

**BARTHOLOMEW HAWKINS LTD**

FINANCIAL GUIDE



# A GUIDE TO WEALTH CREATION

Building and growing  
your wealth in a new  
financial world

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# Welcome

**Our guide to ‘Wealth Creation’ addresses the unique issues and challenges that affect investors and provides guidance on how to preserve and grow your assets in these challenging economic times.**

**O**ver time as your life changes it's important to ensure that your financial objectives continue to meet your needs. Our approach to wealth creation takes account of business, personal and family circumstances. As well as your available assets, other important factors we take into account are tax considerations, your financial liabilities and your retirement planning. If necessary, we will draw on the knowledge of other experts to advise you – for example, if you want to optimise your tax position.

This is a general guide designed to help you think about wealth creation. It does not provide specific advice. If you are unsure of your financial position or about which type of approach is right for you, please contact us for further information and we can help you develop a financial plan that will benefit you and your family for generations.

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# Developing an investment strategy

## What do you want to achieve from your investments?

Whatever your needs, we can help. You may wish to entrust the entire wealth management process to us, or make the investment decisions yourself and still leverage our extensive services and expertise.

Developing an investment strategy requires that you clearly define the short, medium and long term rational for your portfolio.

### Questions that should be considered are:

**Q:** What are the investment objectives of your portfolio?

**Q:** What appropriate investment strategies will achieve these objectives?

**Q:** What is your attitude to risk tolerance relative to your objectives?

**Q:** What is your time horizon for achieving your objectives?

### A clear road map

Defining your investment objectives will provide a clear road map for developing the proper investment strategy, with the correct balance of risk.

There are different types of risk involved with investing, so it's important to find out what they are and think about how much risk you're willing to take. It all depends on your attitude to risk (how much risk you are prepared to take) and what you are trying to achieve with your investments.

### Investment considerations

It is important for you to establish the general purpose for creating the investment portfolio.

#### Such analysis should be undertaken:

- How much can you afford to invest?
- How long can you afford to be without the money you've invested (most investment products should be held for at least five years)?
- What do you want your investment to provide – capital growth (your original investment to increase), income or both?
- How much risk and what sort of risk are you prepared to take?
- Do you want to share costs and risks with other investors (by using a pooled investment, for example)?

■ If you decide to invest using pooled investments, consider which type would be most suitable for you. The main differences between pooled investments are the way they pay tax and the risks they involve (especially investment trusts and with-profit funds).

■ What are the tax benefit implications, what tax will you pay and can you reduce it?

### Investment objectives

You may be looking for an investment to provide money for a specific purpose in the future. Alternatively, you might want an investment to provide extra income. So having decided that you are in a position to invest, the next thing to think about is: 'What am I investing for?' Your answer will help you to choose the most suitable type of investment for you. If you have a particular goal, you will need to think about how much you can afford and how long it might take you to achieve your goal.

You may have a lump sum to invest that you would like to see grow or from which you wish to draw an income. Equally, you may decide to invest in instalments (for example, on a monthly basis) with a view to building up a lump sum.

### Risk return trade-off

Through a balancing process of the potential risk return trade-off, your portfolio objectives can be achieved. All investment strategies used to achieve the objectives must focus on these two important portfolio elements, 'risk and return'.

The best investment strategy is the one that achieves your objectives with the correct balance of the risk return trade-off, viewed over the proper duration or time horizon. The asset class, which has historically provided higher returns over the long term risk adjusted, is equities, followed by bonds. Equities contain the highest degree of risk volatility. However, the longer the duration or time horizon for equities, the lower the potential for volatility.

Investors typically hedge against volatility through an asset allocation across a diverse range of asset classes and strategies. A combination of these different asset classes and strategies should achieve the investment returns for investors relative to their objectives.



“ The best investment strategy is the one that achieves your objectives with the correct balance of the risk return trade-off, viewed over the proper duration or time horizon. ”

## Delivering higher returns

Your investment goals should determine your investment strategy and the time question ‘How long have I got before I need to spend the money?’ is crucial.

Generally, the longer it is before you need your money, the greater the amount of risk you are able to take in the expectation of greater reward. The value of shares goes up and down in the short term and this can be very difficult to predict, but long term they can be expected to deliver higher returns. The same is true to a lesser extent of bonds. Only cash offers certainty in the short term.

Broadly speaking, you can invest in shares for the long term, fixed interest securities for the medium term and cash for the short term.

## ‘Lifestyle’ your investments

As the length of time you have shortens, you can change your total risk by adjusting the ‘asset mix’ of your investments – for example, by gradually moving from share investments into bonds and cash. It is often possible to choose an option to ‘lifestyle’ your investments, which is where your mix of assets is risk-adjusted to reflect your age and the time you have before you want to spend your money.

Income can be in the form of interest or share dividends. If you take and spend this income, your investments will grow more slowly than if you let it build up by reinvesting it. By not taking income you will earn interest on interest and the reinvested dividends should increase the size of your investment, which may then generate further growth. This is called ‘compounding’. ■

The performance of your investments could make a critical difference to your financial wellbeing in the future, so receiving reliable and professional financial advice is essential. Please contact us to discuss your particular situation.



# Investment diversification

## Protecting your money from adverse market conditions

Today's markets are as uncertain as ever. But there is one certainty – the future is coming. It may no longer be enough to simply preserve what you have today; you also have to build what you will need for tomorrow. When deciding whether to invest, it is important that any investment vehicle matches your feelings and preferences in relation to investment risk and return.

Recent market volatility has left investors feeling uncertain and many have stepped away from investing in the stock markets. But not all stocks and shares are the same. For those seeking long-term total returns, there still are some high quality companies – at attractive prices – offering the potential to grow wealth over time.

### Long-range financial goals

Diversification is a term that can be summed up with this phrase, "Don't put all your eggs in one basket." Diversification is a technique that reduces risk by allocating investments among various financial instruments, industries and other categories. It aims to maximise return by investing in different areas that would each react differently to the same event. Diversification is the most important component of reaching long-range financial goals while minimising risk.

Hence your asset allocation needs to be commensurate with your attitude to risk. Another key question to ask yourself is: 'How comfortable would I be facing a short-term loss in order to have the opportunity to make long-term gains?' If your answer is that you are not prepared to take any risk whatsoever, then investing in the stock market is not for you.

### Varying trading fortunes

However, if you are going to invest, you need to be prepared to take some calculated risk in the hope of greater reward. Risk is an implicit aspect to investing, shares can fall, economic conditions can change and companies can experience varying trading fortunes.

The process of deciding what proportion of your investment portfolio should be invested in the different types of investment is called 'asset allocation'.

### Asset classes

The various asset classes come with different levels of risk (volatility of returns) and thus deliver different expected returns over the medium to long-term. But, no one asset class always performs best over an investment period. Asset classes include equities (shares), fixed-interest assets (such as bonds), property, cash and alternative assets (such as private equity)

### Equities

The risks related to investing in equities can be reduced if you invest through an equity fund. A fund manager selects a range of equities so you are less reliant on the performance of any one company.

It also means that you don't have to choose the right companies to invest in yourself, but can rely on the knowledge and experience of the fund manager to choose companies which they feel will perform the best.

### Most equity funds come into one of the following categories:

**Growth funds** - these aim to achieve long-term capital growth. The fund manager selects companies which show the best potential for increasing their share price.

**Income funds** - these aim to generate an attractive income for investors. The fund manager will try to select companies that pay regular dividends. Their share prices tend to be less volatile than those of other companies.

### Bonds

Bonds are loans issued by companies (corporate bonds) or by governments (gilts in the UK and treasury bonds in the US) in order to raise money. In effect they are IOUs that promise to pay your money back on a specified date and pay a fixed rate of interest along the way.

