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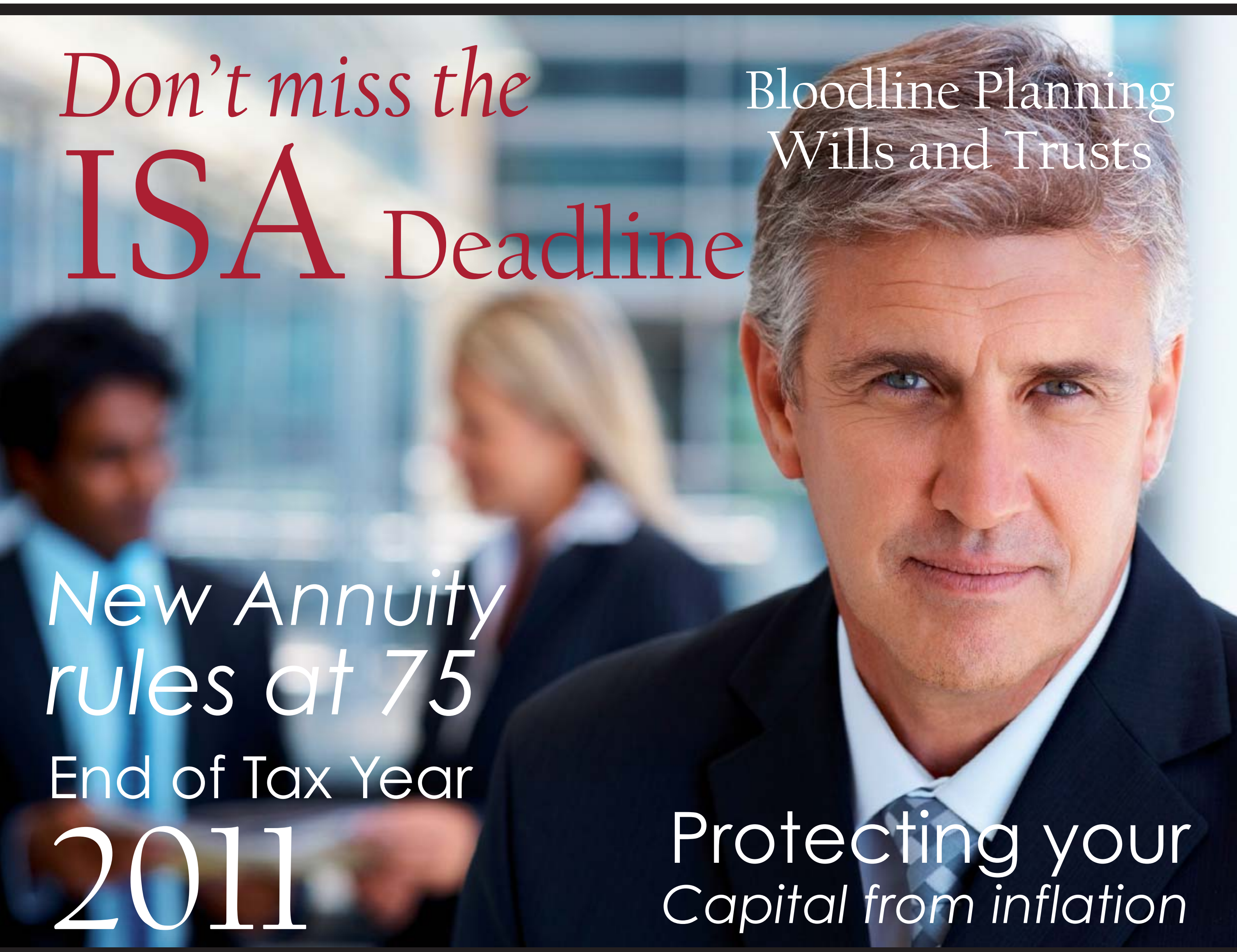

Don't miss the ISA Deadline

Bloodline Planning Wills and Trusts

New Annuity rules at 75

End of Tax Year 2011

Protecting your Capital from inflation

● Lifestyle Protection ● Creating Wealth ● Tax Rules ●

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The new annuity rules at 75

Those in retirement will no longer be forced to buy an annuity at the age of 75, the Government has confirmed.

Legislation to remove the annuity requirement that at present compels retirees to do so will be introduced in April 2011, the Treasury announced last December.

The Treasury said this change endorses the Government's aim of making the pensions tax system simpler by removing unnecessarily restrictive and outdated rules. Within a fair and sustainable pensions tax regime, this measure provides greater flexibility for individuals over how and when they can access pension savings in retirement.

Presently at age 55 anyone who has a personal or stakeholder pension is given the option to use their pension savings to take a tax free lump sum and then use the rest of the fund to buy a life time annuity, a yearly income for life or keep their pension funds invested or have an unsecured pension which gives them an income from their pension fund by using income withdrawal.

