THREE COUNTIES

# PROFESSIONAL BRIEFING

## No.26 January 2008

# VENTURE CAPITAL TRUSTS

Venture Capital Trusts (VCTs) are one of the least understood investment products in the market yet, for the right investor, they are also one of the most attractive, combining the potential for good returns with substantial tax advantages.

VCTs were introduced by the Government in 1995 to encourage individuals to invest in UK smaller companies. The Government achieved this by offering those who invest in a VCT a series of attractive tax benefits. As a result, more than £3.2 billion has been invested in VCTs between 1995 and 2007.

All VCTs are companies listed on the main market of the London Stock Exchange. As such, they have independent directors whose objective is to protect the interests of the individual investors in the VCT.

Typically, a VCT will raise between £10 million and £30,000 million from thousands of individual investors. The VCT will then invest this money in a diversified portfolio of between 20-40 companies who will either be AIM listed or private.

VCTs offer a series of tax advantages unmatched by any other kind of investment product in the UK.

- Upfront income tax relief of 30% on the amount invested (provided that the shares are held for five years and subject to a maximum investment of £200,000 per person per tax year)
- Dividends paid by VCTs are tax-free
- Capital gains when shares are sold are tax-free
- Profits can be paid out as a stream of tax-free income

The government designed a set of rules for VCTs to ensure that the funds are invested into certain types of companies. VCTs must have a diversified portfolio and they cannot invest more than £1 million into any one company in any tax year. A company in which a VCT invests must not have gross assets of more than £7 million at the time of investment or more than 50 employees.

**The important question, therefore, is - who is a VCT suitable for?**

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- those people who want to reduce their income tax liability,
- those who want to reduce the overall risk of their investment portfolio by including a fund which typically does not follow the same cycles as stock markets.
- investors who require an additional source of retirement income (VCTs are more flexible than a Pension as they are not locked in and the full value can pass to a spouse on death),
- those who are looking for an alternative to an ISA.

**If you require detailed information on VCTs, or a meeting to discuss the opportunities further, please call us on 0191 230 3034 or email info@three-counties.co.uk**

# Personal Accounts

The Pensions Bill, which will become the Pensions Act 2008, includes more of the details about the Government's new system of Personal Accounts which will apply to employed persons from 2012.

**It confirms:**

- coverage for job holders aged between 16 and 75
- compulsory employer and employee contributions applying to income between £5.035 and £33,540
- automatic enrolment into the scheme or an existing employer sponsored scheme that meets certain criteria
- the right of a jobholder to opt out

The requirement for an employer to designate a stakeholder scheme will be removed when Personal Accounts are introduced.

# Tax-free Cash Rules to Ease

The Government looks set to remove limits on the growth of tax-free cash in pre A-Day pension policies giving pension-holders more freedom in taking tax-free cash when they retire.

Under existing rules, clients can take protected tax-free cash increased at the same rate as the lifetime allowance or 25% of the final fund value if greater. This can mean that even if investment performance is better that the increase in the lifetime allowance, the protected tax-free cash will not increase at the same rate.

For clients with a pension that has performed strongly since A-Day the proposals give an opportunity to boost the tax-free cash available without having to make extra contributions.

# Changing ISA Rules

Even if the appetite for new ISAs may be affected by negativity surrounding markets, there will be opportunities to review existing arrangements.

Recent and forthcoming changes to the ISA rules affect ISA limits, transferring cash ISAs to the stocks and shares component, the end of maxi and mini ISAs, the rebadging of PEPs and TOISAs and rules allowing child trust funds to be transferred into an ISA at maturity.

The ISA season is one of those times when a client should review their investments and consider the future.

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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.

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