



BARCHESTER GREEN INVESTMENT

Independent Financial Advisers
Specialists in ethical and environmental funds

Barchester Briefing- ISAs and other tax efficient investments

An ISA or Individual Savings Account is an investment wrapper which has certain tax advantages, these are:

- All growth or capital gains are exempt from tax on (normally the tax due would be 18% of the gain amount)
- Higher rate tax payers are not subject to any additional tax on dividend or interest income within an ISA
- Interest income from cash or corporate bonds is not subject to personal tax

The annual allowance for ISA savings has recently risen to £10,200 per annum this means a married couple can save £20,400 per annum into ISA accounts. For most people the new allowance is available from April 2010.

Your ISA wrapper can be used to invest in cash accounts, stocks and shares, collective investments/funds, gilts, corporate bonds, a wide range of ethical funds and exchange traded funds.

Making best use of your ISA allowance

The tax treatment of ISAs is in many ways similar to pensions except an ISA is much more accessible, i.e. you should be able to withdraw your money at any time. Money paid out from an ISA investment is exempt from income tax whereas payments from a pension are taxed as income.

This means that someone with an ISA fund of £50,000 can generate a tax free income of £2,000 per annum (4% is a typical yield at the moment on a diversified portfolio of stocks and bonds).

Whereas the same fund in a pension would generate £2,000 per annum income, but suffer tax of £400 reducing the real income down to £1,600.

This opportunity to build up a long-term savings pot which can offer tax free capital gains and income should not be ignored.

Other tax efficient investments

Outside of pensions and ISAs tax relief is only usually available on an investment if there is significant risk to the capital invested this is why tax efficient investments are usually relatively "high risk".



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Venture capital funds or VCTs

Background

VCTs were originally launched in 1995 with the aim of encouraging investors to back smaller unquoted companies. VCTs are collective investment vehicles that are similar in structure to investment trusts and are quoted on the London Stock Exchange. VCTs provide private investors with an attractive method of investing in small to medium sized AIM/OFEX listed and unquoted trading companies in the UK, in which it would otherwise be difficult to invest directly. Suitable investments are selected by professional venture capital managers appointed by the VCT, under the supervision of the Independent Board of Directors.

Tax Benefits (for the tax year 09/10)

VCTs have substantial tax benefits, which can be summarised as follows:

- 30% income tax relief on the amount invested
- Dividends, including any capital profits paid as special dividends, are paid free of income tax
- Capital gains made within a VCT are free of corporation tax
- No capital gains tax liability on gains made on the sale of VCT shares

Enterprise Investment Scheme companies (EISs)

An EIS is a small company which can offer investors wishing to purchase shares an income tax “break” worth 20% of their investment plus exemption from tax on capital growth on their shares.

EIS investments are generally considered to be higher risk than VCTs because money is only going into one company and given the failure rate for new businesses there is significant risk of a capital loss.

Further reading:

www.taxefficientreview.com an excellent source of independent research into the performance of Venture Capital Trusts and tax efficient investments in general.

THIS ARTICLE PROVIDES GENERAL INFORMATION ONLY AND SHOULD NOT BE USED AS THE BASIS FOR MAKING INVESTMENT DECISIONS.

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