



Some good news at last ... for people with funds to invest

In the last issue of Wealth Management Alert for 2011 we highlight two recent announcements that are good news for people with significant funds to invest – the introduction of Seed Enterprise Investment Schemes and the changes to the carry forward rules. We also look at using relevant life policies to provide cover for employees.

The Chancellor, in his Autumn Statement, introduced a new form of tax relief for investors backing certain start-ups. Known as Seed EIS (SEIS), this scheme, as the name suggests, is similar to the existing Enterprise Investment Scheme, but provides even greater tax relief.

Individuals will be able to invest up to £100,000 into qualifying companies in the tax year 2012/13 and receive immediate tax relief of 50%, even if their highest marginal tax rate is lower.

In addition, capital gains tax (CGT) rollover relief is available for gains realised from other assets during that tax year that are reinvested in a SEIS. So while the real cost to the investor is only 50p for every £1 invested, tax relief can reach 78% if taxable gain are reinvested.

While SEIS appear to be an attractive alternative – or additional investment – to pension contributions for the forthcoming tax year, in reality investors may find it difficult to find suitable investments that carry acceptable levels of diversification and risk. The criteria for qualifying companies have yet to be published but are expected to be restricted to unquoted start-ups with up to 25 employees.

Issues to consider

Clients with substantial amounts to invest, who already have significant assets and are able and willing to accept the risk of investing in smaller companies may well be attracted to SEIS because of the tax relief on offer. However, they should also consider Enterprise Investment Schemes (EIS) and Venture Capital Trusts (VCTs). They need to weigh up the benefits of each in terms of:

- the amount of upfront income tax relief available
- CGT exemptions and deferrals available
- how any dividends will be taxed
- inheritance tax treatment of investments
- the annual investment limit
- the length of time the investment must be held to qualify for the various tax reliefs
- the investments that qualify under each scheme.

It is important to remember that an investment should not be made for tax reasons alone and that such attractive tax relief is available because of the generally higher risk of the underlying investments.

Carry forward rules: window of opportunity

Recent HMRC guidance made an unexpected change to the carry forward rules, giving high earners a one-off opportunity to pay significantly more into their pension fund.

Last April the amount you could carry forward from unused pension allowances was reduced from £255,000 to £50,000 for each of the three previous years. So if you had paid nothing into your pension for the tax years 2008/09, 2009/10 and 2010/11, this year you would have been able to pay in £150,000 plus a further £50,000 for the current tax year. However, the new rules mean that any amount above £50,000 paid into a pension in either or both 2009/10 and 2010/11 tax years is no longer deemed to have used up available annual allowances for the previous years.

Some people can therefore make more contributions in

this tax year than previously thought using carry forward. However, they must carry forward unused 2008/09 annual allowance before their 2011/12 tax year/pension input period ends. Below are some examples of how this works.

Hugh has made pension contributions as follows:

2008/09	£30,000
2009/10	£80,000
2010/11	£40,000

Before the rule change:

Hugh's carry forward limit in 2011/12 would have been £10,000 from 2010/11. The £30,000 excess in 2009/10 would have cancelled out the £20,000 brought forward from 2008/09.

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After the rule change:

Hugh's carry forward limit in 2011/12 is £30,000, made up of £20,000 from 2008/09 and £10,000 from 2010/11. The £30,000 excess from 2009/10 is ignored. Hugh must act quickly. He can only use the £20,000 from 2008/09 if he applies it to a pension input period ending in 2011/12.

Jean has made pension contributions as follows:

2008/09	£0
2009/10	£245,000
2010/11	£255,000

Before the rule change:

Jean would have had no carry forward headroom in 2011/12. The excess amounts in 2009/10 and 2010/11 more than cancelled out the £50,000 brought forward from 2008/09.

After the rule change:

Jean's carry forward amount in 2011/12 is simply £50,000 from 2008/09. Jean had ruled out carry forward before. But, if she acts quickly, she can use the £50,000 available from

2008/09 – as long as she applies it to a pension input period ending in 2011/12.

Dave has made pension contributions as follows:

2008/09	£20,000
2009/10	£20,000
2010/11	£100,000

Before the rule change:

Dave's carry forward limit in 2011/12 would have been £10,000. The £50,000 'excess' in 2010/11 would have wiped out most of the £60,000 brought forward from 2008/09 and 2009/10, leaving only £10,000 from 2009/10.

After the rule change:

Dave's carry forward limit in 2011/12 is simply £60,000, made up of £30,000 from 2008/09 and £30,000 from 2009/10. The £50,000 'excess' in 2010/11 is ignored. Dave must act quickly. He can only use the £30,000 carried forward from 2008/09 if he applies it to a pension input period ending in 2011/12.

If an individual's pension input periods for tax year 2011/12 has already ended all is not lost. There is still time to effect a new arrangement with an input period that ends in 2011/12, enabling them to make the most of this new opportunity.

We would like to thank Scottish Widows and Zurich for their input into this issue.

Tax-efficient life cover for employees

Should the worst occur most people would want to ensure that their dependants and loved ones are looked after financially. Two common ways of providing life cover are personally, out of post-tax income, or through an employer-funded group death-in-service scheme. A third option is via a relevant life policy, which could put this vital cover in place in a more tax-efficient way.

Ideal for small businesses

Relevant life policies are single life death-in-service plans paid for by the employer on the life of an employee (this can include directors paying tax under PAYE). Unlike some

group death-in-service schemes there is no minimum number of members, making these types of plan ideal for small businesses.

Large pension funds and the lifetime allowance

Any life cover paid out from a group death-in-service scheme will be included in the lifetime allowance at that time. If these benefits are paid out as a lump sum and they take the fund over the current lifetime allowance threshold of £1.8m (tax year 2011/12), a tax charge of 55% could be applied to the

Payments into, and any claim proceeds from, relevant

life policies do not count towards an individual's annual or lifetime allowance, which means this issue isn't a concern.

More tax-efficient life cover

Subject to the "wholly and exclusively rules", relevant life policies are an allowable deduction for business against corporation tax but they are not treated as a benefit in kind. This results in no national insurance liability for employer or employee and no income tax liability for the employee on the payments into or any sum assured paid out under the plan.

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