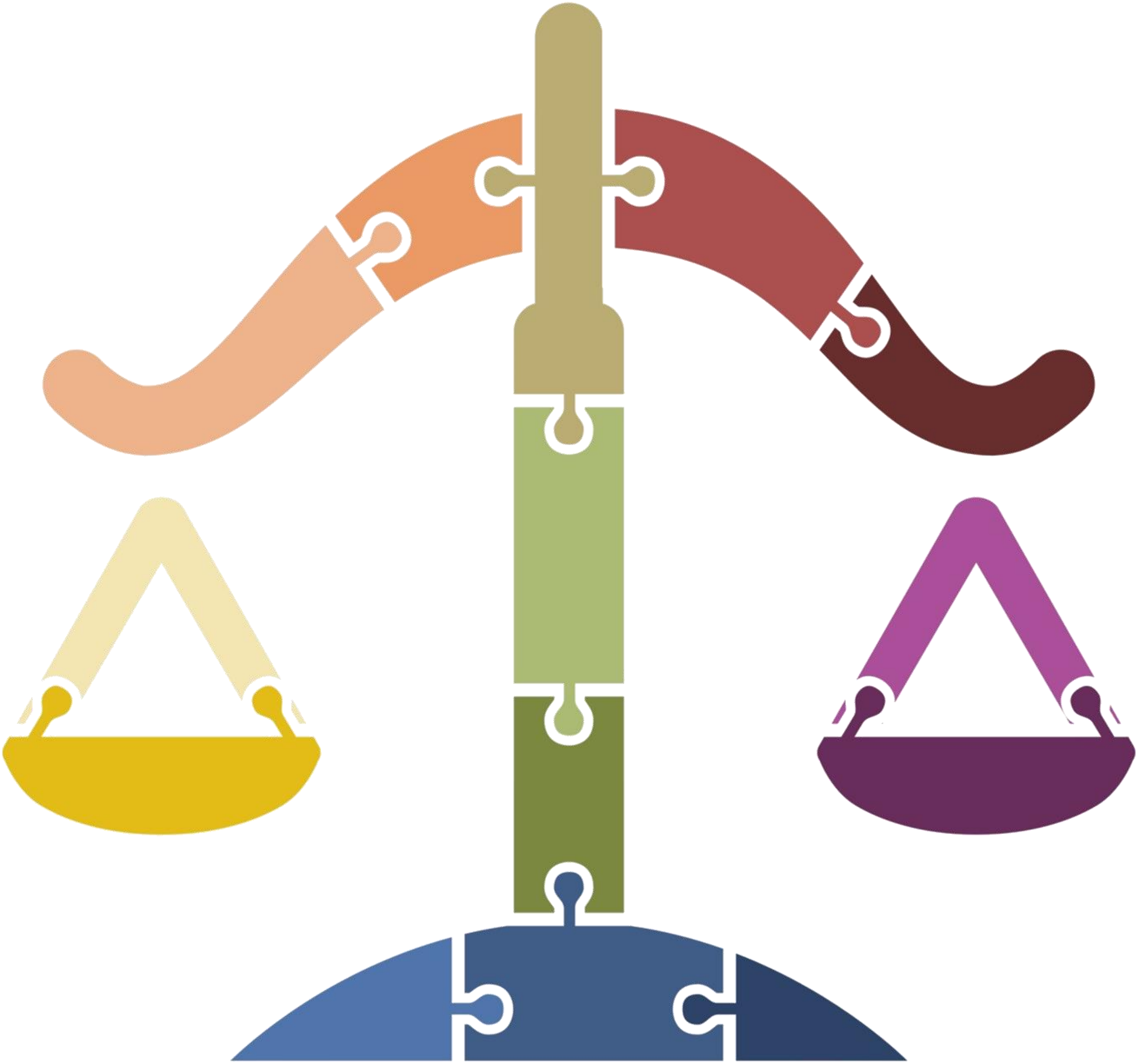
Investment Planning



Chiltern CONSULTANCY
INDEPENDENT FINANCIAL ADVISERS

The Chiltern Guide to Investment Planning
This at-a-glance guide is designed to give you a quick snapshot of a range of different investment vehicles available.
It is important to note that the value of investments and income from them may go down.
You may not get back the original amount invested and the levels, basis and reliefs of taxation are subject to change.

