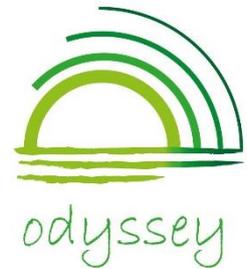


help &
information



pensions and business funding

background

The present environment is unprecedented in modern times. The impact that the Coronavirus is having on the economy generally, both locally and worldwide, is significant. This impact is being felt by all manner of industries and commercial enterprises, large and small.

Cashflow will inevitably be affected for many, and the UK Government has stepped in with significant support at a number of levels, ranging from grants, to loans, to assistance with employees and timing of payments to help ease the challenges of businesses.

So, where do pension schemes fit in?

Traditionally, Self-Invested Personal Pensions (SIPP) and Small Self-Administered Schemes (SSAS) have been used by many entrepreneurs to enhance business activities and propositions for the mutual benefit of both the pension and their businesses.

In the present environment, these types of pension schemes can offer another avenue through which individuals can achieve their business goals.

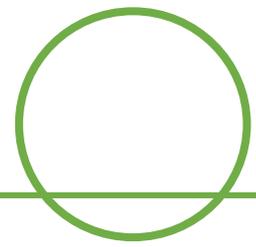
company loans

An under-utilised and less well-known option available to Self-Administered Schemes is the ability to lend money to a Sponsoring Employer.

A Sponsoring Employer is usually the company that an individual (or individuals) will be directors and shareholders of, and which is involved in the set up and operation of a SSAS.

The SSAS can lend 50% of its value to the company, subject to certain criteria set out by HM Revenue & Customs. It can provide an affordable, straightforward mechanism to access monies with the added benefit that the repayments are made back to the individuals' pension scheme, rather than a third party.

A simple example should help to illustrate this.



Let's assume two individuals, John and Margaret have existing pension schemes worth £100,000 and £150,000 respectively.

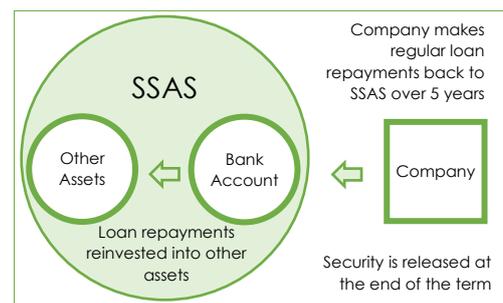
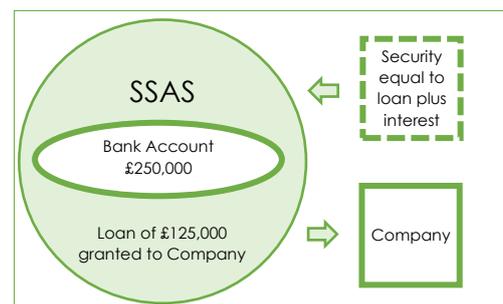
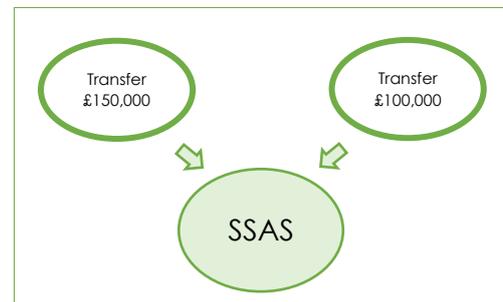
A SSAS is established and they arrange to transfer those existing pension benefits into the scheme. The money is placed into a Bank Account set up as part of the SSAS.

As Trustees of the SSAS, John and Margaret are able to authorise a loan of 50% of the Scheme value to their company, which acts as Sponsoring Employer.

The loan is subject to a legal agreement that requires it to meet HMRC rules:

- The term is for a maximum of 5 years (although it can be rolled over at the end of the term);
- Interest charged must be at least 1% above base rate;
- Repayments must be by equal instalments of capital and interest;
- Plus a first charge on assets equal to the loan plus interest must be given.

On successful operation of the loan, and full repayment, the security is then released at the end of the term.



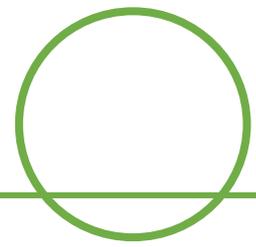
Security can take a number of forms. For example, it doesn't have to be commercial property, but could be any assets of suitable value that are owned either by the company, or by any other party willing to offer them as security.

