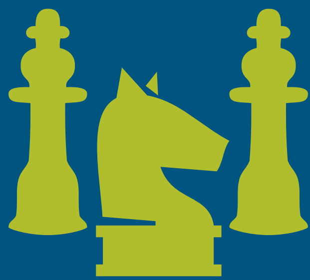
NLPFM news

News and views from NLP Financial Management

Venture capital trusts – risks and rewards



I have been advising my clients on Venture Capital Trusts (VCTs) for over 10 years and my conviction in the usefulness of these products for suitable clients has only increased over time.

By way of illustration, one investment arranged for a client in April 2007 has already paid back 49p in dividends from the £1 invested with the Net Asset Value still being around 87p. This is on top of the initial Income Tax Relief of 30p. This clearly demonstrates the value of such investments which provide investors with the opportunity of attractive tax relief alongside annual tax-free dividend payments.

VCTs are designed to help small and medium-sized private companies raise finance by offering a range of tax reliefs to investors including:

- Income Tax Relief of 30% on the amount invested.
- No liability to Income Tax on dividends generated.
- No liability to capital gains tax on any gains made.

The maximum per tax year that can be invested into a VCT is £200,000 and the Income Tax Relief is clawed back if the shares are held for less than the 5 year minimum holding period. There are various conditions that a company must fulfil to qualify as a VCT and the managers are charged with running the company so that this is achieved.

We categorise VCT investments into three main types:

- Generalist Funds that will not focus on any specific sectors but instead invest across a variety of businesses.
- Limited Life VCTs that aim to protect capital and return it at the earliest possible opportunity, i.e. after 5 years, but tend to have less scope for high levels of growth.
- AIM VCTs that invest in companies quoted on the alternative investment market.

We have mainly favoured investing in Generalist Funds that are risky in nature but have scope for high capital growth, with risk being mitigated through the attractive tax benefits available and through holding a number of separate VCT schemes.

Investors should be aware that VCTs are high risk investments and specific advice must be taken on appropriate schemes as they apply to individual investors. These investments are not suitable for everyone and must be held for a minimum of 5 years to retain the initial tax incentives.

For further information, please contact:

Adam Katten
T 020 7472 5550
E adam.katten@nlpfm.co.uk

Inside this Issue

Express yourself!

How do pension trustees decide who should receive any death benefits from your pension?

As most pensions are written under trust legislation, when a pension death benefit becomes payable, it will normally be down to the pension trustees (commonly your pension provider) to decide who gets what share. The trustees' decision will be based on what they believe are the deceased member's preferences. As this can be unclear, it is strongly advised that a letter of wishes is drafted to the trustees. Although not binding, the member's "expression of wish" form can act as a guide to the trustees when exercising their discretion over how and where to pay death benefits.

Who can receive pension lump sum death benefits?

Prior to 6 April 2015, only a dependant of the deceased member would be eligible for any lump sum death benefits. This mainly covered the surviving spouse and children under 23. Under the new pension rules, there are no restrictions to whom lump sum death benefits can be paid. So members can now include nominations for any individual(s) or trust they deem appropriate.

How can these death benefits be paid under the new rules?

They can be paid as a lump sum or as a drawdown pension which can be drawn upon at any time (assuming available from the pension provider). If a drawdown pension is selected, the ability to pass on pension wealth does not stop after the original member's death. A beneficiary can also nominate their own successor who will take over the drawdown fund following the beneficiary's death.

What's the advantage?

Funds kept within the nominee drawdown pension can continue to grow tax-free and be passed down the generations without inheritance tax, which may not be the case if funds are paid as a lump sum and kept in a taxable environment (such as a bank account).

For non-dependants, nominations via an expression of wish can be crucial. This is especially the case if the deceased member has a surviving dependant, as only a named nominee can be considered by the pension trustees for a drawdown pension. For example, it is not possible to pass on the fund as income drawdown to non-dependent adult children if the member's spouse is still alive and the children have not been nominated. The provider's only option, if any of the death benefits are to be paid to the children, would be to give them a lump sum outside the protected pension environment.

