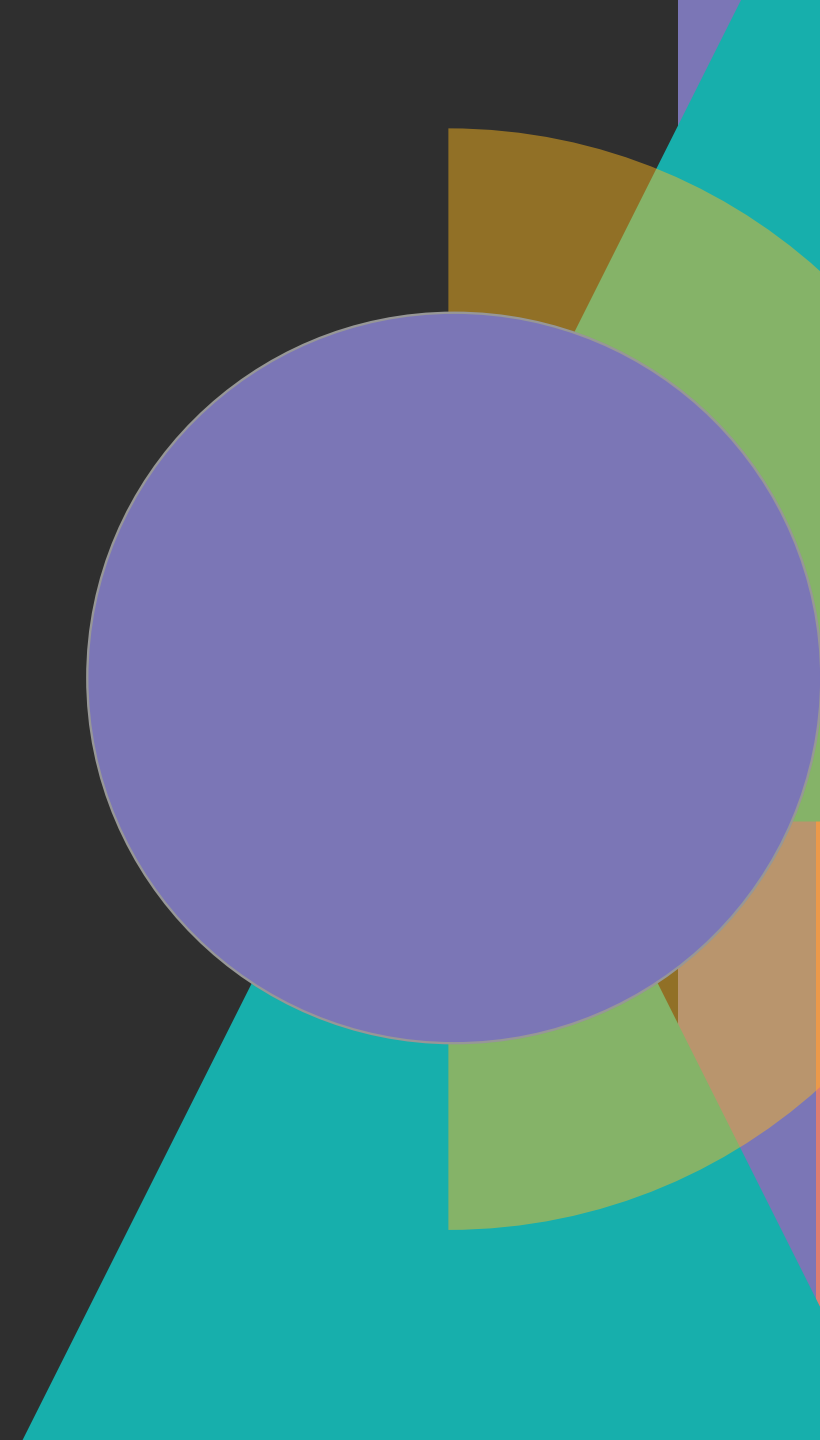


# Direct Investors

Pause for thought at tax year end?



This content is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice. The impact of any taxation (and any tax reliefs) depends on individual circumstances.

Where content includes case studies or examples these are for illustration purposes and are not recommending a specific course of action.

Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up and your client may get back less than they've paid in.

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# Learning Objectives

By the end of this session, you will be able to:

Describe the Income Tax and Capital Gains Tax treatment of directly held investments

Evaluate the benefits of holding investments indirectly through an insurance bond wrapper



# Tax Landscape

# Devolved Taxation

## Belfast

No income tax powers

## Cardiff

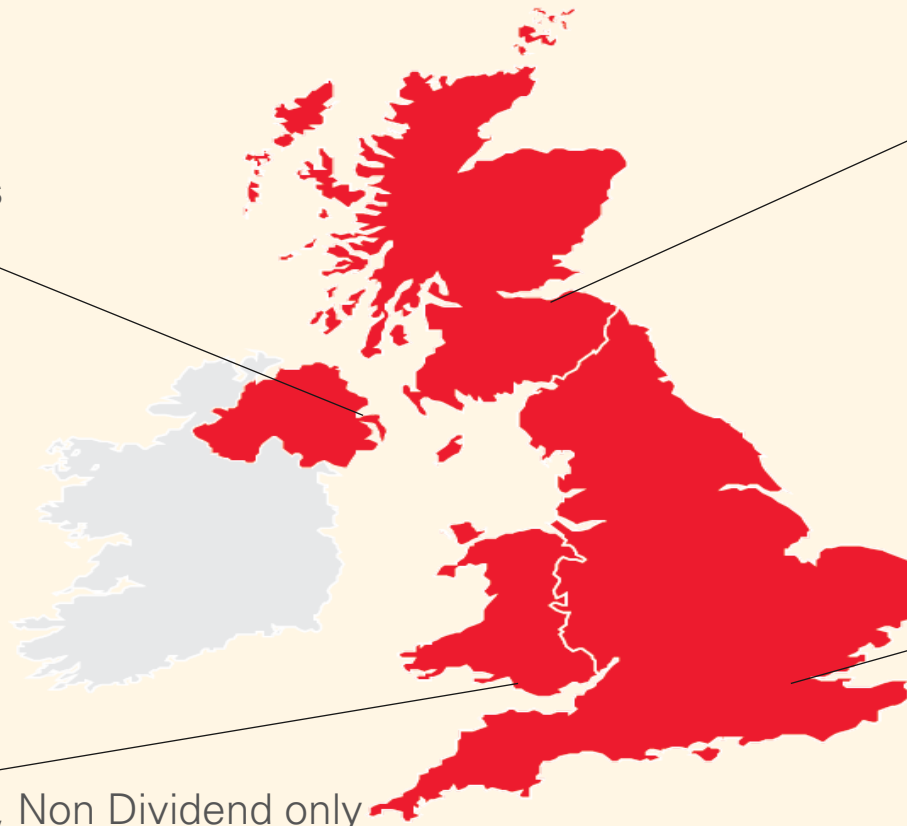
Non savings, Non Dividend only  
(Rates only)

