GD
GIBBS DENLEY
FINANCIAL PLANNING

Financial Planners
Chartered

GUIDE TO TAX EFFICIENT SAVINGS AND INVESTMENTS

FOR GIBBS DENLEY FINANCIAL PLANNING

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INTRODUCTION

Tax is an essential part of modern society, paying for public services and key infrastructure that we all use.

However, it can also act as a drag on income, hold back investment performance, dampen business profits and reduce the legacy that you intend to leave to loved ones.

At Gibbs Denley we know that not everyone is aware of the options available to them when it comes to taxation. However, we believe that with the right forward-planning, financial structure and advice, significant tax savings can be made.

This guide is by no means a definitive outline of your options. The information provided is an overview only, and is not intended as a recommendation. Tax planning should always be considered as a part of your overall financial picture.

Your Gibbs Denley financial planner will consider your current tax position and suggest ways in which things might be improved.

So let's get started by finding out about the options available for optimising your personal tax allowances. We'll then look at the individual products and strategies available for building up highly tax efficient savings for you and your family's future.

Don't forget that returns from investments are not guaranteed. Invested capital can fall as well as rise in value and you may not get back the full amount that you invested.

Before making any decisions, we would always suggest that you seek advice from a qualified financial planner.

TAX ALLOWANCES

Many people do not fully use, or even know about, their available tax allowances.

Here's a quick summary of the 2022/23 allowances:

Personal Income Tax Allowance	£12,570
Tax-Free Savings Allowance#	£5,000
Personal Savings Allowance (PSA)*	£1,000
Dividend Allowance	£2,000
Capital Gains Tax Allowance	£12,300

That adds up to **£32,870 per person** – which means that with the right advice and financial structuring, a couple could receive up to £65,740 **totally tax-free**. For some people, this could mean that you pay little or no tax from now on.

The Marriage Allowance lets you transfer £1,260 of an unused Personal Income Tax Allowance to your husband, wife or civil partner, if they have greater income than you.

This can reduce their Income Tax by up to £252 in the 2022/23 tax year. (Note, however, that your Personal Income Tax Allowance will be reduced accordingly).

To benefit as a couple, the lower earner must have an income of £12,500 or less and neither of you must be in a tax bracket greater than Basic Rate.

For those renting out part of their home there is also the allowance for Rent-A-Room arrangements, providing the opportunity for further tax-free income of **up to £7,500 a year**.

Many people do not fully use their available tax allowances.

Notes

The Personal Income Tax Allowance will be £12,570 where income is no more than £100,000 a year (for 2022/23).

The Tax-Free Savings Allowance up to £5,000 is available where non-savings income (e.g. from pensions and employment etc.) is below £17,500.

* The PSA will be £1,000 for Basic Rate (20%) income taxpayers. Those in the Higher Rate (40%) bracket will still be entitled to a PSA of £500. Additional Rate (45%) taxpayers do not qualify for the PSA.

COLLECTIVE INVESTMENTS: UNIT TRUSTS, OEICS AND ICVCS

Unit Trusts, Open Ended Investment Companies (OEICs) and Investment Companies with Variable Capital (ICVCs) are all collective investments which enable individuals to pool their money into a fund, which is then invested in a wide spread of assets such as shares, fixed interest securities or property.

'Open-ended' 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 fund has a stated investment strategy, enabling you to invest according to your attitude to risk. Funds investing in emerging markets or smaller companies, for example, would be considered to carry much higher risks than those investing in large UK companies.

You buy or sell units through a fund manager. Their price depends upon the value of the underlying funds/shares.

The value of your units will rise and fall in line with the underlying asset values. You may also get dividend income or interest distributions from your units, based on the dividends or interest paid by the underlying shares or other investments.

Key Points:

- Easy to invest in on a monthly or lump sum basis. Investments can also be arranged on behalf of children or grandchildren.
- Unit Trusts, OEICs and ICVCs offer one of the widest selections of investment funds available. Fund choices range from the fashionable and speculative, such as Gold or African funds, through to the traditional, such as Managed Funds, Multi Manager Funds and funds that specialise in a specific country or asset class.
- Funds can be purchased to match your personal investment objectives and plans.
- Investors can opt to receive an income from their investment based on the underlying income the fund earns. Some high income funds are available for those who just want to maximise their monthly or quarterly income.
- Growth investors can opt to reinvest any income earned by their investment to boost the value of their fund.

Please note that returns from investments are not guaranteed, as capital may fall as well as rise. You may not get back the full value you invested.

