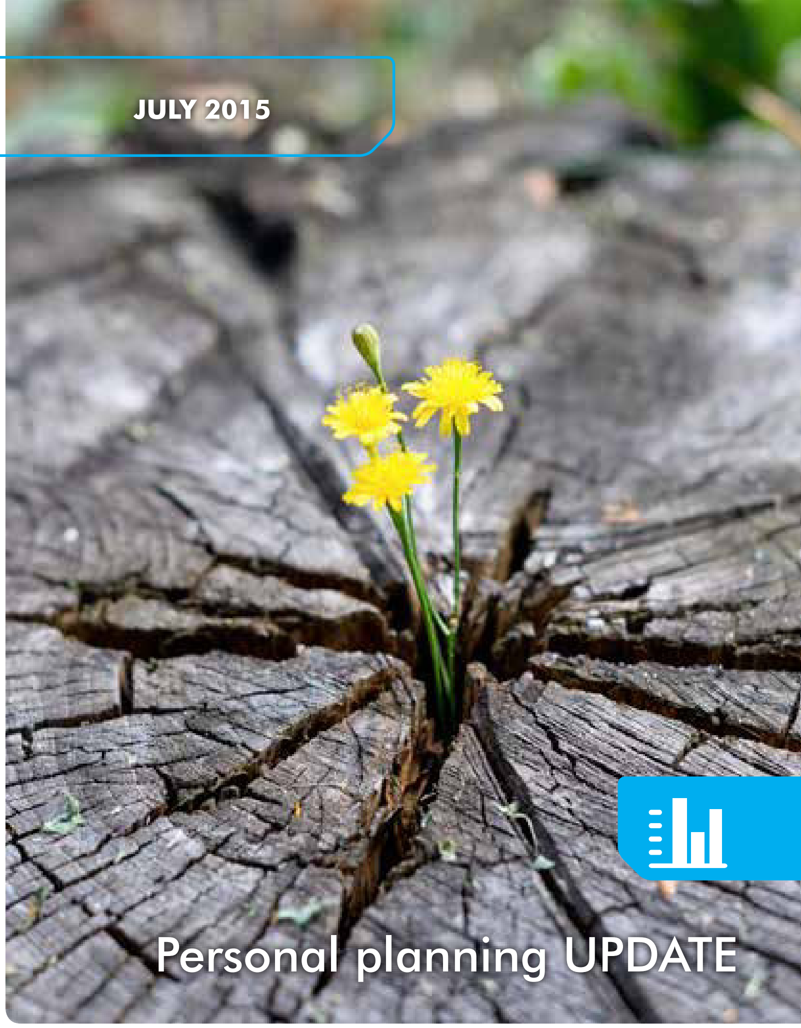
FINANCE UPDATES

JULY 2015



3D Financial Planning
Independent Financial Advisors

Tax-efficient savings and investments

A guide to tax on savings and investments

The savings and investment climate cannot be described as buoyant. Interest rates continue to be low and investments always carry a degree of risk.

Despite this, the UK remains a nation of savers. More than two thirds of people have saved money in the last 12 months, research by Lloyds Bank has found. In addition, the number of people saving every month has risen to 44%, compared to 37% at the end of 2014.

The most popular ways to save are:

- cash ISAs (46%)
- instant access savings accounts (44%)
- high interest current accounts (20%).

Savings account interest is liable for income tax, usually at your marginal rate. Basic 20% tax is usually deducted before the interest is paid. However, higher and additional rate taxpayers have to declare interest in their self-assessment tax return and pay the extra tax.

You may be able to get your savings interest tax-free if your income is less than £15,600 a year. You can reclaim any interest you have already paid by sending form R40 to HMRC.

From April 2016 the first £1,000 (or £500 for higher rate taxpayers) of interest from savings will be tax-free. This means that you won't have to pay tax on interest if your taxable income is less than £16,800 a year.

Tax on savings and investments

ISAs

You can save up to £15,240 tax-free into an ISA each tax year. This amount can be split across a cash ISA and a stocks and shares ISA in any way you wish.

Interest earned on cash ISAs is tax-free while stocks and shares ISAs are tax-efficient rather than tax-free.

There is no income tax on interest-bearing investments (such as gilts or corporate bonds) held in stocks and shares ISAs. In addition, any capital gains made from shares held in an ISA are not liable for capital gains tax (CGT). Dividend income will be paid with 10% deducted regardless of your marginal tax rate.