## Edinburgh

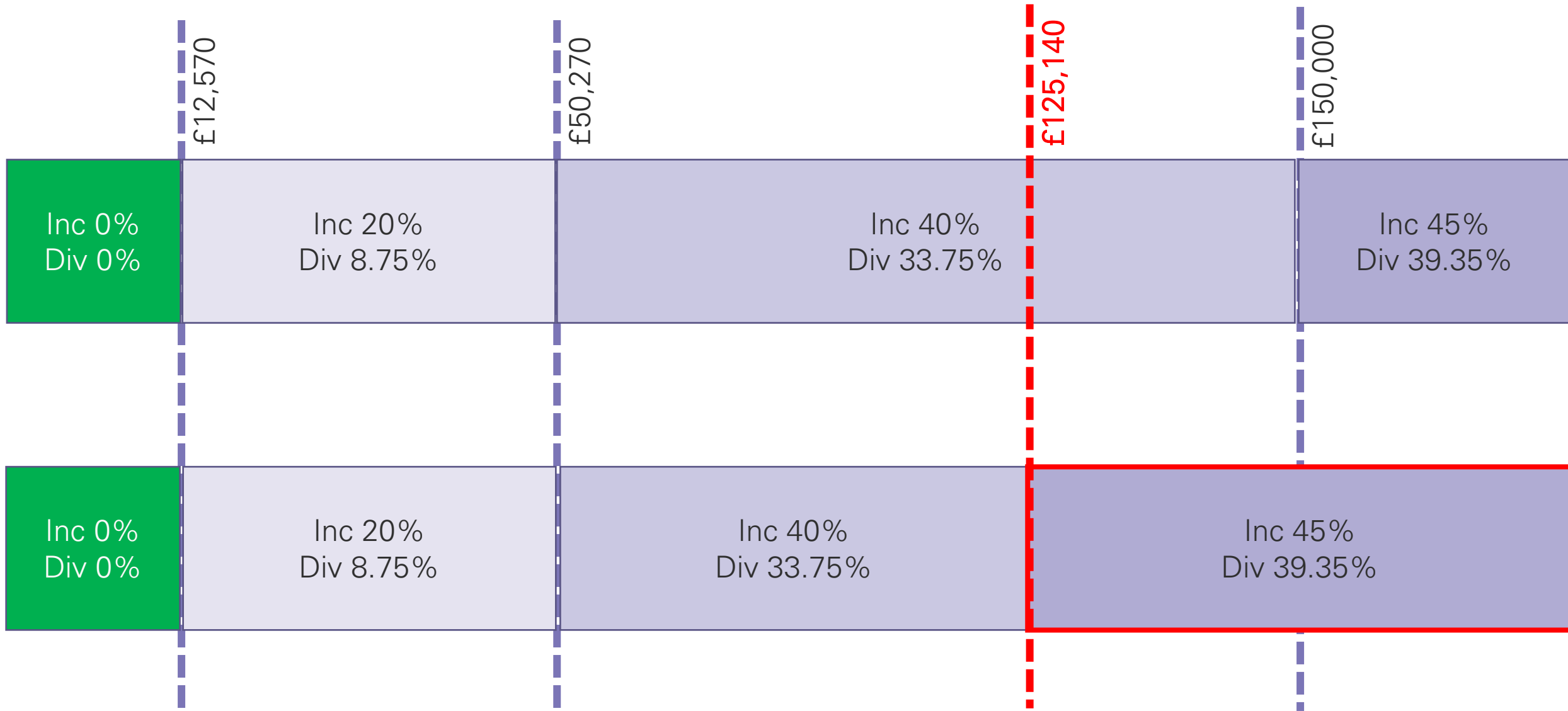
Non savings, Non Dividend only  
(Rates & Bands)

## London

Non savings, Non Dividend (Eng & NI)  
Savings  
Dividends  
Allowances (tax traps)  
National Insurance  
Capital Gains Tax  
Corporation Tax



# Rates and Bands



# 0%<sup>s</sup>

## 2022/23

## 2023/24

## 2024/25

**ANNUAL EXEMPT AMOUNT**  
Capital gains only

£12,300

£6,000

£3,000

**DIVIDEND NIL RATE**  
Dividends only

£2,000

£1,000

£500

**SAVINGS STARTING RATE /  
PERSONAL SAVINGS ALLOWANCE**  
Interest and Bond Gains

£5,000  
£1,000 / £500

£5,000  
£1,000 / £500

£5,000  
£1,000 / £500

**PERSONAL ALLOWANCE**  
Interest, Dividends and Bond Gains

£12,570

£12,570

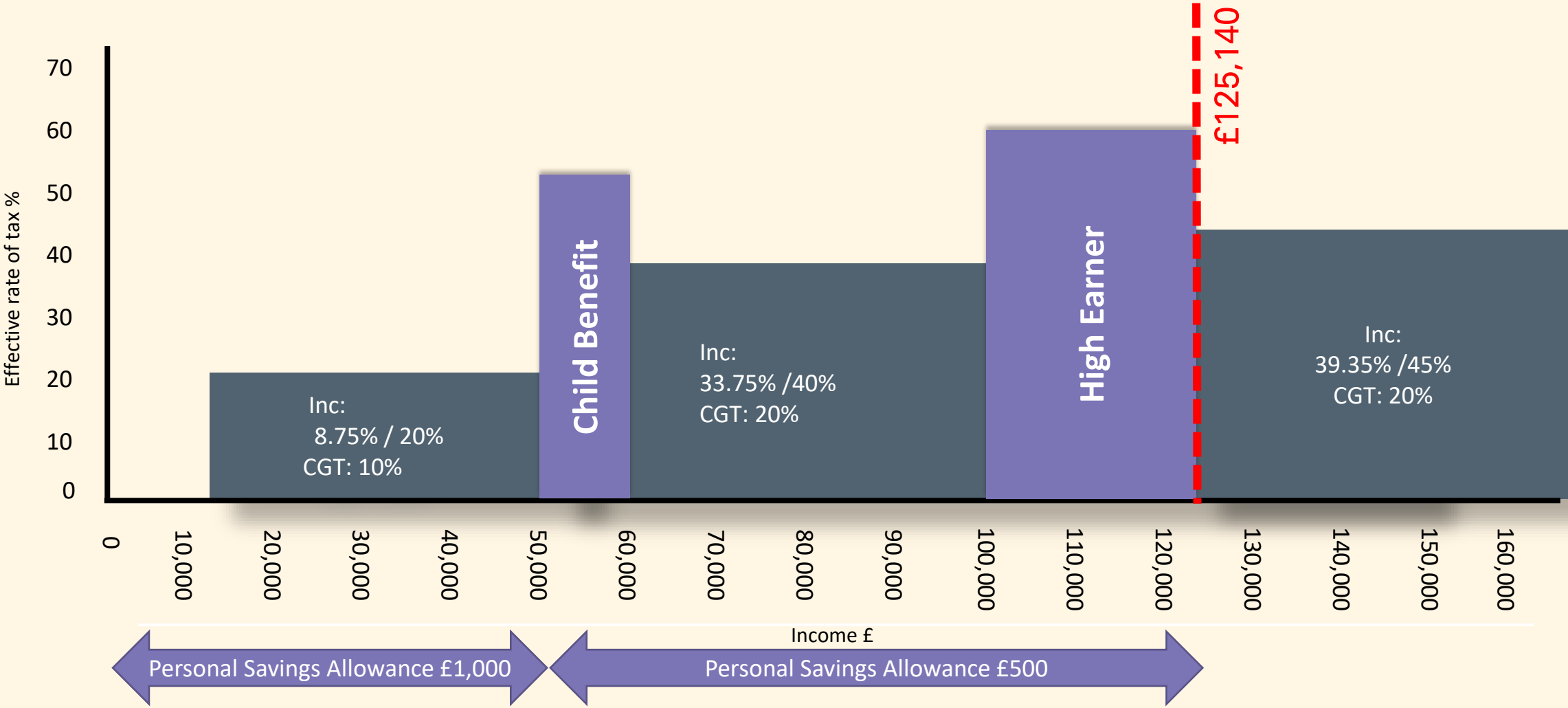
£12,570

£32,870  
+ Original Capital

£25,570  
+ Original Capital

£22,070  
+ Original Capital

# UK Income Tax Landscape



The full amount of bond gains and interest and dividends are included at Step 1 of the UK income tax computation.