Gains made on the sale of Unit Trusts, OEICs and ICVCs (e.g. on encashment and/or switching funds) are potentially subject to Capital Gains Tax (CGT) at 10% or 20%. However, you can put your annual CGT allowance (currently £12,300) to good use in order to reduce or eliminate entirely any tax which might be payable on the gain.

Income and Dividend distributions will be subject to Income Tax at your marginal rate; again, this could be partially or fully offset through the use of your personal allowances described earlier.

Each fund has a stated investment strategy, enabling you to invest according to your attitude to risk.

INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

An ISA is a plan that allows savers and investors the opportunity to shelter all or part of their savings from tax. They are particularly attractive to higher rate taxpayers, where the tax-free yield (for example) effectively means the 'gross' return required from equivalent non-ISA investments would need to be up to 67% higher.

You may open one type of ISA (Cash, Stocks & Shares, Innovative Finance or Lifetime) with one provider in each tax year. You also have the option to consolidate previous ISA holdings, by transferring your ISA funds from previous tax years, either with the same provider or with a different provider.

ISAs are a **"use it or lose it"** allowance; there's no back-tracking for previously missed years. If you don't use your allowance during a given tax year, you cannot carry it forward into the next year – so make sure you use it!

Why should I choose an ISA?

There are a variety of reasons to save using an ISA:

- ISAs allow you to build a portfolio of investments within a tax-free wrapper.
- If you save money in a Cash ISA you will benefit from tax-free interest.
- Investments within a Stocks & Shares ISA are free of all Capital Gains Tax (CGT) upon disposals and there are no further taxes to pay on dividends or fixed income distributions, either.
- A spouse or civil partner is able to 'inherit' their deceased spouse's ISA holdings.

Despite all the tax advantages, you should bear in mind that most ISAs will form part of your estate for Inheritance Tax.

What if I decide to close my ISA?

Should you decide to close your ISA and withdraw your cash and/or investments, the tax benefits will cease at that point. Junior ISAs cannot normally be encashed until the child reaches age 18.

ISAs are a "use it or lose it" allowance; there's no back-tracking for previously missed years.

How much can I invest in an ISA?

Type of plan	Annual subscription limit per person
All ISAs including: • Cash ISA • Stocks & Shares ISA (inc. AIM) • Innovative Finance ISA	£20,000
Lifetime ISA	£4,000 max per annum*
Junior ISA	£9,000

Figures correct as at 2022/23 tax year.

* annual subscriptions to a Lifetime or existing Help to Buy ISA count towards the overall £20,000 limit.

Cash ISA

It's available to any UK resident aged 16 years or older and is designed to hold cash deposits up to the maximum subscription limit each year.

Each investor may only open one Cash ISA per tax year. The cash in the ISA will earn tax-free interest.

Stocks & Shares ISA

Available to any UK resident aged 18 years or older, a Stocks & Shares ISA allows up to the maximum annual subscription limit to be placed into asset-backed investments for the potential of longer-term growth.

The name is slightly misleading; Stocks & Shares doesn't have to mean 'shocks & scares'! You can select from a huge range of assets, including lower risk and diversifying investments such as gilts, bonds and commercial property.

An individual can only open one Stocks & Shares ISA each year. Capital gains within the ISA are tax-free and no income tax is payable on any dividends, or interest paid on investments, within the ISA.

There's also no tax on any income drawn from an ISA – so they're a highly tax efficient way to supplement your pension income during retirement years.

You can also transfer between Cash ISAs and Stocks & Shares ISAs, in either direction.

An Alternative Investment Market (AIM) ISA falls within the definition of Stocks & Shares. The advantage here is that qualifying AIM shares can provide a useful exemption from Inheritance Tax. AIM ISAs are higher risk though; please contact us for more details.

Innovative Finance ISAs allow investors to hold peer-to-peer (P2P) loans in an ISA, meaning the interest generated will be tax-free.

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Since 3rd December 2014 a spouse or civil partner is able to 'inherit' their deceased spouse's ISA holdings.

Junior ISA

A Junior ISA is a tax-efficient savings and investments account which allows parents, other family members and friends to contribute, save, and invest on behalf of a child.

There are two types of Junior ISA; Cash, and Stocks & Shares.

A child will be able to hold one of each of these accounts as long as the amount contributed stays within the annual limit. However, the child cannot gain access to these accounts until they are 18 years of age and no money can be withdrawn from the account until this time.

