



Thomas & Co Financial Services

INDEPENDENT FINANCIAL ADVISERS

MoneyMatters

Spring 2015

ISA shake up

The pension
FAMILY TREE

End of Tax Year
planning

Income
PROTECTION

How to retire at **55**

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Pensions Guidance Service

In January 2015 the Government announced the name of its new pensions guidance service, which is to be run in partnership with the Citizens Advice and The Pensions Advisory Service (TPAS).

Pensions Wise

The service will be called Pensions Wise: Your Money, Your Choice, which the Government hopes will reflect the empowerment of people approaching retirement to make confident, informed choices about funding their retirement. The service is free and will offer impartial guidance on the many different pension options that will become available from April, and will be presented through face-to-face meetings, telephone conversations or online guidance.

The service will start with a pilot scheme to test what does and doesn't work well and to receive customer feedback.

What does the service provide?

This service is there to give those approaching retirement guidance on their options and what steps to take, but it won't offer advice. Detailed advice will still need to be taken from professional advisers. This new Government service will hopefully help the user understand what questions to ask and where to get the best help as well as provide an idea of how they can secure their retirement income.

Users have to book an appointment to use the service, whether they want a face-to-face

meeting, or a telephone interview. After the meeting, users will be issued with a summary document so that they can reflect on the guidance provided.

Why do we need this service?

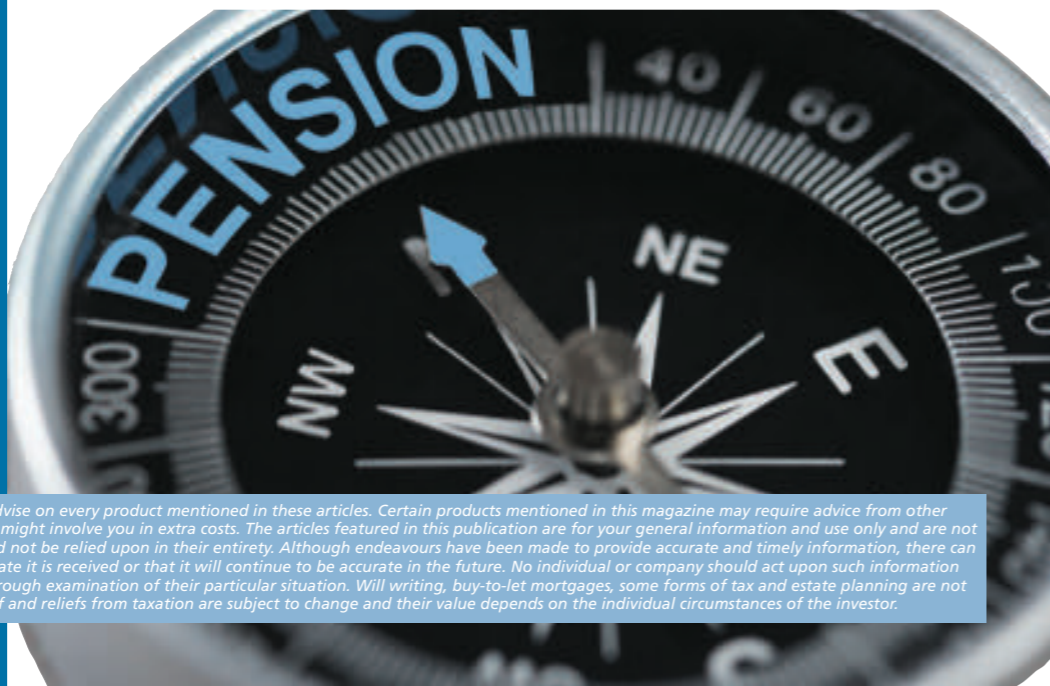
With the introduction of the new pensions reforms in April, the level of possible options has increased dramatically, bringing a new level of complexity into the pensions arena. This means, making an informed decision about how to manage retirement funds and ensuring retirees are able to maintain an income throughout the rest of their lives, is even important than before.

The Government's pension guidance service promises to create an essential first step for pre-retirees who are looking to find out more about their pension options after April and will help to guide them through what could be a difficult journey.

The facts so far

There are still some outstanding issues and unanswered questions, the Government is yet to go into fine detail about what exact guidance will be offered.