Prior to 22 April 2010, at the age of 75, people in drawdown schemes had to move to an annuity, with no death benefit, or an alternatively secured pension, of which there was an 82 per cent charge on remaining funds in the event of death. Transitional rules were introduced with effect from 22 April 2010 to raise the age limit to 77.

The new legislation will remove the age threshold and impose a 55 per cent tax charge on remaining funds on death. These new rules will allow investors to choose when they would like to take benefits from their funds, or draw down an unlimited income, provided they can prove they have a minimum lifetime pension income of at least £20,000 a year.

This rule is aimed at preventing pensioners from falling back, and becoming reliant on state benefits in later life. The £20,000 can include income from a final salary pension, annuities and the state pension.

Alternatively Secured Pensions (ASP) will be scrapped and replaced by lifetime capped income drawdown. Capped income drawdown will allow yearly withdrawals between £0 and 100% of the basis amount of the pension fund.

These plans have been criticised because they are seen to only benefit the most wealthy, as many believe that the majority of pensioners will still choose to buy annuities.

Income withdrawal plans are complex. It is a good idea to get professional advice because what you decide now will affect your pension for the rest of your life.

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ISA deadline

Before the current tax year comes to an end, investors should consider making the most of their individual savings allowance. With interest rates at an all-time low, we show you how to make the most of your allowance in the current market.

Don't be misled by what you read

Always remember that your ISA investment will become a part of your overall investment portfolio and so should be treated as such. Evaluate what you are looking to achieve, examine the risks and consider the investments you already hold.

Therefore, when deciding where to invest your ISA, don't be misled by short term market sentiment or hype.

Consider a 'Bed and ISA' strategy

If you do not have new money to invest in an ISA consider a 'Bed and ISA' strategy.

Your existing investments or assets might have increased in value greatly over time. Everyone has a Capital Gains Tax allowance of £10,100 for this tax year. Gains of up to this amount are free of capital gains tax, however the allowance is lost if it is not used. Selling assets subject to CGT which are in profit and then reinvesting in an ISA to shelter future returns from all tax, could maximise a gain.

Consider junior ISAs

It is thought that in autumn 2011 Junior ISAs will be launched. Although the figures have not yet been formally announced, it is expected that there will be an annual allowance of between £3,600 and £5,600. There will be a choice of cash or stocks and shares ISAs. The good news is that the money is not accessible by the child until he/she turns 18 years old.

Consider investment into equity income funds within an equity ISA

If you are adverse to investment risk then consider investment into equity income funds within an equity ISA. Investing into a range of UK and international companies, could yield between 3 per cent and 5 per cent. This would give an initial income better than deposit rates with the prospect of both a rising income and capital growth over the longer term.

Whilst the value of shares may rise and fall, the dividend income from a broad spread of top quality UK and international companies tends to remain fairly stable.

Consider ISA and pension planning

A main advantage of ISAs is the tax efficiency of income as part of income planning in retirement.

Investments in ISAs are free of Capital Gains Tax. Income is also perceived to be tax free, but this is only applicable to interest not dividends. Dividends are subject to a 10 per cent credit which is not reclaimable.

Where ISAs really benefit the investor is in terms of income planning, as any amounts withdrawn from the ISA are tax free. This can be contrasted with say a pension, which may have the benefit of tax relief on money invested, but has the disadvantage of income being taxed on receipt. The fact that all the capital is available is also attractive compared to a limit of 25 per cent from a pension at retirement.

Don't wait till the end of the tax year to open your ISA

The sooner you open your ISA in the tax year the more growth you will achieve, leaving it late will mean you miss out on up to 12 months tax efficient growth and income per contribution.

Spread risks in phased investment

If you are worried about investing into an equity ISA because of a possible stock market correction or you find interest rates on cash ISAs are not very appealing, you can spread the risk by phasing your investment over 6 or even 12 months. Most companies allow this automatically.

Make tax efficient investments

A common mistake is to believe an ISA is good or bad based on performance. An ISA is simply good because the growth is free of tax and that's where it ends. The performance of the ISA is something completely different and depends on the fund you or your adviser has chosen.

HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and charges which cannot be foreseen.

The value of your investment and the income from it can go down as well as up and you may not get back a significant proportion of your investment. Past performance is not an indication of future performance. Please contact us for further information or if you are in any doubt as to the suitability of an investment

BLOODLINE PLANNING

Without the correct "Bloodline Planning" some, or all of your children's or grandchildren's inheritance could be lost.....

Bloodline Planning is ensuring that all or most of your assets reach your children, grandchildren and other relatives.

When assets are distributed to beneficiaries "absolutely", that is receiving property, assets and cash as a direct lump sum, so much can be lost. These assets are then considered to be part of the beneficiary's estate and would be at risk of attack from any future event, such as divorce settlements, creditors and taxation.