On the whole, investing in bonds is seen as lower-risk than investing in equities. Gilts are very low-risk. It is considered unlikely that the UK Government will fail to pay back money owed to investors. But with corporate bonds there is a risk that the company may not be able to repay its loan or that it may default on its interest payments.

### Cash

Cash accounts are considered the safest form of investment. Bank and building society accounts pay regular interest and give fairly easy access to your money. They're a good place for money you may need in the short term, but over the longer term they offer lower potential for growth than equities, bonds or property.

Additionally, your money could be eroded by the effects of inflation and tax. For example, if your account pays 5 per cent but inflation is running at 2 per cent, you are only making 3 per cent in real terms. If your savings are taxed, that return will be reduced even further.

Cash funds use the pooled savings of many investors in order to benefit from higher interest rates that are not usually available to individual investors.

Under current legislation, you can invest in a cash fund as part of your annual ISA entitlement - for the tax year 2012/2013 (6 April 2012 until 5 April 2013) you can save up to £5,640 in a Cash ISA.

Please note that unlike a deposit account, the value of the fund can go down as well as up. The value of tax savings and eligibility to invest in an ISA will depend on individual circumstances, and all tax rules may change in the future.

## Property

Most people who have bought their own home will realise that property can be a good investment - house prices rose significantly in recent years, although this growth has stalled recently. Some people also chose to invest in other properties, such as buy-to-let flats and holiday homes.

## Different characteristics for risk

These asset classes have different characteristics for risk. When you are young you may want to invest in assets with a higher potential for growth but greater risk, because you have the time to benefit from their long-term growth. As you get closer to retirement you may want to choose more conservative investments that are steadier in both risk and return.

There is a wide variety of different asset classes available to invest in and commensurate risks attached to each one. While these implicit risks cannot be avoided, they can be mitigated as part of the overall investment portfolio by diversifying.

If you put all of your eggs in one basket, you are more vulnerable to risk. Different investments behave in different ways and are subject to different risks. Saving your money in a range of assets helps reduce the loss, should one of your investments suffer a downturn.

“ So what do I do with my money? Start taking action. Build a more dynamic, diverse portfolio based on your goals, your investment time horizon and appetite for risk. ”

## A need to diversify

There is also a need to diversify within each type of investment. This is especially important in the case of share and bond investing, but can even be true of cash, where the risks are generally lowest. Putting all your money in one deposit account runs the risk that the interest paid on that account will change relative to other accounts. This could mean that the interest you receive is no longer as good as when you originally invested.

It is important to remember that all investments have a degree of risk. Even choosing not to invest is risky. The key is to get the right balance. Most people need a mix of assets in order to achieve their goals. The mix required depends upon individual needs.

By spreading your investments over a wide range of asset classes and different sectors, it is possible to avoid the risk that your portfolio becomes overly reliant on the performance of one particular asset. Key to diversification is selecting assets that behave in different ways.

## Different 'styles' of investing

Some assets are said to be 'negatively correlated', for instance, bonds and property often behave in a contrarian way to equities by offering lower, but less volatile returns. This provides a 'safety net' by diversifying many of the risks associated with reliance

upon one particular asset. It is also important to diversify across different 'styles' of investing, such as growth or value investing, as well as across different sizes of companies, different sectors and different geographic regions.

Growth stocks are held as investors believe their value is likely to grow significantly over the long term, whereas value shares are held because they are regarded as being cheaper than the intrinsic worth of the companies in which they represent a stake. By mixing styles that can out- or under-perform under different economic conditions, the overall risk rating of the investment portfolio is reduced. Picking the right combination of these depends on your risk profile, so it's essential to seek professional advice to ensure that your investment portfolio is commensurate with your attitude to investment risk.

## A 'paper loss'

The important thing to remember with investments is that even if your investment goes down, you will only actually make a loss if you cash it in at that time. When you see your investment value fall, this is known as a 'paper loss' as it is not a real loss until you sell.

If you are going to invest, you need to be prepared to take some risk and to see at least some fall in the value of your investment.

While all investments carry an element of risk, the amount of risk you take directly affects any potential returns and losses. Generally speaking, if there is less risk to your investment, your money will grow more slowly and with more risk your investment may fluctuate more.

## Currency risk

You should also be aware of currency risk. Currencies, for example, sterling, euros, dollars and yen, move in relation to one another. If you are putting your money into investments in another country, then their value will move up and down in line with currency changes as well as the normal share-price movements.

Another consideration is the risk of inflation. Inflation means that you will need more money in the future to buy the same things as now. When investing, therefore, beating inflation is an important aim. Investing in cash may not beat inflation over the long term.

All financial investments involve an element of risk. The value of your investment and the income from it will vary and your initial investment amount cannot be guaranteed. Past performance is not a guide to future performance and should not be the sole factor of consideration when selecting a product. ■

We can help you make informed decisions about the investment choices that are right for you by assessing your life priorities, goals and attitude towards risk for return. Any number of changing circumstances could cause your wealth to diminish, some inevitable and some unpredictable – new taxes and legislation, volatile markets, inflation and changes in your personal life. Structuring your wealth in a way that minimises the impact of these changes is essential. To discuss your requirements, please contact us.

# Smoothing out your portfolio's returns

## Increasing the long-term value of your investments

In the light of more recent market volatility, it's perhaps natural to be looking for ways to smooth out your portfolio's returns going forward. Investing regularly can smooth out market highs and lows over time. In a fluctuating market, a strategy known as pound cost averaging can help smooth out the effect of market changes on the value of your investment and is one way to achieve some peace of mind through this simple, time-tested method for controlling risk over time.

It enables investors to take advantage of stock market corrections, and by using the theory of pound-cost averaging you could increase the long-term value of your investments. There are however no guarantees that the return will be greater than a lump sum investment and it requires discipline not to cancel or suspend regular Direct Debit payments if markets continue to head downwards.

### Regular intervals

The basic idea behind pound-cost averaging is straightforward; the term simply refers to investing money in equal amounts at regular intervals. One way to do this is with a lump sum that you'd prefer to invest gradually – for example, by taking £50,000 and investing £5,000 each month for 10 months.

Alternatively, you could pound-cost average on an open-ended basis by investing, say, £5,000 every month. This principle means that you invest no matter what the market is doing. Pound-cost averaging can also help investors limit losses, while also instilling a sense of investment discipline and ensuring that you're buying at ever-lower prices in down markets.

### Market timing

Investment professionals often say that the secret of good portfolio management is a simple one – market timing. Namely, to buy more on the days when the market goes down, and to sell on the days when the market rises.

As an individual investor, you may find it more difficult to make money through market timing. But you could take advantage of market down days if you save regularly, by taking advantage of pound-cost averaging.

### Savings habit

Regular savings and investment schemes can be an effective way to benefit from pound-cost averaging and they instil a savings habit by committing you to making regular monthly contributions. They are especially useful for small investors who want to put away a little each month.

Investors with an established portfolio might also use this type of savings scheme to build exposure a little at a time to higher-risk areas of a particular market.

The same strategy can be used by lump sum investors too. Most fund management companies will give you the option of drip-feeding your lump sum investment into funds in regular amounts. By effectively 'spreading' your investment by making smaller contributions on a regular basis, you could help to average out the price you pay for market volatility.

### Pound cost averaging

Any costs involved in making the regular investments will reduce the benefits of pound cost averaging (depending on the size of the charge relative to the size of the investment, and the frequency of investing).

As the years go by, it is likely that you will be able to increase the amount you invest each month, which would give your savings a valuable boost. ■

No matter how small the investment, committing to regular saving over the long term can build to a sizeable sum. The key to success is giving your investment time to grow.

Choose the amount you want to invest and set up automatic deposits. Once this is up and running the chances are you won't even notice it going out of your monthly budget.