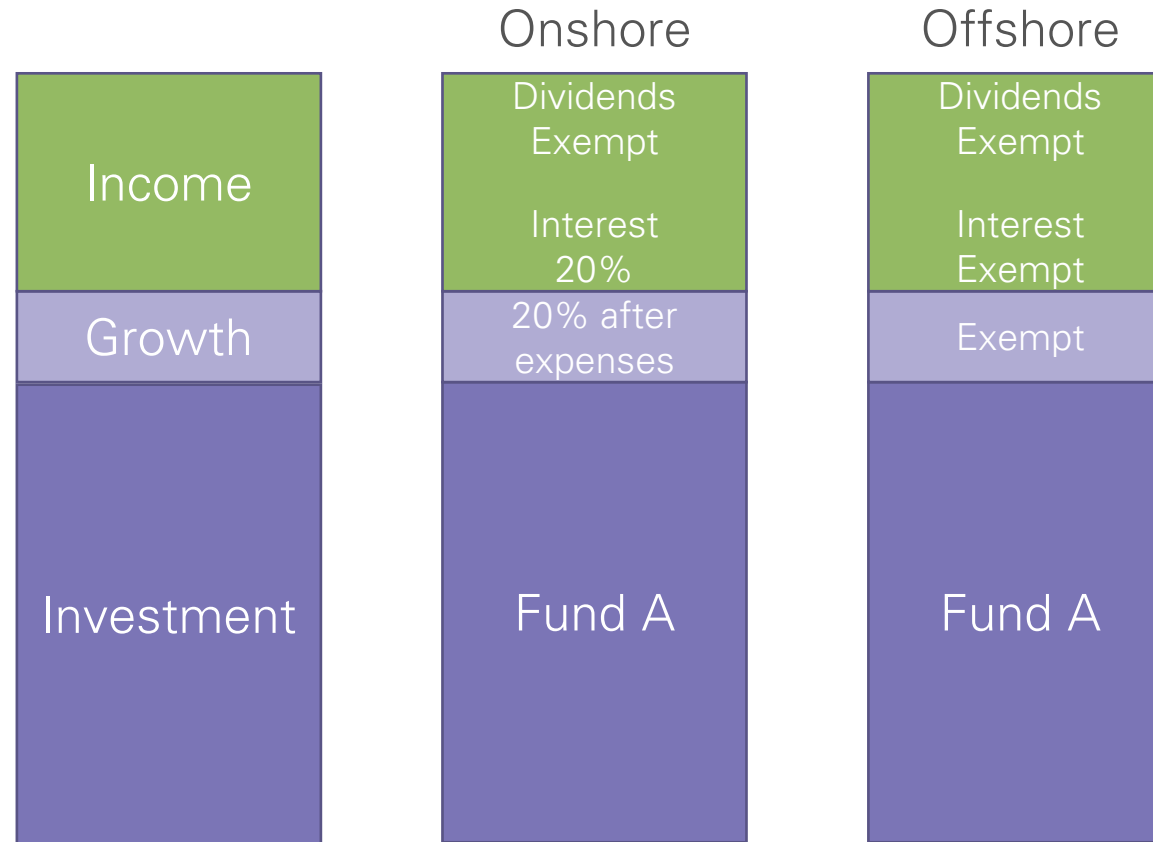
# Wrappers

	Entry	Journey	Exit
PENSION	E	E	T <sub>E</sub>
OEIC	T	E <sub>T</sub>	E <sub>T</sub>
BONDS:			
ONSHORE	T	T	E <sub>T</sub>
OFFSHORE	T	E	E <sub>T</sub>
ISA	T <sub>E</sub>	E	E <sub>T</sub>