With planning and the use of Trusts, you can ensure that your children and grandchildren are able to benefit completely from the inheritance you want them to receive and at the same time, protect your property and other assets from being lost to the costs of Long Term Care.

You should consider what might happen if your surviving spouse were to remarry, in the event of your death and how would this affect your own children if he/she later changed their will in favour of the new spouse and any subsequent children. Also consider, what if you already have children from a previous marriage. There may also be a business which you have built up. You would need to protect this for your family as well.

You really should not leave it all to chance, seek professional help to set up the correct type of Will and Trust planning, all of these problems could then be solved.

Estate Planning In Your Lifetime

Estate planning can be undertaken whilst you are alive. Assets could potentially be gifted to beneficiaries before your death. This could prove extremely tax efficient in terms of Inheritance Tax, as assets gifted away are fully outside of the donor's estate 7 years after the gift is made.

However, rather than gifting assets "absolutely", which could mean the assets may be potentially at risk from divorce, creditors and long term care costs, it could be wiser to consider gifting with the aid of Discretionary Trusts.

Discretionary Gift Trust means that although you make a gift to your children and grandchildren, the asset need not enter their own estate, hence protecting these assets from any possible claims on them in the future.

By gifting to a Trust, you retain full control, but cannot have access to the funds. Even if you never received any benefit, but potentially could, the gift is classed as "With Reservation of Benefit" and the full value is deemed to be in the donor's estate at death for Inheritance Tax purposes, not just the initial gift. The Gift Trust ensures that a spouse, children, grandchildren and any other named beneficiaries can benefit at the Trustees discretion.

Having Access to Protected Assets

A Probate Trust is also known as a Discretionary Trust which, whilst still protecting assets from Care costs, allows the Settlor access to the assets held in the Trust. The Trust has a Memorandum of Wishes where the Settlor is also a beneficiary. The purpose of this trust is for Bloodline Planning and not Inheritance Tax Planning, as a transfer of asset by the Settlor would be a Gift With Reservation of benefit (GWR).

The main uses for a Probate Trust are the assignment of Investment Bonds to ensure they pass to those intended without waiting for Probate. Additionally, for a surviving partner, a proportion of the main residence can be conveyed into a Probate Trust which can protect the home from future care costs. Advice from your professional financial adviser is highly recommended as to whether this is an appropriate course of action.

Will Writing and some aspects of Inheritance tax planning are not regulated by the Financial Services Authority.

To discuss how you can get the most out of your inheritance tax planning, please contact us for further information

Is it time to give your portfolio an overhaul

If you have not looked at your investments for some time, there is a good chance that they are badly matched and that your portfolio is in need of an overhaul.

Now is the time to ensure your investment goals are on track. It is hard to guess what will happen and the best way to avoid boom-and-bust cycles is to make objective decisions that ignore fashionable trends.

Getting the balance and diversification right is vital. Fail to achieve this and it could be easy to buy the wrong kind of investment or to create a portfolio that is vulnerable to shocks.

Rebalancing is one of the key factors in successful long-term investment performance. As an investor, you should clearly define your attitude to risk at the outset, when choosing your asset allocation. If you do not continually rebalance, your original asset allocation will almost certainly have become distorted and you could find yourself taking too much or too little risk.

During the bear markets of 2007 and 2008 a frequently rebalanced portfolio would have produced positive returns by the middle of 2009, whereas a portfolio that was not rebalanced would still have been in deficit at the end of 2010.

Unfortunately too many investors realise they have poor asset allocation when it is too late, which is why early prevention is the best cure. Building any good portfolio is a question of managing risk versus return.

The best defence is to have a well-diversified portfolio of assets that is suitable for the objectives you are trying to achieve. For instance, the pension portfolio of a 45 year old will be different from someone in their mid-sixties looking for income in retirement.

Attitude to risk is a vital consideration; therefore you must understand the different levels of risk inherent in various types of investment. For instance, overly targeting on a single asset class will increase the risk to a portfolio unnecessarily.

So what are the issues that investors should bear in mind this year? With interest rates at 350 year lows, holding large cash deposits is not so attractive. Whilst on the other hand, tax rises and cuts in Government spending are likely to have a deflationary effect on the economy.

Equities could be favourable; particularly the blue chips which tend to have international exposure, also investment within emerging markets. US shares are improving, but there are reduced feelings towards Government bonds.

Europe remains a concern as the problems could spread further within the region. Asia and other emerging markets have relatively inexpensive valuations by historic standards and while these regions are likely to slowdown, most investors are well represented there.

Given the uncertain global outlook, many professional investors are taking a cautious approach, which includes holding gold despite its good run. They are wary of government bonds in light of quantitative easing and the prospect of inflation. Many now favour high-yield and strategic bond funds over government and investment-grade bond funds.