Investments
Investing money needs careful consideration and you need to be absolutely sure of the risks involved.
This guide provides generic information on different types of saving & investment.
You should seek advice appropriate to your specific circumstances prior to making any decisions.
The value of units can fall as well as rise, and you may not get back all of your original investment.

Asset-backed Investments
Different types of asset-backed investments include:
Shares, Gilt-edged Securities (Gilts),Friendly Society Products, Unit Trusts, Individual Savings Accounts (ISAs) Investment Trusts, Open Ended Investment Companies (OEICs), Investment Bonds
Rates and allowances refer to 2015/16 tax year.

Shares
Shares are issued by companies who wish to raise money.
The best known shares are bought and sold daily on international Stock Markets.
There are several different types of share but the most common are simply called 'ordinary shares'.
A shareholder will normally receive a dividend twice a year which is related to the profitability of the company.
The board of directors decide how much the dividend will be in any given year.
Dividends can be raised, lowered or stopped altogether, but past experience has shown that over the medium to long-term they tend to rise, thereby giving investors some protection against inflation, however this is not guaranteed.
Cash dividends are charged to income tax at one of three rates, depending on the level of your other income.
Dividends are always treated as the top slice of your income, and they could fall to be taxed in the basic (20%) rate, the higher (40%) rate or the additional (45%) rate band.

If dividend income falls into the basic rate band, investors are required to pay only 10% tax; in the higher rate band (40%) it would be 32.5%; and where dividends are taxed at the additional rate (45%) the tax would be 37.5%.

Dividends also have a tax credit attached to them, which can be deducted when calculating any additional liability due. From April 2016, ie. no more dividend tax credit, a £5,000 tax-free dividend band and the excess taxed at 7.5% (basic rate), 32.5% (higher) and 38.1% (additional)
In the short-term, share prices may fluctuate in response to changes in opinion about the company itself or the general outlook for business and the economy as a whole. However, in the medium to long-term, past experience has shown the tendency for share values to rise (ie. capital growth).
This helps protect the real value of the investor’s capital against inflation.
Please note past performance is not a guide to future performance.
Selling shares may produce a capital gain for investors (ie. the value realised at the sale may be greater than the value at the time of purchase).
A capital gain realised on the sale of shares is potentially liable to Capital Gains Tax.
Capital losses may be set against gains for tax purposes. Investing in individual shares can be risky and picking the wrong company could mean losing some or all of the original investment.

Gilt-edged securities (Gilts)

Gilts represent borrowing by the Government and, therefore, have the highest degree of security.
An investor in Gilts will be guaranteed a fixed yield (or coupon) for the life of the stock. This is normally paid twice a year. Gilts can be purchased from the Bank of England or a stockbroker.
All new issues of gilts offered are paid gross, although an election can be made to have this payment made net.
Gilts issued prior to 20 July 1998 may be paid net of 20% tax.

All investors can make an election to have this payment converted to a gross equivalent. For investors receiving net or gross interest they will find themselves in the following situations:
Additional rate taxpayers have a further 25% liability (45% if received gross).
Higher rate taxpayers have a further 20% liability (40% if received gross).
Basic rate taxpayers have no further liability (20% if received gross).
Non taxpayers can reclaim the tax paid at source (nil if received gross).
Gilts are traded daily and the market price fluctuates in response to market sentiment and current prevailing interest rates.
The price quoted shows the cost of purchasing stock that will be redeemed on the redemption date at £100 (the 'par value'). The market price is usually less than the £100 par value, but if the interest rate is very attractive compared to current prevailing interest rates it may be more than £100.
Most gilt-edged securities have a redemption date (or dates) at which time the Government guarantees to repay the investor the full par value of the stock held. The investor will make a capital gain if the market price paid for the stock was below par value. If the market price was greater than par value then there will be a capital loss.
There is no tax to pay on any capital gains made on Gilts.
Some Gilts are index-linked which means that the redemption values and the annual interest are increased in line with the Retail Prices Index. This protects the investor against inflation.