The tax benefits are as with a normal ISA.

Please bear in mind that the child becomes absolutely entitled to the money from age 18!

Please note that returns from investments are not guaranteed, as capital may fall as well as rise. You may not get back the full value you invested.

Help to Buy ISA

These were available for first-time buyers aged 16 or over who were UK residents to open between December 2015 and November 2019.

The Help to Buy ISA closed to new applicants on 30th November 2019. Contributions to existing plans may continue until November 2029.

- The Government will pay a 25% bonus on your final balance. No bonus will be paid on closing balances below £1,600. The minimum bonus of £400 is payable on closing balances of £1,600. The maximum bonus of £3,000 is paid on closing balances of £12,000 or more.
- Open the account with £1 up to £1,000 – this must be received within 21 days of opening.
- Save from £1 to £200 each calendar month by standing order. This can include the month you open your ISA, meaning that your initial deposit could be up to £1,200.
- Benefit from tax-free interest on your savings.
- If you're planning to buy your first home with someone else who is also a first time buyer, you could both open Help to Buy ISAs and both claim Government bonuses of up to £3,000 when you purchase your first home (Help to Buy ISAs cannot be taken out as a joint product).
- The Government bonus is paid on purchasing a UK property up to the value of £250,000 outside London and £450,000 inside London.
- Unlimited withdrawals, but you will not be able to claim a bonus on any funds you withdraw.

Paying into a Help to Buy ISA usually means you cannot pay into another Cash ISA in the same year. Once you have paid into a Help to Buy ISA you may not be able to use any remaining allowance because of the "one type of ISA, per provider, per tax year" rule.

Instead, 'umbrella' or Portfolio ISA providers may be preferred so that further savings can be can be directed into two parallel subscriptions under the Cash ISA umbrella with the same bank or building society, helping you maximise your allowance for the year.

It is proposed that in the future, Help to Buy ISAs can be transferred into the new Lifetime ISA.

The Government will pay a 25% bonus on up to £12,000 of savings.

Example of maximising ISA subscriptions using an 'umbrella' or Portfolio ISA

Tax Year	Bank or Building Society (Umbrella or Portfolio ISA provider)		Total
Help To Buy: ISA Subscription		Cash ISA Subscription	
2020/21	£3,400 in 1st year	£16,600	£20,000
2021/22	£2,400 each subsequent year	£17,600	£20,000

Using an umbrella or Portfolio ISA provider, the ISA is maximised without contravening the 'one ISA per provider, per tax year' rule.

Lifetime ISA

You can use some or all of the money from a Lifetime ISA to buy your first home, or keep it until you're 60 – the choice is yours.

- Available subject to provider availability.
- You can open a Lifetime ISA between the ages of 18 and 40 and any savings you put into it before your 50th birthday will receive an added bonus from the Government.
- Save up to £4,000 each year.
- Government bonus of 25% – so that's a potential bonus of up to £1,000 a year.

The Lifetime ISA offers a potential government bonus of up to £1,000 a year.

Useful for first time buyers...

- Your savings and the bonus can be used towards a deposit on a first home worth up to the value of £450,000.
- If you have a Help to Buy ISA you can transfer those savings into the Lifetime ISA or continue saving into both – but you will only be able to use the bonus from one to buy a house.

...and useful when saving for retirement

- After your 60th birthday, you can take out all the savings tax-free.
- You can withdraw the money at any time before you turn 60, but you will lose the Government bonus (and any interest or growth on this). You will also have to pay a 5% charge.

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PERSONAL PENSIONS

Most UK residents are eligible to contribute to a personal or stakeholder pension plan. Any other party, such as an employer, may also contribute on your behalf.

Contributions build up a fund which, in the future, will be used to provide your retirement benefits.

A pension fund is invested according to your instructions (and with the help of your financial planner) in collective funds that might invest in cash, property, stocks & shares, gilts and other fixed interest investments (e.g. corporate bonds).

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Tax relief

Personal pensions are a great way of saving for retirement due to the generous tax incentives available. Your contributions will generate direct tax savings and qualify for tax relief at the highest rate of tax you pay, subject to certain restrictions.

There are limits on the amount of tax relief your contributions will attract. Your contributions will receive income tax relief up to the higher of £3,600 or 100% of UK earnings in the tax year of payment.

The overall amount that can be contributed is capped at either 100% of your earnings or £40,000 per tax year. You may also be able to 'look back' over the past three tax years to sweep up only unused allowances.