The value of your investment and the income from it can go down as well as up and you may not get back a significant proportion of your investment. Past performance is not an indication of future performance. Please contact us for further information or if you are in any doubt as to the suitability of an investment

Taxing Times

Time is short and taxes look set to rise, so have you taken advantage of all of the tax breaks available to you? If not, there is still time to make provisions to avoid paying any unnecessary tax. It is simple; use them or lose them.

Here we guide you through some simple tax saving tips, now, and in the new tax year:

Check your tax code

Having the wrong tax code can be costly. Many pensioners can be on the wrong code as they have not been moved on to the higher personal allowances that kick in at 65 and 75. Savers and investors should also check that HM Revenue & Customs isn't deducting too much tax in respect of interest and dividends. When you receive a coding notice, cross check against any accompanying notes.

Inheritance tax (IHT)

Every tax year you can 'gift' £3,000 which will not count towards your total estate and if you do not use the full exemption in one year, you can carry it forward but for one year only. Gifts of up to £250 a person are also exempt, but you are not permitted to use the two together. If a gift is regular, comes out of your income but does not impact upon your standard of living, any amount can be given away and ignored for IHT. You will need to keep full records of any gifts made, to assist with probate.

You cannot use your 'annual exemption' and your 'small gifts exemption' together to give someone £3,250, but you can use your 'annual exemption' with any other exemption, such as the 'wedding/civil partnership ceremony gift exemption'.
i.e: If one of your children marries or forms a civil partnership you can give them £5,000 under the wedding/civil partnership gift exemption and £3,000 under the annual exemption - a total of £8,000.
It's not just parents who get a gift exemption on marriage, it can be used by others, including grandparents, but the limits are lower. Check www.hmrc.gov.uk for the current limits.

Capital gains tax (CGT)

You could make use of the capital gains tax annual exemption for 2010/11 of £10,100 for each individual, including your children. For example, it may be worth selling shares if they have delivered losses because these can be set against gains made on other assets this year.

The tax on profits from the sale of a buy-to-let could be cancelled out by losses on equities. If loss making disposals are not made until later they cannot be carried back against gains in previous years.

Main residence relief: If you own more than one residence, you can elect which one you want to be treated as your principal private residence (PPR) for CGT purposes.

Use your ISA allowances

ISAs should be at the top of most people's savings and investment list, these are the reasons why:

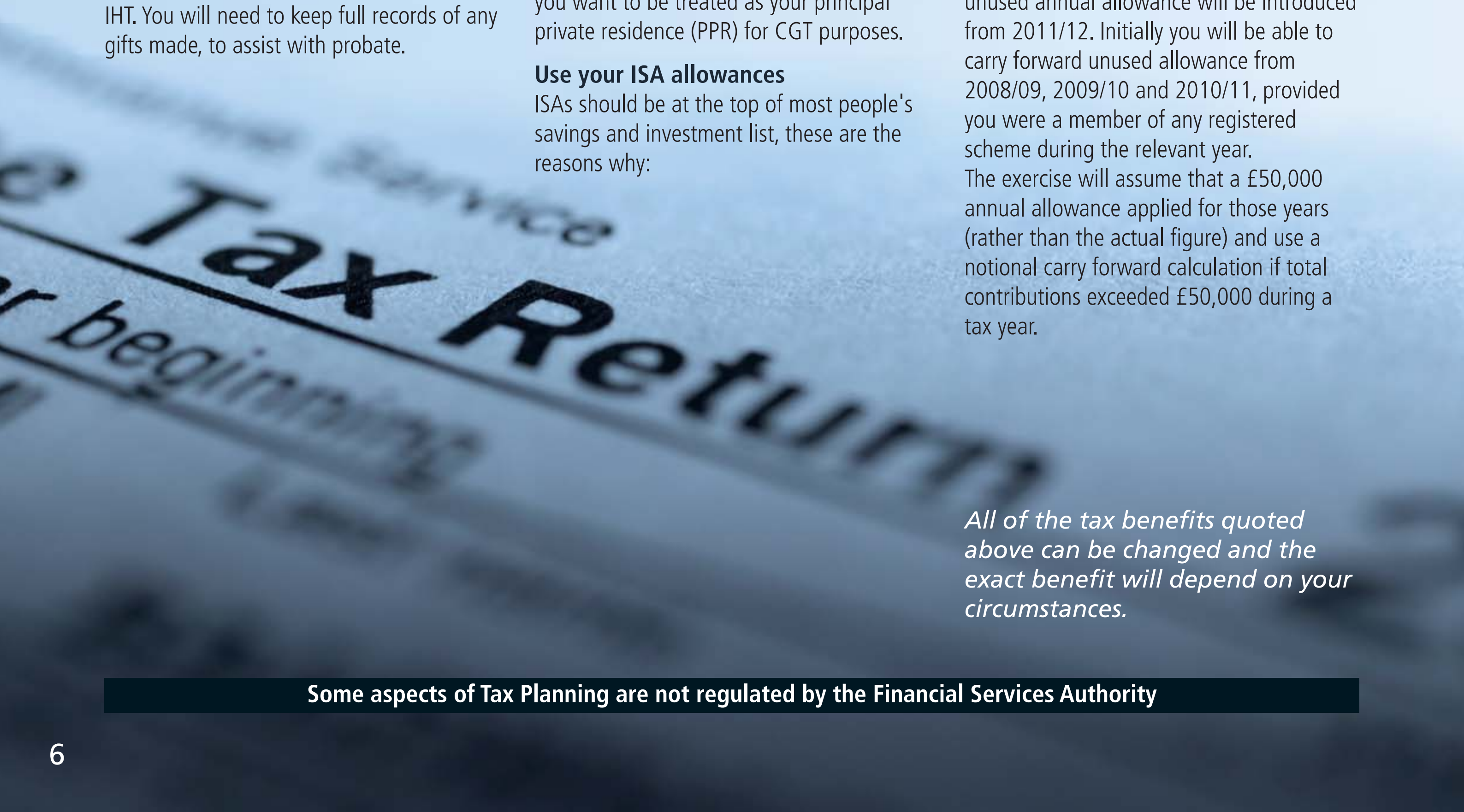
- Tax free income on corporate bonds and other fixed interest stocks and no further tax on everything else.
- Tax free growth – no capital gains tax.
- The income has no impact on age related allowances making it perfect for supplementing pension income in retirement.
- No need to record your ISA income or profits on your tax return.

