Client Name: **Lighthouse Financial Advice**

Date:

Capital Investment Fact Sheet

Unit trusts/Open Ended Investment Companies (OEICs) are pooled investment funds which have no limit to the number of units which may be issued. The price reflects the value of the underlying assets of the fund. There are no restrictions on the amounts that can be invested or number of investments held nor is there a maturity date. Units may be held by an investor for the ultimate benefit of a third party.

Investment trusts are companies that have a specific number of shares that may be issued. As a result the price reflects the demand for the shares and this may be more or less than the value of the underlying assets of the fund. There are no restrictions on the amounts that can be invested or number of investments held. Investment trusts may, in some circumstances, have a fixed winding-up date. Shares may be held by an investor for the ultimate benefit of a third party.

Taxation of Unit and Investment trusts & OEICs. Distributions of income and dividends have tax deducted at source and there is no further liability to basic rate income tax. Higher rate taxpayers will be liable to further income tax. Investors who do not pay income tax will not be able to reclaim the tax that has been deducted **except** for fixed interest (F/I) funds. To qualify as an F/I fund, at least 60% must be invested in instruments such as Corporate Bonds or Gilts.

Personal Equity Plans (PEPs) invested in stocks and shares (including Unit trusts, OEICs and Investment trusts) within parameters laid down by HMRC. These funds grew almost free of taxes and the growth and income was tax free in the hands of the investor. From April 2008, all PEPs were converted to stocks and shares ISAs which replaced PEPs in 1999.

Individual Savings Accounts (ISAs) are a savings and investment product with a favourable tax status. They were introduced in April 1999 replacing PEPs and TESSAs (Tax Exempt Special Savings Accounts). Cash, stocks and shares (including Unit trusts, OEICs and Investment trusts) can be put into an ISA. With effect from 6 April 2012, the annual ISA allowance is £11280 and up to half of the relevant allowance can be saved in cash with one provider. The remainder of the £11280 can be invested in stocks and shares with either the same or a different provider. Savers will be able to invest in two separate ISAs each year, a cash ISA and a stocks and shares ISA. Money saved in cash ISAs can be transferred to a stocks and shares ISA, but not vice versa. Funds grow almost free of taxes and the growth and income is tax free in the hands of the investor. The Government has proposed that ISAs will continue to have tax free status and the limits will increase in line with inflation from April 2011. ISAs cannot be held in joint names or placed in Trust.

Single Premium Investment Bonds *(UK based)* are a type of life assurance which has a nominal death benefit that is usually little more than the value of the investment fund. There is usually no fixed maturity date. When the investment is made, the single premium is applied to purchase units in the selected fund(s) at the offer price(s) ruling on the day of payment. It is normally possible to switch between the plan provider's different investment funds at little or no cost. This type of plan may be written in Trust for named beneficiaries. Withdrawals of up to 5% per annum of the original investment, cumulative, may be made until the original investment has been used up, without a tax liability at the time of withdrawal. Withdrawals in excess of 5% per annum may create a liability to additional income tax. As the fund pays tax on the income and capital gains throughout the life of the bond there will be no further tax liability if the investor is a non-taxpayer or pays tax at basic rate. Non-taxpayers cannot reclaim the tax paid. Higher rate taxpayers may be liable to further income tax on the full or partial encashment of the bond, as can basic rate taxpayers where the gain made is sufficient to take the investor into the higher rate band. Age allowance can also be affected on encashment of a bond.

Single Premium Investment Bonds *(Off-shore)* are similar to UK based bonds. However, because the fund pays no UK tax the investor has a duty to notify the Inland Revenue of any fund growth brought into the UK and income tax may be levied. If the investment is not denominated in Sterling, it will carry an additional investment risk as a result of possible exchange rate fluctuations. This type of plan may be written in Trust for named beneficiaries. The Financial Services Compensation Scheme does not apply to these investments.

Friendly Societies offer investment bonds that are used to transfer up to £270 pa into tax-exempt funds over ten years.

Other points to remember

- Fund options: A **With-profit** fund (if available) is a mixed asset fund which invests mainly in UK and overseas shares, fixed interest investments and property. Returns to the investor are smoothed, so the peaks and troughs of securities markets are avoided. Returns are also affected by the financial strength of the provider and its expenses. Returns are declared in the form of bonuses which are usually made annually. In addition terminal bonus may also be declared. Early encashment or surrender in adverse market conditions could result in penalties or imposition of a market value reduction (which may be referred to as a market value adjuster or MVA).
  A **Unit linked** fund is as described under unit trusts.
- The Key Features Document and illustration you have been given describe in full the features of your particular plan.
- These plans are designed as medium to long-term investments and encashment, particularly in the early years, could result in you receiving less than the value of the original investment.
- Past fund performance is no guarantee of future performance.
- Investment fund unit prices can go down as well as up and the return of your original capital cannot be guaranteed.
- Information has been given on the basis of our understanding of the current tax rules. These may change in the future.
- Savings are taken into account by the Department of Work and Pensions when assessing any potential claims for benefits.
- Capital placed in National Savings, Premium Savings Bonds (PSBs) and deposit accounts do not participate in the equity market. Interest, at rates determined by the Government and institutions, is added to the capital.