

# TAXMAN SMILES ON VENTURE CAPITAL TRUSTS

**The credit crunch may yet turn out to be a boom for investors in Venture Capital Trusts. The Trusts make investments in small start-up companies and are stepping into the gap left as banks cut back on their lending to businesses.**

The trusts take long-term stakes in small and growing businesses. They work with management to grow the business and then aim to reap the rewards when the company is sold on or floats.

Venture Capital Trusts are an investment for the enthusiast. They carry higher risks than conventional equity investments, though these are tempered by some generous tax breaks.

Investors earn an immediate 30% income tax refund on the cash they put into a VCT. This means that if you invest £10,000 in a VCT, you will have your income tax bill reduced by £3,000. In other words, your investment of £10,000 only costs you £7,000, but if the shares are sold within five years, this must be repaid. Additionally, any dividends paid are free from income tax and any profit made from selling the shares is free from capital gains tax.

Profits from these Trusts do not happen overnight and you have to treat them as long term investments. However, some of the goods funds have doubled investor's money through dividend payments and capital growth.

Three Counties are not recommending a VCT as a first investment, but they are something to consider once you have used your ISA allowance and contributed sufficiently to your pension or for those who want to reduce their income tax liability.

# Are you in a fixed rate mortgage?

Amid growing fears for the property market, the Financial Services Authority states that up to one in five borrowers are going to suffer big increases in mortgage bills within the next 12 months and many households have made no plans to cope with the problems!

The warnings come because of the potential 'rate shock' at the end of fixed rate deals and borrowers are likely to face substantially higher payments. The average fixed rate in December 2005 was 4.9% and in December 2007 was 6.1% - an increase of 23%.

It is, however, not all doom and gloom. There are still lenders willing to offer very competitive rates, especially since the decrease in interest rates at the beginning of this year.

Even if your mortgage is not due to finish its subsidised period you could still benefit from having our advisor estimate any potential increases, enabling you to budget for future expenditure.

We work on a 'no fee' basis with mortgage advice and rely solely on procuration fees paid directly to us by the lender. This provides independent mortgage advice with no charge and a service that could save you a considerable amount of money.

## For further information please contact:-

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You should be aware that investment in securities involves risk. The value can fall as well as rise and you may not get back the full amount invested, particularly in the earlier years.

Taxation: All statements relating to taxation are based upon our understanding of the law and HM Revenue & Customs practice in force at the date of this report. There can be no guarantee that the tax position or proposed tax position at the time of investment will endure indefinitely.



# CLIENT BRIEFING

**April 2008**

## How ISAs Will Change in April 2008

A series of changes will be rolled into the ISA market with effect from 6th April 2008. The majority of these are beneficial but savers still need to be aware of the new rules.

The changes will allow people to save up to £3,600 in a cash ISA and up to £7,200 in an equity (stocks and shares) ISA, within an overall annual savings limit of £7,200 - up from £7,000.

Savers will also be able to transfer money from a cash ISA to an equity ISA but will lose the tax-free benefits if they move from an equity to a cash ISA. The distinction between a mini and maxi ISA will be removed and all existing PEPs (the forerunners to ISAs) will be merged into ISAs.

Most of the changes are, indeed, positive and many savers will look to take advantage of the ability to move their cash holdings into equities as it allows some flexibility not previously available.

Over £220 billion has been invested in ISAs since they were introduced in 1999 and the changes could easily lead to the movement of hundreds of millions of pounds worth of savings from cash into the riskier, yet sometimes higher-earning, equity markets.

Investors should be considering the use of their current ISA allowance to obtain the maximum tax free savings.

## NOTE FOR YOUR DIARIES! CLIENT DAY 2008

Our annual client day will once again be held in the Colin Milburn Suite at Durham County Cricket Ground on Thursday 1st May.

There will be both morning and afternoon sessions, with starting times of 10.00am and 2.00pm respectively, and each session lasting approximately one and a half hours.

Refreshments will be provided at the beginning of both presentations.

# Interested in saving tax?

## Have you considered...

Paying tax is one of the few certainties we have in life. You can soften the blow by taking a few simple steps to reduce your liabilities:

### USING YOUR ISA ALLOWANCE

The individual allowance rises to £7200 in April 2008. If you don't use your 2007 allowance you will lose it as it cannot be rolled over. Simply leaving your money in your current account is losing you money, whereas, if you use an ISA there is no Income tax or Capital Gains Tax payable. This will save basic rate taxpayers 20% tax on the interest (an additional 20% for High Rate Taxpayers). In addition, the returns are usually very competitive compared to high street bank rates.

### INVESTING IN A PENSION

The Government adds tax relief at your highest rate to all your contributions. This means a £100 investment in a pension costs a higher rate taxpayer just £60.00, whilst it costs a basic rate taxpayer £80.00.

If you are a non tax payer or a non earner you can also make gross contributions of up to £3600, so don't forget to make contributions for non-earning spouses as well.

You can invest 100% of your earned income (excluding dividends), up to a maximum of the Annual Allowance which for 2007/2008 is £225,000. This figure will be increased to £235,000 for the year 2008/2009

Although you cannot access your money until the age of 50 (rising to 55 in 2010) you can take 25% of the resulting fund as a tax-free lump sum any time after this up to age 75.

### UTILISING YOUR CAPITAL GAINS ALLOWANCE

The very old and complicated taper relief system is being replaced by a new flat rate of 18%, regardless of how long the asset has been held.