Contributions paid by your employer (or your own company) are usually allowable as a business expense and hence qualify for Corporation Tax relief.

A Lifetime Allowance applies to the total overall amount in your pension pot(s) regardless of whether it is in a single scheme or spread over multiple policies. The Lifetime Allowance threshold is £1,073,100 and it was announced in the March 2021 budget that it would remain frozen at this level.

Any value over the Lifetime Allowance limit will be subject to Lifetime Tax Charge at a rate of 55% if drawn as a lump sum, or 25% if drawn as income.

The pension fund grows free from Capital Gains and Income Tax. In the event of your death before age 75, the whole fund can be passed to your spouse/ dependant, or any other person of your choosing, usually free from all taxes.

If death occurs after age 75, your nominated beneficiary(ies) can choose to receive any residual pension fund as an income, or surrender the plan for cash, taxable upon themselves at their own marginal rate.

For further information on pensions and retirement, see our guide:
Your Retirement Options Explained

Drawing your retirement benefits

Currently, the earliest permitted date for drawing benefits is age 55. This will rise to age 57 from April 2028 and subsequently be 10 years prior to your State Pension Age.

At retirement, there are a variety of flexible options available for receiving the benefits from your plan.

You will be able to take a tax-free cash lump sum of up to 25% of your retirement fund.

The remainder is then used to provide you with a taxable pension income, which may be in the form of a guaranteed income for life (an annuity) or by taking unrestricted withdrawals from the pension fund itself (a Flexi-Access Drawdown arrangement).

You do not have to actually retire from employment in order to receive your benefits.

A personal pension is just that – your scheme, in your name. It is also 'portable', i.e. should you change employment in the future, or become self-employed, you and/or your new employer can continue to contribute towards the same plan. These characteristics also apply to stakeholder pensions.

You will be able to take a tax-free cash lump sum of up to 25% of your retirement fund.

Bespoke options - Self Investment and using pensions to assist your business

A Self-Invested Personal Pension (or SIPP) is a form of personal pension that allows you to build an investment portfolio that you choose and manage with our advice.

A SIPP is a more flexible, hands-on version of a personal pension plan, which means that you have more investment choices available and more control of your retirement.

A Small Self Administered Scheme (SSAS) is a type of pooled 'occupational' pension arrangement with fewer than 12 members - typically the directors and officers of the principal employer.

A SSAS is often considered the most flexible of all pension schemes. It can offer greater convenience than establishing separate Self-Invested Personal Pensions (SIPPs) for each member, because in a SSAS one arrangement ('the scheme') allows all of the members to share in the benefits under a single charging structure, rather than setting up multiple individual plans.

A SSAS is set up under an Employer Trust, which can produced by Gibbs Denley.

The members themselves act as the Trustees, giving them the power to make their own investment decisions, with Gibbs Denley's advice.

A SSAS is also a particularly efficient way of purchasing commercial property (such as the company's trading premises) and offers the ability to loan funds back to the company, if needed from time to time, subject to certain levels of security.

Please see our separate in-depth Small Self Administered Pension Schemes guide for more details.

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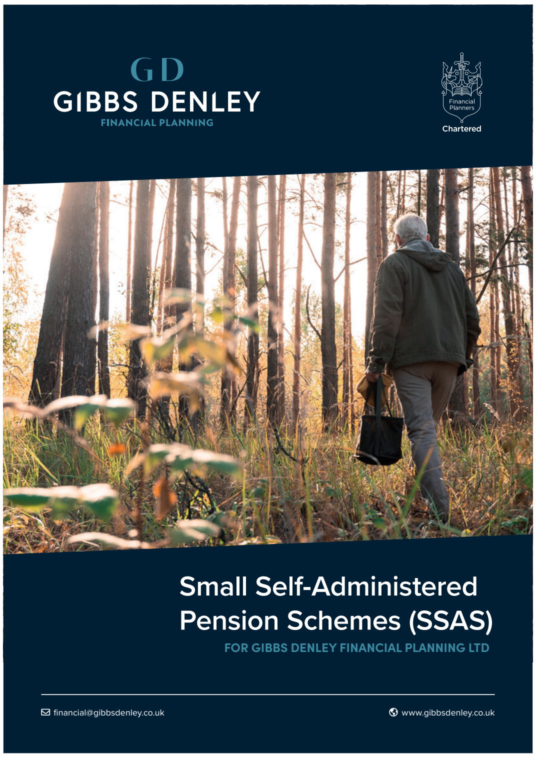


INVESTMENT BONDS

Investment Bonds are offered by life assurance companies and, as a result, special taxation rules apply. While they differ from other collective investments, the funds they operate in are almost identical to those you might buy for an ISA, Pension, OEIC or Unit Trust.