The allowance will increase in the 2011/12 tax year by £480, therefore the overall personal allowance will be £10,680 in total, £5,340 can be invested into a cash ISA. The whole allowance can be put into a Stocks and Shares ISA, or the remaining £5,340, if wishing to invest in both. If you are unhappy where you are invested you can transfer your ISA to another provider.

Use your pensions allowance

Almost everyone can pay into a pension and obtain tax relief on the contributions, even if you are a non-earner. This means a £1,000 contribution costs just £800, the balance being paid by the Government. Most higher rate taxpayers can reclaim up to a further £200 tax relief via their tax returns. You can pay up to 100 per cent of your income into a pension or £3,600 if greater every tax year.

A new three year "carry forward" of unused annual allowance will be introduced from 2011/12. Initially you will be able to carry forward unused allowance from 2008/09, 2009/10 and 2010/11, provided you were a member of any registered scheme during the relevant year.
The exercise will assume that a £50,000 annual allowance applied for those years (rather than the actual figure) and use a notional carry forward calculation if total contributions exceeded £50,000 during a tax year.



All of the tax benefits quoted above can be changed and the exact benefit will depend on your circumstances.

Some aspects of Tax Planning are not regulated by the Financial Services Authority

Tax and National Insurance rates 2011-12 Tables

Income tax and income tax allowances

Income tax personal allowances		
	2010-11	**2011-12**
Personal allowance	£6,475	£7,475
Personal allowance for people aged 65-74	£9,490	£9,940
Personal allowance for people aged 75 and over	£9,640	£10,090
Married couple's allowance for people aged 75 and over	£6,965	£7,295
Income limit for age-related allowances	£22,900	£24,000

1. The personal allowance is reduced by £1 for every £2 that an individual's adjusted net income exceeds £100,000.
2. The married couple's allowance only applies where at least one of the partners (in a marriage or civil partnership) was born before 6 April 1935. The allowance is reduced where the claimant has income above the age income limit, down to a minimum level (in 2011-12) of £2,800. Tax relief on this allowance is given at a rate of 10%.
3. Age-related allowances are reduced by £1 for every £2 an individual's income exceeds the income limit, until the personal allowance for under 65's is reached.

Bands of taxable earned income		
	2010-11	**2011-12**
Basic rate 20%	£0 - £37,400	£0 - £35,000
Higher rate 40%	£37,401 - £150,000	£35,001 - £150,000
Additional rate 50%	Over £150,000	Over £150,000

The table shows bands of earnings in excess of an individual's personal allowance.
The tax rate is only 10% on savings income where such income falls within the first £2,560 (in 2011-12) of taxable income.

Inheritance tax		
	2010-11	**2011-12**
Rate	40%	40%
Individual nil-rate band	£325,000	£325,000

Since 9 October 2007, it has been possible to transfer any unused IHT nil-rate band from a late spouse or civil partner to reduce the estate of the surviving spouse or civil partner.

ISA maximum limits		
	2010-11	**2011-12**
Cash	£5,100	£5,340
Stocks and Shares **(overall limit)**	£10,200	£10,680

From 2010-11 these limits will be indexed in line with RPI increases to the preceding September and rounded up to be divisible by £120.

Allowance		
	2010-11	**2011-12**
Lifetime allowance	£1,800,000	£1,800,000
Annual allowance	£255,000	£50,000

These allowances have been reduced following the review concerning restricting pensions tax relief announced in the coalition Government's June 2010 Budget. The lifetime allowance is expected to reduce to £1.5 million.