Regular investing may be ideal for people starting out or who want to take their first steps towards building a portfolio of funds for their long-term future. To find out more about the different options available to you, please contact us.

“As the years go by, it is likely that you will be able to increase the amount you invest each month, which would give your savings a valuable boost.”





# Taking a long-term view

## Remember your reasons for investing in the first place

Stockmarkets can be unpredictable. They move frequently - and sometimes sharply - in both directions. It is important to take a long-term view (typically ten years or more) and remember your reasons for investing in the first place.

Be prepared to view the occasional downturns simply as part of a long term investment strategy, and stay focused on your goal.

Historically the longer you stay invested, the smaller the likelihood you will lose money and the greater the chance you will make money. Of course, it's worth remembering that past performance is not a guide to what might happen in the future and the value of your investments can go down as well as up.

### Time to grow

Give your money as much time as possible to grow - at least 10 years is best. You'll also benefit from 'compounding', which is when the interest or income on your original capital begins to earn and grow too.

### Staying invested

There will be times of market volatility. Market falls are a natural feature of stockmarket investing. During these times it is possible that emotions overcome sound investment decisions - it is best to stay focused on your long-term goals.

### Don't try to time the market

Resist the temptation to change your portfolio in response to short term market movement. "Timing" the markets seldom works in practice - and can make it too easy to miss out on any gains.

The golden rule to investing is allowing your investments sufficient time to achieve their potential. ■

# Fund focus

## Are you investing for growth, income or both?

You should consider whether you are primarily investing for growth, income or both.

If you want some income, in a low yield world, if appropriate it may help to cast a wider net. Consider looking beyond traditional fixed income by considering dividend-paying shares and corporate bonds.

Many investments generate income, the key is to receive professional financial advice and discuss which are suitable for your portfolio and your appetite for investment risk. There could be opportunities available in dividend paying shares, corporate bonds or if you are willing to take on more risk, even government debt from emerging markets.

If, however, you are willing to take some risk with your capital, you may wish to choose a fund that invests in bonds, which provide a rate of interest higher than is available with cash. Alternatively, there are equity funds that invest in shares of companies and seek to generate income rather than capital growth, aiming to pay out higher than average dividends. Funds that offer a mixture of both shares and bonds are known as managed funds.

### Living up to your expectations

It's also a good idea to check that your funds are living up to your expectations. Don't be too alarmed by short-term disappointments – even the best funds go through difficult patches. However, if your funds are consistently achieving less impressive results than their rivals, it could be time to think about a change.

All funds that invest in shares are subject to the movements of the stock market. A 'passive' fund or 'index tracker' is designed to follow the value of a particular index, such as the FTSE 100. In general, an 'active' fund manager's aim is to reduce risk and generate better returns than the index for long-term investors, through in-depth research and a long-term outlook on companies' development.

### Wider range of underlying investments

You might also want to think about whether the fund is 'aggressive'. This usually means that it invests in fewer companies and is, therefore, potentially more risky than a fund adopting a more cautious approach, which is typically likely to have a wider range of underlying investments. Some funds invest mainly in small companies, which also generally implies that they are higher risk than funds investing in larger, usually more established companies.

In the case of share and bond funds, you will want to think about the focus of the fund. Some funds specialise in, for

example, a geographical area such as North America, or in a particular sector such as technology. You might want to start with a broadly based fund and then, if you are able to invest more over time, you could choose to add more specialised funds to your overall portfolio.

### Diversifying between different types of investment

Mixed funds are funds that diversify between different types of investment, meaning they invest in a mixture of cash, bonds, shares, pooled funds, property and derivatives.

Protected funds are 'protected' or 'guaranteed' to limit losses if the market goes down, or to give you assurance that you will get back at least a certain amount after a specified length of time. It is unlikely that such funds will grow as fast as unprotected funds when the stock market is performing well, as you have to pay for the cost of protection.

Funds that invest only in companies meeting certain 'ethical' criteria are known as socially responsible funds. They avoid, for example, tobacco companies or those that test on animals.

### Investing in a range of funds

Funds of funds and manager of managers are designed to give investors a chance to invest in a range of funds. A fund of funds is where the fund in which you are invested invests in several other funds. A manager of managers chooses several managers to manage different parts of a pool of money.

Money market funds are designed to offer higher returns than a building society account but still have the same level of security. They invest in bank deposits and are generally called 'cash funds'. Some invest in short-term money market securities.

Property funds invest either directly or indirectly in property or property-related assets. A fund that invests directly will buy physical property, such as a shopping centre, in order to generate rental income. A fund that invests indirectly will purchase more liquid assets, such as property derivatives, REITs or shares in a property company.

### Drip-feeding money

You don't have to have a lump sum in order to invest. Regular savings plans allow you to contribute relatively small amounts of money on a monthly basis and build up a capital sum. By drip-feeding money into a fund regularly, you will avoid investing all of your money at the peak of the market, when prices are high. However, you also miss the opportunity to invest at the bottom of the market, when prices are cheaper. ■



“ You don't have to have a lump sum in order to invest. Regular savings plans allow you to contribute relatively small amounts of money on a monthly basis and build up a capital sum. ”

Achieving the right mix of assets should be your first decision and it is a good idea to diversify the types of fund you invest in. No matter what your investment goals are and how much you wish to invest, if you would like us to review your particular situation, please contact us.







# Open-ended investment funds

## Acting in the investors' best interests at all times

Open-ended investment funds are often called collective investment schemes and are run by fund management companies. There are many different types of fund. These include:

- Unit trusts
- OEICs (Open-Ended Investment Companies, which are the same as ICVCs – Investment Companies with Variable Capital)
- SICAV (Société d'Investissement à Capital Variable)
- FCPs (Fonds Communs de Placement)

This list includes certain European funds, which are permitted under European legislation to be sold in the UK.

### Open-ended funds

There are many funds to choose from and some are valued at many millions of pounds. They are called open-ended funds as the number of units (shares) in issue increases as more people invest and decreases as people take their money out.

As an investor, you buy units/shares in the hope that the value rises over time as the prices of the underlying investments increase. The price of the units depends on how the underlying investments perform.

You might also get income from your units through dividends paid by the shares (or income from the bonds, property or cash) that the fund has invested in. You can either invest a lump sum or save regularly each month.

### Different asset classes

Open-ended investment funds generally invest in one or more of the four asset classes – shares, bonds, property and cash. Most invest primarily in shares but a wide range also invest

in bonds. Few invest principally in property or cash deposits. Some funds will spread the investment and have, for example, some holdings in shares and some in bonds. This can be useful if you are only taking out one investment and, remembering that asset allocation is the key to successful investment, you want to spread your investment across different asset classes.

The level of risk will depend on the underlying investments and how well diversified the open-ended investment fund is. Some funds might also invest in derivatives, which may make a fund more risky. However, fund managers often buy derivatives to help offset the risk involved in owning assets or in holding assets valued in other currencies.

### Trustee or depository protection


Any money in an open-ended investment fund is protected by a trustee or depository, who ensures the management company is acting in the investors' best interests at all times.

For income, there is a difference in the tax position between funds investing in shares and those investing in bonds, property and cash. Whichever type of open-ended investment fund you have, you can reinvest the income to provide additional capital growth, but the taxation implications are as if you had received the dividend income.

No capital gains tax (CGT) is paid on the gains made on investments held within the fund. But, when you sell, you may have to pay capital gains tax. ■

Building an effective portfolio involves receiving professional advice to ensure that your portfolio suits your attitude to risk and return. To discuss your requirements, please contact us.





