



Personal Tax Action

Introduction

In this section we will help you to understand the main issues involved in saving tax, in relation to investment planning.

Of course investing in a pension plan is a great way of saving tax as well and that is covered in more detail in the pensions section of our website.



Inheritance Tax (IHT)

When you die, inheritance tax is charged at 40% on the excess of your estate over £325,000 (2010/2011). This includes the value of your home and could land your family with a large bill. Therefore every £300,000 of taxable assets you pass on could create an IHT bill of £120,000 for your family to pay.



Transfers between spouses are free of IHT and so IHT will not be due if you leave your assets to your spouse.

Married couples, including those in civil partnerships, will be able to combine their individual £325,000 allowances. Any of the £325,000 allowance not used on the first death is transferred over to surviving partner. This IHT increase has been back-dated for widows and widowers indefinitely.

There are many ways in which we can help you minimise the amount of IHT your family will face. For example, we work closely with solicitors to ensure your will is written correctly. We can advise on a range of investment schemes that will help mitigate any tax liability.

The Tax Advantages of Life Assurance

Life assurance is not only a way of protecting your family, but can also be a tax-efficient way to save for the future.

Some life policies are structured as investment bonds, which allow you to invest a lump-sum and enable you to draw a regular "income". Within certain limits this income is free of immediate income tax and if you are a basic rate tax payer,

may remain so.

Offshore life assurance bonds, based in tax havens like Jersey or the Isle of Man, can be used to defer UK residents' income tax until the investor falls into a lower tax bracket.

Individual Savings Accounts (ISAs)

UK resident adults should consider investing in a tax-efficient Individual Savings Account (ISA).

ISAs replaced new investment in PEPs and TESSAs in April 1999, and currently allow you to save up to £10,200 a year without being subject to either income or capital gains tax (10% tax credit can no longer be re-claimed on dividends since 6 April 2004)

ISAs come in different forms. You can select ISAs which invest your money in a bank or building society account or stocks and shares. The Government has guaranteed that ISAs will be available until 5 April 2010.

There are two main types of ISA, one is a stocks and shares ISA the other a cash ISA. Since 6 April 2008, you have been able

to transfer cash ISAs into Stock and Shares without affecting your ISA allowance for the current tax year. Each type of ISA component brings its own risks, and each will be suitable for a different type of investor. We can help you decide which type of ISA is right for you, and help you to avoid any pitfalls which the choice of products present.

Type of plan	Where your cash goes	Current Annual maximum*
Cash ISA	Bank or building society deposit account	£5,100
Stocks and shares ISA (if maximum invested in cash ISA)	Equities or bonds or unit trust/investment trust/OEIC	£5,100
Equity stocks and shares ISA (without investment in a cash ISA)	Equities or bonds or unit trust/investment trust/OEIC	£10,200

*In future years maximum levels may reduce or increase.

Bonds

When you buy a bond, you are lending money either to the UK Government or to a company in return for a fixed rate of interest.



Government bonds – “gilts” – are a safe form of investment, because you will get your capital back at the end of the gilt’s term, plus a regular income. Your money is at risk only if the UK Government defaults on its loans, which is highly unlikely.

The bonds issued by individual companies work in a similar way. If you select a blue-chip company with sound finances, the risk involved should be only a little higher than when buying a Government bond. Both corporate bonds and gilts can be placed inside an ISA to save tax. Investments like these are available as part of your equity ISA allocation for the year.

Capital Gains Tax (CGT)

With an equity investment, the shares you own will produce both income from the dividends and capital growth from a rising share price. The Government taxes both parts of this gain, the first via income tax, the second through CGT.

CGT is charged at up to 18% if your taxable gains total over £10,100 (2010/2011).

The new 18% flat rate will be charged on all capital gains above the annual allowance, replacing the old system of three rates of 10%, 20% and 40% - depending on whether the person in question paid income tax at the starting rate, basic rate or higher rate.

Products which can help you minimise your CGT liability include, not only ISAs, but also enterprise investment schemes, enterprise zone trusts and venture capital trusts. The CGT breaks on offer with these more complex schemes often come only at the price of investing at high-risk. Please ask us for more details.



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For further advice and assistance

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