Guidance: Tax Wrappers

This factsheet provides details on the tax wrappers available for your investments and should be read in conjunction with your suitability report and any provider documentation.

Individual Savings Account (ISA)

An ISA provides a tax-effective way of accumulating capital and generating income. You do not pay any tax on the income you receive from your ISA savings and investments, including dividends, interest and bonuses. You also do not pay any tax on capital gains arising on your ISA investments (please note losses cannot be offset against other capital gains outside your ISA). You are able to hold 'cash' tax-free within your Stocks and Shares ISA subject to provider rules.

This should be considered as a medium to long-term investment (at least 5 years) however you have access to your funds at any time.

Junior Individual Savings Account (JISA)

A JISA provides a tax-effective way of accumulating capital on behalf of your child. There is no tax payable on any growth and when the proceeds are withdrawn, there is no tax to pay. Junior ISAs should be considered as medium to long-term investments of at least 5 years. Contributions by a parent into their minor child's Junior ISA are not subject to the parental settlement rules. Your child will own the Junior ISA from outset but they will not be able to access any of the investment until on or after their 18th birthday.

Once money has been paid into the JISA, it is locked in and can only be taken out by the child when he or she reaches the age of 18. Any payments made to the JISA cannot be returned to the donor.

Lifetime Individual Savings Account (LISA)

The LISA is specifically intended to help those under the age of 40 to save and invest flexibly for one of two purposes:

- to provide a deposit for a first home, provided you have never owned a property and the value of the property being purchased does not exceed £450,000, and/or
- to save towards retirement, with access without penalty allowable after age 60.

You can save up to £4,000 a year which will form part of the overall annual allowance for ISAs. The government will add a 25% bonus to the amount contributed however the contract may be subject to penalties if the funds are not withdrawn in line with the terms and conditions. The bonus will be payable on all contributions made before the age of 50.

You do not pay any tax on the income or capital gains you receive from your LISA savings and investments. If you withdraw funds early that do not meet the terms and conditions of withdrawal, you will pay a 25% penalty on the amount withdrawn.

Additionally, unlike pension funds, LISA funds may affect your eligibility for some means tested benefits. It is important to note that this actually amounts to a clawback of 6.25% more than the bonus granted on the investment.

General Investment Account (GIA)

A GIA is an investment vehicle which can hold all assets not allocated to a specific tax wrapper and are therefore subject to normal UK tax. GIAs offer the facility to obtain a widespread of investment risk within a professionally managed environment and can be held in single or joint names.

Any dividends received in excess of the annual Dividend Allowance will be taxed dependant on your individual income tax rate:

- Basic rate taxpayers - 7.5%
- Higher rate taxpayers - 32.5%
- Additional rate taxpayers - 38.1%

Any interest received from your investments in excess of your Personal Savings Allowance will be taxed at your highest marginal rate of tax through an adjustment to your tax coding.

Additionally, any capital gains will be taxed at the main Capital Gains Tax rate of 10% for non and basic rate tax payers and 20% for higher and additional rate tax payers. However every individual has an annual Capital Gains Tax allowance that can be offset against the gains so investing in joint names would allow each person's annual Capital Gains Tax allowance to be used.

Funds held in a General Investment Account can be transferred to a stocks and shares ISA at a later date to help make use of your future annual ISA allowances. Your investment will benefit from being held in the more tax efficient environment of the ISA in the future. There may be a small administration charge to cover the provider's administration costs.

Onshore Capital Investment Bond

An onshore bond is a single-premium investment which is suitable for investing capital to provide potential for capital growth, an income, or a combination of both. As your circumstances and financial needs change, you can amend the investment strategy within the bond without any tax implications.

You can take tax-deferred withdrawals each year of up to 5% of the total amount invested. Once you have withdrawn 100% of the total amount invested, the allowance ends. If you do not use the full 5% in any one year, you can carry it forward to a future year. Any withdrawals you make will impact the bond's capital value. After charges, the funds may not have grown enough to offset any withdrawals you have made.

The investments held within the bond are taxed internally at a rate approximately equivalent to basic rate tax. The tax deducted cannot be reclaimed by non-taxpayers.

There is no Capital Gains Tax to pay on encashment. However, a withdrawal in excess of 5% per annum, or the eventual surrender of the bond, will give rise to a chargeable event. At that time, a 'top slicing' exercise would be undertaken. If the "top sliced" gain results in a liability to higher or additional rate tax, tax at a rate of 20% or 25% will be due on that part of the gain which falls within the higher or additional rate tax band respectively. There will be no additional tax to pay for a non or basic rate tax payer.

Offshore Capital Investment Bond

An offshore bond is a single-premium investment which is suitable for investing capital to provide potential for capital growth, an income, or a combination of both. As your circumstances and financial needs change, you can amend the investment strategy within the bond without any tax implications.

You can take tax-deferred withdrawals each year of up to 5% of the total amount invested. Once you have withdrawn 100% of the total amount invested, the allowance ends. If you do not use the full 5% in any one year, you can carry it forward to a future year. Any withdrawals you make will impact the bond's capital value. After charges, the funds may not have grown enough to offset any withdrawals you have made.

There will be no Income Tax to pay on the investments held on your behalf, and the proceeds are paid to you without deduction of tax at source. The only tax that the funds may be liable for is withholding tax which most countries deduct from dividend income and interest.

There is no Capital Gains Tax to pay on encashment. However, a withdrawal in excess of 5% per annum, or the eventual surrender of the bond, will give rise to a chargeable event which may be chargeable at your highest marginal rate of Income Tax. In very broad terms:

- Basic rate taxpayers are subject to 20% tax on the gain,
- Higher rate taxpayers are subject to 40% tax on the gain,
- Additional rate taxpayers are subject to 45% tax on the gain.

At that time, a 'top slicing' exercise would be undertaken to ascertain what rate would be applicable at the time of the chargeable gain.