Friendly Societies

Friendly Societies offer 10-year qualifying savings plans, which invest in cash deposits, managed funds or with profits funds. They are free of Capital Gains Tax and income tax. The monthly limit for tax free status is £25, making a total contribution of £300pa. The maximum if paid by lump sum is £270.

Unit trusts

Unit Trusts are pooled investment vehicles.
This means relatively small sums from clients are pooled to form a large fund, which is able to invest in a broad spread of stocks and shares and other assets.
Investors’ interests are protected by the terms of a trust deed which must be approved by the Financial Conduct Authority before a unit trust is authorised to accept clients’ money.
Because they invest in stocks and shares, unit trusts must be viewed as medium to long-term investments.
This means that they should be held for at least five years, preferably longer, in order that the investor can potentially benefit from capital growth and a rising income.
Unit trusts offer investors significant advantages.
The fund can invest in a broad spread of stocks and shares which brings greater security than investments into single companies’ shares.
Each fund will benefit from the expertise of a professional fund manager who takes on the responsibility of the day to day investment decisions.
Unit trusts offer a simple way of benefiting from an investment in the stock market.
They avoid the complications and many of the risks associated with a person buying and selling individual stocks and shares.

Units can be easily bought and sold and the prices are published in the press.
The price at which units can be purchased by individuals is called the offer price which is higher than the selling or bid price. The difference between the two is known as the bid-offer spread.
The prices of units are determined by the value of the assets in the fund. As the asset value rises or falls so do the offer and bid prices of units.Income from assets owned by a unit trust is accumulated and regularly distributed to unit holders (normally twice a year).
Alternatively income may be re-invested by purchasing more units. Income, whether distributed or re-invested, is liable to income tax.
When a dividend is distributed to a client, the tax voucher issued will show the 'deemed gross dividend'.
The client will only receive 90% of this amount but, it is the deemed gross dividend that is assessed to determine whether any further income tax is due.
The total tax paid will vary depending on income.
Basic rate tax payers - 10%.
Higher rate tax payers - 32.5%.
Additional rate tax payers - 37.5%.
If, when units are sold, their value is greater than when they were purchased the investor will have made a capital gain. This is potentially liable to Capital Gains Tax if it exceeds the investor's exemptions and reliefs.

ISAs
Available since April 1999, ISAs offer an attractive tax-efficient shelter to anyone aged 18 or over (16 or over for cash ISAs).
From 6 April 2015 individuals will now be able invest up to £15,240 into either a cash ISA or a Stocks and Shares ISA with transfers now being allowed between the two, previously transfers were not allowed from Stocks and Shares ISAs to cash ISAs.
This allowance can be used each tax year.

Investment trusts
Although branded 'trusts', investment trusts are not subject to a trust deed like unit trusts are.
However, they are a pooled investment.
Investment trusts are limited companies and their company directors are usually fund managers or investment experts. Their profit is made for their shareholders by buying and selling financial instruments, such as stocks and shares.

It is possible for shares in investment trusts to be 'trading at a premium' or 'trading at a discount' for example:
Shares in issue = 1 million. Underlying asset values = £1 million, therefore each share is worth = £1.
This £1 is open to fluctuation due to influences and market sentiment just like stocks and shares.
Therefore if the shares are trading at £0.95p they would be trading at a discount. If they were trading at £1.05p they would be trading at a premium.
Investment trusts are closed ended investments (unlike unit trusts which are open ended) and should they wish to acquire more investments than their share capital allows, they can benefit by 'gearing'.
This simply means that they can borrow money to invest.
Therefore a 'highly geared' investment trust would have large borrowings and could be considered high risk, especially in a falling (bear) market place.
All the tax implications for investment trusts are the same as shares as this is actually what the investor buys.

