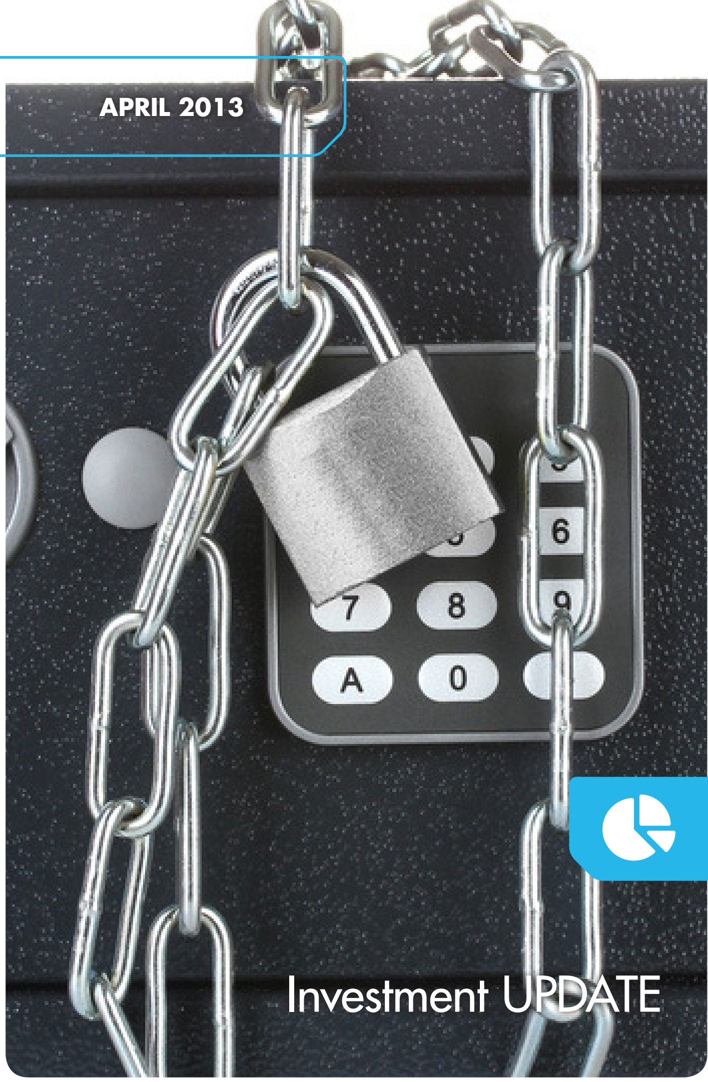

Future
Asset Management LLP

Tax efficient investments

Tax efficient savings and investments exist to help you to make the most of your money by reducing your liability to tax.

There are several benefits available with tax efficient savings and investments, each working in a slightly different way, but all designed to encourage saving and make it more worthwhile for your pocket.

The new tax year has just begun, so now is the time to start making the most of your new tax efficient allowances. We take a look at your options.

Individual Savings Accounts (ISAs)

One of the most popular tax efficient vehicles, ISAs, were established in 1999 and replaced the more complex Personal Equity Plans and Tax Exempt Special Savings Accounts.

They are not an investment in themselves, but more of a wrapper that you can use to shelter any money invested within them from tax. There are three types of ISA available.

Cash ISAs

These allow you to shelter your money from tax without the risk associated with stocks and shares. You can save into a cash ISA from the age of 16 and the maximum you can save into a cash ISA for the 2013/14 tax year is £5,760.

Cash ISAs work in the same way as other cash savings accounts, except any interest is free from tax. It is worth bearing in mind that interest rates and terms vary from one provider to the next, so make sure you don't just opt for the first offer that you see.

Stocks and shares ISAs

Depending on your attitude to risk, you may want to invest some, or all, of your annual ISA allowance into stocks and shares. You can invest up to £11,520 into a stocks and shares ISA this tax year, but it is important to note that this maximum will be less anything you have invested into a cash ISA. For example, if you have invested £2,000 into a cash ISA, you will only be able to invest a maximum of £9,520 into a stocks and shares ISA this tax year.

