



**An IFA  
can help you  
fight back  
against the  
taxman.**



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# Introduction

Whether we're talking about the money we earn or the money our savings earn for us, the taxman takes as much as £4 in every £10. But while most of us dislike paying tax, seven out of ten of us bury our heads in the sand instead of doing anything to cut our rising personal tax bills. In fact as a nation we waste a staggering £5.7 billion each year by not taking tax action.

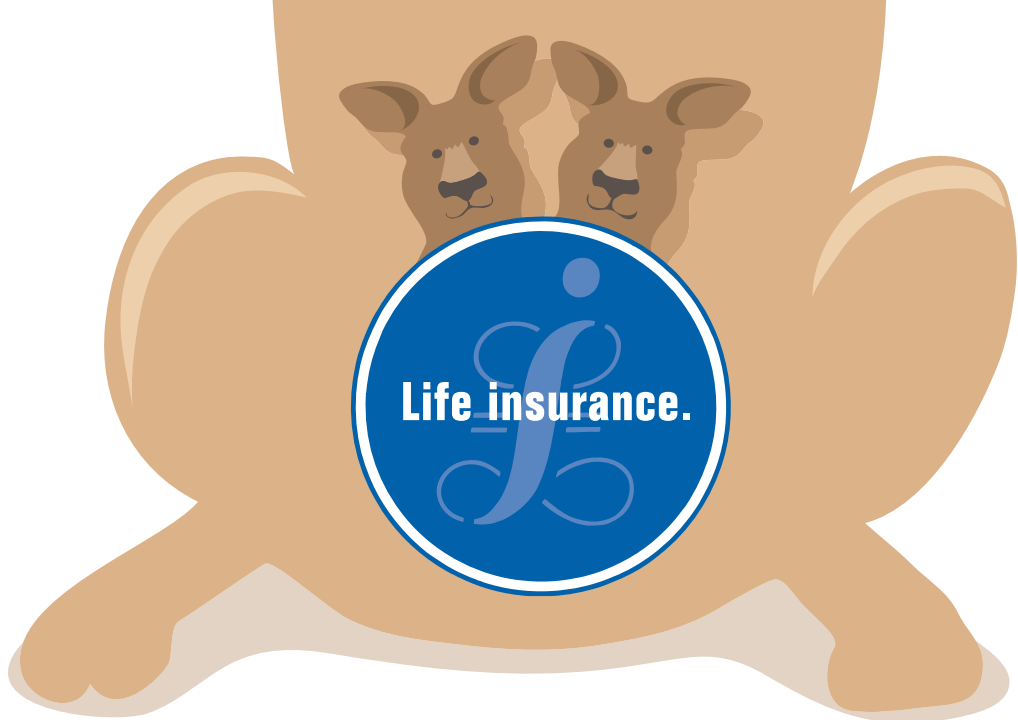
And yet, when it comes to your savings and investments, a few easy tax-planning measures can dramatically cut the tax you pay, giving a healthy boost to the returns you and your family get.

Each year we waste an average £132 per taxpayer in unnecessary payments and missed opportunities. So if we're prepared to squander this much through our own lack of planning – and higher rate taxpayers will

waste much more besides – why do we get so wound up about paying our TV licence, car tax and other similar levies? The answer is simple – we can see these taxes going out, but it's often much harder to identify the areas where we're wasting money ourselves.

This booklet will help you get to grips with the main issues involved in saving tax, everything from the benefits of Individual Savings Account (ISA) to pensions planning. You don't need to be a financial genius to understand the basic principles, but by seeing a qualified independent financial adviser (IFA) you can see in detail how they apply to your unique financial situation, now and in the future – and ultimately decide what's right for you.

David Elms  
Chief Executive  
IFA Promotion Ltd.



## Life policy payouts

The payouts from the majority of life insurance policies are free of personal tax.

But that doesn't mean you can forget about the issue of tax altogether where your life cover is concerned.

When you die, the proceeds of your life insurance policy are paid to your beneficiaries, and may be subject to inheritance tax (IHT). This tax is charged at 40% on estates worth more than £263,000 (2004/2005) – including the value of your home – and could land your heirs with a big bill. Every £263,000 of taxable assets you leave behind could create an IHT bill of £105,200 for your heirs to pay.

Transfers between spouses are free of IHT, and so IHT will not be due if you leave your assets to your husband or wife. Of course, this may merely postpone the problem until the last surviving partner dies, leaving behind a hefty IHT bill due on his or her estate for beneficiaries to pay.