“ The level of risk will depend on the underlying investments and how well diversified the open-ended investment fund is. Some funds might also invest in derivatives, which may make a fund more risky. ”



# Open-ended investment companies

## Expanding and contracting in response to demand

Open-Ended Investment Companies (OEICs) are stock market-quoted collective investment schemes. Like investment trusts and unit trusts they invest in a variety of assets to generate a return for investors. They share certain similarities with both investment trusts and unit trusts but there are also key differences.

### Pooled collective investment vehicle

OEICs are a pooled collective investment vehicle in company form and were introduced as a more flexible alternative to established unit trusts. They may also have an umbrella fund structure allowing for many sub-funds with different investment objectives. This means you can invest for income and growth in the same umbrella fund, moving your money from one sub fund to another as your investment priorities or circumstances change.

By being 'open ended', OEICs can expand and contract in response to demand, just like unit trusts. The share price of an OEIC is the value of all the underlying investments divided by the number of shares in issue. As an open-ended fund, the fund gets bigger and more shares are created as more people invest. The fund shrinks and shares are cancelled as people withdraw their money.

### Share allocation

You may invest into an OEIC through a stocks and shares Individual Savings Account (ISA). Each time you invest in an OEIC fund you will be allocated a number of shares. You can choose either income or accumulation shares, depending on

whether you are looking for your investment to grow or to provide you with income, providing they are available for the fund you want to invest in.

Like unit trusts, OEICs provide a mechanism for investing in a broad selection of shares, thus aiming to reduce the risks of investing in individual shares. Therefore you have an opportunity to share in the growth potential of stock market investment. However, do remember that your capital is not secured and your income is not guaranteed.

### Investment objectives

Each OEIC has its own investment objectives and the fund manager has to invest to achieve these objectives. The fund manager will invest the money on behalf of the shareholders.

The value of your investment will vary according to the total value of the fund, which is determined by the investments the fund manager makes with the fund's money. The price of the shares is based on the value of the investments in which the company has invested. ■

We offer expertise covering a range of different investment products. To discuss your requirements, please contact us.



# Pooled investment schemes

## Investing in one or more asset classes

Investing in funds provides a simple and effective method of diversification. Because your money is pooled together with that of other investors, each fund is large enough to diversify across hundreds and even thousands of individual companies and assets. A pooled (or collective) investment is a fund into which many people put their money, which is then invested in one or more asset classes by a fund manager.

**There are different types of pooled investment but the main ones are:**

- Open-ended investment funds
- Unit trusts
- Investment trusts
- Investment bonds

### Good return for investors

Most pooled investment funds are actively managed. The fund manager researches the market and buys and sells assets to try and provide a good return for investors.

Trackers, on the other hand, are passively managed; they simply aim to track the market in which they are invested. For example, a FTSE100 tracker would aim to replicate the movement of the FTSE100 (the index of the largest 100 UK companies).

Trackers might do this by buying the equivalent proportion of all the shares in the index.

For technical reasons the return is rarely identical to the index, in particular because charges need to be deducted.

### Actively managed fund

Trackers tend to have lower charges than actively managed funds. This is because a fund manager running an actively managed fund is paid to invest so as to do better than the index (to beat the market) or to generate a steadier return for investors than tracking the index would achieve. Of course, the fund manager could make the wrong decisions and under-perform the market. And there is no guarantee that an actively managed fund that performs well in one year will continue to do so. Past performance is no guarantee of future returns.

Trackers do not beat or under-perform the market (except as already noted), but they are not necessarily less risky than actively managed funds invested in the same asset class. Open-ended investment funds and investment trusts can both be trackers. ■

The old maxim 'time in the market, not timing the market' has never been more apt than during the recent turbulence experienced in the financial markets. If you would like to find out more about pooled investment schemes, please contact us for further information.

# Investment trusts

## Reflecting popularity in the market

An investment trust is a company with a set number of shares. Unlike an open-ended investment fund, an investment trust is closed ended. This means there are a set number of shares available, which will remain the same no matter how many investors there are. This can have an impact on the price of the shares and the level of risk of the investment trust. Open-ended investment funds create and cancel units depending on the number of investors.

**The price of the investment trust shares depends on two main factors:**

- the value of the underlying investments (which works in the same way as open-ended investment funds); and
- the popularity of the investment trust shares in the market.

### Closed-ended funds

This second point applies to investment trusts but not to open-ended investment funds or life assurance investments. The reason is because they are closed-ended funds. The laws of economics say that if there is a high demand for something, but limited supply, then the price goes up. So, if you own some investment trust shares and there are lots of people queuing up to buy them, then you can sell them for more money. On the other hand, if nobody seems to want them, then you will have to drop the price until someone is prepared to buy.

The result is that investment trust shares do not simply reflect the value of the underlying investments; they also reflect their popularity in the market. The value of the investment trust's underlying investments is called the 'net asset value' (NAV). If the share price is exactly in line with the underlying investments, then it is called 'trading at par'. If the price is higher because the shares are popular, then it is called 'trading at a premium', and if lower, 'trading at a discount'. This feature may make them more volatile than other pooled investments (assuming the same underlying investments).

### Improving performance

There is another difference that applies to investment trusts; they can borrow money to invest. This is called 'gearing'. Gearing improves an investment trust's performance when its investments are doing well. On the other hand, if its investments do not do as well as expected, gearing lowers performance.

“The laws of economics say that if there is a high demand for something, but limited supply, then the price goes up.”

Not all investment trusts are geared and deciding whether to borrow and when to borrow is a judgement the investment manager makes. An investment trust that is geared is a higher-risk investment than one that is not geared (assuming the same underlying investments).

### Split-capital investment trusts

A split-capital investment trust (split) is a type of investment trust that sells different sorts of shares to investors depending on whether they are looking for capital growth or income. Splits run for a fixed term. The shares will have varying levels of risk, as some investors will be ahead of others in the queue for money when the trust comes to the end of its term.

The tax position is largely the same as for open-ended investment funds. You should be aware that tax legislation changes constantly and you should find out the most current position. ■

There is significant potential for increasing your wealth through investing, but only if your money is invested in the right way. To discuss your individual requirements, please contact us.





# Unit trusts

## Participating in a wider range of investments

Unit trusts are collective investments that allow you to participate in a wider range of investments than can normally be achieved on your own with smaller sums of money. Pooling your money with others also reduces the risk.

A unit trust fund is divided into units, each of which represents a tiny share of the overall portfolio. Each day the portfolio is valued, which determines the value of the units. When the portfolio value rises, the price of the units increases. When the portfolio value goes down, the price of the units falls.

