

Summary information on Investments

Investment types and wrappers

NISA (previously ISA)

New Individual Savings Accounts (ISAs) are tax-free savings accounts. The 2018/19 annual contribution limit of £20,000 can be invested wholly in cash, stocks and shares or any combination between the two (although it is only possible to have one cash NISA and/or one stocks and shares NISA in any given tax year).

Cash NISAs are completely exempt from tax, and all capital gains and income within a stocks and shares ISA are also exempt. You can use a NISA to save in Cash usually via a bank, or invest in Stocks and Shares either via a Unit Trust, OEIC or directly into shares via a Self-Select NISA.

ISA inheritability for spouses and civil partners

With effect from 6 April 2015, it should also be noted that if an ISA holder dies on or after 3 December 2014, their spouse or civil partner will be allowed to invest an amount equivalent to the value of the deceased's ISA on their death, into their own ISA, via an 'additional subscription allowance' which is in addition to their own normal annual ISA limit for the tax year.

Help to Buy ISA

With effect from 1 December 2015, a new 'Help to Buy' ISA account is available to assist first-time buyers save towards the purchase of their first home. This enables first time buyers to save up to £200 per month with an additional Government contribution of 25% of the amount saved. The maximum bonus of £3,000 would be paid on savings of £12,000 and is instead added when the saver buys the home.

The scheme is a form of Cash ISA and in order to qualify for the government bonus, property values can be no more than £250,000 (or £450,000 for properties in London).

Lifetime ISA

From 6 April 2017, UK resident adults aged 18 or over but under 40 are able to open a Lifetime ISA (LISA) and contribute up to £4,000 in each tax year with the government adding a 25% bonus to the amount saved.

Like an ordinary ISA, all income and gains made within a LISA (as-well as all withdrawals made) will be free of Income Tax and CGT with the maximum amount of £4,000 pa that can be saved within a LISA counting towards the overall £20,000 ISA subscription limit.

Contributions can be made from the age of 18 up to the age of 50 although given that the principle purpose of a LISA is for the proceeds to be used to either (a) purchase a first home or (b) provide them with funds to help them in their retirement after they have attained age 60, this means that if (and

unless the saver is in serious ill-health) the money is withdrawn for any other purpose, a charge of 25% will apply.

Junior ISA

Junior ISA's are available to any child born on or after 3rd January 2011 and any child under 18 years of age born before September 2002. There are two types of Junior ISA: A Cash Junior ISA and an Investment (stocks and shares) Junior ISA. Each child will be able to hold one of each account with different providers should they wish.

Once money is deposited in a Junior ISA it will be free of Income tax and Capital Gains tax. For tax year 2018/19, the annual investment limit is £4,260.

OEICs and Unit trusts

OEICs and Unit Trusts are collective investments which enable individuals to pool their money into a fund, which is then invested in a wide spread of shares or fixed interest securities. They are 'open-ended' which means they may create or cancel units on a daily basis depending on demand. The price of a unit is directly determined by the value of the assets it holds. Each OEIC and Unit Trust fund has a stated investment strategy, enabling you to invest according to your attitude to risk.

You buy or sell units through a fund manager and their price depends upon the value of its underlying funds/shares. The value of your units will rise in line with the underlying asset values but if these perform badly the value of the units could fall.

Dividend income or interest distributions can be payable. Any realised gains or income produced by the OEIC/ Unit Trust are potentially subject to tax.

Investment Bond

Investment Bonds are actually Non-qualifying Life Insurance Policies and, as such, are subject to some different taxation rules to other collective investments. Whilst they differ from other collective investments, however, the funds they operate in are almost identical to those you might buy for an ISA, Pension, OEIC or Unit Trust.

Onshore Investment Bonds (including With Profit Bonds) pay all Basic Rate tax and Capital Gains Tax due on their investors' behalf. Investment Bonds also have a unique feature in that under current rules you can choose to withdraw up to 5% of your initial investment each year without the need to pay any income tax straight away. Withdrawals of 5% pa can be made every year for up to 20 years which is one of the reasons Investment Bonds have been such a popular tax planning tool for investors.