Under current rules, withdrawing money from your ISA during the tax year will result in you losing that part of your tax-free entitlement. For example, if you saved £2,000 into an ISA and then took it out, you would only be able to save another £13,240 that tax year.

However, from autumn 2015 ISA withdrawals won't affect your annual limit, and you can put the money back into your ISA provided that this is done within the same financial year.

Children can save into Junior ISAs with an annual limit of £4,080 which has the same tax treatment as adult ISAs.

We can advise on tax-efficient savings and investments.

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Tax-efficient savings and investments

Pensions

The government gives individuals tax relief on pension contributions of 100% of earnings or £40,000 a year (whichever is lower). Contributions above £40,000 are subject to income tax at your marginal rate – this is known as the annual allowance charge, and any tax is paid via your self-assessment tax return.

If you earn less than £3,600 a year you can get tax relief on the first £2,880 of pension contributions.

You will get tax relief automatically if:

- your employer takes pension contributions out of your pay before deducting income tax
- your pension provider claims 20% tax relief on your behalf and adds it to your pension pot. Higher and additional rate taxpayers will have to claim back the extra tax relief in their self-assessment tax return.

Enterprise Investment Scheme

The government's Enterprise Investment Scheme (EIS) gives tax relief to individuals who invest in qualifying shares in certain industries - usually small, unlisted companies.

Companies have to meet various rules both at the time of the investment and for 3 years afterwards. Failure to do so may result in tax relief not being given or being withdrawn. Generally, shares have to be held for 3 years from date of issue or when qualifying trade started (whichever is later) to attract tax relief.

Investors are entitled to income tax relief of 30% of the cost of their investment, up to a maximum of £1,000,000. This means the maximum annual income tax reduction is £300,000 provided the investor has sufficient income tax liability to cover it.

A 'carry back' facility allows all or part of the shares acquired in a year to be treated as though they were bought in the preceding tax year. This allows investors to claim income tax relief on the costs of the shares in the previous tax year.

Any gain on shares when they are sold is free of CGT. However, shares are only eligible for CGT exemption if income tax relief has been given.

Seed Enterprise Investment Scheme

The Seed Enterprise Investment Scheme (SEIS) offers tax relief to investors who buy shares in small, early-stage companies. Like the EIS there are various conditions and restrictions that need to be met to benefit from the reliefs.

Income tax relief is available on 50% of share costs up to a maximum annual investment of £100,000. Claims can be made up to 5 years following the 31 January after the tax year in which the investment was made.

There is no CGT liability on gains made from shares held for at least 3 years before disposal. You can also claim a 50% CGT exemption on gains made from selling SEIS shares.

Venture capital trusts

Venture capital trusts (VCTs) are investment trusts managed by a fund manager, and invest in unlisted companies. These investments offer higher potential returns than other investment products but the risk is also higher. They can also have poor liquidity and be hard to sell. This risk can be mitigated to some extent by spreading investments across a number of companies.

Investors can get 30% income tax relief up to a maximum share value of £200,000 provided shares are held for 5 years. If you sell your shares within 5 years, HMRC will reclaim any tax credit you've received.

There is no CGT liability when your sell shares held in VCTs, no matter how long you've had them.

Comparing EIS, SEIS, VCTs

	EIS	SEIS	VCT
Annual investor limit	£1,000,000	£100,000	£200,000
Income tax relief	30%	50%	30%
Clawback if held for less than	3 years	3 years	5 years
Reinvestment relief period - before gain made - after gain made	 1 year 3 years	 N/A N/A	 N/A N/A
Tax free dividends	No	No	Yes
Tax free capital gains	Yes (after 3 years)	Yes (after 3 years)	Yes
Tax relief for losses	Yes (after 3 years)	Yes (after 3 years)	No
IHT business property relief	Yes	Yes	No

Contact us to discuss your savings and investment strategy.

Important Information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. You should not make any investment decisions based upon its content. ISA and pensions eligibility depend on personal circumstances. The value of investments can fall as well as rise and you may not get back the full amount you originally invested.

Certain investments, such as EIS and VCT schemes, can be high risk and are not suitable for most investors. Specialist advice is essential to establish both eligibility and suitability for such schemes. Whilst EIS and VCT schemes may have significant tax benefits, the value of investments can fall as well as rise and you may not get back all, or even any, of the amount you originally invested.

Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information. E & OE.