If you feel that your expression of wish forms may need reviewing, please contact:

Latrena Petkova
T 020 7472 5568
E latrena.petkova@nlpfm.co.uk

Critical illness insurance

Critical illness insurance is a frequently overlooked area of financial protection yet in 2014, it accounted for 13.4% of claims in the UK Life Insurance industry. Just shy of £1 Billion was paid out from 14,400 successful claims – an average of £67,000 per claim.

Whilst pure life insurance pays the 'sum assured' on your death, critical illness insurance aims to provide financial support during your lifetime at the time when it may be needed most. Critical illness insurance pays out a tax free lump sum if you are diagnosed with a critical illness as defined by the terms of your policy. It can therefore provide a financial cushion if you have to stop working for a period of time or fund expensive treatment.

Illnesses defined as "critical" vary between providers, so it is important to review what is covered. Core conditions include heart attack, cancer, stroke, loss of limbs and blindness, though some providers cover scores of conditions to varying degrees of severity. For example, some less severe conditions may be eligible for only a partial pay-out or not at all – therefore the cheapest policy may not be the most appropriate.

Critical illness cover can be acquired as a stand-alone policy or combined with life cover. Though critical illness policies are more expensive than pure life insurance, the sad reality is that an earlier claim is far more likely. As with all forms of insurance, one hopes never to need to claim, but it is sensible to be prepared for whatever comes your way and critical illness insurance should therefore be considered a key component of financial protection.

For further information or to obtain a free quote, please contact:

Elliot Gothold
T 020 7472 5543
E elliot.gothold@nlpfm.co.uk

8 ways to reduce your tax liability

From 6 April 2016 the government introduced new measures which, alongside existing allowances, will give you more scope to reduce your tax bill and increase your disposable income. In this article we examine 8 of those ways:

1 Personal Allowance: If your taxable income is under £100,000, then generally the first £11,000 is tax free. This reduces by £1 for every £2 of taxable income over £100,000.

2 Savings Allowance: You may have an extra £5,000 savings allowance on top of your personal allowance.

3 Personal Savings Allowance: Non or basic rate taxpayers have no tax liability on the first £1,000 of savings interest received, whilst higher rate taxpayers pay no tax on the first £500. The allowance is not available for additional rate taxpayers.

4 Dividend Allowance: Dividends of up to £5,000 in a tax year can be received with no liability to tax.

5 5% Tax-Deferred Investment Bond Withdrawals: You are able to withdraw up to 5% per annum, on a cumulative basis, of the original amount invested without any immediate liability to tax.

6 ISAs: You can withdraw money from an ISA with no tax penalty. From April 2016 new rules have been introduced that mean money can be invested, withdrawn and replaced in the same tax year without counting twice towards the annual £15,240 limit (£20,000 2017/18).

7 Capital Gains Tax (CGT): For directly held investments, the first £11,100 of aggregate crystallised capital gains per tax year are tax exempt.

8 25% of Pension Taken as 'Tax-Free Cash': In many circumstances and within limits, up to 25% of your accumulated pension can be withdrawn tax free from age 55.

These allowances can be effectively combined to significantly improve overall tax efficiency. Furthermore married couples can transfer assets between each other to improve their overall tax profile. The example below illustrates how a client with an annual requirement of £55,000 can use their portfolio to create this, with no liability to tax.

Assumed Financial Position for Client

£11,000 Salary	£250,000 Collectives	£5,000 Dividends	£100,000 Cash	£200,000 Investment Bond	£250,000 ISA	£500,000 Pension

Income Type	Amount	Allowance Used
Salary/Pension Income	£11,000	£11,000 Personal Allowance
Interest on Collectives @ 2%	£5,000	£5,000 Savings Allowance
Dividends	£5,000	£5,000 Dividend Allowance
Cash Interest @ 1%	£1,000	£1,000 Personal Savings Allowance
Investment Bond Withdrawals at 5%	£10,000	5% Tax-Deferred Bond Withdrawals
ISA Income at 4%	£10,000	Tax Free Withdrawal
Collective Withdrawals	£5,000	£11,100 Annual CGT Allowance
Pension Tax-Free Cash	£8,000	25% Pension Cash Lump Sum
Total Un-Taxed Income	**£55,000**	

Our role as advisers is to guide our clients so they combine these allowances in the most effective way to provide a tax-efficient income whilst meeting their objectives.