Offshore Investment Bond

Offshore bonds have many of the characteristics of onshore bonds in that they are Non-qualifying Life Insurance Policies with a 5% withdrawal facility and predominantly invest in unit linked funds. The key differences though are that they are not based/domiciled in the UK and the tax treatment and investment choices available are different to its onshore counterpart.

The taxation of an offshore bond is governed by the tax regime of the territory where the life office is established. Naturally, most of these offices are set up in jurisdictions where the income and capital gains are not locally taxed and, as such, the fund benefits from what is often referred to as "gross roll-up". Dividend and other income which the life office receives from other territories may however be subject to a non-recoverable withholding tax. The effect of withholding tax can be minimised by investing for capital growth rather than income.

Taxation issues for different investments

ISA

Any gains or income produced by the ISA are free from both Income tax and Capital Gains tax (personal taxation) in the hands of the plan-holder.

OEIC/Unit Trust

Any realised gains or incomes produced by the OEIC/ Unit Trust are potentially subject to tax.

Individual

Income - this comes in the form of dividends or interest distributions both of which are subject to income tax in the hands of the investor regardless of whether these are paid out or automatically reinvested. Non-taxpayers have no liability to tax. If 20% tax has been deducted at source by the fund manager on interest distributions, this can be reclaimed but there is no tax to reclaim on dividends received because these are paid gross.

To the extent that interest received exceeds the permitted tax free savings allowances the tax rate is 20% for a basic rate tax payer, 40% for a higher rate taxpayer and 45% for an additional rate taxpayer. To the extent that dividends received exceed the £2,000 tax free dividend allowance (reduced from £5,000 in 2016/17 and 2017/18) the tax rate is 7.5% for a basic rate tax payer, 32.5% for a higher rate taxpayer and 38.1% for an additional rate taxpayer

Capital Gains - on encashment any gain over and above the original purchase cost may be subject to capital gains tax if the gain exceeds the annual exempt amount of £11,700 for the 2018/19 tax year.

Investment Bond

As investment bonds pay all basic rate tax and capital gains tax due, on behalf of their investors, on an ongoing basis, the only tax consequence is on either partial or full encashment.

Under current rules it is possible to withdraw up to 5% of your original investment each year until the original capital has been withdrawn, without incurring any immediate liability to income tax. The annual 5% withdrawal facility is cumulative. So, if for example in the 5th year no previous withdrawals have been made, 25% of the original investment could be withdrawn without giving rise to any immediate personal liability to income tax. The 5% withdrawal is however only a deferment of potential tax - it is not a tax free allowance

A tax liability may arise on full encashment of the bond if a gain has been made which could be reduced by "top slicing relief". Once the gain has been determined additional tax at 20% or 25% may be payable.

Trustees - In 2018/19, trustees are liable to 45% tax on any chargeable gains. Top slicing relief is not available to trustees.

Offshore Investment Bond

The taxation of an offshore bond is governed by the tax regime of the territory where the life office is established. Naturally, most of these offices are set up offshore in places where the income and capital gains in non-resident policyholders' funds are not locally taxed. This feature is often referred to as 'gross roll-up'. Dividends and other income which the life office receives from other territories may however be subject to a non-recoverable withholding tax. The effect of withholding tax can be minimised though by investing for capital growth rather than income.

Although offshore, these are still investment bonds so the annual 5% withdrawal facility applies in the same way as it does under an onshore bond. The methods for calculating the tax are similar to the standard onshore investment bond where top slicing is used to determine the amount subject to higher rate tax for non and basic rate taxpayers. The key difference though is that non and basic rate tax payers will still have to pay tax on any gain that exceeds their available personal income tax allowance, starting rate band and personal savings allowance because no UK tax is paid on income or gains made within the fund.

Trustees - In 2018/19, trustees are liable to 45% tax on any chargeable gains. Top slicing relief is not available to trustees.