Open Ended Investment Companies (OEICs)

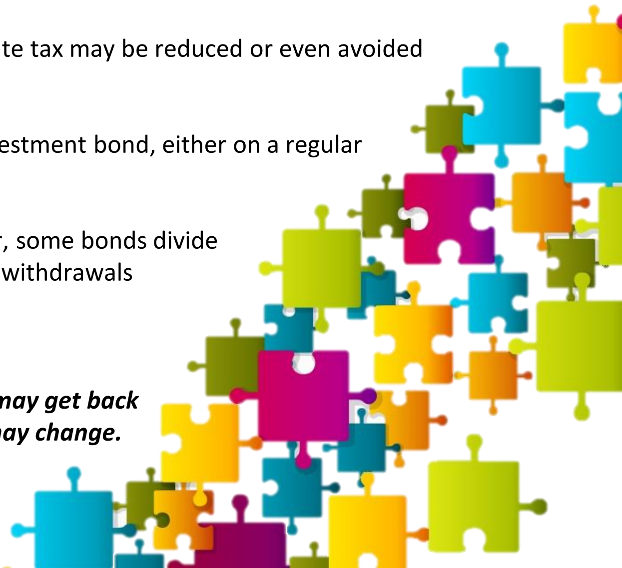
An OEIC could be considered a hybrid between a unit trust and an investment trust company.
The reason for their introduction into the UK (in 1997) is because they fall in line with their European counterparts, making the marketing of UK collective investments much easier and understandable both here and in Europe.
OEICs benefit from single pricing, rather than the UK's traditional dual pricing (the bid offer spread).
They have the same buying and selling price with initial, exit and annual management charges expressed separately.

A guide to their basic structure is:
They are recognised incorporated companies.
Like investment trusts, investors buy the company's shares and benefit by the income and growth, or both, of the underlying shares they are trading in.
The trading price of OEIC shares are based on the underlying asset value, like unit trusts.
Like unit trusts they are open ended investments that can expand and contract to meet consumer demand.
All the tax implications for OEICs are the same as shares, as this is actually what the investor owns.

Investment bonds
Investment bonds are single premium life assurance policies. There is a high allocation to investment and relatively low life cover. They are pooled investments whereby relatively small amounts of individual investor's money will be invested to create large pooled funds, maintained by a life assurance company.
Investments can be spread across a broad range of assets including property, shares, Government stocks and companies' loan stocks, thereby reducing the risk for investors. It is, however, very important to realise that investment bonds are medium to long-term investments. As such should not be considered for periods of less than five years.
There are two basic types of contract for investment bonds.
For the first of these (with-profits), the sum assured will be increased by bonuses related to the company's profits.
For the second type of contract (unit-linked) the life assurance company maintains a number of underlying funds which are divided into units, the value of which is determined by the value of the assets in the fund.
The value of an investor's investment will, therefore, be determined by the value of the units in the underlying fund and the amount of units that they hold. The funds may specialise in particular areas for example, property, shares, government securities, or they may cover some or all of these in a managed or mixed fund.
Income and capital growth is accumulated within the funds.
The tax on income and capital gains is 'deemed' to have been paid at basic rate by HMRC.
As long as their capital remains invested within an investment bond, investors will have no personal liability for either income tax or capital gains tax.
When money is withdrawn (for example, to provide income) or the bond is totally surrendered there will still be no liability for either basic rate income tax or capital gains tax (the fund has already paid these).
Higher rate tax payers may have to pay extra tax.
However, the rules governing bond taxation are such that higher rate tax may be reduced or even avoided altogether with careful planning.

It is normally possible for investors to withdraw money from an investment bond, either on a regular or irregular basis, without bringing the bond to an end.
This is important where income is a priority.
Withdrawals can be made by surrendering part of a bond. However, some bonds divide the original investment into a number of small policies. In this case withdrawals can be made by totally surrendering some of these small policies.
This may have certain tax advantages for the investor.

The value of your investment can go down as well as up and you may get back less than you invested. Tax concessions are not guaranteed and may change.



Deposit Based Investment
There are various deposit-based investment vehicles available in the marketplace. Many customers will have money on deposit either with a bank or building society.

Commercial banks
Commercial banks offer a variety of deposit accounts. Interest, which varies in line with the general level of interest rates, is paid net of 20% tax.
Non-tax payers are able to reclaim the tax deducted or arrange to have the interest paid gross. Basic rate tax payers have no further liability and higher rate tax payers will be liable to a further 20% on the gross interest. Additional rate tax payers liable will be liable to a further 5% on the gross interest on top of the higher rate of 20%.

Building societies
Building societies also offer a variety of savings accounts each with different terms and conditions. Interest earned may be fixed for a specified period or vary in line with interest rates generally. Interest will be paid net of 20% tax. The tax position is the same as commercial bank deposit accounts. Some accounts may restrict access to the money in the account and there may be penalties for early withdrawals.