Investment Bonds also have a unique feature in that you can choose to withdraw up to 5% of your initial investment each year without the need to pay any income tax straight away. You can do this for up to 20 years, which is one of the reasons Investment Bonds have been such a popular part of tax planning.

The taxation of Investment Bonds can be complex and it's important to seek our advice when dealing with these products.

An Offshore Bond is an investment plan set up by a life insurance company in a jurisdiction with a favourable tax regime, such as the Isle of Man or Dublin.

This means that investors benefit from growth that is largely free of tax, known as 'gross roll-up'.

Any gains from Offshore Bonds are treated as 'savings income'. Therefore, non-taxpayers can offset their personal allowance (up to £12,570) and then the tax-free savings allowance which is the next £5,000, plus the Personal Savings Allowance of £1,000. Your personal allowances are covered on page 2.

The starting rate is now 0%, meaning up to £18,570 of gains can potentially be realised without any personal tax liability.

Offshore Bonds also benefit from top-slicing relief, which can reduce higher rate income tax on a chargeable gain by allowing the bondholder to spread the gain over the number of years the bond has been held.

Up to £18,570 of gains can potentially be realised without any personal tax liability.

The earlier the Bond is started, the greater number of years' top-slicing can be taken advantage of, further reducing the potential of any adverse tax implications when encashing segments of the Bond.

The Offshore Bond has further advantages over other forms of savings in that there are no upper contribution limits (unlike ISAs or pensions); it's accessible at any time and has a wide range of investment options.

Please note that returns from investments are not guaranteed, as capital may fall as well as rise. You may not get back the full value you invested.

Investing for children

Offshore Investment Bonds in particular can provide a very useful, but often overlooked, method of investing for children's university fees.

An Offshore Bond is divided into a number of identical segments when the bond is set up. The lump sum investment and any additional investments will be spread over these segments.

It's possible to assign some of these segments to your non-taxpaying children once they reach 18 years of age, which they can then encash in their own name; for example, to help pay for their university fees.

Therefore, investing in an Offshore Bond provides flexibility and a tax-efficient means of funding your children's university education, while you still keep control of the investment.

As before, returns from investments are not guaranteed, as capital may fall as well as rise. You may not get back the full value you invested.

ESTATE PLANNING AND INHERITANCE TAX (IHT)

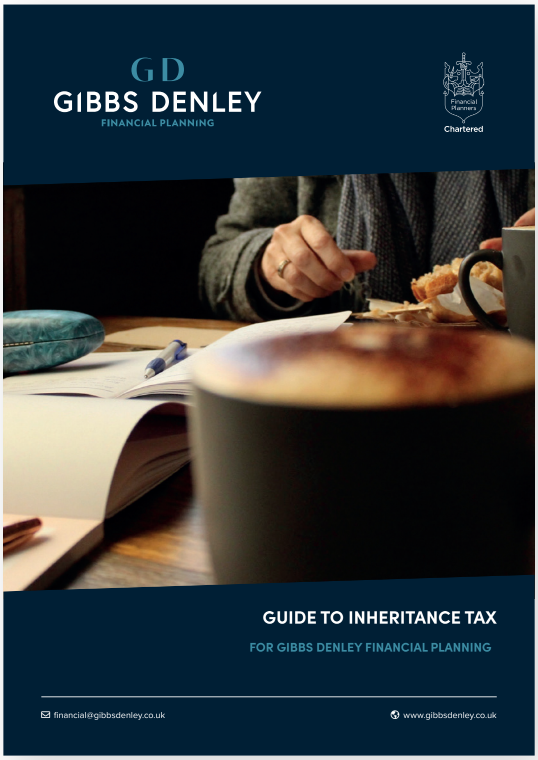
With ever increasing property values, more and more people have found that the value of their estate is higher than the Inheritance Tax (IHT) exempt threshold.

IHT may be mitigated by giving money away, putting it into trust or investing in certain qualifying assets, such as the AIM ISA mentioned earlier.