### TRANSFER ASSETS TO SPOUSE

By transferring assets to a spouse before selling them, you can use up both of your Capital Gains Allowances of £9,200 (increasing to £9,600 from 6th April 2008), securing more tax free growth.

Another reason to move assets into your spouses name is to benefit from his or her lower tax band. For example, often bank accounts or taxable investments are held in joint names, where it might make more sense to hold them in the name of whoever pays the least tax.

### MAKE GIFTS TO AVOID INHERITANCE TAX

Everybody can give away up to £3,000 per year without being liable for inheritance tax (IHT).

A far more common approach employed to decrease the size of an estate is to gift larger sums to family members or grandchildren. These will remain tax-exempt as long as the donor lives for seven years after the gift was made. This is known as a Potentially Exempt Transfer.

There is always the possibility that the donor may die within the seven year period. The donor, however, can take out a Life Assurance policy to cover the cost of the tax payable should death occur within that period. The policy is set up in Trust to ensure that the funds fall outside the donor's estate for tax purposes.

## Simplifying your pension funds to prepare for retirement

**Traditional careers of long service with one employer followed by a generous final salary pension have ceased to be the norm. More common today is a career involving several jobs with different employers and a collection of small pensions.**

The outcome of a varied career is that the accumulated pension funds are scattered and probably insufficient to generate the desired income in retirement.

Our pension consolidation service will discuss with you the benefits of bringing your various pensions together into one fund. We will also advise on the most appropriate choice of investments within the fund.

We have extensive knowledge and experience of advising clients on how to make the most of their retirement planning and will work closely with you to create the pension fund you need for the lifestyle you want in retirement.

When it comes to taking the pension benefits for either your retirement or semi retirement (since April 2006 you can take an income from a pension and still continue in work) we will advise you how to generate the most income from your pension; annuity purchase, unsecured pension, phased retirement or investing the tax free cash.

Three Counties' independent status allows us to consider the whole of the market to ensure we are providing the best advice. We will discuss any changes in your attitude to risk, tax position and contribution levels and obtain state benefit forecasts as you approach retirement.



# Market Comment by Peter West

Biggest Equity Market Fall Ever! Credit Crisis! Record High Oil Prices! Manufacturing Slowdown! Reading the national press and watching the daily news one could be forgiven for thinking that financial Armageddon had arrived. Whilst those headlines do sell papers, and airtime, they tend to distort the nature of the problems and should be presented in context rather than sensationalised by the media. It is largely irrelevant in the long term that markets lose a bundle on Monday and recover it on Tuesday. To use the fall as a headline and not to mention the recovery the following day is at best irresponsible. In the end neither of these days will be of significant importance, but perhaps it's true that "only bad news sells newspapers".

Current problems are very real and largely driven by corporate greed and mismanagement by international banking and financial institutions. Consequently, they are going through a very awkward time, but one almost exclusively of their own making. This is severely restricting the availability of money in the system as they seek to repair the damage done by decisions made in the hunt for profit. Recent cuts in interest rates by the Bank of England are not being handed on to the consumer but used by financial institutions as a way of repairing their own balance sheets. It is true gross domestic product growth (GDP) in the UK is slowing, but at a fairly modest 0.1% in the final quarter of 2007. "Economy slows" is a great headline for our media but add 'by 0.1%' and it is not so dramatic. Activity on the high street is slowing but after years of rising debt-to-income ratios amongst the public any sign that the consumer is tightening the purse strings is not necessarily bad news. If it happens, a recession is not a problem which cannot be resolved. We have experienced them before and will do so again.

This time round, inflation, the other problem making the headlines, is driven by the dramatic increase in the demand and price of oil, wheat and other crops, and other commodities caused by the increase in demand in China, India, Russia and Brazil allied to a weak \$ in which they are all priced. In the short term, these commodity price rises are responsible for driving up the price across many parts of the economy but these commodities will

not carry on rising at current rates indefinitely and the \$ will strengthen. When it does, this will also have a calming effect on commodity prices. For oil we are perhaps somewhere close to the top of the market. Whilst it would not be sensible to expect the cost of oil to move down towards historic levels of \$10 - \$30 a barrel, if it now settles in a new trading range of \$100 - \$120 a barrel then the inflationary effect introduced over the last year will eventually be eliminated. During this period of re-valuing, we need our politicians and money men to control wage settlements and to steadily put the brakes on consumer spending; both areas which historically have led to less controllable inflation. This in turn should dumb down the house price inflation in a manageable way. Just as in the past, this period of upheaval will pass, sanity will return and markets will once again provide the level of opportunity investors require for the long term maintenance of the value of their capital and their standard of living but this is not going to happen "over night".

Sentiment and investor confidence are very important factors in short-term market movements and have shown no mercy for companies with the strongest of balance sheets. The opportunity to purchase shares in otherwise healthy companies at less than their expected future worth does exist. A rather promising sign that all is not awry in the world is the volume of share purchases by company directors. It may be that these companies fall further still in the near-term but patience under these circumstances can pay off.

Central banks have all re-acted positively to ease and manage the current market problems; the USA Federal Reserve more aggressively than the Bank of England and European Central Bank. On a medium to long-term basis, equity valuations and monetary policy do appear favourable. For those willing to invest through times of high economic volatility with long-term returns in mind, now could prove to be an attractive entry point from which to continue to build a well diversified portfolio.

(written by Peter West on 18th March 2008 and based on information available at that time.)