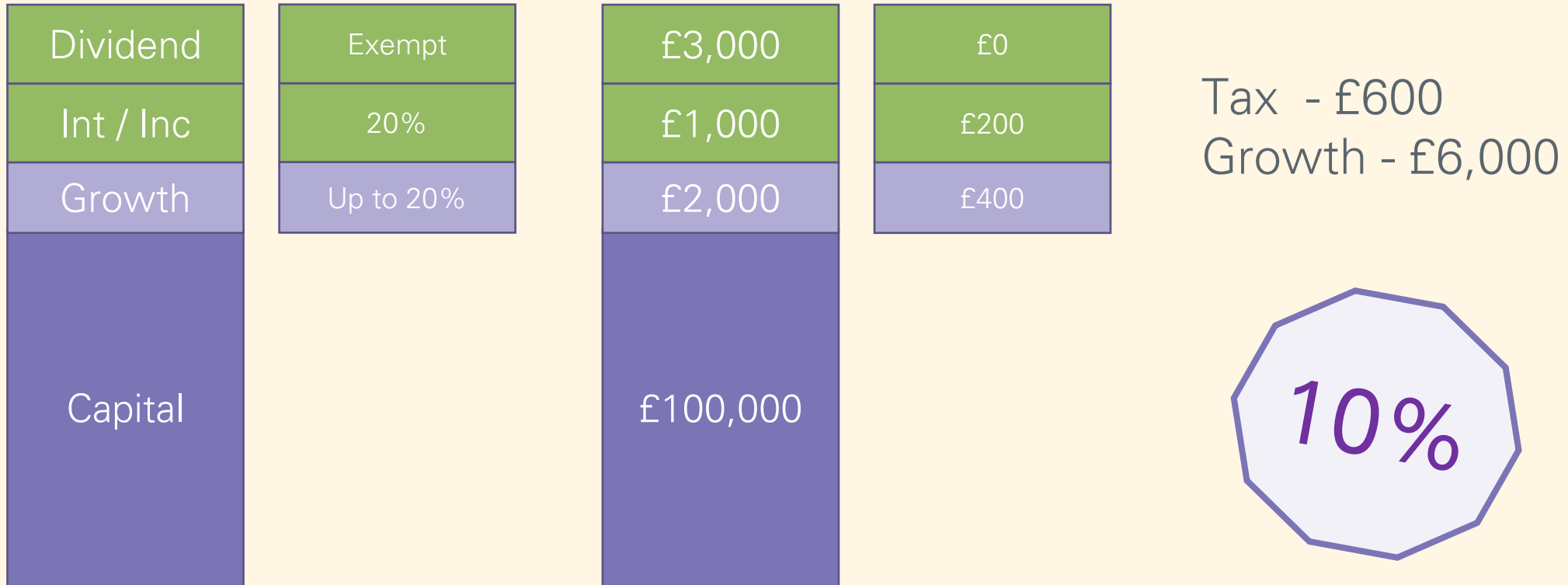


# Bond tax for individuals

# Internal Bond Taxation

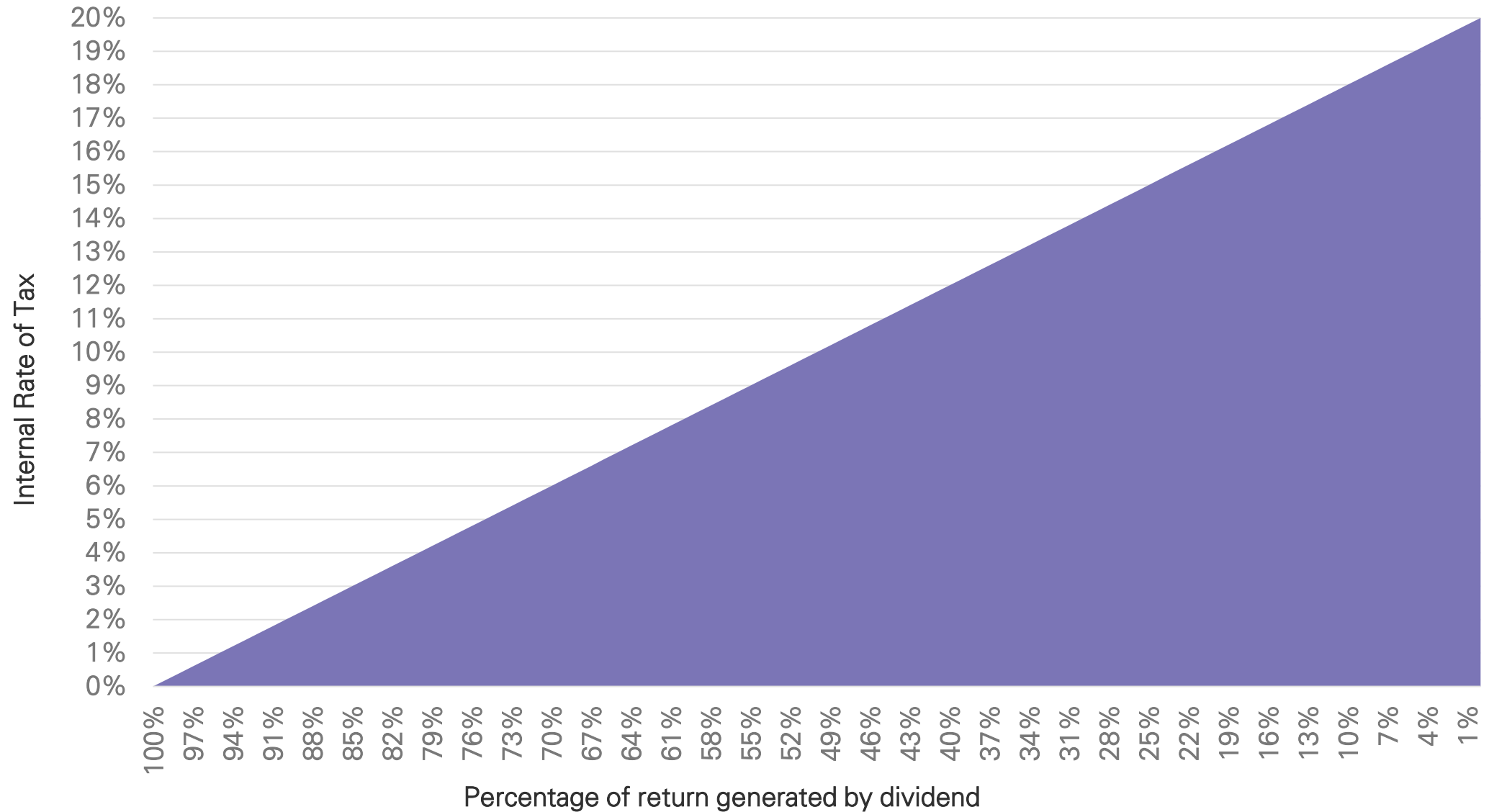


# Onshore Bond Internal Taxation

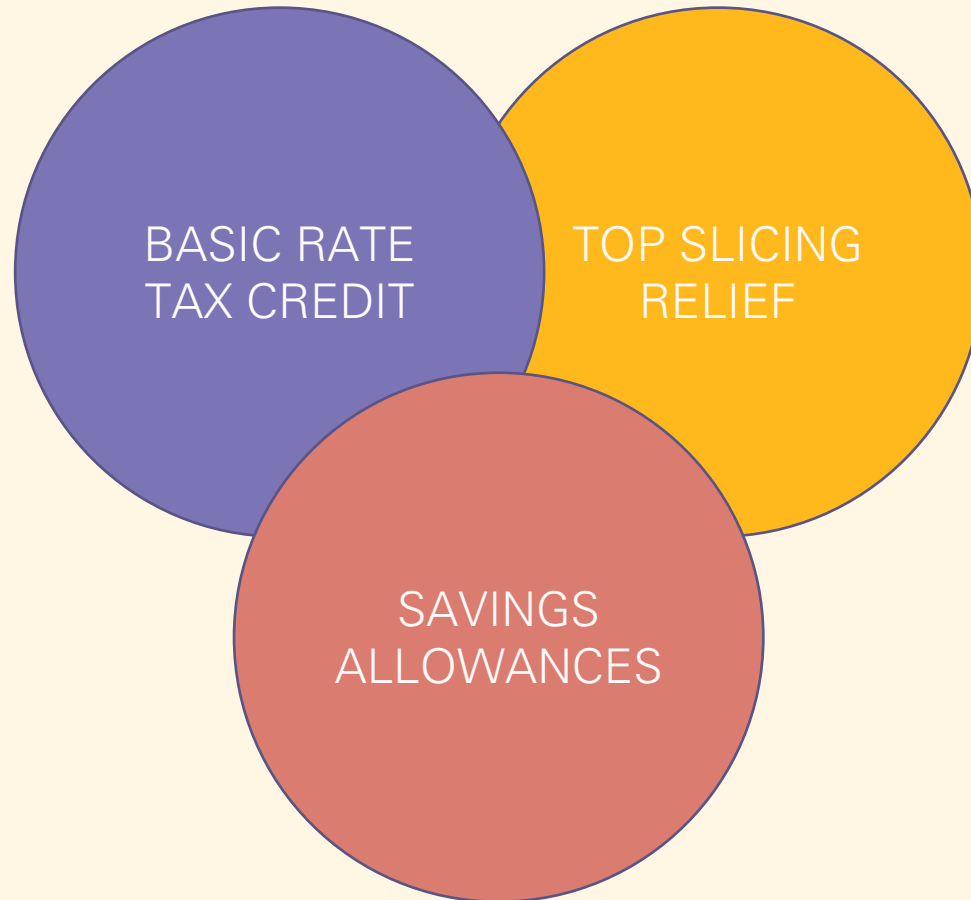




# Onshore Internal Tax Rate (by dividend component)



# The holy trinity

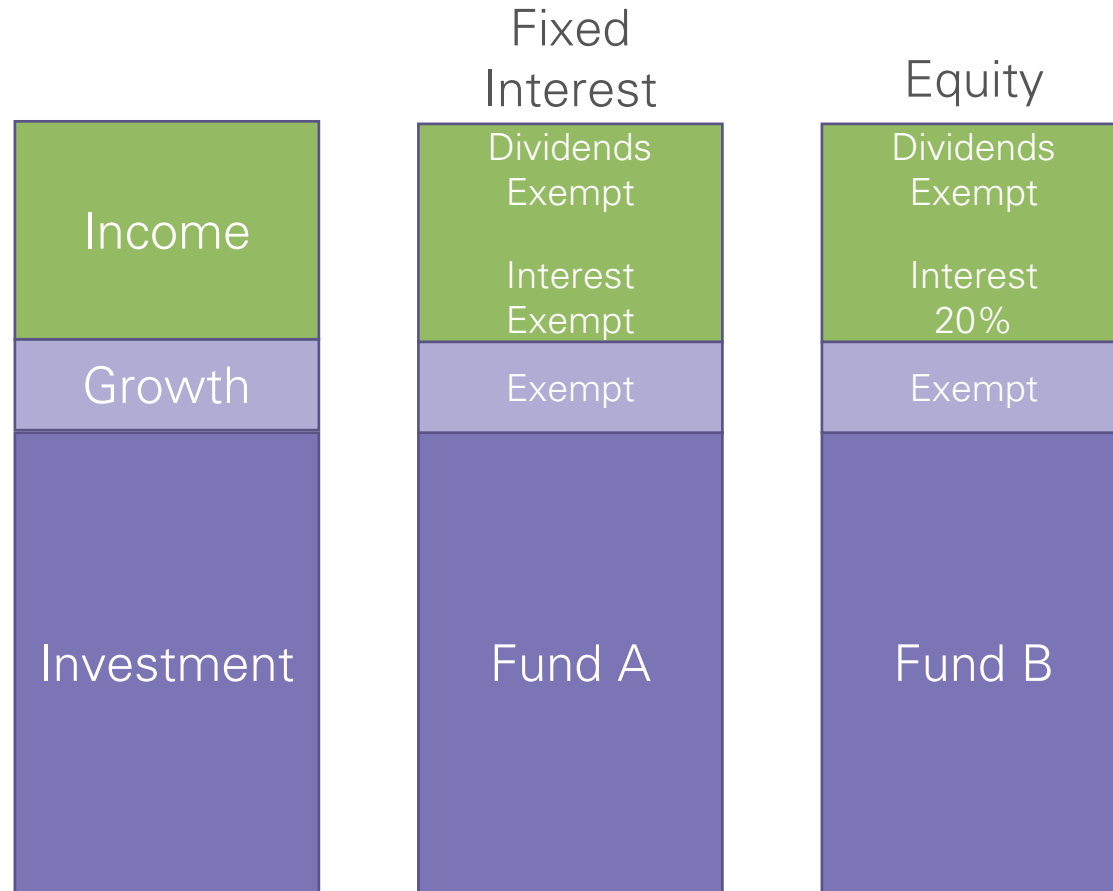


NO  
FURTHER  
TAX?



# OEIC tax for individuals

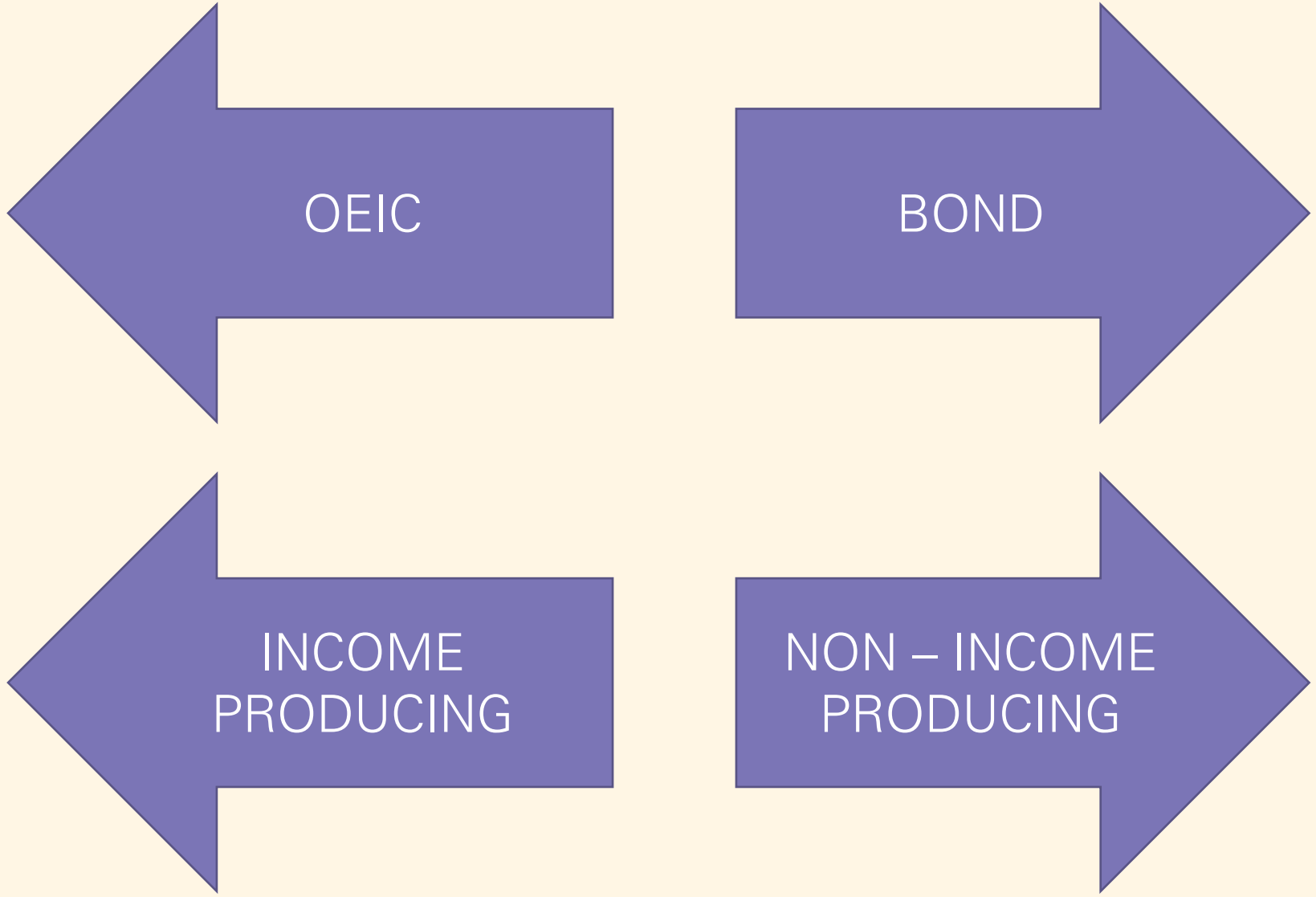
# Internal OEIC Taxation







# The tax spectrum



# Passing on ...

Gifted to	OEIC	BOND
Spouse / Civil Partner	No Gain No loss	No Chargeable Event
Children	Disposal	No Chargeable Event
Trust	Disposal (holdover relief may be available)	No Chargeable Event
On death	Gain dies with you	Potential chargeable event

# Income on

## HMRC internal manual **Investment Funds Manual**

From: [HM Revenue & Customs](#)  
Published: 5 July 2019  
Updated: 12 September 2019, [see all updates](#)

Search this manual

[Contents](#) > [IFM02000](#) > [IFM02200](#) > [IFM02220](#)

### **Authorised investment funds (AIFs): distributions and unit classes**

#### **Distribution**

In each distribution period an AIF must distribute the total amount available for distribution shown in the accounts as available for distribution to investors in proportion with their rights. For this purpose a distribution includes an amount credited to the capital part of the scheme property of an AIF on behalf of an investor who holds accumulation units (see regulation 15 of SI2006/964).