For further information, please contact:

Mike Winstanley
T 020 7472 5545
E mike.winstanley@nlpfm.co.uk

Please remember that past performance should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and investors may not get back the amount they originally invested. Changes in rates of exchange may also cause the value of investments to go up or down. Tax treatment depends on the individual circumstances and may be subject to change in the future. The Financial Conduct Authority does not regulate advice on taxation or trusts.

Brexit – reactions and reflections

The EU referendum has dominated much of our thinking when building model portfolios this year. In the lead up to the vote we, like others, felt confident that a 'remain' vote would prevail. However to protect our portfolios in the event of a 'leave' victory, we reduced our UK exposure and increased our global holdings.

The 'leave' vote resulted in an immediate fall in markets, but Sterling also fell heavily which instantly increased the value of our global holdings. This fall in Sterling has continued, with it now down around 20% against the Dollar since the referendum. With markets also recovering to their pre-vote highs, the portfolios have held up very well.

Central banks have supported markets with interest rate cuts and Quantitative Easing. However, the FTSE rally can mainly be attributed to around 75% of the earnings coming from overseas, and with the falling currency, earnings suddenly seem more attractive. We feel that the uncertainty around Brexit will grow as we move closer to triggering Article 50, expected by the end of March 2017.

> "We saw an indication of the possible consequences of the vote to leave with the dispute between Tesco and Unilever in so-called 'Marmite-gate'..."

We saw an indication of the possible consequences of the vote to leave with the dispute between Tesco and Unilever in so-called 'Marmite-gate' where Unilever wanted Tesco to increase pricing to reflect their inflated costs of importing ingredients. Whilst this was a relatively minor event, we believe that we could see more of these trade wranglings in the coming years as it remains unclear what terms of trade will be implemented, how and when.

We also remain cautious on Europe. The UK remains their largest trading partner and so any disruption could harm European economies already struggling for growth. Furthermore, there is a busy political schedule in the coming months and the possibility that other countries follow the UK's lead cannot be ignored.

Longer-term we have no real insight as to how Britain leaving the EU will impact the UK and European economies and we are certainly not "doom-mongers" but we do feel, shorter-term, there are some potentially severe headwinds for these markets which warrant a prudent approach.

Globally we are still finding interesting opportunities. We have added positions in infrastructure which tend to have stable, inflation-linked returns and look set to benefit from increased government spending. The US continues to prove a robust economy whilst Emerging Markets are again looking interesting and less exposed to the political issues in the West.

For further information, please contact:

Stuart Saberi
T 020 7472 5554
E stuart.saberi@nlpfm.co.uk

Reduced pension tax relief?

In our newsletter prior to the March Budget, we highlighted speculation of a radical change to tax relief on pension contributions.

In the event, the Budget was silent on the matter other than launching further consultations. Could the Chancellor's 23rd November Autumn Statement be the new date to effect such reforms? Much has changed since the March Budget, not least our Prime Minister and Chancellor, but much remains, including the desire to bolster the Exchequer through closing tax loopholes and reigning back on tax reliefs. Appearing to be overly generous to additional and higher rate taxpayers remains politically sensitive and we believe there is a real likelihood that such taxpayers could be impacted.

If appropriate, often sizeable, 100% tax-relievable pension contributions can still be made. Pensions remain an extraordinarily efficient and flexible means of saving over any timeframe – often providing tax advantages both on the way in and upon exit, a wealth of investment opportunities and are inheritance tax friendly to boot.

For further information, please contact:

Graham Mendoza-Wolfson
T 020 7472 5551
E graham.mendoza@nlpfm.co.uk

Remember, if you would prefer to receive NLPFM News by email, please subscribe by emailing mail@nlpfm.co.uk

If you do not wish to continue to be on our database or receive any further correspondence from us, please write to Adam Katten at the address below.

NLP Financial Management Charles House, 108-110 Finchley Road London NW3 5JJ
T +44 (0)20 7472 5555 **F** +44 (0)20 7681 2780