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Tax Efficient Investments

The information in this fact sheet is necessarily of a general nature, and we strongly recommend that you consult with us before taking any action.

Individual Savings Accounts (ISAs)

ISAs are available from banks, building societies and a variety of other providers. The maximum annual deposit is £10,680 overall, of which no more than £5,340 can be in cash.

16-17 year olds can invest up to £5,340 in a cash ISA.

All income earned on investments within an ISA is exempt from income tax. However, tax credits on dividends arising within an ISA are no longer repayable. Gains made on ISA investments are exempt from capital gains tax.

Following the closure of the Child Trust Fund to new entrants earlier this year, tax-free Junior ISAs are available from 1 November 2011. The tax-free savings account will have similar terms and conditions to an adult ISA, with investments available in cash or stocks and shares. However, annual contributions will be capped at £3,600. Funds placed in a Junior ISA will be owned by the child but investments will be locked in until the child is 18.

Enterprise Investment Scheme (EIS)

Income tax relief is obtainable at 30% in respect of amounts of up to £500,000 a year subscribed for ordinary shares in certain unquoted companies. The amount subscribed can be carried back to the previous tax year for relief purposes, subject to the overriding investment limit for that year. The shares must be held for minimum of (broadly) three years otherwise the relief is completely withdrawn.

In addition a claim may be made for all or part of a chargeable gain on the disposal of *any* asset to be deferred to the extent that it is matched by a qualifying subscription for EIS shares within one year before and three years after the disposal. Gains may be deferred whether or not income tax relief is available.

Gains on the disposal of shares are exempt from capital gains tax after three years although the original deferred gain will then be chargeable; losses are relievable against either income or capital gains if the shares are disposed of at a loss.

It is essential to obtain further information and detailed advice before making an investment of this type because there is an element of risk in investing in shares.

Venture Capital Trusts (VCTs)

Individuals investing up to £200,000 a year in VCTs will be exempt from tax on resulting dividends and on capital gains when they dispose of shares.

Individuals who subscribe for new ordinary shares in VCTs will, in addition, be entitled to income tax relief at 30% on up to £200,000 in any tax year, provided the shares are held for at least five years.

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Friendly Society savings policies

Although the extent to which investments may be channelled into these funds is fairly limited, they nevertheless provide a modest level of tax-efficient investment.

National Savings

- *Income and capital bonds.* Interest is liable to income tax, but paid gross. Income bonds pay interest (variable) monthly. On capital bonds, the interest (guaranteed for five years) is added to the capital annually. Income bonds are repayable on three months notice; capital bonds may be repaid without notice.

- *Children's bonus bond.* These may be bought by anyone over sixteen for individuals under 16. Interest is guaranteed for five years at a time until the holder is twenty-one. The bonds are totally tax free, which is an important feature for parents (normally parents are liable to tax on interest over £100 on gifts to their children).

Please contact us if you would like more help or advice in this area.