Protecting your capital from inflation

Inflation is an indicator of how fast everyday prices are increasing. It is running at either 4.0 per cent or 5.1 per cent a year, depending on which measure you believe.

The higher measure is the retail prices index (RPI) that has been monitoring prices since June 1947. The lower measure is the consumer prices index (CPI), which was launched in 1996. This, not surprisingly, is the one the Government prefers to use.

The Office for National Statistics employs market researchers to record the prices of 180,000 different items at shops, supermarkets and consumer outlets every month, reflecting the most common items on which households spend money. Many goods and services measured by RPI and CPI are the same, but the key difference is that RPI includes council tax and mortgage costs.

WILL INFLATION KEEP RISING?

Economists believe inflation will continue to rise, and Bank of England base rate and wage rises will remain low. CPI won't fall in line with the Government's 2 per cent target this year.

Inflation is rising as the cost of imported goods, such as food and commodity prices rise. The Bank of England cannot control such movements. The increase in VAT is also adding inflationary pressures.

Families are under pressure, as inflation has been a serious problem for the last 12 months, but as soon as commodity prices stabilise and the VAT increase drops out of the annual figures, inflation will drop back towards the Bank of England's target.

However, there is a danger of inflation climbing higher before then. Economists forecast the CPI rising to 4.2 per cent in the next couple of months and, if commodity prices keep climbing, it could break through the 5 per cent barrier with no reverse forecast until 2012. Many believe base rates will have a small increase of around 0.25 per cent towards the end of the year.

WHAT IS THE POSITION FOR SAVERS?

The events of rising inflation and low interest rates make grim reading for savers.

When inflation is around 4.8 per cent as measured by RPI, basic-rate taxpayers need to earn 6 per cent to maintain the spending power of their savings and 40 per cent tax payers need 8 per cent.

These figures are impossible to achieve on risk-free savings accounts, even if investing in tax-free cash ISAs, into which they can put £5,100 this tax year.

WHAT IS THE POSITION FOR PENSIONERS?

Pensioners on fixed incomes are hit hard as inflation rises, as the vast majority buy a level annuity with their pension savings when they retire.

This pays a fixed income until they die. Interest rates offered on annuities reached record lows last year, falling to half the level of 15 years ago. Inflation bites further into the spending power of this already falling income.

You can buy an inflation-linked annuity that pays an income that rises each year in line with inflation. The catch is you receive a lower income in the first place and are likely to be short changed on your pension by the time you die.

CAN YOU BEAT INFLATION WITH INVESTMENTS?

High risk: Shares can grow your money quickly, but it can lose it quickly too.

Corporate bonds: Holding stakes in sound, well-financed companies around the world is probably the least dangerous strategy. You do this through investing in a corporate bond fund. Corporate bonds are IOUs issued by companies who want to borrow money. They pay a fixed rate of interest and promise to return the money lent to them at a future date.

But be warned, if inflation soars and interest rates rise, then the price of investment-grade corporate bonds, those issued by the strongest, best-financed companies, and bonds issued by Governments, will fall. This is because the fixed interest they are paying looks less attractive.

For the time being, investors should consider looking at strategic bond funds rather than the safer corporate bond funds. These are more agile which is extremely important in unsettled times. Investors can switch between corporate bonds and high-yield bonds, hold cash and even bet on prices falling. They are more risky, but you also have a greater chance of making a capital gain.

Shares: If you can accept your money is at risk, then shares can provide a hedge against inflation and an income. But you can lose money as shares are a traditional hedge against inflation because there is a chance of capital growth, but they do carry more risk than cash or bonds.

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Protecting your Family financially

5 steps to safety

Step 1 – Understand what events need protection

The three main events that will put your family's financial security at risk could be one of the following:

- Your death or that of your partner
- You or your partner suffering a critical illness or condition
- Being out of work due to illness or redundancy

Step 2 - Understand how much cover you need

The need for capital and the need for income are the main resources required. A lump sum might be needed to repay debts such as a mortgage or loans, and an income would be needed to provide for everyday living expenses.

The best ways of deciding how much cover you need is to consider the "what if" questions. For example, if you or your partner died, how much capital and income might the survivor need to maintain their standard of living and financial security.

You need to consider what you currently spend and what additional spending there might be.

Step 3 - How long you may need the cover for?

A capital sum is often required during the lifetime of a mortgage. For example, if your mortgage has 15 years to run, your policy also should be for a 15 year term.

The income requirement is possibly needed for a set period, for instance, until your children finish education.

Step 4 - What cover do you have already?

Check your existing policies and also those which your employer provides in the way of life insurance and sickness benefits.

Step 5 – Should you have a shortfall, find a policy to cover the difference

As protection on the death of you or your partner - use life insurance.

