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EIS and VCT

The Chancellor's Autumn Statement contained few surprises, the main exception being changes in the rules affecting Enterprise Investment Schemes ('EIS') and their collective investment variant, the Venture Capital Trust ('VCT').

EIS were introduced in 1994 and VCTs in 1995, both with the intention of encouraging investment in small companies by offering tax concessions. EIS invest in single companies which satisfy certain criteria and VCTs in portfolios of qualifying businesses. Up to £500,000 can be invested annually via EIS, and £200,000 via VCTs; and both schemes offer up-front income tax relief of 30%. In addition, EIS provide exemption from capital gains tax if held for at least three years, and VCTs for five years.

The first change announced in the Chancellor's statement is that the investment limit for EIS is to be increased to £1 million p.a. The second is that restrictions on the size of companies in which the schemes can invest are being relaxed to include companies with assets up to £15 million and up to 250 employees.

The major surprise in the Autumn statement is that a new 'Seed EIS' ('SEIS') is to be introduced to encourage investment in start-up businesses. A major accountancy firm described as "astonishing" the fact that SEIS will provide 50% income tax relief in the tax year 2012/13 on investments up to £100,000 even if investors' own tax rate is lower than 50%. In addition, if the investment is made from gains made from the sale of other assets in the same tax year, these gains will be exempt from capital gains tax.

As a result, every £1 invested in SEIS will cost the investor only 50p. In fact, the total relief will amount to 78% if gains are reinvested and account is taken of the 28% saving in CGT.

However, the benefits of SEIS could be outweighed by the very high risk of investing in start-ups, and the difficulty in conducting due diligence suggests that it is unlikely that SEIS will be available as a retail product. Investment is likely to be confined to entrepreneurs' friends and families.

Pensions and tax

It had been suggested that the Chancellor might withdraw some of the tax benefits of pension saving, notably the availability of tax-free cash (usually 25% of the value of the fund) and higher rate tax relief on contributions. In the event these fears proved unfounded, but they serve as a reminder to higher rate taxpayers to take advantage of the current concessions while they last.

There were, however, other developments on the pensions front.
The State pension age is to be increased from 66 to 67 from 2026, eight years sooner than originally planned. This may cause some people to consider working longer or saving more, but one benefit is that retirees who have not yet accrued their maximum benefit entitlement will have a chance to top-up their National Insurance contributions.

Firms with fewer than 50 employees which do not have a comparable staff pension scheme in place will be required to introduce NEST (the National Employment Savings Trust) and the operative date had been set at April 2014. However, recognising the financial burden that compulsory contributions will place on such firms, the Government has announced that the operative date is to be deferred until May 2015. Larger employers are already instructing financial advisers to provide staff briefings and advice.

There had also been speculation that the Coalition Government might restrict business property relief, which permits wealth to be passed down between generations, but here again no changes were announced and BPR seems likely to become part of a wider tax review.

Finally on the tax front, the annual capital gains tax allowance has been frozen at its present level of £10,600 for 2012/13.

Junior ISAs

Junior ISAs have been available since November 2011, when they replaced Child Trust Funds. Family and friends can contribute up to £3,600 a year into either cash or stocks & shares accounts, and from April 2013 the annual investment limit will increase in line with the consumer price index.

Accounts can be established for any UK resident under the age of 18, but no withdrawals can be made before the child's 18th birthday, except in the case of terminal illness or death. When the age of 18 is reached, the Junior ISA will be converted automatically into an adult ISA.

Deferring annuity purchase

The income available to purchasers of retirement annuities has fallen by around 20% over the past three years and now stands at historically low levels. Consequently, many retirees are asking whether it would make sense to delay annuity purchase until rates might improve

There is a good chance that the yield on gilt-edged securities, which are the main influence on annuity rates, will rise from current levels in the foreseeable future. It is also a given that annuity rates will rise with increasing age, as also will the likelihood of declining health qualifying the annuitant for the improved rates available from an enhanced or impaired life annuities.

However, it is not a one-way bet. Every year's deferral is a year's annuity income lost and with every passing year, the period between payments starting and the reaper coming to call gets shorter.

The answer is likely to be different for each individual, but a good way for investors with larger pension pots to hedge their bets would be to phase annuity purchases over a number of years

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820 The Crescent, Colchester Business Park, Colchester, Essex CO4 9YQ t: 01206 838400 f: 01206 838401
Sanderson House, Museum Street, Ipswich, Suffolk IP1 1HE t: 01473 259201 f: 01473 281779