

# How to Invest Tax Efficiently

*These are some of the 'must have' tools of the high rate tax payers.*

- ISA 's
- Tessa's
- Pension Top up
- National savings
- Staff share scheme
- Venture Capital Trusts
- Enterprise Investment Schemes

## 1. Individual Savings Accounts

From a tax perspective ISAS should form the core of your saving and investment plans. They allow you to save up to £7,000 tax free each year in the stock market, cash or insurance bonds.

Each year you can take out three mini-ISAS or one maxi-ISA. If you opt for mini-ISAS you can save £3,000 in cash, £3,000 in the stock market and the remaining £1,000 in an insurance bond. Each ISA can be bought from a different company.

You buy a maxi-ISA from one company, which can invest the full £7,000 in the stock market.

Alternatively, you can invest up to £3,000 in cash, but then you can put only £4,000 in the stock market. The equity element of your ISA is usually invested in unit or investment trusts.

## 2. Maturing TESSA's

Millions of TESSAs are due to mature this year. When your account reaches the end of its term, you can put the capital but not the interest earned into a TESSA -only ISA (TOISA). Interest is paid tax-free and it does not affect your other ISA allowances.

## 3. Top up your Pension

Investing in a pension is the most tax-efficient way to save. For every £1 invested by a basic-rate taxpayer, the state contributes a further 28 p. Higher-rate taxpayers pick up 66 p for every £1 they invest. The maximum you can save depends on age and income. Those under 35 can save 17.5% of their pay in a personal pension, rising to 40% for those aged 61 to 65. However small your earnings, you can invest up to £2,808 into a personal pension and the government will add up to £792.

## 4. National Savings

Although most National Savings products are uncompetitive many pay interest tax free and can be useful to higher-rate tax payers. For example, you can earn 3.00 % on its five-year certificate - equivalent to about 3.75 % gross.

## 5. Staff Share Schemes

The treasury has introduced a range of initiatives to encourage workers to buy shares in their companies - including Save As You Earn (SAYE) , Company Share Option Plan (CSOP), share incentive plans (original AESOP) and Enterprise Management Incentive schemes (EMI) . These allow workers to buy shares from gross

income, and for employers to give shares to workers. As long as the shares are held for a certain number of years, you do not have to pay income tax, National Insurance or capital gains tax (CGT) on your holding.

## **6. Venture Capital Trusts**

Using Venture Capital Trusts have a wide range of tax advantages. You can claim basic-rate tax relief when investing in a venture capital trust (VCT), which means that for every 80p you invest, the government pays a further 20 p. You do not have to pay CGT on profits.

You can also invest profits from other investments that are liable to CGT in a VCT and delay paying the tax. If you invested in a unit trust and made £20,000, you would have to pay tax at 40% on any gain over £7,900. However, you can invest the profit in a VCT and delay paying the tax for three years. Any income you receive in the meantime from your VCT is tax-free. The maximum investment is £100,000.

## **7. Enterprise Investment Schemes**

These offer the same advantages as VCT's - income tax relief and CGT deferral. However, you can invest up to £150,000 and there is no limit on the length of time you can defer paying CGT.

The above advice is given in good faith. Individual circumstances differ, no action should be taken without regard to these personal circumstances. Accordingly, please consult your professional adviser. If you wish to talk to one of our partners or tax consultants, please do so. The first hour is free and without obligation.