

In this issue

Budget changes make VCT and EIS attractive options

Hints & Tips

New inheritance tax planning developments

Tax efficient investments

Have you undervalued your valuables?

For further information or advice on any topics in this issue, don't hesitate to contact your local office.

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Budget changes make VCT and EIS attractive options

On 22nd April 2009, the pension contribution and tax relief rules were altered for higher earners. From 6th April 2011, higher rate tax relief will no longer be available for those with taxable income of £180,000 per annum or more. For those earning between £150,000 and £180,000, relief will be tapered away. The exact details will be confirmed in the Finance Act 2009.

So, time to maximise pension contributions now? No, as the Government has brought in a "special annual allowance" and a "protected pension income amount" to stop those who may be caught by the new rules in 2011 from doing just that. This "anti-forestalling legislation" applies to all those with income of £150,000 or more. Arranging "salary sacrifice" for these higher earners will not help avoid the new rules as the amount of salary sacrificed will be included in the calculation of the "relevant income".

These changes come only a few years after the wide ranging Pensions Simplification legislation and must frustrate clients and professional advisers no end. It is almost a question of maximising tax shelters on an annual basis and this means that the use of alternative investments offering

tax benefits, such as Venture Capital Trusts (VCT) and Enterprise Investment Schemes (EIS), looks appealing.

A VCT benefits from:

- 30% Income Tax relief for contributions up to £200,000 provided the shares are held for five years.
- Tax free capital gains and dividends.

An EIS receives:

- 20% up front Income Tax relief on investments up to £500,000 provided you then hold the investment for at least three years.
- 100% Inheritance Tax relief after two years under Business Property Relief rules.
- Unlimited Capital Gains Tax deferral on the amount invested within three years of the original gain.

Both these investments have the added benefit that the client retains access to the capital at all times and can withdraw it as a lump sum rather than generate a taxable income in retirement as you must with the majority of pension funds.

Whilst traditionally perceived as high risk investments, alternatives are now available which lessen the risk, giving a more mainstream appeal. As part of a balanced portfolio, VCT and EIS offer significant tax efficiency and asset diversification and therefore need to be considered as part of an overall financial planning strategy.

Hints & Tips

- **Investors deferring a capital gain** made at any time in the last three years through an Enterprise Investment Scheme (EIS) previously taxed at 20% or 40% will, on sale of the EIS shares, pay Capital Gains Tax at the prevailing rate (currently 18%).
- **A New Disclosure Opportunity for UK residents** with unpaid tax connected to an offshore account will run from Autumn 2009 to March 2010 with penalties limited to 10% of the tax liability for most people. This could be an opportunity for clients to declare the tax and then re-position the funds in an offshore bond wrapper as a tax shelter.
- **For clients caught by the pension anti-forestalling legislation** who want to make new regular contributions towards retirement planning, an offshore savings plan could be an alternative, enabling funds to grow in a virtually tax free environment.
- **Lending is not becoming any easier to source** and the cost of borrowing is rising. Companies or individuals in need of a cashflow injection can use pension fund money to purchase allowable assets, providing immediate liquidity. Any growth in the value of the assets once in the pension is sheltered from capital gains tax. Small Self Administered Scheme (SSAS) pensions can, of course, also be used to provide loan-back facilities to businesses.

New inheritance tax planning developments

*An economic study from the Halifax makes interesting reading - the research predicts that £360 billion, in today's money, will pass from one generation to another during the fourteen year period ending in 2020. Around 40,000 estates a year are currently subject to Inheritance Tax (IHT), meaning that in the absence of proper planning many are losing out to the tune of 40% of the value of taxable assets.

A new solution has entered the IHT arena, offering the investor an immediate reduction in their IHT liability, which increases to 100% of the value of their investment after just two years. Annual income is also available, and the investment incorporates an underlying guaranteed minimum return of 3% per annum.

The structure works by splitting a client's investment into two parts, with a proportion of the funds held in a specialised Discounted Gift Trust (DGT), and the remainder held directly in investments which qualify for Business Property Relief (BPR). The investor retains control of the assets outside of the trust, providing access to capital if required.

The investment offers full IHT relief in a faster and more flexible manner than a traditional DGT, with the investor benefitting from the best of both underlying IHT planning structures. The Day One Inheritance Tax Relief is maximised through the DGT, whilst BPR provides the fastest available 100% IHT exemption. Please contact us for more information on this unique product and other effective solutions from the Oval Inheritance Tax Planning Service.

* Halifax IHT Study 2006

Tax efficient investments

The likelihood is that a number of your clients have UK based investment bonds hidden in their investment portfolios, often in relation to With Profit investments. They were no doubt taken out for the attractive tax efficient withdrawal facility and the possibility of no tax bill on surrender.

But it is often overlooked that withdrawals are only tax deferred, not tax free, and a number of people, including all those subject to higher rate tax, will have further tax of up to 20% to pay on the gain when the investment is surrendered. And the underlying investment funds are subject to internal taxation.

So all in all, maybe not the most tax efficient investment especially taking into account the recent changes to Capital Gains Tax (CGT). A portfolio of directly held investments benefits from the annual CGT exemption, currently £10,100, which could be used to fund withdrawals, genuinely tax free. Furthermore, gains above the exemption are only taxed at 18%.

The Oval Investment Service is to be expanded in the autumn to offer clients a cost effective way of holding collective

investments to benefit from the new CGT regime. It will be possible to access a wide range of fund management groups, structured investments or Discretionary Fund Management. It is therefore an ideal time to review a client's portfolio in terms of taxation and attitude to risk.

Should you wish to discuss the Oval Investment Service or have further details on the structured investment market, please contact your local consultant.



Have you undervalued your valuables?

According to the last significant survey* of household insurance, 75% of homeowners are currently underinsured. The scale of the potential financial impact on high net worth individuals is proportionately greater where high value properties and possessions are the norm.

It is also a fact that only 20% of wealthy individuals have a specialist High Net Worth (HNW) insurance policy.

Many insurance providers will only arrange a policy and are not authorised to offer

any advice. They will only offer terms based on the sums insured provided by their client. A true HNW insurance broker such as Oval will employ professional advisors to ensure that the needs of their clients are fully met. This will include arranging valuations on buildings and valuables if necessary.

In these uncertain times, can you or your clients afford to take the risk of underinsurance?

* Datamonitor 2005 - Household insurance for the affluent