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Green
FINANCIAL ADVICE LIMITED

FACTSHEET

Tax-efficient investments

Options to minimise how much tax you pay

By understanding which investments are the most tax-efficient, you can make the most of your options to minimise how much tax you pay. As well as deciding what to invest in, you need to think about how you're going to hold your investments. Choosing tax-efficient investments will often mean you're able to keep a higher proportion of any returns you make.

You should always bear in mind that tax rules can change in future. What's more, the benefit to you of favourable tax treatment (such as that given to Individual Savings Accounts) will depend on your individual circumstances.

MAXIMISE YOUR ISA ALLOWANCE

UK residents aged 18 and over can invest up to £15,240 each in an Individual Savings Account (16 and over for a Cash ISA), and parents can fund a Junior ISA or child trust fund with up to £4,080 per child – making a total of £38,640 for a family of four before 6 April 2016.

If you have adult children who are planning to buy a home, it would make sense to gift funds to them so that they can invest in the new help-to-buy ISA. This became available for a four-year period from 1st December 2015 to help first-time buyers. Individuals aged 16 or over can save up to £200 per month (up to £1,200 in the first month), to which the Government will add a 25% tax-free bonus, from a minimum bonus of £400 up to a maximum amount of £3,000 on £12,000 of savings. Income and capital gains from ISAs are tax-free, and withdrawals from adult ISAs do not affect tax relief.

INSURANCE BACKED BONDS

Provided by major insurance companies, life insurance backed bonds offer relatively secure returns to investors (depending on the underlying investments). They have the added tax advantage that up to 5% of the original capital invested can be withdrawn each year with no immediate tax liability. After such withdrawals reach 100% of the original capital, Income Tax is payable on further withdrawals or on surrender of the policy. Individuals whose level of income means that they will lose their personal allowance and/or pay 45% Income Tax may now find the 5% tax-free withdrawals facility particularly attractive.

Some friendly societies offer regular premium policies which run for ten years or more and can qualify for full Income Tax exemption on the gains accrued. However, since 6 April 2013, investment into such qualifying policies has been limited to £3,600 a year for all arrangements set up after 21 March 2012. Any amounts invested in new policies that are in excess of the annual limit will not qualify for the favourable tax treatment. Increases to existing policy premiums will be classed as

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creating a new non-qualifying policy, but if you have a pre-21 March 2012 policy it should be advantageous to keep the policy going until the existing maturity date.

OFFSHORE BONDS

Offshore life assurance bonds allow income to accumulate virtually tax-free until they are disposed of, at which point they are taxed in full at your marginal rate. As with UK bonds, up to 5% of the original capital invested can be withdrawn each year until the original capital has been withdrawn in full with no immediate tax liability.

While the maximum rate of Capital Gains Tax remains at 28%, alternative collective investments may be more attractive for short-term investment. However, offshore life assurance bonds offer the flexibility to defer tax into a year when other income is lower, or until a year when income losses are available to offset the profits, or a year when you are not tax-resident in the UK.

EMPLOYER TAX BREAKS

If your employer offers a share scheme, there are usually price discounts and tax breaks for taking part. Where you can participate each year, plan carefully to use annual contribution limits and manage share purchases so that there is a steady flow of potential share sales in future tax years, allowing you to maximise use of your annual capital gains exemption.

Shares acquired under share incentive plans (SIPs) or sharesave (SAYE) schemes have minimum holding periods. It may not be possible to hold such shares in an Individual Savings Account, so any dividends received on the holdings will be taxable. However, from April 2016 onwards, a new dividend nil rate band will apply so that the first £5,000 of dividend income is not taxed.

It's important to obtain professional advice before entering such schemes.

TIME TO REVIEW YOUR SITUATION?

To make sure you have the right plans in place, or to review your situation, please contact us – we look forward to hearing from you.