There are a whole host of ways in which an IFA can help you minimise the amount of IHT your heirs will face. For example, it may be possible to arrange your life insurance in such a way that the proceeds remain outside your estate, and can be used to meet the IHT liability arising from other assets.

## Tax advantages

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

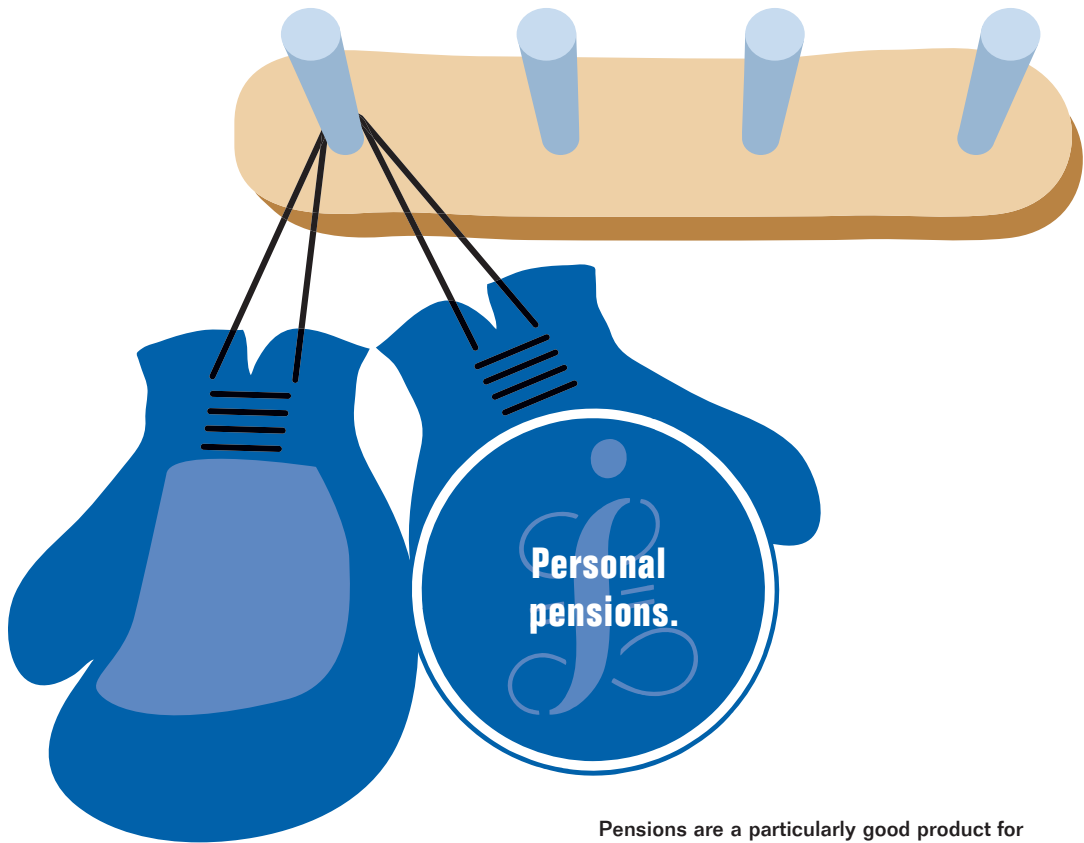
Some life policies are structured as bonds, which allow you to fund the policy with a single lump-sum investment and if you want you can draw a regular income.

Within certain limits this income is free of immediate tax and if you are a basic rate payer, may remain free of all tax.

Offshore life insurance 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 to a lower tax bracket. Although not suitable for

everyone, these products can be used by investors with £5,000 or more to invest.

**Due to the additional complexities of offshore taxation, should you decide to use offshore bonds, it is vital that you get all the details of the arrangement right, so be sure to ask an IFA to help you.**



Pensions are a particularly good product for tax-conscious investors, because they boost the value of every £1 you invest – as you receive tax relief of at least 22%. Many other products make you wait until your first income payment – or even until the plan matures – before you see any tax benefits.

Pension contributions give you tax relief at the highest rate you pay. For a 40% taxpayer, that means for every £100 invested, the net cost to you is only £60. As ever, though, there is a catch.

Because of this generous tax break, the taxman strictly limits the proportion of earnings you can put into various types of

private pension plans, such as Occupational pension schemes, Stakeholder and Personal pensions, each year.