It is also important to note that you can only open one of each type of ISA per tax year – although it is possible to transfer money from existing ISA accounts. Also, while cash can be transferred to stocks and shares, anything you have invested in a stocks and shares ISA cannot be transferred into a cash ISA.

Investments in stocks and shares ISAs are free from both income and capital gains tax, except for a small amount of withholding tax on dividends. Capital and income withdrawn from an ISA are tax free.

Junior ISAs

Junior ISAs were launched in November 2011 to replace the previous tax efficient child saving vehicle, the Child Trust Fund. Unlike Child Trust Funds, the Government does not contribute to a Junior ISA, but benefits are free from income and capital gains tax in the same way as other ISAs.

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Tax efficient investments

Junior ISAs are only available to those not eligible for a Child Trust Fund. The maximum that can be invested per tax year increases in line with inflation, and is £3,720 for 2013/14. Like ISAs, Junior ISAs can be invested in both cash and stocks and shares, and the allowance can be split in any proportion between the two.

Once a Junior ISA has been opened anyone can contribute into it, but no withdrawals are permitted until the age of 18, when the account becomes an 'adult' ISA.

Contact us to discuss your options and we will help you to find an ISA that suits you.

Pensions

As average life expectancies increase, and interest rates and economic security decrease, investing for your future has never been more important. You could spend more than 30 years in retirement, a period for which you need to make significant savings.

Pensions are an area that the Government is keen to encourage investments in and there is a generous tax relief associated with them for this reason.

Pensions tax relief

The tax relief you receive on your pension investments will depend on whether you are a basic, higher or additional rate taxpayer. In the 2013/14 tax year, those paying a basic rate of 20 per cent will be eligible to tax relief of the same amount, and the same goes for the higher rate of 40 per cent and additional rate of 45 per cent. You may also be able to carry forward unused allowances from up to three previous years.

The way the tax relief is applied to your pension investments will depend on the type of pension you pay into:

Occupational or public service pension schemes

Usually, your employer will take the pension contributions from your salary before deducting tax, but not national insurance. You then pay tax on what's left and effectively get the full relief straight away, whether you are a basic, higher or additional rate taxpayer.

This is not always the case though.

Personal pensions

When contributing to a personal pension, you pay your contribution from your net income after tax, and the pension provider will then claim tax back from the Government at the basic rate of 20 per cent. This means that for every £80 you pay into a pension, you end up with £100 in your pot. This also means that additional and higher rate taxpayers will need to claim the remaining tax relief through their self-assessment tax return.

Contact us to find out how we can help you to maximise your tax efficient contributions and to consolidate and manage your pension savings.

Venture Capital Trusts (VCTs)

VCTs are considered to be much higher in risk than other tax efficient investments such as ISAs and pensions (although of course it depends where your money is invested).

The reason VCTs are deemed so risky is that they involve investing in very small, often start-up businesses that are not established. The tax relief that comes with VCTs reflects their high risk nature.

To encourage investment the Government offers up to 30 per cent income tax relief for subscriptions in new VCT fundraisings. You can invest up to £200,000 each tax year, but the rebate is dependent on the amount of income tax you pay. You must also hold the shares for five years to keep the rebate.

When you dispose of a VCT after five years, any gain is exempt from capital gains tax and dividends paid by the VCT are also tax free.

VCTs should not be used solely for their tax benefits and are not suitable for all investors. It is important to get professional advice to ensure that you understand the risks. Please contact us.

The EIS and SEIS

Enterprise Investment Scheme (EIS)

The EIS is another high risk investment scheme that offers tax relief at 30 per cent of the cost of shares. Again the risk comes from small, start-up businesses and the tax relief is dependent on your income tax liability in the tax year the investment is made.

The maximum investment eligible for relief is £1,000,000, which means the maximum tax reduction in any one year is £300,000.

As long as you keep your shares for at least three years there is also no capital gains tax to pay when you sell.

Seed Enterprise Investment Scheme (SEIS)

The (SEIS) provides income tax relief of 50 per cent for individuals who invest in qualifying seed companies. The maximum annual investment is £100,000 and the rules largely mirror those for the EIS.

Professional advice should be sought before investing. Please contact us.