It is also important to point out that this service is offering guidance only to pre-retirees. After an initial meeting with Pension Wise, it is still advisable to meet with a professional financial adviser to go through your options in more detail.



Before the 5th April and the end of the tax year, you need to think about maximising your saving opportunities before they disappear for good!

1 Flexible Pension Preparation and Contributions

Your pension contributions need checking annually. Contributing to your pension is often a good way to manage your tax liabilities, although it should be done with your full financial plan in mind. You will need to consider the pension lifetime allowance, which is currently £1.25 million. Anything above this level within your pension can currently be taxed, thus potentially altering your tax planning, so it's worth checking the size of your pension pot, remembering to allow for its natural growth, if you're considering extra contributions. Whilst you're looking at your pension, consider preparing for its new flexibility: the new rules announced during the 2014 Budget come into force at the turn of the tax year.

2 Watch out for the Budget

The 2015 Budget Statement will be delivered by George Osborne on Wednesday 18th March. Look out for any 'instant' changes, such as the change to Stamp Duty announced during the December 2014 Autumn Statement, which are a regular occurrence. This is also the Budget prior to May's UK General Election, so it is likely to have some fairly major announcements designed to appeal to voters that could come into force at the start of the 2015/2016 tax year.

3 Capital Gains Tax Allowance

Many forget the 'gift' from the taxman, the Capital Gains Tax Allowance is £11,000 for the current tax year. This means that you pay no tax on Capital Gains up to that threshold. It is also an individual allowance, meaning that a couple can shelter up to £22,000 and genuine gifts towards the allowance. There are various other exemptions and careful planning can again really help your tax position.

4 Junior ISAs and Children's Savings

Junior ISAs for this tax year are £4,000; their Capital Gains Tax Allowance is set at the same rate as adults and they can also make pension contributions.

5 ISA Contributions

Finally the 'big one', the amount you can invest into an Individual Savings Account (ISA) resets at the tax year end and if you don't use it, you lose it. This tax year, following the changes announced in the 2014 budget, the ISA limit was increased to £15,000, up from £11,520 in 2013/2014, which means that many of us may not have increased to the maximum allowance. There's also no longer a limit on how much you can put into a cash ISA, so your entire £15,000 could be invested in that way, if you so wish.

Monitor your tax code

Check your pay slip or ask your tax office for a coding notice. This details your allowances and any deductions due to state benefits or taxable employee benefits. Errors will affect how much tax you pay and could result in a large tax demand if you have underpaid. You could also be paying too much if, for example, where employment changed and your correct tax code wasn't applied or you have more than one job. You can claim back overpaid tax for up to four years.

Use all of your personal allowances

Ensure that you are making the most of your individual tax-free personal allowance (PA), which is £10,000 for 2014/15 (£10,600 for 2015/16 tax year) for people aged under 65. For the over 65s, the age-related allowances which are worth up to £10,660 assuming your maximum income doesn't exceed £26,100, after which your PA would reduce by £1 for each £2 earned above this figure, until it reached £9,440.

Remember to transfer any unused allowances to your spouse or registered civil partner, if they have little or no income, to ensure that they are able to make full use of their PA. Care should be taken to avoid falling foul of the settlements legislation governing 'income shifting'. Transfers must be an outright gift.

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

FINANCIAL PLANNING

1 Pension freedoms

Pension savers are eagerly awaiting the advantages of the new pension reforms in April 2015. An estimated half a million people will be able to take advantage of these increased pension options when considering alternatives to annuities for their retirement income.

This means it has never been more important to consider how best to mix guaranteed income from the likes of state pension, final salary pensions and annuities with more flexible, riskier options such as drawdown.

The right approach will suit an individual's attitude to investment risk and whilst trying to mitigate the potential tax traps of large withdrawals, keeping in mind that only 25% of a pension can be taken tax-free, with the rest being subject to income tax at your personal rate.

2 Reduce your tax burden

Following this year's general election most expect the new Government to increase taxation. Effective tax planning is the utmost importance now.

- Couples should now plan ahead and set themselves up for a minimum of £21,200 of tax-free income (from April 2015) by making best use of tax bands and personal allowances.