If you are a member of an Occupational pension scheme, you can normally contribute up to 15% of your earnings personally on top of what your employer pays. In some cases depending upon your circumstances you can also contribute to a Stakeholder pension plan to provide additional benefits.

Since April 2001, the rules for contributing to private schemes, such as Personal pensions, have been relaxed and you are able to contribute up to £3,600 p.a. gross

into a pension every year regardless of whether you have any earnings or not.

Where your annual contributions exceed £3,600, there are percentages of your income which you can invest in 'defined contribution' schemes such as Personal pensions or Stakeholder. This ceiling rises gradually as you get older and the limits are shown in Table 1 (on page 7). For the purposes of this calculation, your maximum possible earnings for the current tax year – known as the “earnings cap” – are taken to be £102,000 (2004/2005).

# Stakeholder

**Table 1: Stakeholder and Personal pension contribution limits tax year 2004/2005**

Your age at 6 April	Maximum contribution as a % of Net Relevant Earnings (NRE)
35 or under	17.5%
36 – 45	20%
46 – 50	25%
51 – 55	30%
56 – 60	35%
61 – 74	40%

**Maximum contributions**

- higher of £3,600 (gross)
- % of NRE capped at £102,000 (2004/2005)

You can contribute to as many Stakeholder or Personal pension plans as you like as long as you do not exceed the maximum levels for contributions set by the Inland Revenue.

At retirement, up to 25% of the Personal pension or Stakeholder fund can then be used to provide a tax-free cash sum. The amount from Occupational pension schemes depends on the type of scheme you are in and when you joined it. The remaining fund must then be used to provide an income which is taxed as earned income.

## Don't delay starting a pension plan

If you feel confident enough, you also have the option of a Self-Invested Personal Pension (SIPP), where you can manage your own investments.

Every £1 you commit to a pension scheme now is particularly valuable, because that is the money which will have the most time to grow before you reach retirement age. Every month you delay starting a pension plan increases the amount you will need to save in the future to provide yourself with a reasonable income in old age.

## What type of pension scheme should I invest in?

There are a number of different types of pension plans and schemes to choose from, and the plan appropriate to you will depend on your circumstances.

With few exceptions, employers with five or more workers on the payroll have to provide workplace access to a Stakeholder pension or an equivalent type of pension scheme and have a system to ensure contributions to the plan can be deducted directly from pay.

If you are employed and your employer runs an Occupational or Company pension scheme, it almost always makes sense to join it, especially if your employer makes contributions to your fund as well as you.

If your employer does not offer a Company pension scheme, or if you are self-employed, you should consider first a Stakeholder or Personal pension plan. If employed, you may be able to persuade your employer to make contributions too.



## Existing PEPs and TESSAs

If you already have money in a PEP or a TESSA, there is no need to close that account before you buy an ISA.

PEP money can continue to grow tax efficiently and you can also move money from one PEP manager to another without losing your investment's PEP status.

TESSAs opened before 6 April 1999 will be allowed to run for their full five-year term. When a TESSA matures after that date, the capital it contains of up to £9,000 can be re-invested in a TESSA only ISA without eating into your ISA allowance for the year.

## Individual Savings Accounts (ISAs)

Every UK resident adult should consider taking out 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 £7,000 a year without you having to pay tax on either the income that investment generates or its capital growth.

ISAs come in many different forms. You can choose ISAs which invest your money in a bank or building society account, a

collection of stocks and shares, or a with-profits life insurance policy. There are two main types of ISAs, one is a maxi-ISA the other is a mini-ISA. You cannot mix and match maxi and mini ISAs. You can have either one maxi equity ISA or one, two or three mini ISAs for each tax year. Some ISAs have a CAT mark, indicating that they meet minimum standards on Charges, Access and Terms. Others do not.

The distinction between mini-ISAs and maxi-ISAs is an important one. Once you make your choice for the year of a maxi or mini-ISA, you are locked into that option for the remainder of the tax year, and

plumping for the wrong one can dramatically cut the amount you are allowed to invest tax efficiently in an equity ISA.

Each type of ISA brings its own risks, and each will be suitable for a different type of investor. An IFA can help you sort out which type of ISA is right for you, and help you to avoid the many pitfalls which the choice of products present.

# BONDS ISAs

**Table 2: Your Choice of ISAs**

Type of plan	Where your cash goes	Current Annual maximum*
Cash mini-ISA	Bank or building society deposit account	£3,000
Life insurance mini-ISA	Life office with-profits fund	£1,000
Equity mini-ISA	Equities or bonds or unit trust/investment trust/OEIC	£3,000
Equity maxi-ISA	Equities or bonds or unit trust/investment trust/OEIC	£7,000

\*In future years maximum levels may reduce or increase.

