquidated.
3. The company would need to provide adequate security, which could be plant and machinery owned by the trading company or the commercial property owned by Stephens Property Limited.
4. It is important to understand how the allocation of the fund works.

Joe	£800,000	(85%)
Jacob	£126,000	(13%)
Elizabeth	<u>£ 14,000</u>	(2%)
Total	<u>£940,000</u>	

## Contact details

If you want to discuss this topic further or require further information please contact Anne or one of the Platinum Consultants on 0845 40 89 100.

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