- With the current ISA allowance of £15,000 to use by 5 April and a new allowance of £15,240 from 6 April, a couple can shelter up to £60,480 from further taxes over the next four months. It is also possible to shelter up to £40,000 each tax year in a pension and benefit from tax relief. Those who do not already use this allowance through a work pension including employer contributions, can top-up by contributing to a private pension such as a stakeholder or a SIPP. High earners can carry forward unused allowances from previous years to shelter a total of up to £190,000 in pensions this tax year.

Remember tax rules can change and the value of any benefits depends on individual circumstances.

3 Rethinking estate tax planning

The new April rules will make ISAs transferable to the surviving spouse and pensions will be completely tax-free if death occurs before age 75.

As with all planning, you should regularly review to check that plans are on track to achieve their goals, taking into account rule changes such as these. These new changes to the tax treatment of pensions and ISAs on death will mean many pension investors will be rewriting and revisiting their Wills, inheritance tax and estate plans this year.

4 Beating low interest rates

Every portfolio should have an element of cash available, enough should be held to meet short-term spending needs.

Over the long term the low returns offered by cash are often eroded by inflation, and that's why other assets, such as shares and bonds, could be considered for the rest of an investment portfolio.

Generally, past performance shows that cash is highly unlikely to beat the returns from the stock market over the long term, but unlike cash the market will have its risks.

5 Always seek professional advice

Working out how to arrange a portfolio for maximum tax efficiency can be complicated. Making the most of inheritance tax planning strategies and deciding how much cash to commit to the stock market are all important financial decisions. It is important to conduct detailed research and your professional financial adviser can offer help and guidance to ensure you meet your financial goals.

THE ISA SHAKE UP

YouGov have reported in a recent survey that around 77% of British adults (around 38 million people), have little or no understanding of the New ISA rules that came into effect in July 2014.

These changes were announced in March's budget, which brought cheers from many because they made ISAs simpler and more attractive than ever, and increased the annual allowance to its highest ever level. The Government's strategy for change was that it would encourage individuals to save and invest more for their future. Further advantages were also announced in December's Autumn Statement, allowing ISA benefits to be passed to a spouse on death.

For those individuals yet to take advantage of the new ISA rules it's not too late to benefit, the tax year ends on 5 April 2015.

What's changed?

New ISA annual allowance - the amount you can invest each tax year has risen to £15,000. Anyone who has already opened their ISA for this tax year (2014/15) before 1 July 2014, can top up to this new £15,000 annual allowance. In the new 2015/16 tax year the ISA allowance increases to £15,240, this means over the next few months

investors can shelter as much as £30,240 in ISAs.

Better flexibility – Before these changes there were restrictions on how you could split your allowance between Cash ISAs and Stocks & Shares ISAs. With the new changes you can split your allowance as you wish.

Improved death benefits - Investments are normally subject to Inheritance Tax (IHT) of 40%, if the total value of your estate exceeds the 'nil-rate band'. This is currently £325,000 for individuals, or up to £650,000 if you inherit your spouse's or civil partner's unused allowance. The Autumn Statement changes mean that surviving spouses will have an additional ISA allowance, equal to the amount the deceased spouse had in their ISA.

Transfer options – The new rules allow you to transfer from a Stocks & Shares ISA to a Cash ISA, and vice versa. Under previous rules you were only able to transfer from a Cash ISA to a Stocks & Shares ISA. This removes one of the biggest barriers to transferring Cash ISAs to Stocks & Shares ISAs, which was that you couldn't transfer back again.

Purchase short-dated bonds - ISA investors now have the flexibility to invest in individual corporate bonds and gilts with less than five years to maturity. Previously ISA investors could only purchase these investments with more than five years to maturity.

Transfer free Stocks & Shares ISAs - You could always hold cash in a Stocks & Shares ISA, but interest was, effectively, paid net of basic rate tax. Under the new rules interest on cash in a Stocks & Shares ISA is paid gross and is completely tax-free. Cash ISAs remain unchanged.

Used every year the ISA allowance allows savers and investors to build a substantial tax efficient portfolio. If you had invested the full ISA allowance every year since ISAs launched in 1999, you could have sheltered as much as £139,080 from tax. This figure excludes investment growth.