Cash ISA
You can have one cash ISA up to the limit of £15,240 each tax year with one provide
Any ISAs opened between 6 April and 30 June 2014 will automatically become a NISA, with a higher limit. From 1 July 2014, you are able to add further money up to the new £15,240 limit.
From Autumn 2015 individuals will be able to withdraw money from their cash ISA and replace it in the same year without it counting towards their annual ISA subscription limit for that year.
The cash ISA can consist of money on deposit enjoying a tax-free environment.
The minimum age to own a cash only ISA is 16.
Cash Junior ISAs are now also available. Your child can have a Junior ISA if they:

- are under 18
- live in the UK
- From 6 April 2015 it became possible for parents to transfer their children's Child Trust Fund (CTF) account into a Junior ISA (JISA).

At age 18 a JISA will now automatically turn into an adult ISA.

National Savings & Investments

National Savings & investments are Government backed.
You can visit the NS&I website at www.nsandi.com

The Financial Conduct Authority does not regulate National Savings & Investments products.

Individual Savings Accounts (ISAs)

ISAs remain one of the most tax efficient solutions for your savings. On 1 July 2014, several restrictions were removed to improve flexibility and transfer options.

Under the so-called New ISA (or NISA), Cash ISAs and Stocks and Shares ISAs have effectively been merged, with the overall limit increased to £15,240. This can be invested in either Cash, Stocks and Shares, or a mixture of both.

You'll also be able to transfer new and previous years' ISA investments from Stocks and Shares into Cash, and vice versa, as opposed to previous rules which restricted cash ISAs being transferred into Stock and Shares ISAs.

From Autumn 2015 individuals will be able to withdraw money from their cash ISA and replace it in the same year without it counting towards their annual ISA subscription limit for that year.

What is an ISA?

Available since April 1999, ISAs offer an attractive tax-efficient investment to anyone aged 18 or over (16 or over for cash ISAs). With standard bank and building society savings accounts, taxpayers normally have to pay tax on any interest earned on their money.

The tax is deducted from the interest before it is paid out, reducing the amount received.

Similarly, tax must be paid on the income and profits made from investments in the stock market, either directly or through unit trusts and OEICs.

ISAs, however, serve as a kind of 'wrapper' to protect savings from tax.

This allows individuals to invest in a range of tax efficient savings and investments, and pay no personal tax at all on the income and/or profits received.

However it is not possible for ISA managers to recover tax deducted at source from UK dividend income.

The Government has said that the ISA will be available indefinitely.

Help to buy ISAs

A new ISA for first time buyers will offer a Government bonus when investors age 16 or above use their savings to purchase their first home.

For every £200 a first time buyers saves, there will be a £50 bonus payment up to a maximum of £3,000 on £12,000 savings.

The bonus will be available on purchases of homes up to £450,000 in London and up to £250,000 elsewhere.

The bonus will only apply for home purchase. Savers will have access to their own money and will be able to withdraw funds from their account if they need to for any other purpose.

The main benefits of an ISA

No personal tax (income or capital gains) on any investments in an ISA.

Income and gains from ISAs do not need to be included in tax returns.

Money can be withdrawn from an ISA at any time without losing the tax breaks.

How ISAs work

There are two types of ISA, which may contain one or more of the following components:

Stocks and shares, in the form of either individual shares or bonds, or pooled investments such as open-ended investment funds, investment trusts or life assurance investments.

Cash, usually containing a bank or building society savings account.

Junior ISAs

Junior ISAs are now also available as both stocks and shares Junior ISAs and cash Junior ISAs. Your child can have a Junior ISA if they:

- are under 18
- live in the UK
- weren’t entitled to a Child Trust Fund (CTF) account

Chiltern CONSULTANCY

INDEPENDENT FINANCIAL ADVISERS

To arrange an informal, no obligation meeting at home,
your workplace or at our office in High Wycombe, please contact us

T: 01494 451441

E: enquiries@chilternconsultancyltd.com

Chiltern Consultancy Limited
Merlin House,
Lancaster Road,
High Wycombe,
Bucks,
HP12 3PY

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