Specialist Investment Planning

Chiltern CONSULTANCY
INDEPENDENT FINANCIAL ADVISERS

Specialist Investment Planning

Nobody likes to pay tax and many investors will want to mitigate the imposition of income tax and capital gains tax that they have already suffered and inheritance tax that their estate is going to Suffer in the future.

We are able to offer a range of planning strategies and investments to help those clients meet their goals within the range of what they can afford.

Chiltern Consultancy are able to give expert advice to clients who wish to reduce their income tax, capital gains tax and inheritance tax.

This can be achieved by investing into Venture Capital Trusts or Enterprise Investment Schemes for those clients who are able to accept the high level of risk attached to these investments.

Venture Capital Trusts

Venture Capital Trusts (“VCT”) were introduced in autumn 1995 to encourage and increase a broader supply of equity capital investment into small companies in the UK.

VCT are investment trusts and the shares are quoted on the London Stock Exchange.

These investments carry a high degree of investment risk and Her Majesty’s Revenue and Customs (HMRC) recognises that by giving income tax breaks to investors in newly issued VCT.

By the end of the tax year 2012/13 just over £5 billion has been invested in VCT shares (source: HMRC).

As noted the Government through legislation actively encourages investment in VCT by offering a most attractive tax break package. For the 2015/16 tax year an investor in VCT shares qualifies for income tax relief at a rate of 30% of the amount invested subject to a maximum investment of £200,000.

Of course the investor must have paid sufficient income tax that it is capable of being repaid.

As an added tax incentive VCT can distribute realised capital gains and investment income as a tax-free dividend and, on realisation, any capital gain is tax-free too.

However, the shares must be held for at least five years to secure all the tax breaks.

Although the tax benefits are very attractive investors have to be mindful that investing in to a VCT carries a high degree of risk. For this reason investors need to be sure that they have the capacity to cope with any capital loss that might arise out of making such an investment.

The value of VCT investments can fall as well as rise and the investor may not receive back as much as was originally invested. Because of the risks attaching to such an investment and the specialised nature of the planning all investment should be made on the back of advice from a well qualified regulated person. VCT are most suitable for those individuals who can view such an investment as a long-term investment (five years minimum) and who have already a portfolio of investments to which this new asset class can be added without materially changing their overall risk profile.

Please note: VCTs are high risk investments and there may be no market for the shares should you wish to dispose of them. You may lose your capital.

Enterprise Investment Schemes (EISs) are very high-risk investments.
An EIS investment is usually concentrated in one single unquoted trading company.
Often there is no market for the shares and it may therefore be very difficult to make a disposal. There is a strong possibility of the chosen company failing.

Enterprise Investment Schemes (EIS)

A qualifying EIS investment is essentially the purchase of newly issued shares in any unquoted trading company whose trade complies with guidelines set out by Her Majesty's Revenue and Customs (HMRC). For EIS purposes unquoted means not listed on a recognised stock exchange, the company can be listed on AIM. The Government passed legislation to incentivise investment into qualifying EIS shares by UK taxpayers by offering a most attractive tax break package.

However, no income tax relief can be claimed if the investor was previously associated or is currently (applies to the period 2 years before and 3 years after share issue) with the investee company.

A company is granted EIS status by HMRC who assume it will remain qualifying until notified otherwise.

An EIS qualifying company cannot have gross assets of more than £15m before the investment and £16m after it.

Companies are not allowed to raise more than £10m in any 12 month period from EIS investors or from using a combination of the EIS and VCT schemes and it must have fewer than 250 employees.

For tax year 2015/16 investors in EIS qualifying shares receive 30% income tax relief on the first £1,000,000 invested. The investment must be held for three years to avoid the tax reliefs being lost. Up to £1,000,000 invested may be backdated to the previous tax year to obtain tax reliefs for that year. Sufficient income tax must have been paid to obtain repayment.

Investors may defer unlimited Capital Gains Tax liabilities by investing the gain into qualifying EIS shares. This relief will be given provided the EIS qualifying shares are purchased during the period beginning three years after or twelve months before the disposal that gave rise to the chargeable gain. However although this deferral relief is without limit only the first £1,000,000 of the investment will receive the 30% income tax relief.

Any deferred gains will be reinstated if the investor disposes of the shares or ceases to be resident in the UK within three years of the issue of the shares (or within three years of its initial trading date, if later). In addition the investor ceases to qualify for the 30% income tax relief and any tax rebate would have to be repaid.

There is no Capital Gains Tax liability where a profit is realised on the disposal of EIS shares.

An investor who acquires ordinary shares in an EIS qualifying company will be liable for UK income tax on any dividends paid by that company.

After being held for two years EIS qualifying shares qualify for inheritance tax purposes for 100% business property relief. There is no limit on investment into EIS qualifying shares, including for inheritance tax mitigation purposes.

The value of EIS investments will fluctuate and their performance may be quite volatile.

Capital values can go down as well as up and the investor may not receive back as much as was originally invested. Although the tax benefits are very attractive investors have to be mindful that investing in to an EIS carries a high degree of risk. For this reason investors need to be sure that they have the capacity to cope with any capital loss that might arise out of making such an investment.

In the event of a loss occurring when an EIS investment is realised there is a further income tax break available to the investor.

If a company loses EIS status within three years the tax benefits for the investor will be lost resulting in any repayment being paid back to HMRC.

Because of the risks attaching to such an investment and the specialised nature of the planning all investment should be made with the benefit of advice from a suitably qualified regulated person.

EIS are most suitable for those individuals who can view such an investment as a long-term investment (three years minimum) and who have already a portfolio of investments to which this new asset class can be added without materially changing their overall risk profile.

Chiltern CONSULTANCY
INDEPENDENT FINANCIAL ADVISERS

To arrange an informal, no obligation meeting at home, your workplace or at our office in High Wycombe, please contact us

T: 01494 451441

E: enquiries@chilternconsultancyltd.com

Chiltern Consultancy Limited
Merlin House,
Lancaster Road,
High Wycombe,
Bucks,
HP12 3PY

PLEASE NOTE:
The information contained within this brochure is intended to provide a general appreciation of the topic and it is not advice.

www.chilternconsultancyltd.com