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

How to retire at 55

Have you ever thought “if only I could stop working”, but how could you afford it? The answer will be dependent on your pension and how well it has performed. Here we look at ways to get your pension into shape

1. Use your share of the £35 billion the taxman gives pension savers

When you put money in a personal pension the taxman also contributes. Imagine you pay in £1,000. The taxman automatically adds another £250, so your pension pot receives £1,250.

If you pay 40% or 45% rate tax, as a higher rate taxpayer you get even more.

You can claim back money through your tax return which means the £1,250 from the example above, could cost you as little as £687.50 or 55%.

The amount you get from the taxman depends on your circumstances and tax rules can and do change. So take advantage whilst it is still on offer.

2. Start a pension

It is thought that as many as four in ten British adults don't have a pension, including 1.4 million who are within 10 years of retiring.

If you wish to retire at 65 on 65% of your salary, the rule of thumb is like this; so the calculation is like this, divide your age when you start your pension savings by two and contribute this as a percentage of your earnings. For example, if you're 25 you should aim to save 12.5% of earnings. Obviously to retire at 55 you'll need to save more, but the sooner you start, the less it should cost you to build a substantial pension.

3. If your employer offers you a pension at work, take it!

Some companies, especially the large ones, usually offer workplace pensions. In many cases, they pay money into your pension due to auto-enrolment which came into effect in 2012. Over the coming years all UK companies, will have to offer a pension to their employees. If you opt out, you could be missing out on 'free money' from your employer.

4. Check where your pension is invested

Half of the UK population have no idea where their pension fund is invested, but it is important to know because you could be missing good returns if you didn't. Not all investments are the same and the difference could have a significant impact on your pension. That said, all investments go up and down so you may end up with less than you invested, but keeping a keen eye on it lessens risks on returns.

5. Make small, regular increases

Take a person aged 30 contributing £150 net to his pension every month. If every year that person increases that amount by 5% or £7.50 a month for the first year, at age 65 he could find himself with an extra £190,642 in his pension, assuming basic tax relief and that the fund grows 4% a year after charges.

Never mind takeaways: this should pay for quite a few fine dining meals!

Meaning a little increase can go a long way in the future. However, this example is only based on today's terms and doesn't consider inflation which would reduce real values over time.

6. Trace old pensions

Most people have around 10 jobs during their working life and many forget or don't keep track of all the pension schemes they have joined during their career.

If you recall joining more than one pension but don't have the details to hand, you can trace them for free with the Pension Tracing Service.

7. Approaching retirement?

Retirement rules are changing as of April 2015. If you are 55 or over, you will have a

lot more freedom and flexibility on how you can draw your private pensions. You can take lump sums (single or periodical), income (secure or flexible), or a combination, you can even take your whole pension fund as cash in one go.

However, remember the first 25% you withdraw is usually tax free, and the rest will be taxed as income.

Choosing how to draw your pension is one of the most important financial decisions you will have to make. Remember you may need it for 20, 30 or even 40 years. So ensure you find out about the new rules and opportunities available.

8. Don't delay on your pension

It is thought that as many as 3.5 million people have no plans to stop working at all, many because they have no monetary support structure in place, but wishing they had.

What you do today could make all the difference for your future and relaxing at 55 sounds better than working hard well into your later years!

Avoid becoming a 45% taxpayer overnight

When taking benefits from a pension, 25% is usually tax-free and the rest is added to other income in that tax year and subject to income tax. For those planning to take large lump sums out, this could push income into a higher tax bracket. At the extreme, someone could instantly become a top rate taxpayer (45%).

One option to reduce tax is to spread withdrawals over a number of years. Investors - perhaps basic or non-taxpayers, might even consider taking some this tax year.

Although the new rules don't take effect until 6 April, pensioners can already use income drawdown to take tax-free cash and some taxable withdrawals. Until April most people are restricted on the amounts they take out. From April the limits are effectively removed.

Please remember, a pension is intended to provide income for a retirement potentially lasting 20 years or more. Taking excessive withdrawals increases the risk of running out of money later and could have a significant impact on lifestyle. In income drawdown the pension fund remains invested so will rise and fall in value. It is a high risk option so will not be suitable for everyone and income is not secure. Tax treatment and pension rules will change over time and will depend on individual circumstances.