For your capital needs, term insurance is one of the cheapest forms of life insurance. If you die during the term of a policy, a fixed amount of life insurance is paid, normally tax free. Mortgage protection insurance is a type of term insurance used to cover a repayment mortgage as the death benefit reduces as the balance of your mortgage decreases.

Family income benefit insurance is a good consideration to meet income needs, the benefit is paid as a tax-free "income" from the date of the claim for the remaining term of the plan.

As protection on suffering a critical illness or condition, then use critical illness insurance

Critical illness insurance normally pays benefits if you suffer one or more illnesses, diseases or conditions specified in the policy terms. Heart attack, cancer and stroke are common conditions and some policies cover well over 100 different issues.

Critical illness insurance is normally taken out as an option under a life insurance plan and is generally used to cover capital need. If you combine critical illness insurance with life insurance, claims are paid whether you die or suffer the critical illness.

As protection on accident or illness, then use income protection insurance or accident, sickness and unemployment cover. Income protection insurance will provide a replacement income should you be unable to work due to accident, injury or illness. The replacement income is paid until you return to work, retire or die. Alternatively, accident, sickness and unemployment insurance will provide short term payments to tie you over.

Living to 100

Can you afford it?

Research released by the Department for Work and Pensions in January 2011 revealed that 10 million Britons can expect to reach the age of 100, representing 17 per cent of the total population.

So what does that mean in reality? Firstly, employers are going to have to adapt working contracts to enable people to retire gradually and work to a later age. Secondly, we all need to take responsibility and save into our pensions for our own long term personal futures.

Annuity rates, which pay our income in retirement, are likely to decrease as insurers feel the full force of an ageing population and the higher cost of providing an income for all those in retirement. This makes it more important than ever before to have a solid pension plan in place.

The state will not be in any position of support, which means that we all have to make our own provisions for retirement income, or accept a much lower standard of living in later life.

The best way to start planning is to decide how much you will need to live on each year in retirement. To provide a basic standard of living, a single person needs an annual annuity income of at least £14,000 before tax to avoid relying on the state.

The next stage is to decide at what age you are likely to retire. The Government's new default retirement age is set to rise to 66 by 2020 and plans are in place for it to increase again to 68 between 2036 and 2046. A 30 year old starting a pension from scratch today would need to save around £330 a month to build up a pot of £288,660 at age 68. This would deliver, assuming 6 per cent fund growth after charges and 2.5 per cent inflation, an RPI-linked income of £14,000. If you start later, say at 45, you would need to save £890 a month to build up a pot of £315,315 at age 66, which would produce an RPI-linked income of £14,000 per annum, assuming the same growth and inflation as the previous example.

Boosting your income in old age

In order to boost your pension plan and supplement your retirement income, consider deferring your state pension. In return you will be rewarded with a boost to your income at a rate of 1 per cent for every five weeks you put off drawing it, which works out to be 10.4 per cent extra a year. Meaning a state pension worth £105 a week would be increased to £159.60 a week if you were to defer it for five years.

Additionally, provided you give up your state pension continuously for at least 12 months, you can opt to receive a lump sum instead, which is equal to the amount you would have received in that time, plus interest, and have your state pension paid at its normal rate.

Alternatively, you could take on your state pension and defer your private pension so as to build up a bigger personal pot. A person with a pension fund of £100,000 at age 65 could currently buy an RPI-linked income of £4,261, for example. But if you waited to draw on this until age 70 and paid a further £300 each month, you could expect an increased annual income of £7,145.

You could also boost your income by downsizing your home and selling assets to free up cash.

Choose wisely

When buying an annuity, it is important to shop around and use the open-market approach, rather than simply taking the annuity rate offered by your pension provider, particularly if you are not in good health.

Using the open market option can add a significant increase to a person's retirement income. The best retirement income plans are usually the combination of different things, including private, occupational and state pensions, investments, cash savings, property and a phased approach to retirement.

To discuss how you can get the most out of your pension planning, please contact us for further information

Enterprise Investment Schemes

With the recent introduction of the 50p top rate of income tax, there is now a greater incentive than ever for high earners to seek out investments that come with attractive tax breaks. The options are few and once you have exhausted your annual pension contribution limit you are left with two main choices: Venture Capital Trusts (VCT) or Enterprise Investment Schemes (EIS). VCTs are better known and more heavily promoted, however, many investors know little about EISs so here we offer a guide to the schemes.

What are they?

Enterprise Investment Schemes (EIS) are a means of motivating people to invest in small unquoted companies by offering them a range of tax breaks.

How much can you invest?

You can invest up to £500,000 per tax year in an EIS, compared with £200,000 for a VCT. Investors are also permitted to invest any unused allowance from the previous year, meaning that up to £1 million can be invested in a single year.

What tax relief is on offer?