Remember, you can have one maxi ISA investing in equities for each tax year or

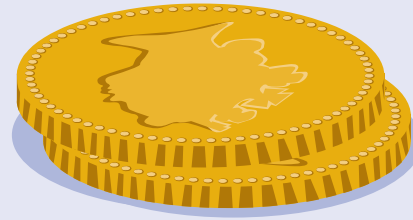
up to three mini ISAs as long as they are one of each type.

## 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 – known as “gilts” – are a particularly safe form of investment, because you know you will get your capital back at the end of the gilt’s term, plus regular income payments at a predictable rate. Your money is at risk only if the UK Government defaults on its loans – which is very unlikely.

The bonds issued by individual companies work in the same way. If you select a big 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 wrapped 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)

The return you get from many investments divides neatly into two parts.

First, there are the income payments which the investment produces and, secondly, its capital growth. With an equity investment, for example, the shares you own will produce both income from the dividends and – with luck – capital growth from a rising share price. The Government taxes both elements of this gain, the first through income tax, the second through CGT.



CGT is charged at up to 40% if your taxable gains total over £8,200 (2004/2005). The longer you hold the assets, the less portion of tax you should pay due to what is known as “taper relief”. The taper reduces the amount of the chargeable gain according to how long the asset has been held.

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. Ask your IFA for more details.

Please note: All figures shown in this booklet are those applying in the 2004/2005 tax year. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.

## Ten tax-saving steps

Check out the tips below to see the kinds of areas where you could be saving tax.

- 1 Tax relief on pensions – Max up your pension contributions before the end of the tax year to gain generous tax relief and then benefit from the tax efficient treatment of pension funds.
- 2 An ISA's nicer – Individual savings accounts are great for tax breaks if you're saving or investing.
- 3 Use your other half – A higher rate taxpayer can save tax by transferring money into a lower earning – or non-earning – spouse's name.



- 4 **Make a will** – It's the only way to be sure your loved ones don't miss out on their inheritance, and to limit the tax paid on your estate.
- 5 **Check your code** – Make sure you have the right tax code or you could be paying over the odds.
- 6 **Rent a room** – Many people raise extra income tax-free by renting out a room in their home.
- 7 **Don't get stamped on** – You can save literally thousands if you negotiate with the person you are buying a house from to drop the price below stamp duty thresholds.
- 8 **Company car?** – Fill in a form to declare it as a taxable perk. Broadly speaking, the smaller the vehicle, the less tax you will pay.
- 9 **Made a gain?** – Make sure you take full advantage of your annual capital gains tax exemption limit.
- 10 **Keep it in the family** – The kids get their own personal tax allowance too, and you can set up tax-efficient trusts for children or grandchildren.

# Notes

## Your IFA's details:

For further information on the subject contained in this guide, please contact your IFA.

If you do not already have an IFA, our 'Find an IFA' hotlines and website enable you to confidentially search for a list of IFAs in your local area. You can search for an IFA based on a whole host of criteria (including product, qualifications, gender and payment options) so you can be sure you'll find an IFA that meets your precise requirements.

If you are looking for advice on personal finances call the  
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**IFA Promotion Corporate Hotline** on **0800 085 3251**.

Alternatively, for both services visit our website at [www.unbiased.co.uk](http://www.unbiased.co.uk)



## Other brochures available:

- Independent Financial Advice for consumers guide
- Independent Financial Advice for businesses guide
- Financial log book
- Inheritance tax guide
- Mortgage guide
- ISA guide
- Pension guide
- Investment guide
- Surviving an economic downturn guide
- Savings when rates are low guide
- Guide to IFA qualifications
- Housing market uncertainty guide
- Equity release guide
- Bereavement guide
- Get saving guide

## Factsheets available:

- Finding the right life assurance
- Planning for your family
- Long term care
- How IFAs make their money
- Confused about endowments?
- A parent's guide to education fees planning
- Funding for university
- How to get saving
- Remortgaging your home
- Ethical investment – making money with a clear conscience guide
- The basics of offshore and expatriate finances

To request one of the above brochures or factsheets, please call our Hotline on **0800 085 3250** or visit us at [www.unbiased.co.uk](http://www.unbiased.co.uk)

The above brochures are available in the following alternative formats: large print, braille and audio tape. Please call our Hotline on **0800 085 3250** if you wish to order an alternative format.

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