Retirement rules are changing as of April 2015. If you are 55 or over, you will have a lot more freedom and flexibility on how you can draw your private pensions

The value of pension and the income they produce can fall as well as rise. You may get back less than you invested.

The pension family tree

Your pension family tree

Husband dies age 74 with £500,000 in his SIPP

£500,000 passes tax free to wife

Wife inherits the pension. Withdrawals are tax free as husband died under age 75. Leaves £400,000 to pass on when she dies age 85.

£400,000 passes tax free to their two children

Two children inherit half each, which they both keep with a SIPP, so there is no tax to pay on the investment growth. Withdrawals are subject to income tax. Both children die after age 75.

Remainder passes tax free to grandchildren

Grandchildren inherit the pension with the same options as their parents. Withdrawals are subject to income tax.

How to structure and set up a pension family tree

You simply nominate who you would like the remaining pension paid to when you die (you can nominate more than one person) and you can change the nomination at any time. The nomination also applies to income drawdown, an option where you draw retirement income directly from the SIPP, but it does not apply to an annuity. The nomination is not legally binding, but it is seen as your wishes. Nominated beneficiaries and dependants can choose whether they take an income or lump sum.

As of April this year, private pension wealth can be passed on to other family members, in some cases completely tax-free. This is a big opportunity for those looking to make investments for the next generation, as it opens up the concept of the pension family tree. Children or grandchildren can inherit your pension, and should you die before the age of 75 they will not pay tax on withdrawals they make from it.

Under the previous pension rules, once you had started to draw your pension, either by an annuity or income drawdown, in most cases anything paid out to your surviving beneficiaries was subject to income tax if taken as income, or a 55% flat-rate tax if taken as a lump sum. In the case of income, this could only be paid to someone financially dependent on you, like your spouse or a dependent child.

Under the new rules as of April 6th, regardless of whether you have started to draw a pension, your remaining fund can be passed on tax-free, if you die before the age of 75.

Your nominated beneficiary can use it to provide a tax-free income or a tax-free lump sum and does not need to be financially dependent on you. If you die on or after the age of 75, the beneficiary can receive the

pension, but it is subject to tax at their highest marginal rate if taken as income. Pensions generally fall outside an estate, and thus are free of inheritance tax.

The Chancellor has made it possible to pass pension wealth on in a more tax-efficient manner. That said tax rules can change in future and tax treatment will depend on your individual circumstances.

It is considered that the average life expectancy at the age of 65 in the UK is 86 for men and 89 for women, so the Government estimates most people will survive the age 75 threshold, and thus bring in tax receipts when they die. Pensions are governed by the lifetime allowance, which is currently set at £1.25m: anything over this is subject to a tax charge of up to 55%.

No news or research item is a personal recommendation to deal. All investments can fall as well as rise in value so you could get back less than you invest.



This article is based on our understanding of current and draft legislation, which could change in future.

Top tips for investing

It's never too late to review your investments. If you want your money to work hard for you and have the potential for greater returns this year, here are some tips to help

Remind yourself of your financial targets

A year can be a long time when investing, most believe that you only reach a goal that really means something to you.

Perhaps you've experienced some changes during the year and it's time your investment targets reflected them? Welcoming children or grandchildren to a family can change your perspective, so it's well worth taking some time to think about what's important to you now.

If your situation has changed, speak with your financial adviser about how you update your targets and progress towards them this year.

Build an emergency fund

Investments are long-term, so it's best not to touch them even if you need cash to cover an unforeseen emergency.

To cover such emergencies, you could consider a cash reserve. Try to have at least three months of your regular outgoings in cash, which should cover most problems.

By withdrawing from cash in times of need, you keep your investments tax-efficient. If you had no other option but to take money out of your ISA, you would not be able to put it back in again if you had already reached your annual allowance of £15,000 for the 2014/15 tax year.

Think of risk and return together

Everyone needs to appreciate the link between risk and return.

Low-risk investments usually provide lower returns, whereas higher-risk investments have

the potential to produce much higher returns. Generally, the longer you have to reach your goal, the less risk you take.