### Investment decisions

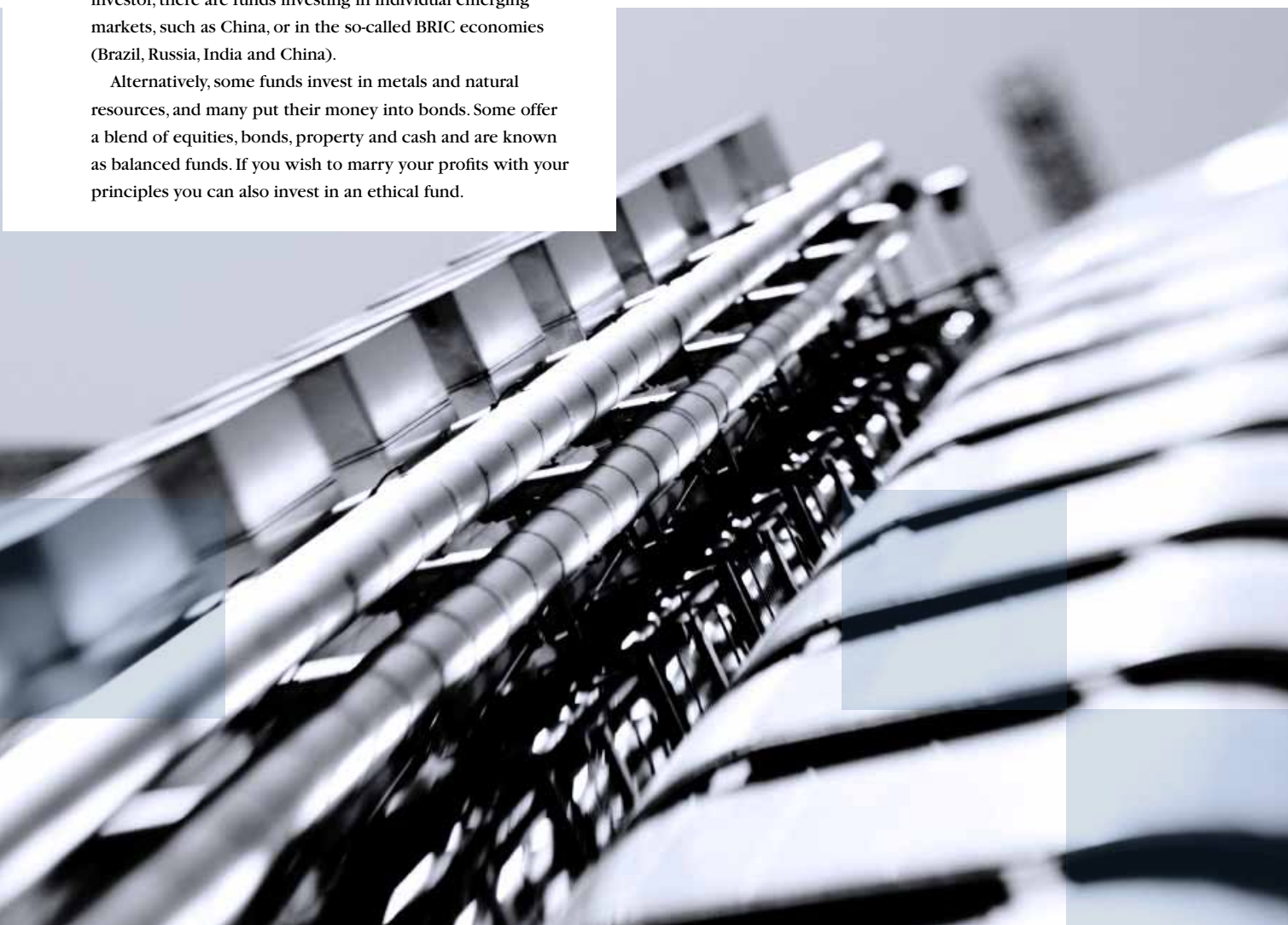
The unit trust is run by a fund manager, or a team of managers, who will make the investment decisions. They invest in stock markets all round the world and, for the more adventurous investor, there are funds investing in individual emerging markets, such as China, or in the so-called BRIC economies (Brazil, Russia, India and China).

Alternatively, some funds invest in metals and natural resources, and many put their money into bonds. Some offer a blend of equities, bonds, property and cash and are known as balanced funds. If you wish to marry your profits with your principles you can also invest in an ethical fund.

### Multi-manager funds

Some funds invest not in shares directly but in a number of other funds. These are known as multi-manager funds. Most fund managers use their own judgement to assemble a portfolio of shares for their funds, which are known as actively managed funds. However, a sizeable minority of funds simply aim to replicate a particular index, such as the FTSE All-Share Index. These are known as passive funds, or trackers. ■

You may choose to spread your investments across a range of unit trusts and have a choice of income and/or growth. To discuss your requirements, please contact us.



# Investment bonds

## A range of funds for the medium- to long-term

Investment bonds are designed to produce medium- to long-term capital growth, but can also be used to give you an income. They also include some life cover. There are other types of investment that have 'bond' in their name (such as guaranteed bonds, offshore bonds and corporate bonds) but these are very different. With an investment bond, you pay a lump sum to a life assurance company and this is invested for you until you cash it in or die.

### Medium- to long-term

Investment bonds are not designed to run for a specific length of time but they should be thought of as medium- to long-term investments, and you'll often need to invest your money for at least five years. There will usually be a charge if you cash in the bond during the first few years.

The bond includes a small amount of life assurance and, on death, will pay out slightly more than the value of the fund. Some investment bonds offer a guarantee that you won't get back less than your original investment but this will cost you more in charges.

### Range of funds

You can usually choose from a range of funds to invest in, for example, UK and overseas shares, fixed interest securities, property and cash. Investment bonds can also offer a way of investing in funds managed by other companies but this may lead to higher charges.

Investment risk can never be eliminated but it is possible to reduce the ups and downs of the stock market by choosing a range of funds to help you avoid putting all your eggs in one basket. Different investment funds behave in different ways and are subject to different risks. Putting your money in a range of different investment funds can help reduce the loss, should one or more of them fall.

### Tax payments

Depending on your circumstances, the overall amount of tax you pay on investment bonds may be higher than on other investments (such as a unit trust, for instance). But there may be other reasons to prefer an investment bond. Or you may want to set up the investment within a trust as part of your inheritance tax planning (but note that you normally lose access to at least some of your money if you do this).

You can normally withdraw up to 5 per cent of the original investment amount each year without any immediate income tax liability. The life assurance company can pay regular withdrawals to you automatically. These withdrawals can therefore provide you with regular payments, with income tax deferred, for up to 20 years. ■

Whether you want to consider a managed fund, or a more focused investment objective utilising a specialist fund, please contact us to discuss your individual requirements.





“ With an investment bond, you pay a lump sum to a life assurance company and this is invested for you until you cash it in or die. ”



# Individual Savings Accounts

## A tax-efficient wrapper surrounding your fund choices

This tax year you can shelter up to £11,280 from tax by investing in an Individual Savings Account (ISA). During his Autumn Statement last December, the Chancellor, George Osborne, announced plans to increase the ISA limit to £11,520 from 6 April this year.

### ISA allowance

Each tax year you have an ISA allowance. For the tax year 2012/2013 (6 April 2012 until 5 April 2013) you can save up to £5,640 in a Cash ISA with the remainder in a Stocks and Shares ISA, or you can invest your full allowance in a Stocks and Shares ISA. You're only permitted to invest with one Cash ISA provider in each tax year and the same, or another, Stocks and Shares ISA provider.

### Make up any unused shortfall

If you haven't already used up your full ISA allowance you can't retrospectively make up any unused shortfall later – it's lost forever. UK residents aged 16 and over can choose to save in a Cash ISA or, if they are 18 or over, a Stocks and Shares ISA or a combination of both. Parents or guardians can also open a Junior ISA for children under 18.

The interest on a Cash ISA isn't taxed, so all the interest you earn you keep. With a Stocks and Shares ISA, all gains are free from capital gains tax (CGT) and you don't need to declare your ISA investments to the taxman.

### ISA options

You can invest in two separate ISAs in any one tax year: a Cash ISA and a Stocks and Shares ISA. This can be with the same or different providers. By using a Stocks and Shares ISA, you invest in longer-term investments such as individual shares or bonds, or pooled investments.

In the current 2012/13 tax year you can invest a total of £11,280 into an ISA if you are a UK resident aged 18 or over. You can save up to £5,640 in a Cash ISA, or up to a maximum of £11,280 in a Stocks and Shares ISA.

For further information about your ISA options, please contact us to discuss your requirements.