# CGT Case Study – part 1

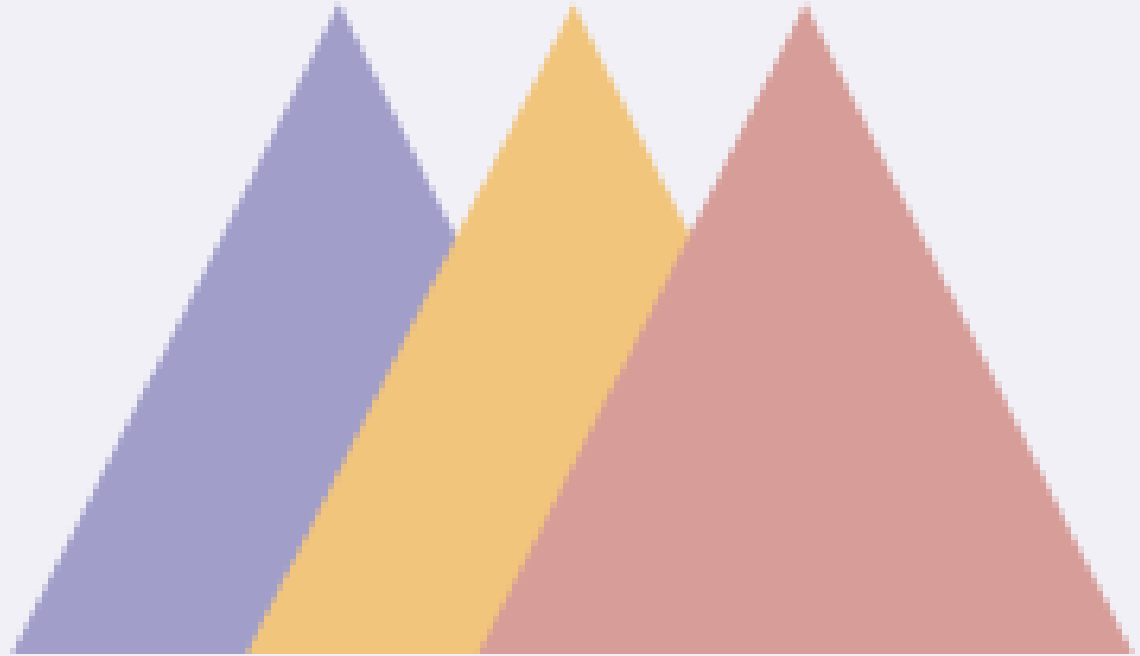
In 2006, Sarah purchased 10,000 shares @ £2.50 each in an OEIC fund.

In 2012, she purchased a further 5,000 shares in the same fund @ £4 each.

Current share price is now £5.05.

She sells 6,000 shares from her 15,000 share portfolio.

**What is the gain?**



# Calculating Sarah's Capital Gain

Encashing OEIC shares	£
Proceeds	X
Less incidental disposal costs	(X)
Less acquisition cost	(X)
Less incidental acquisition costs	<u>(X)</u>
Chargeable gain / (allowable loss)	<u>X</u>

# Calculating Sarah's Capital Gain

Encashing OEIC shares	£
Proceeds	X
Less incidental disposal costs	(X)
Less acquisition cost	(X)
Less incidental acquisition costs	<u>(X)</u>
Chargeable gain / (allowable loss)	<u>X</u>

# CG51560 – Share identification rules

HMRC internal manual

## Capital Gains Manual

### **Share identification rules for capital gains tax from 6.4.2008: outline**

Share pooling was reintroduced for disposals on or after 6 April 2008 for those within the charge to Capital Gains Tax. Shares of the same class in the same company acquired at any time by a person in the same capacity will normally become part of the Section 104 holding. The Section 104 holding is simply the share pool. However, shares that are identified with acquisitions under the 'same day' or 'bed and breakfasting' identification rules do not become part of the pool.

The Section 104 holding is a pool of qualifying expenditure as regards the number of shares in the holding.

# Sarah's acquisition cost per share

Date	Number	Cost £	Total £
2006	10,000	2.50	25,000
2012	5,000	4.00	20,000
6 April 2022	15,000	3.00	45,000

All 15,000 shares in the pool have an average cost of £3 per share and given that we know the current value per share is £5.05, then Sarah's CGT calculation can now be done





# Sarah's CGT calculation

		Total £
Disposal proceeds	6,000 @ £5.05	30,300
Cost of shares sold	(6,000@ £3)	<u>(18,000)</u>
Gain		12,300

# Update Sarah's share pool for 2023/24

Date	Number	Cost £	Total £
2006	10,000	2.50	25,000
2012	<u>5,000</u>	4.00	<u>20,000</u>
6 April 2022	15,000	3.00	45,000
2022/23	(6,000)		<u>(18,000)</u>
6 April 2023	<u>9,000</u>	3.00	<u>27,000</u>

# CGT Case Study – part 2

Sarah's portfolio is being reviewed.

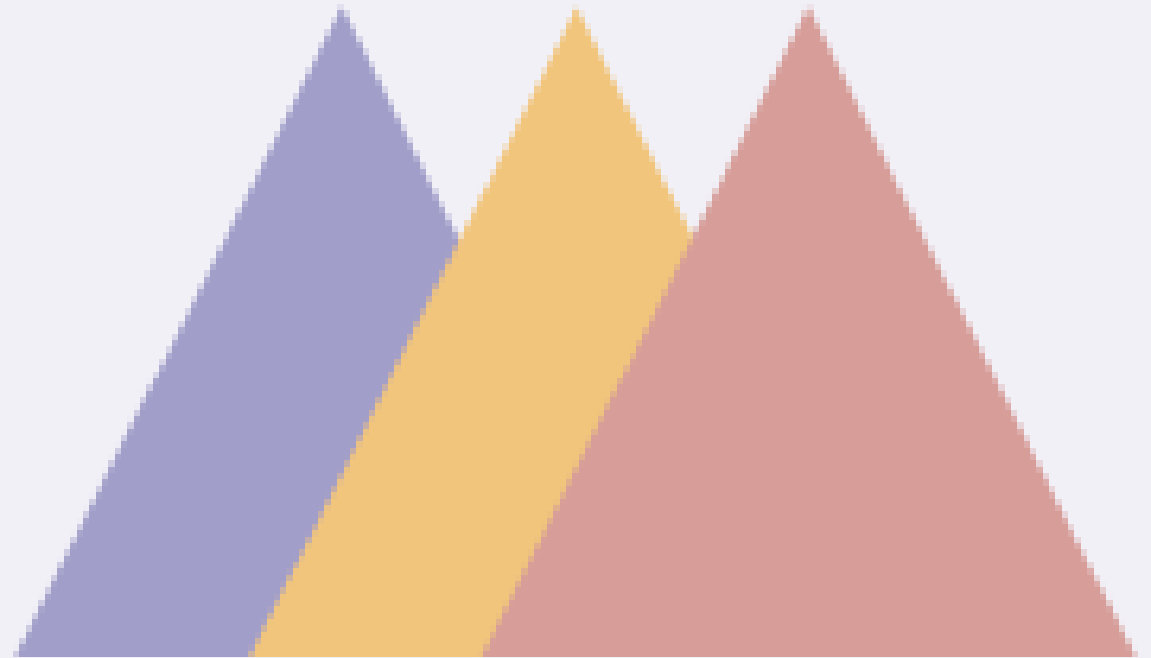
You have identified that selling 6,000 shares from her OEIC will trigger a gain of £12,300 and the trade has been made.

Sarah then mentions that she had inherited £30,000 of shares in an oil company from her late father.

She's environmentally aware so sold the shares last month.

She received £25,000 as they had lost £5,000.

How much AEA is used?