Investment charges

Charges erode your returns every year, so it's important that you know for how long and how much you are paying and that you're getting good service for your money. Always ask your Financial Adviser to show all the charges before you agree to have them work for you.

The risk of high charges is especially severe for older investments, such as dormant pensions. It may be more cost effective for you to transfer your dormant pensions into one pot with lower overall fees.

Always take a long-term view

Investments should be thought of as long term goals that are at least five years away. With ever changing markets, it's over the long-term that you'll usually see investment growth. The longer you have to invest, the better.

Remember, don't panic if the market goes down, you're investing for the long-term, not for just today.

Invest regularly

Regularly add more to your investments, this avoids 'lump sum shock' where you might invest a lump sum the day before a big drop in the market. Over time you'll make your money back, but by regular investing, you spread the risk. Investing the same amount each month means that you'll buy less when the market is

up and units cost more, and you'll buy more when the market is down and units cost less. Over time, you should average out at a lower cost-per-unit than if you invested in one lump sum.

Be prepared to top-up your investments

If you find yourself behind your investment target, top up your investment to bridge the shortfall.

By topping up you can keep investments on course and even help you reach your goals early. You don't have to wait until you're behind to top-up, you can also add funds when you have extra cash.

Make the most of tax-efficient investing

Use your annual ISA allowance of £15,000. This is tax-free saving and should be one of the first places you invest your money. You have until 5th April to use up your allowance.

Remember the ISA allowance is personal, so a couple can shelter £30,000 from the taxman. The allowance starts again on April 6th and you can't carry over any unused amount.

As well as an ISA, you can invest up to £40,000 in your pension this tax year. Use your allowance today to get your money invested for longer.

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

Income protection, you never know!

Can you risk not being protected if you are unable to work. Here we explain how Income Protection Insurance works and what to look out for.

How would you meet your financial debts if the worse happens?

What if an illness or injury prevented you from working? The impact of you being too ill to work could have devastating consequences for your family.

Protecting your loved ones by taking out income protection insurance, which pays out if you become unable to work, could prove to be a very wise move.

What help is available?

Many of us believe the Government or our employers will help us when we are unable to work. We know the state benefits we qualify for can offer some limited help, particularly if you have a mortgage. You may even qualify for benefits like housing or carer's allowance, but it can be a while before it is available and normally will only cover the interest on your loan.

Even if you are employed full-time, your employer will, after a period, cease paying your full salary, leaving you and your family to survive on benefits. This can be from as little as £85 per week.

How can income protection insurance help?

Income Protection is an insurance which is there as a safety net to help cover your outgoings while you are unable to work, income protection starts if you have an accident or fall ill. Payments normally begin as soon as you suffer a loss of income, through illness or an accident.

If claimed in accordance with your policy's terms and conditions this could be within a few weeks of your accident or, if your contract states that your employer will continue paying your full salary for a set time - the payments could start when your salary payment stops. Which means you can defer payment of benefits to suit your circumstances and reduce the cost of the insurance premiums.

These premiums are also variable depending on how much income you want to receive while you are not working. You can generally choose to receive up to 75% of your salary but you will pay less if you think you can survive on 50% of your salary.

Is critical illness insurance the same?

No, Income Protection is not the same as Critical Illness Insurance. It is important to realise that Critical Illness Insurance does not replace the need for income protection cover because the benefits offered are different.

Critical illness insurance pays out a lump sum if you are diagnosed with an illness that is included on a pre-determined list.

Income protection insurance, on the other hand, pays you a regular income if you are unable to work due to an illness or an injury.

What is not covered?

Income Protection Insurance will not cover loss of income due to redundancy or being sacked by your employer.

Illnesses that you have had in the past are also likely to be excluded, as are certain riskier professions.

You should always read the exemptions on the policy carefully. Also ensure you read the terms and conditions of the policy carefully, and make sure you understand all the definitions.



Make your pension last

With the new pension freedom rules being introduced in April 2015 savers will be able to access their pension fund at any time from the age of 55. This means, if you wanted to, you could withdraw all of your pension savings as cash, subject to tax, and then spend it in any way you wish.

The Government is passing the responsibility to the pension holder to ensure that their pension money lasts through retirement. This means the safety net of restrictions, such as having to take most of your retirement savings in the form of an income will be gone.