### ISA option

#### *Total ISA investment allowed in the tax year 2012/13*

Cash ISA only £5,640 maximum in a Cash ISA

**or**

Stocks & Shares ISA only £11,280 maximum in a Stocks and Shares ISA

**or**

Cash ISA and Stocks & Shares ISA No more than £5,640 in a Cash ISA and the balance in a Stocks and Shares ISA up to a combined total of £11,280

### Tax-efficient matters

ISAs are tax-efficient investments with no income tax on any income taken from the ISA. There is no CGT on any gains within an ISA. Interest paid on uninvested cash within the Stocks and Shares ISA is subject to a 20 per cent HM Revenue & Customs (HMRC) flat rate charge. Interest received in a Cash ISA is tax-free. Dividends from equities are paid with a 10 per cent tax credit which cannot be reclaimed in an ISA but there is no additional tax to pay. You don't have to inform the taxman about income and capital gains from ISA savings and investments.

If you hold bond funds in your ISA, the income generated would be free of income tax. This could be a real benefit if you need to take an income from your investments, perhaps as you near retirement. Even if you don't want to invest in bonds at the moment, you may want to move money from equity funds into bonds in the future, perhaps when you need to take an income from your investments or if you want to reduce the level of risk in your portfolio as you near retirement.

### Transferring your ISA

If you have money saved from a previous tax year, you could transfer some or all of the money from your existing Cash ISA to a Stocks and Shares ISA without this affecting your annual ISA investment allowance. However, once you have transferred your Cash ISA to a Stocks and Shares ISA it is not possible to transfer it back into cash.

ISAs must always be transferred; you can't close the old one and start a new one, otherwise you will lose the tax advantage. If appropriate, you may wish to consider switching an existing Stocks and Shares ISA if you feel the returns are not competitive. But if you have a fixed-rate ISA, you should check whether you may have to pay a penalty when transferring. ■



# Enterprise Investment Schemes

## Attractive tax breaks as part of a diversified investment portfolio

Enterprise Investment Schemes (EISs) are tax-efficient vehicles set up to encourage investment into small, unquoted trading companies. Following the changes announced in various Budgets, the EIS is the only tax-efficient investment offering a capital gains tax (CGT) deferral. CGT on the disposal of other assets can be deferred by reinvesting the proceeds in EIS shares.

An EIS allows income tax relief at 30 per cent on a new equity investment (in qualifying unquoted trading companies) of up to £1m in 2012/13. As long as shares held for at least three years, the sale of the shares at a profit will be CGT-free (a reduction of the current rate of 28 per cent to 0 per cent).

Any size of capital gain made on the disposal of any kind of asset can be 'deferred' by re-investment into EIS-compliant companies. The deferred gain is then due on the sale of the EIS shares unless the sale is to a spouse or on the death of the shareholder.

Investments in EIS-compliant shares can attract Inheritance Tax business property relief (BPR) equal to 100 per cent of the investment value on gifting or on death.

### Tax-free growth

EIS funds fall into two distinct camps: those that wind up after the three years required for investments to be held to qualify (known as 'planned exit EISs') and those that carry on until investors agree that a wind-up makes commercial sense. For EIS funds and portfolios, the manager may not be able to invest as quickly as hoped. This may reduce the return on your investment, and the investment may lose its EIS status or tax relief may be delayed.

Investments in smaller companies will generally not be publicly traded or freely marketable and may therefore be difficult to sell. There will be a big difference between the buying price and the selling price of these investments. The price may change quickly and it may go down as well as up.

### Wealthier investors

Investing in an EIS is at the top end of the risk scale, but in return you receive attractive tax breaks. As high-risk investments, EISs may only be suitable for wealthier investors as part of a diversified investment portfolio. The past performance of an EIS is not a reliable indicator of future results and you should not subscribe to an EIS unless you have taken appropriate professional advice.

If you are an income-seeker and want to discuss the investment products and services we offer, please contact us for further information.



# Offshore investments



## Utilising tax deferral benefits to minimise tax liabilities

For the appropriate investor looking to achieve capital security, growth or income, there are a number of advantages to investing offshore, particularly with regard to utilising the tax deferral benefits. You can defer paying tax for the lifetime of the investment, so your investment rolls up without tax being deducted, but you still have to pay tax at your highest rate when you cash the investment in. As a result, with careful planning, a variety of savers could put offshore investments to good use.

### Financial centres

The investment vehicles are situated in financial centres located outside the United Kingdom and can add greater diversification to your existing portfolio. Cash can also be held offshore in deposit accounts, providing you with the choice about when you repatriate your money to the UK, perhaps to add to a retirement fund or to gift to children or grandchildren. Those who work overseas or have moved abroad to enjoy a different lifestyle often want to pay as little tax as is legally possible.

### Tax deferral

Many offshore funds offer tax deferral. The different types of investment vehicles available offshore include offshore bonds that allow the investor to defer tax within the policy until benefits are taken, rather than be subject to a basic rate tax liability within the underlying funds. This means that, if you are a higher rate tax payer in the UK, you could wait until your tax status changes before bringing your funds (and the gains) back into the UK.

The wide choice of different investment types available include offshore redemption policies, personalised policies, offshore unit trusts and OEICs. You may also choose to have access to investments or savings denominated in another currency.

### Moving abroad

Many banks, insurance companies and asset managers in offshore centres are subsidiaries of major UK, US and European institutions. If you decide to move abroad, you may not pay any tax at all when you cash-in an offshore investment, although this depends on the rules of your new country.

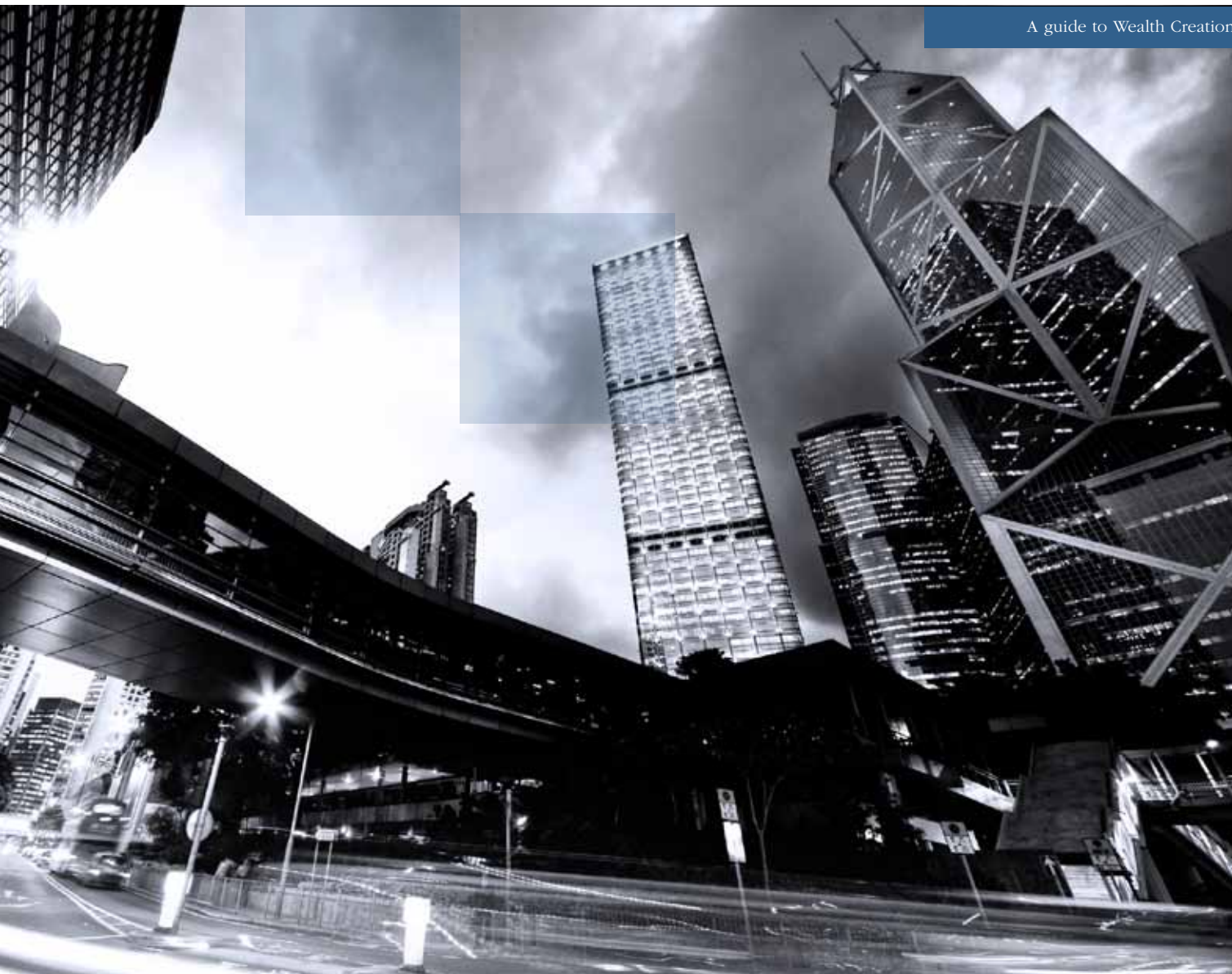
Regarding savings and taxation, what applies to you in your specific circumstances is generally determined by the UK tax regulations and whatever tax treaties exist between the UK and your host country. The UK has negotiated treaties with most countries so that UK expats in those countries are not taxed twice. Basically, if a non-domiciled UK resident is employed by a non-UK resident employer and performs all of their duties outside the UK, the income arising is only subject to UK tax if it is received in or remitted to the UK.