# Calculating Sarah's Capital Gain

Total Gains tax year	£12,300
Losses accruing in tax year	£5,000
Adjusted Net Gains	£7,300
Annual Exempt Amount	£7,300
Losses brought forward (restricted)	N/A

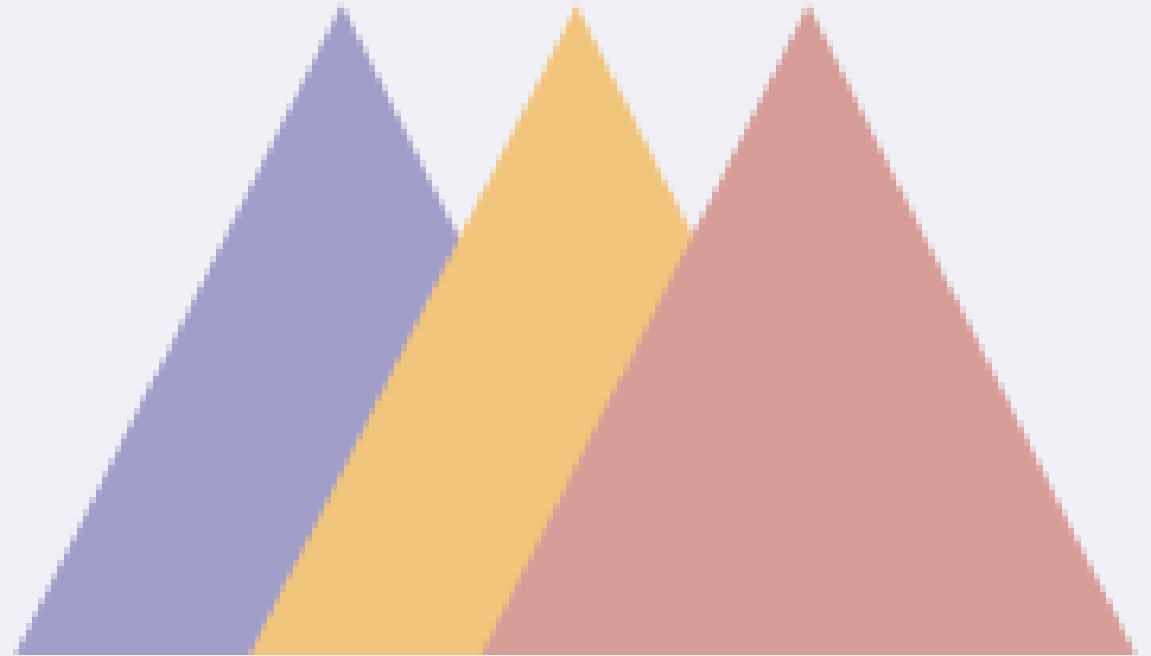
← Answer

# CGT Case Study – part 3

Sarah now has £70,000 cash:

- £45,000 from the OEIC encashment
- £25,000 from the share sale

What next?



# CG51560 – Share identification rules

HMRC internal manual

## Capital Gains Manual

### **The “bed and breakfast” rule TCGA92/S106A(5) and (5A)**

The rule was introduced in 1998 to counter what is known as ‘bed and breakfasting’ of shares. For a general discussion on ‘bed and breakfasting’ see CG13350+.

Disposals must be identified with acquisitions of shares

- of the same class, see CG50203
- acquired by the same person in the same capacity, and
- acquired within the 30 days after the disposal.

This rule has priority over all other identification rules except the ‘same day’ rule in TCGA92/S105(1), see above.