Estate planning is a complex area, so Gibbs Denley have put together a complete Guide to Inheritance Tax, available separately, covering areas such as:

- The importance of writing a Will
- Making gifts
- Using a life cover policy to cover the Inheritance Tax liability
- Discounted Gift Trusts (DGTs)
- Gift and Loan Schemes
- Agricultural Property Relief
- Business Property Relief

Please speak with your Gibbs Denley financial planner, who will be able to quantify whether your estate is exposed to Inheritance Tax and suggest the most suitable ways of mitigating it.



Inheritance Tax is a complex area; please see our separate in-depth guide.

VENTURE CAPITAL TRUSTS AND ENTERPRISE INVESTMENT SCHEMES

A Venture Capital Trust (VCT) is a company which has been approved by HM Revenue & Customs and which subscribes for shares in (or lends money to) small unquoted companies, including those quoted on the Alternative Investment Market (AIM).

Under the VCT scheme, VCTs and their investors enjoy certain tax reliefs.

The VCT scheme is designed to encourage individuals to invest indirectly in a range of small (and therefore higher-risk) unquoted companies. The VCT invests in a spread of small unquoted companies, enabling investors to spread their risk.

The Enterprise Investment Scheme (EIS) is designed to help smaller higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who purchase new shares in those companies.

We have provided a breakdown below showing some of the main similarities and differences between these investments.

VCTs and EISs are designed for people with a high-risk attitude to investments.

A comparison of Venture Capital Trusts and Enterprise Investment Schemes

	Venture Capital Trusts	Enterprise Investment Schemes
Annual investment limit	£200,000	£2,000,000#
Income tax relief	30%	30%
Clawback if held less than	5 years	3 years
Capital Gains Tax Deferral Relief	No	Yes if investment made up to 1 year before or 3 years after the gain made.
Tax-free dividends	Yes	No
Tax-free capital gains	Yes	Yes (after 3 years)
Tax relief for losses	No	Yes (after 3 years)*
IHT Business Property Relief	No	Yes

*If a loss is realised on disposal, an investor can elect that the loss, less any income tax relief given, can be set against income of the year in which they were disposed of, or any income of the previous year.

£2m limit, provided anything over £1m goes into knowledge intensive companies.

How do I benefit from investing in VCTs and EISs?

To encourage investment in small, growth-oriented companies (and as compensation for taking on some additional risk), investors in VCTs and EIS schemes are eligible to receive a number of tax incentives:

1. Individuals who subscribe for new ordinary shares in VCTs and EISs at issue can invest up to £200,000 in VCTs for each tax year and £2m in EISs for each tax year. By doing this the investor will qualify for 30% income tax relief.
2. The above relief will be withdrawn if shares are sold within five years for a VCT and within three years for an EIS.
3. Any gains accumulated on the sale of VCT shares will be free from Capital Gains Tax. This applies whether or not the shares were purchased at issue or via the secondary market. In the case of an EIS, Capital Gains Tax exemption only applies after shares have been held for three years.
4. Dividends are also received tax-free for a VCT, but not for an EIS. All investors in a VCT will receive tax free dividends whether investing from initial issue or via the secondary market.

Special note on investment risks for VCTs and EISs

AIM investments, Venture Capital Trusts and Enterprise Investment Schemes all invest in smaller companies. Shares of smaller companies carry higher risks as there can be liquidity issues, smaller management and shorter trading histories.

Shares in smaller companies are also more sensitive to price movements. Due to the greater risks involved in smaller company investments, investors have the potential of receiving greater rewards, but it is equally important to bear in mind that they can involve a greater chance of loss.

Historical performance can be unreliable for these types of products, as the portfolios are different year on year. Some VCTs, however, do provide performance data which, where possible, can be provided upon request. As always, it is important to bear in mind that past performance is not necessarily a guide to future returns.

Returns from investments are not guaranteed, as capital may fall as well as rise. You may not get back the full value you invested.

Qualifying status is ensured prior to investment, but always carries the risk of being revoked in the future. Government legislative changes have the biggest effect on this aspect. For example, renewable energy is now ineligible to qualify for VCT/EIS investment.

Financial Services Compensation Scheme (FSCS) Protection

FSCS protection may cover EIS monies while held on deposit prior to investment. However, once invested this is no longer the case. You should also bear in mind that VCTs do not benefit from FSCS protection either.

Disclaimer

This document contains our understanding of current tax rules (2022/23). It should not be taken as formal tax advice. Tax benefits referred to within depend on individual circumstances and may be subject to future changes. The value of investments may go up or down so you may get back less than your original investment. Not all options laid out in this document will be suitable for you and you should always consult a qualified financial planner.

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