



Welcome to the latest edition of our newsletter, our update on developments in the world of financial services.

If you have any questions about the issues raised in this issue, please do not hesitate to contact us.

## Incentives for business investors

Having enjoyed a significant hike in last year's Budget and their increase for 2011/12 already confirmed, ISA allowances were unlikely to see any specific changes in this Budget. However, their future will be impacted by the decision to increase allowances with reference to the Consumer Prices Index rather than the Retail Price Index. As the former has historically been lower, this may limit year-on-year rises. In the meantime, however, the rise for April remains intact and investors are now able to shelter £10,680 in an ISA in the 2011/12 tax year.

Junior ISAs were meanwhile, put firmly on the legislative agenda and will be introduced in the 2011 Finance Bill. An outline of the structure of the new wrapper has since emerged, confirming that they will have many of the tax incentives of the old Child Trust Funds, only, like current 'adult' ISAs, without the government contributions. Junior ISAs are expected to be available from autumn 2011.

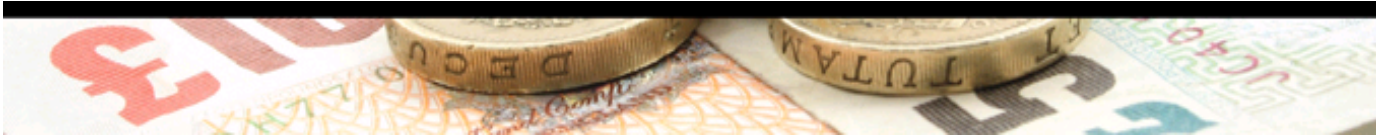
Enterprise Investment Schemes (EISs) and venture capital trusts (VCTs) also saw some changes. These schemes are very high risk as they invest only in small and developing businesses and are therefore not suitable for every investor. Indeed, advice should be sought before considering them as an option. However, to encourage more of those sophisticated business investors to eligible UK companies, EIS initial income tax relief was increased from 20% to 30% from April of this year. From April 2012, there will be changes to the rules on allowable companies for both EISs and VCTs. Both schemes will now be able to invest in businesses with up to 250 employees (from a previous limit of 50 employees). The limit on the gross assets of investable companies will also rise, to £15m from £7m. Schemes will now be able to invest up to £10m in one business, up from £2m at present.

Other proposals to be introduced in the Finance Bill would remove limits on how much an investment trust can invest in any one company and permit these vehicles to make greater use of derivatives. Investment trusts currently have some restrictions on how they derive income and these would also be removed. The government is consulting on real estate investment trusts to decrease the regulatory burden, with any agreed changes then being implemented in the 2012/13 tax year.

The other main consideration for investors is the surprise "windfall" tax on the oil sector. Depending on whether oil companies can pass this on to the consumer (which the Chancellor suggested he would not tolerate), this could represent a drain on profits for some of the largest companies in the UK. On Budget day, however, the share prices for these oil giants were unmoved, suggesting the markets believe these companies can easily weather the storm.

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## Get in early

You only receive one ISA allowance every tax year. Since you cannot carry your allowance over to next year, if you do not use it, come the end of the tax year, you will lose it.

The annual allowance has been raised for everyone this tax year, to £10,680 (2011/12), up to £5,340 can be placed in cash - and this is available to be used any time up until 5 April 2012. However, you don't have to wait. You can invest any time from now and, particularly with cash ISAs, you might benefit more from doing so. The earlier you get your money into a deposit account, the more interest you will earn. For stocks and shares ISAs, there are those who try to 'time' their investment - that is, buy when prices appear cheaper (and thereby benefit more as they recover). However, even experts seldom manage to time the market on a consistent basis, and individuals can find it even more difficult. If you are concerned about market volatility, a better idea than 'timing' might be to drip feed your money in on perhaps a monthly basis - in other words, invest smaller regular amounts - to smooth out the risk of a price fall by buying your investment at a range of different price levels. This system is called 'pound cost averaging' and can offer long-term benefits, particularly for nervous, first-time investors.

Regardless of how you invest your money, however, remember you only receive one allowance a year. It is therefore best to start your research early and speak to your adviser about all the options. This will help ensure you make the right decision.



## What is the...

...difference between a unit trust and an OEIC?

Both are collective investments that target a wide range of asset classes depending on their specific objective. However, a unit trust is unitised - that is, new units are created for new investors and cancelled when investors sell out. An OEIC (open-ended investment company) is set up as a limited company and investors buy shares rather than units. Most OEICs operate as umbrella funds, allowing the creation of different sub-funds, each with different aims, charges and investment requirements within the one structure. When all are run by the same asset management group, this can make switching between those funds a little easier.

## What is an investment bond?

Investment bonds (not to be confused with corporate bonds) are offered by life companies and convey certain tax benefits on your investment depending on your circumstances. The most popular funds used to be with-profits, managed and distribution funds, which combine different assets to offer diversification all within the one fund. Today, however, more options are available, as life companies also offer external links to fund management houses, increasing the opportunity to mix, match and specialise within your portfolio. Onshore bond funds automatically pay tax on the income and gains internally, deemed equivalent to the savings rate of income tax. Basic rate taxpayers therefore pay nothing more when they take profits whilst higher rate taxpayers will pay a further 20%.

### 'LEVELS & BASES OF RELIEFS FROM TAXATION ARE SUBJECT TO CHANGE'

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