

**IFA Fact-Files
“Tax Based
Investment Schemes”**

PO Box 87, Crockenhill
Swanley, Kent BR8 9AP
Tel: 01322 669059
Fax: 01322 666825
Email: martin@maaltld.co.uk
Web: www.maaltld.co.uk

Tax based investment schemes have existed for many years. This fact sheet is a summary of the main options open to those with large tax liabilities. The table below provides a quick overview of the principle benefits and features:

Film	Partnership Schemes	Enterprise Investment Schemes	Venture Capital Trust	Pension investment
Income tax relief	Yes Yes	Yes		Yes
Capital Gains Tax relief or deferral or not applicable	No	Deferral (must invest within 3 years of making the gain) - invest the value of the gain	Deferral (must invest within 1 year of making the gain) - invest the value of the gain	No
Inheritance Tax relief	Yes Yes	No		If in Trust
Investment risk	Depends on the scheme, but tax relief at outset often minimises risk factors.	Usually investing in smaller companies but able to reduce risk by investing in pooled plans.	Smaller Company investment means high risk to capital, but potentially very good returns.	Choice from cash to “self-investment”.
Minimum term to hold investment	5 years (dependent on scheme)	3 years	3 years	Minimum age for obtaining benefits is 50
Maximum investment	None	£150,000 if Income Tax relief. Unlimited for CGT deferral	£100,000 per person per tax year.	Depends on age, salary, length of service etc.

How much do you need to invest?

This depends on the different schemes, and what type of tax you are trying to reduce. For example, if you are investing in an EIS to defer Capital Gains Tax, you need to invest up to the value of the gain that you made.

If however you are investing in a Film Partnership scheme, you gain tax relief on the contribution, but this is "geared up" so that you receive say £1.46 of tax relief for every £1 you invest. (This is achieved by the Film Partnership generating a tax loss in the first year of trading, which will offset against the tax on your income.)

With Pensions, the maximum is very often determined by the individual's salary and age, and there are different types of scheme.

Importance of investment over tax

A classic mistake for investors is to invest in an arrangement for tax reasons only, and find that the underlying investment is unsuitable for their needs. For this reason, you should consider very carefully all aspects of the investment, before deciding to proceed. We also suggest that it is imperative for your Accountant and Financial Adviser to work together to come up with the right solutions for you.

Remember - What is right for one client may be totally unsuitable for another.

Costs of investing in these schemes

The Film Partnership schemes, the EIS and the VCTs are all quite costly to run, mainly because they require individual prospectuses and Inland Revenue approval. It is not uncommon to find initial charges in excess of 5% and annual running costs of up to 2.5% per annum.

Pensions on the other hand are very cheap to set up and run, with usually no setting up costs, and annual charges of less than 1% per annum.

Risks

Often, tax reliefs or breaks are only applicable because the Inland Revenue want to encourage individuals to invest in areas that are otherwise not attractive. This is certainly the case with Film Partnerships and also EISs. It is often the product design that tries to minimise risk, by either only taking partially pre-sold films (in the case of Film Partnerships) or by organising a "collective" investment for EIS and VCTs. In all of these cases though, there is a real risk to capital that needs to be borne in mind. The potential gains could however be attractive to the higher risk investor.

Pensions on the other hand can be individually tailored to an investor with any type of risk profile from low risk to high risk.

But I don't like pensions

We often hear these words spoken. Whilst we understand that there are some disadvantages of investing in pensions, our view is that you should explore all of the options with an open mind. Let us explain the benefits of investing in pensions in comparison with the other options listed and assess the individual benefits of each scheme to you.

Summary

This is a complicated area of investment and tax planning advice, and you must obtain advice.

If you have any questions or need an independent review of your investment arrangements, please contact Martin Andrews to discuss your situation further. Martin Andrews & Associates Ltd is an Independent Financial Adviser authorised and regulated by the Financial Services Authority.

Information given in this document should not be taken as advice as it is intended for guidance only. The information contained in this publication is correct at the time of writing, although some products may differ. Such products do change from time to time and you should not rely on this information. If you wish to have an assessment of your own situation, you should contact the office for advice.