It can be worth exploring what assets may be held by the company, or related individuals, to determine whether they can meet the requirements necessary to grant the loan.

In that way, individuals may find that they have access to a source of funding where they may not otherwise qualify for Government support, or where they would prefer the idea of repaying, essentially, themselves through their pension scheme.

asset purchase

The second principal area where a pension scheme might be of benefit is in its ability to transact in commercial property. This can take a variety of forms, and again, a simple example may assist with demonstrating this.



This time let's assume Gareth's company owns the commercial property that his business is operating from.

This could be a shop, or a factory, or office, or other type of commercial unit.

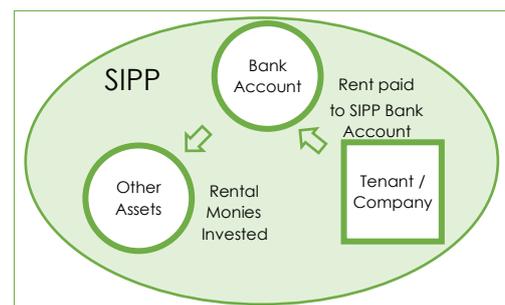
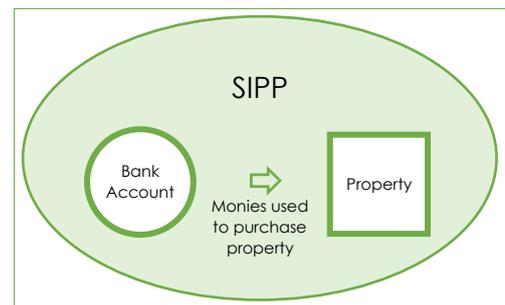
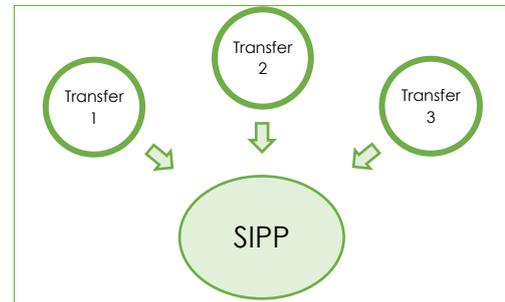
A SIPP (or a SSAS) is able to purchase and own commercial property so Gareth arranges (usually via a financial adviser) the transfer of other pension benefits into a new pension scheme – in this instance a SIPP.

Again, the transfer monies (the monies from the other pension schemes) are placed into a Bank Account held as part of the pension arrangement and from there they are used to acquire the property.

Gareth's company then has access to these funds for other business purposes.

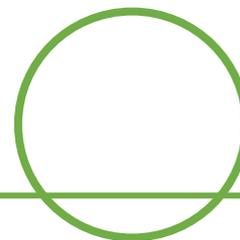
Solicitors are, of course, used to assist in the process of purchase and they will also draw up a lease between the pension scheme and the company for the rent that would be due ongoing.

Those cash funds from the rent can then be invested into other assets.



There are, in addition to the 'straightforward purchase' other means by which a pension scheme can create liquidity for companies and individuals:

- A pension scheme can purchase part of a property; it does not have to own the entire property. So, where a property is owned that is perhaps beyond the level of the individual's pension, they can still acquire part of that property (and have a part share of rent that might be due);
- A pension scheme can purchase property from individuals as well as companies. So, where a member owns commercial property, a purchase (or part-purchase) can still proceed and monies might then be introduced into a business by the individual – subject to taking advice from their accountants.
- Various types of commercial property can be acquired, including land. Land might be viewed as a longer-term investment for a pension scheme, but it can also still release much-needed liquidity to companies and/or individuals.



- Groups of individuals can join together to acquire property. This means that, for example, directors of a company or family members can combine their pensions so as to afford a more expensive property.
- It is possible for a pension scheme to borrow to acquire property as well. A pension scheme (or a group of pension schemes) can borrow up to 50% of their net asset value. Repayments for borrowing are usually then made from the rental returns coming from the property that is acquired.

where can I obtain further information or help?

Odyssey Pensions has a wealth of expertise relating to how pension schemes can interact with and support businesses.

We can discuss particular situations with clients and advisers, and help devise strategies, or comment on proposals, to see where, if and how a pension scheme might positively interact with a particular business.

We also have access to a number of professional, specialist law firms that can provide additional support and assistance.

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