Industry experts are concerned that some people retiring this April may feel instantly rich, for the first time in their lives, as their pension money that was locked away becomes very accessible. There are concerns that the over 55s will go on an unstoppable spending spree.

Many people are aware there are a number of pension scammers waiting for this event to begin and this is already of big concern to pension regulators. This is expected to increase as retirees have more options for using their pension savings.

These scammers are expected to target the over 55s with promises of high returns in exchange for cash from small pension pots, promising to invest in complex structures which may seem valid and trustworthy, but turn out to be non-existent follies.

How to make your pension last through retirement

1. You have to remember that your pension savings will have to see you through for 20, 30 or even 40 years. So work out the pension income you are likely to need by identifying your fixed living costs, then calculate how much you need for other essentials. This, when totalled, is the bare minimum you require, but don't forget to factor in inflation.

2. Never go it alone, always take professional financial advice. Simple actions like withdrawing your pension in one lump sum could have significant implications such as losing a large sum in tax. Also, taking a large withdrawal and putting it into a cash savings account or trying to invest the money yourself could be highly risky without knowing all the factors.

3. Appreciate the stock market rises and falls. Factor this in by investing sensibly and making planned withdrawals, then your portfolio should continue to provide you with a reliable income. It will be important to find the right product or investment that can meet your income plan and needs, but one that is not risk loaded.

4. Always have a tolerance band built into your financial plans, as they rarely come in bang on target. Unless of course you are buying an annuity, which provides a guaranteed income for life, then you are guessing your life expectancy and hoping that your money lasts your lifetime.

5. Never underestimate inflation pressures, they are there and always will be. Costs generally over time always increase.

6. If it sounds too good to be true it probably is, so be on your guard for scams. A reputable financial adviser will not approach you with an offer out of the blue with a 'must do investment'. Only trust reputable financial advisers and be wary of any cold callers with investment opportunities. If in doubt check out any investment company or individual's credentials by contacting the Financial Conduct Authority (FCA) at consumer.queries@fca.org.uk.

7. If you are ever concerned or worried about a possible scam pension proposal, you can inform the Pensions Advisory Service, Action Fraud, or the FCA or speak to your financial adviser.

The value of pension and the income they produce can fall as well as rise. You may get back less than you invested.

VCTs

ISAs and pensions are popular and well-known choices for tax-efficient investing. If however, you have fully maximised these allowances you may consider an additional, although higher risk, option: Venture Capital Trusts (VCTs).

VCTs offer the opportunity to invest in newly formed and small companies, providing the capital they need to develop the business. A VCT typically invests in around 20 such businesses. These are chosen by the VCT manager, who is an expert in identifying this type of opportunity and negotiating attractive deals on behalf of the VCT's shareholders.

Like traditional smaller company unit trusts and OEICs, VCTs aim to generate capital growth. But VCT rules are different and allow them to pay out the majority of this capital growth to shareholders in the form of tax-free dividends.

However, dividends are not guaranteed. Many managers will also aim to grow capital modestly over the long term.

Investing in this vibrant area makes VCTs an exciting investment proposition, but they will perform differently from mainstream funds, and have substantially higher risks. They invest in small companies which are often at an early stage of their development and not listed on the stock exchange. This means they can be harder to buy and sell; and are more prone to failure. The shares in the VCT itself can also be difficult to sell, and will rise and fall in value meaning investors could lose money.

In acknowledgement of the risks the Government offers certain tax benefits to investors.

- 30% income tax relief for subscriptions in new VCT fund raisings
- Dividends paid by VCTs are free of tax
- No capital gains tax (CGT) to pay when the VCT is sold

The income tax relief means those investing £10,000 could receive a rebate of £3,000 from the taxman, although investors must keep the VCT for five years or they will have to repay any tax relief received. In addition, tax-free dividends from VCTs don't need including on a tax return. The tax benefits should be seen as the icing on the cake, rather than the main reason for investing. Tax and VCT rules can change and tax benefits depend on individual circumstances.

No news or research item is a personal recommendation to deal. All investments can fall as well as rise in value so you could get back less than you invest.

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

For more information on any subject that we have covered in this issue, or on any other subjects, please tick the appropriate box or boxes, include your personal details and return this section to us.

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