### Understanding each jurisdiction

Investor compensation schemes tend not to be as developed as in the UK, so you should always obtain professional advice to ensure that you fully understand each jurisdiction. It is also important to ensure that you are investing in an offshore investment that is appropriate for the level of risk you wish to take.

If you are an expatriate you should make sure that you are aware of all the investment opportunities available to you and that you are minimising your tax liability. Investing money offshore is a very complex area of financial planning and you should always obtain professional advice. Currency movements can also affect the value of an offshore investment. ■

Any potential investor unsure of their tax position is recommended to take professional advice before investing. For further information, or to consider if investing offshore could be appropriate to your particular investment objectives, please contact us.



# Venture Capital Trusts

## Wealthier investors taking a long-term view

A Venture Capital Trust (VCT) is a company whose shares trade on the London stock market. A VCT aims to make money by investing in other companies. These are typically very small companies that are looking for further investment to help develop their business. The VCT often invests at an early stage in a company's development, so it is a higher risk investment. This means that the VCTs are aimed at wealthier investors who can afford to take a long-term view and accept falls in the value of their investment.

### Attractive tax benefits

VCTs also offer some attractive tax benefits. If you are a tax payer, you will receive a tax rebate of up to 30 per cent when investing in a VCT. The initial investment, up to a maximum of £200,000 per person per annum, attracts 30 per cent provided it is held for at least five years.

You need to be aware that this is a tax rebate and restricted

to the amount of income tax you pay; tax deducted at source on dividends is not eligible. This rebate is only available when you invest in a new issue of shares in a VCT or a top-up, but it's worth noting that if you buy VCTs on the secondary market in the same tax year these count towards the £200,000 allowance, despite the fact you don't receive the income tax incentive.

### Tax-free dividends

Capital gains and dividends are also tax-free when you eventually dispose of a VCT, although there is no relief for capital losses. By buying shares in an existing VCT quoted on the stock market you become eligible for a capital gains tax exemption and benefit from tax-free dividends as they are paid. However, to obtain the 30 per cent tax relief against income tax you must buy shares in a VCT via a new subscription.

VCTs invest in unquoted business, so they are high risk and they can be illiquid, and management costs can also be high. ■



# Investing for income

## Safeguarding your money at a time of low interest rates

During these economic times, one of the tools available to the Bank of England to stimulate the economy is interest rates. Lower interest rates mean that it is cheaper to borrow money and people have more to spend, hopefully stimulating the economy and reducing the risk of deflation. This is why the Bank of England has aggressively cut them.

If you are an income-seeker, much will come down to your attitude to risk for return. If you want no or very low risk, you may wish to consider a traditional cash bank account and accept that income levels are likely to remain low for the foreseeable future. However, if you're further up the risk scale you may wish to opt for some of these other alternatives.

### Gilts

If you're willing to take on a slightly higher degree of risk and you need the extra income, you may wish to consider gilts (or gilt-edged stocks), which are bonds issued by the government and pay a fixed rate of interest twice a year. Gilts involve more risk than cash, because there's a chance the government won't be able to pay you back. It's highly unusual for a government to default on a debt or default on the interest payments, so they have been considered safe. But in this current economic climate, this risk increases.

You are not guaranteed to get all your capital back under all circumstances. Not all gilts are bought from the government and held to maturity; some are bought and sold along the way, so there's a chance for their value, and the value of gilt funds, to rise and fall. There are other types, such as index-linked gilts, which form the largest part of the gilt portfolio after conventional gilts. Here the coupon is related to movements in the Retail Prices Index (RPI) and is linked to inflation.

### Corporate bonds

Next along the risk scale if you are looking for a higher yield are corporate bonds. These are issued by companies and have features that are exactly the same as gilts except that, instead of lending money to the government, you're lending to a company. The risk lies in the fact that companies may go bust and the debt may not be repaid. They have a nominal value (usually £100), which is the amount that will be returned to the investor on a stated future date (the redemption date). They

also pay a stated interest rate each year, usually fixed. The value of the bonds themselves can rise and fall; however, the fact that bonds are riskier at the moment means companies are paying more in order to induce people to buy their debt. There are an increasing number of global bond funds entering the market that may enable you to get value from a lot of different markets.

### Equity income

If your primary objective is the preservation of income, you may not consider the stock market as the obvious place for your money. However, for investors who are prepared to see their investments fluctuate in value while hopefully providing a stable income that grows over time, you may wish to consider equity income funds. These invest in shares, focusing on the big blue-chip firms that have a track record of good dividend payments. The dividends will be your income.

### Global equity income funds

Further up the risk scale are global equity income funds. These are similar to UK funds, except that there are only a handful of the big blue-chip firms that pay reliable dividends in the UK, whereas global diversification offers a significant range of companies to choose from. Investing in other currencies brings an added level of risk, unless the fund hedges the currency.

### Equity income investment trusts

Equity income investment trusts are higher risk but similar to other equity income investments. They are structured differently from unit trusts and open-ended investment companies. Investment trusts are closed-ended. They are structured as companies with a limited number of shares. The share price of the fund moves up and down depending on the level of demand, so the price of the trust depends not only on the value of the underlying investments but also on the popularity of the trust itself. In difficult times, when investors are selling up, trusts are likely to see their share price fall more than the value of their underlying investments. This means they also have more potential for greater returns once better times resume. Investment trust share prices are therefore often at a 'discount', or 'premium' to the value of the assets in the fund. ■



# Socially responsible investing

## Not sacrificing your life principles in exchange for chasing the best financial returns

For investors concerned about global warming and other environmental issues, there are a plethora of ethical investments that cover a multitude of different strategies. The terms 'ethical investment' and 'socially responsible investment' (SRI) are often used interchangeably to mean an approach to selecting investments whereby the usual investment criteria are overlaid with an additional set of ethical or socially responsible criteria.

### Ethical criteria

The Ethical Investment Research Service (EIRIS) defines an ethical fund as 'any fund which decides that shares are acceptable, or not, according to positive or negative ethical criteria (including environmental criteria).'

Funds that use negative screening, known as dark green funds, exclude companies that are involved in activities that the fund manager regards as unethical. Each fund group has a slightly different definition of what is unethical, but this typically includes gambling, tobacco, alcohol and arms manufacturing. It could also cover pollution of the environment, bank lending to corrupt regimes and testing of products on animals.

