Don't invest unless you're prepared to lose all your money invested. This is a high risk investment. You could lose all the money you invest and are unlikely to be protected if something goes wrong. Take 2 minutes to learn more on page 3

Complementary Solutions to Pre and Post-Retirement Planning

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The annual pension contribution limit currently stands at £40,000 – when it was £255,000 only a few years ago – while the lifetime allowance is now £1,073,100. This brings a clear need for supplementary tax-efficient investments through which higher earners can top up their pensions.

Building The Retirement Pot

Enterprise Investment Schemes (EISs) and Venture Capital Trusts (VCTs) have attractive tax planning aspects. They're good complementary planning options to pensions as both can benefit from an Income Tax rebate equal to 30% of the initial investment. An investor who has reached their maximum pension contribution can continue to use these solutions.

While pension investments are largely subject to Income Tax as they're drawn down, VCT and EIS solutions are not. Whilst these investments must be held for a fixed period to qualify for their income tax relief, after the holding period has passed, investors have flexibility and more access to investments compared to pensions.

Addressing Reduced Contributions

This is important. For some investors, their situation can worsen in cases where their employer used to give them significant pension contributions but no longer does. This is because the investor has either reached their lifetime limit or has contributions capped at £10,000 per annum.

Take an investor whose company contribution to their pension has reduced from £50,000 to £10,000 a year. Asking the employer to pay a net £40,000 to the employee would balance their package and they could invest this into an EIS. The investor's net position (after tax relief) would be almost the same as when their employer contributed more to their pension.

Assessing EIS And VCT Investments

There are also other considerations to discuss with clients when looking at using EISs and VCTs as part of retirement planning:

- The bulk of VCTs' returns are typically paid as tax-free dividends, very useful from a retirement income perspective but perhaps not so useful for pre-retirement pot building.
- EISs are 100% free of IHT after two years, giving them a key role in estate planning alongside pensions, and can also benefit from loss relief.
- EISs and VCTs can provide portfolio diversification and lower correlation to public markets through exposure to potentially higher growth smaller companies.

The Elimination of Income Tax In Retirement

EISs and VCTs are coming to be recognised for their use in post as well as pre-retirement planning. Here we work through a post-retirement example using EIS. Consider a retired man with a pension generating an income of £50,000 a year. He pays £8,700 of Income Tax on this plus further Income Tax on savings and share dividends. This results in a total tax bill of £9,000. He has investable assets of £150,000.

Mitigating Income Tax

Investing £30,000 into an EIS will give the investor Income Tax relief of £9,000. This will clear his entire Income Tax bill for that year. In the following year, he can invest a further £30,000 with the same result and again in year 3. This is assuming that his Income Tax bill does not change and, of course, assuming current EIS legislation is unaltered. An EIS can return the investor's capital after it has been held for the 3-year qualifying period. This means that in year 4, the investor can, once the fund has been liquidated, reinvest their year 1 investment into another EIS to eliminate their year 4 Income Tax bill.

Managing EIS Reinvestments

Similarly, the year 2 EIS investment can be reinvested in year 5, year 3 into year 6 and so on. It's important to note, though, that there's likely to be a period after the 3-year EIS qualification period while the EIS fund is wound up. So investors following this approach over a long period may miss a year as their investment date moves later each tax year.

However, under current legislation, EIS allows investors to reclaim Income Tax from the previous year as well as the current year. So, investors could address the delay through taking this option. Alternatively, investors could view the EIS as a 4-year cycle. A similar principle can of course apply to VCTs, however you're then looking at a 5-year cycle.

Retirement Planning Options

When it comes to retirement planning VCTs and EISs are the complement of choice for many investors, and it's easy to see why. The tax relief alone can provide a reliable return plus, investors are able to access their money after the tax qualification periods to either reinvest in tax-efficient investments for another round of tax relief, or invest elsewhere.

Blackfinch is an established provider of tax-efficient solutions.

To find out more please speak to one of our team on **01452 717070** or email **enquiries@blackfinch.com**.

IMPORTANT INFORMATION

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Risks

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the FCA key risks?

1 - You could lose all the money you invest
If the business you invest in fails, you are likely to lose 100% of the money you invested. Most start-up businesses fail.

2 - You are unlikely to be protected if something goes wrong
Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try the FSCS investment protection checker (https://www.fscs.org.uk/check/investment-protection-checker).

Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated firm, FOS may be able to consider it. Learn more about FOS protection (https://www.financial-ombudsman.org.uk/consumers).

3 - You won't get your money back quickly
Even if the business you invest in is successful, it may take several years to get your money back. You are unlikely to be able to sell your investment early.

The most likely way to get your money back is if the business is bought by another business or lists its shares on an exchange such as the London Stock Exchange. These events are not common.

If you are investing in a start-up business, you should not expect to get your money back through dividends. Start-up businesses rarely pay these (https://www.financial-ombudsman.org.uk/consumers).

4 - Don't put all your eggs in one basket
Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

A good rule of thumb is not to invest more than 10% of your money in high-risk investments (https://www.fca.org.uk/investsmart/5-questions-ask-you-invest).

5 - The value of your investment can be reduced
The percentage of the business that you own will decrease if the business issues more shares. This could mean that the value of your investment reduces, depending on how much the business grows. Most start-up businesses issue multiple rounds of shares.

These new shares could have additional rights that your shares don't have, such as the right to receive a fixed dividend, which could further reduce your chances of getting a return on your investment.

If you are interested in learning more about how to protect yourself, visit the FCA's website (https://www.fca.org.uk/investsmart).