There is upfront tax relief of 20 per cent on investments (30 per cent for a VCT). This means that someone investing £500,000 would benefit from a cut in his or her income tax bill of £100,000.

Provided that the investment is held for the required three years, there is also no capital gains tax (CGT) to pay when the EIS is sold. With VCTs the minimum holding period is five years. Likewise, there is no need to pay inheritance tax on EIS holdings, provided that the EIS shares have been held for at least two years. However, any dividends paid are subject to income tax.

Are there any other reliefs available?

Yes. If EIS shares are sold at a loss, then the loss (minus any income tax relief already given) can be set against other capital gains. It can also, if investors prefer, be set against income tax. In addition, capital gains realised elsewhere can be deferred if they are reinvested in an EIS. There is no size limit to the gain that can be rolled over, but when the investment is realised, the original tax bill must be paid.

Do you invest in a single company or multiple?

Either is possible. A single-company EIS is generally riskier because you are putting all your money with one company. Another consideration is that the company will almost certainly be unlisted, so there will be no easy exit route until the company is either floated or sold.

Investors can also put their money into an EIS fund, but again there is no automatic exit route. The fund will normally invest in multiple companies. One variation on this approach is to put money in an EIS portfolio, which is a managed service that invests in a number of companies, each of which qualifies as an EIS.

How does a company qualify for EIS status?

The company must be unquoted and its assets must not exceed £7 million before launch. It must employ fewer than 50 people and must not raise more than £2 million in any 12-month period from a combination of EISs and VCTs. Companies in certain trades are not allowed.

What are the advantages?

The 50 per cent tax rate has focused the minds of wealthy investors on ways of mitigating their income tax bill, so the upfront tax break is important. Another attractive element of the EIS package is the exemption from inheritance tax.

The loss relief also acts as a useful buffer if things go wrong. Someone earning £250,000 a year could invest £100,000 in an EIS. He or she would receive £20,000 tax relief upfront, so the actual investment would be only £80,000. If the investor lost the whole of that £80,000, he or she could set it all against income tax at the highest rate of 50 per cent, thus saving £40,000 in tax. This would leave a net loss of only £40,000.

What are the disadvantages?

The main problem is how to get your money out. Since EIS investments are, by definition, in unquoted companies, there is no ready market for the shares. Some companies manage a flotation shortly after the three-year qualifying period, but that is not guaranteed.

The minimum investment, typically £5,000 to £500,000, can put off investors of modest means. So, too, can the relative lack of information on EIS companies and funds. Charges can be pretty hefty. A typical EIS fund can charge 5 per cent upfront, 2 per cent annually, an administration charge of 1 per cent, plus dealing charges.

Investors also have to recognise that an EIS is a high-risk investment, especially the single-company variety.

These investment products may not be suitable for all investors. Potential investors are recommended to seek independent tax and financial advice before investing. You should not invest unless you have thought carefully about whether you are able to bear this risk. Past performance is not a guide to future performance and may not be repeated. The value of shares can go down as well as up and you may not get back the full amount invested. Rates of tax, tax benefits and allowances are based on current legislation and HM Revenue and Customs practice. These may change from time to time and are not guaranteed.

Government scrap default retirement age

The Government has moved to stop employers from being able to force a person to stop work just because they are 65, which is fantastic news, as this change should have happened long ago. By allowing more people to work past 65, if they want to and are able to, will be an advantage to all.

People are being given more choice about how to use their pension funds during retirement. Millions of baby boomers will reach the age of 65 in the next few years and if we do not allow them to use their lifetime skills and experience in the workplace, we will hinder our economic prospects.

It is time that we radically change retirement. Fifty years ago working people were only expected to live for ten years or so after age 65, but today many men and women are healthy and active and are not ready for the scrap-heap. Most are not old at 65, so why waste their skills? There is an argument that forcing older workers out will create more jobs for the young. If we continue to disregard those over 65 from the labour force, we will have more and more people living on inadequate incomes. Many people in their sixties do not have a viable pension to look forward to. For many, private pensions have not worked out as expected, annuity rates have fallen sharply and the state pension is wholly inadequate to provide a decent lifestyle for most people. Increasing numbers of older people are facing much reduced incomes unless they keep working.

Being forced to live on meagre pensions, they will not be able to spend at a levels needed to create jobs for younger people and many will lose out in the long-run.

Many people want to go on working in some capacity, either because their pension needs a boost or they still want the social interaction, stimulus and interest of life at work.

The most practical path would be to develop structures that encourage more part-time work, with employers and employees having a mature debate about the best way to retain the skills of experienced workers. The population is getting older, with an ageing populous being the majority in the future. As an ever increasing number reach 65 it makes economic sense for them to remain within the labour force, producing and earning to support both the economy and themselves, and hopefully creating jobs for younger workers.

Evidence from other countries suggests that ending the default retirement age can increase economic output overall. Age discrimination has no place in a modern improving economy.

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