### Positive screening funds

Positive screening funds use positive criteria to select suitable companies. Funds that take this approach look for companies that are doing positive good, such as those engaged in recycling, alternative energy sources or water purification. So an ethical fund of this type might buy shares in a maker of wind turbines or solar panels.

### Engagement funds

Engagement funds take a stake in companies and then use that stake as a lever to press for changes in the way that the company operates. This could mean persuading oil and mining companies to take greater care over the environmental impact of their operations or pressing companies to offer better treatment of their workers.

In addition, this process may involve making judgements regarding the extent to which such investments are perceived to be acceptable, and about the potential for improving through engagement the ethical performance of the party offering the investment.

### Best financial returns

Ethical investors will believe that they should not (or need not) sacrifice their life principles in exchange for chasing the best financial returns, with some arguing that in the long term, ethical and SRI funds have good prospects for out-performing the general investment sectors.

Since ethical investment, by definition, reduces the number of shares, securities or funds in which you can invest, it tends to increase the volatility of the portfolio and therefore the risk profile. This can be mitigated by diversifying between funds, and between different styles of funds and fund managers. Like their non-ethical equivalents, some ethical funds are much higher risk than others. ■

To find out more or to discuss your ethical options, please contact us.



# Taxation matters

## Different investments have different tax treatment

If you or your partner is a non-taxpayer, make sure you are not paying unnecessary tax on bank and savings accounts. Avoid the automatic 20 per cent tax deduction on interest by completing form R85 from your bank or product provider or reclaim it using form R40 from HM Revenue & Customs.

### Individual Savings Accounts (ISAs)

You pay no personal income tax or capital gains tax on any growth in an ISA, or when you take your money out. You can save up to £11,280 per person in the 2012/13 tax year in an ISA.

If you invest in a Stocks and Shares ISA, any dividends you receive are paid net, with a 10 per cent tax credit. There is no further tax liability.

The impact of taxation (and any tax reliefs) depends on individual circumstances. Information about tax rules is based upon our current understanding and is liable to change in the future.

### Consider National Savings and Investments

You can shelter money in a tax-efficient way within this government-backed savings institution.

### Unit Trusts and Open Ended Investment Companies (OEICs)

With a Unit Trust or OEIC your money is pooled with other investor's money and can be invested in a range of sectors and assets such as stocks and shares, bonds or property.

### Dividend income from OEICs and unit trusts invested in shares

If your fund is invested in shares then any dividend income that is paid to you (or accumulated within the fund if it is reinvested) carries a 10 per cent tax credit. If you are a basic rate or non taxpayer, there is no further income tax liability. Higher rate taxpayers have a total liability of 32.5 per cent on dividend income and the tax credit reduces this to 22.5 per cent, while the additional rate taxpayers have a total liability of 42.5 per cent reduced to 32.5 per cent after tax credit is applied.

### Interest from fixed interest funds

Any interest paid out from fixed interest funds (these are funds that invest for example in corporate bonds and gilts, or cash) is treated differently to income from funds invested in shares. Income is paid net of 20 per cent tax.

### Capital gains tax

No capital gains tax is paid on the growth in your money from the investments held within the fund, but when you sell, you may have to pay capital gains tax.

Bear in mind that you have a personal capital gains tax allowance that can help you limit any potential tax liability. After 23 June 2010 the rate of tax that applies on any gain over your allowance is either 18 per cent or 28 per cent depending on your taxable income.

### Accumulated income

Accumulated income is interest or dividend payments which are not taken but instead reinvested into your fund. Even though they are reinvested they still count as income and are subject to the same tax rules as for dividend income and interest.

### Onshore investment bonds

Investment bonds have a different tax treatment from other investments. This can lead to some valuable tax planning opportunities for individuals. There is no personal liability to capital gains tax or basic rate income tax on proceeds from your bonds. This is because the fund itself is subject to tax, equivalent to basic rate tax.

You can withdraw up to 5 per cent each year of the amount you have paid into your bond without paying any immediate tax on it. This allowance is cumulative so any unused part of this 5 per cent limit can be carried forward to future years (although the total cannot be greater than 100 per cent of the amount paid in).

If you are a higher or additional rate taxpayer now but know that you will become a basic rate taxpayer later (perhaps when you retire for example) then you might consider deferring any withdrawal from the bond (in excess of the accumulated 5 per cent allowances) until that time. If you do this, you will not need to pay tax on any gains from your bond.

Taxpayer	Interest paid net of tax	Reclaim Tax	Further payment required
Non taxpayer	20%	Yes, you can reclaim the 20% tax paid.	No
Basic rate taxpayer	20%	No you cannot reclaim the tax.	No
Higher rate taxpayer	20%	No you cannot reclaim the tax.	Yes, a further 20% tax payment required.
Additional rate taxpayer	20%	No you cannot reclaim the tax.	Yes, a further 30% tax payment required.

Certain events during the lifetime of your bond may trigger a potential income tax liability:

- Death
- Some transfers of legal ownership of part or all of the bond
- On the maturity of the bond (except whole of life policies)
- On full or final cashing in of your bond

If you withdraw more than the cumulative 5 per cent annual allowance, a tax liability is calculated on the amount withdrawn above the 5 per cent.

If you are a higher or additional rate taxpayer or the profit (gain) from your bond takes you into a higher or additional rate tax position as a result of any of the above events then you may have an income tax liability.

As you are presumed to have paid basic rate tax, the amount you would be liable for is the difference between the basic rate and higher or additional rate tax. The events may also affect your eligibility for certain tax credits.

Life assurance bonds held by UK corporate bonds fall under different legislation. Corporate investors cannot withdraw 5 per cent of their investment and defer the tax on this until the bond ends.

## Offshore investment bonds

Offshore investment bonds are similar to UK investment bonds above but there is one main difference.

With an onshore bond tax is payable on gains made by the underlying investment, whereas with an offshore bond no income or capital gains tax is payable on the underlying investment. However, there may be an element of withholding tax that cannot be recovered.

The lack of tax on the underlying investment means that potentially it can grow faster than one that is taxed. Note that tax may be payable on a chargeable event at a basic, higher or additional rate tax as appropriate.

Remember that the value of your fund for both onshore and offshore bonds can fluctuate and you may not get back your original investment.

Offshore is a common term that is used to describe a range of locations where companies can offer customers growth on their funds that is largely free from tax. This includes “true offshore” locations such as the Channel Islands and Isle of Man, and other locations such as Dublin. Tax treatment can vary from one type of investment to another and from one market to another.

## UK shares and taxation

If you own shares directly in a company you may be liable to tax.

### Dividends

Any income (dividends) you receive from your shares carries a 10 per cent tax credit. Higher rate taxpayers have a total liability of 32.5 per cent on dividend income and the tax credit reduces this to 22.5 per cent, while the 50 per cent additional rate taxpayers have a total liability of 42.5 per cent reduced to 32.5 per cent after tax credit is applied.

### Sales of shares

When you sell shares you may be liable to capital gains tax on any gains you may make. You have a yearly allowance, above which any gains are liable to 18 per cent tax. Special rules apply to working out your gains or losses.

## Make the most of your personal income allowances

If you have a non-earning spouse, or civil partner, you can switch income-earning investments to help your tax bill. Everyone up to age 65 has a personal allowance of £8,105 in the 2012/13 tax year, rising to £10,500 between the ages of 65 and 74 and £10,660 at 75 and over. This means you can earn this amount without paying tax.

## Use capital gains tax allowances wisely

Everyone can make up to a certain amount of profit each year from selling an investment or property without paying tax. Think about switching investments to a spouse's or registered civil partner's name to take advantage of both of your allowances. ■



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