# If Sarah wants to invest the £70,000

1

After 30 days  
repurchase  
identical  
shares

2

Immediate  
purchase of  
shares in a  
different  
fund

3

Purchase  
identical  
shares  
through  
spouse/civil  
partner

4

Repurchase  
within a tax  
wrapper

 HM Treasury

AUTUMN STATEMENT 2022

CP 751

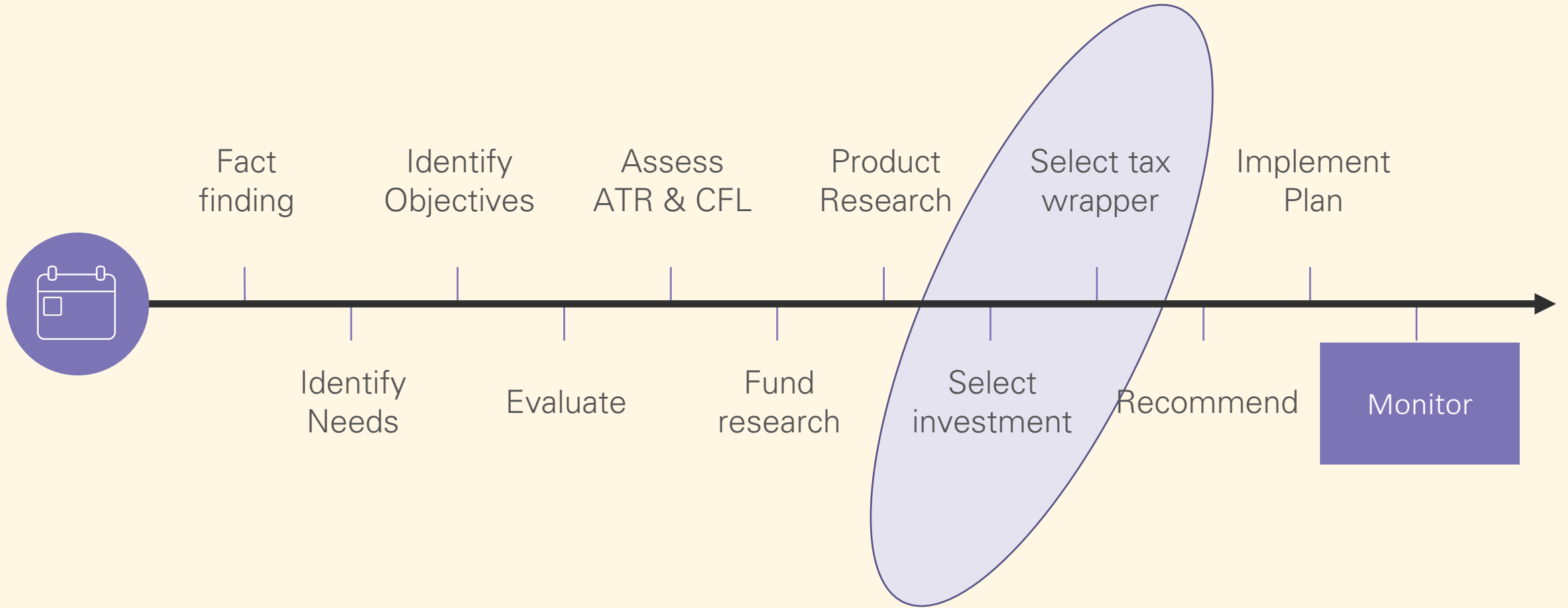
November 2022



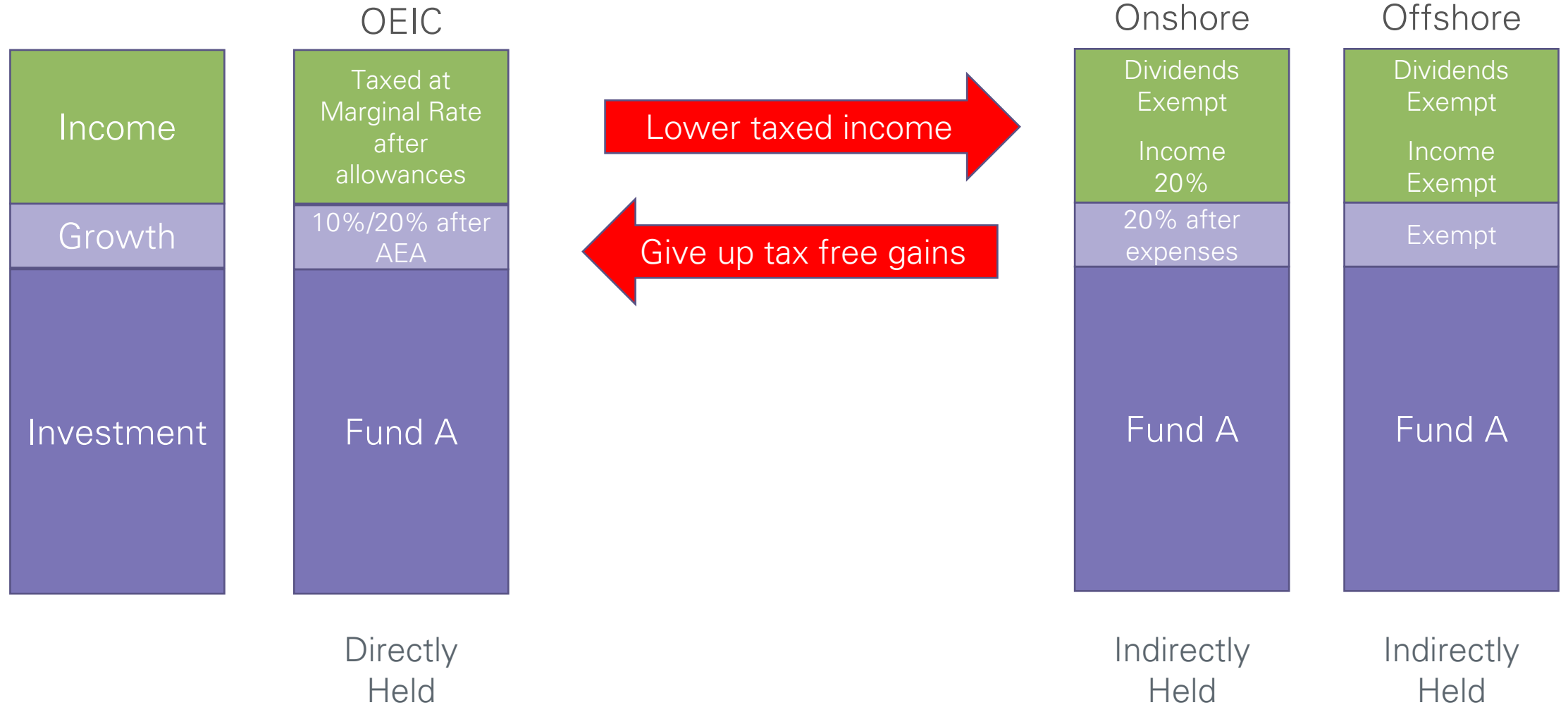
Pause for  
thought



# Planning for client's



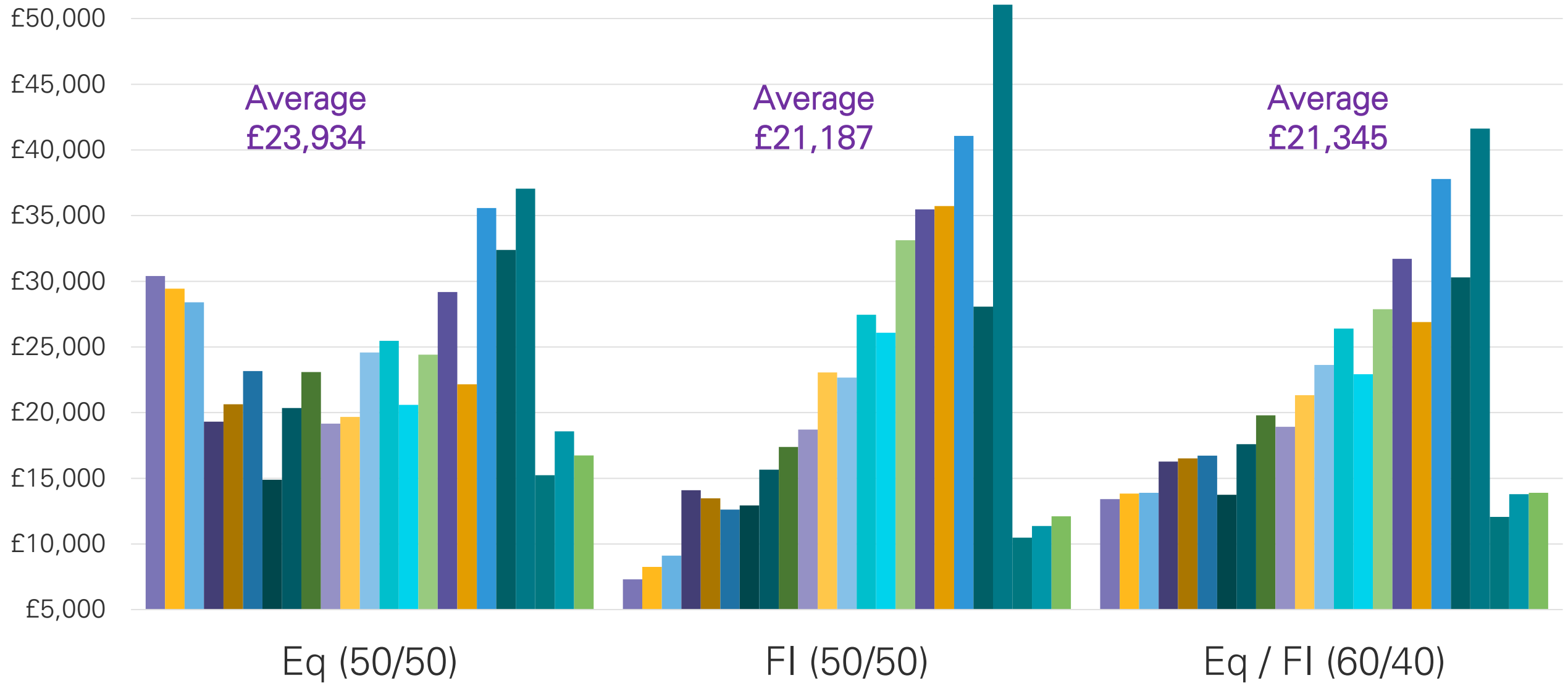
# The trade off



# Indices

Index	What I call it
FTSE All Share in GB	UK Equity
MSCI World in GB	Global Equity
ICE BofA Sterling Corporate in GB	UK Fixed Interest
ICE BofA Global Corporate in GB	Global Fixed Interest

# Fund to generate £500 income (2000 - 2022)



UK  
Equity

2000 -2022

Capital Return	£125,698
Total Return	£275,123
Income produced	£79,505
<b>Inc - % of profit</b>	<b>45.40%</b>

*£100,000 invested, Year ending 31/12, Gross income reinvested*

	UK Equity	Global Equity	Equity (50/50)	UK Fixed Interest	Global Fixed Interest	Fixed Interest (50/50)	Mixed Investment (30/30/20/20)	
2000 -2022	Capital Return	£125,698	£245,412	£84,946	£121,467	£185,555	£103,206	£152,615
	Total Return	£275,123	£420,113	£283,563	£352,544	£347,618	£318,054	£335,792
	Income produced	£79,505	£67,004	£126,082	£123,337	£73,254	£124,710	£93,836.55
	<b>Inc - % of profit</b>	<b>45.40%</b>	<b>20.93%</b>	<b>68.69%</b>	<b>48.84%</b>	<b>29.58%</b>	<b>57.19%</b>	<b>39.80%</b>
2000-2009	Capital Return	£85,152	£82,066	£91,314	£110,237	£83,609	£100,775	£90,476
	Total Return	£117,718	£102,129	£170,192	£188,657	£109,923	£179,425	£137,724
	Income produced	£26,552	£17,108	£64,955	£56,499	£21,830	£60,727	£37,388.78
	<b>Inc - % of profit</b>	<b>149.86%</b>	<b>803.54%</b>	<b>92.54%</b>	<b>63.73%</b>	<b>219.98%</b>	<b>76.46%</b>	<b>99.11%</b>
2007-2016	Capital Return	£120,240	£186,945	£104,073	£149,659	£153,592	£126,866	£142,902
	Total Return	£171,794	£243,971	£181,171	£236,768	£207,882	£208,969	£208,317
	Income produced	£35,549	£32,494	£52,914	£57,915	£34,021	£55,415	£42,578.67
	<b>Inc - % of profit</b>	<b>49.52%</b>	<b>22.57%</b>	<b>65.19%</b>	<b>42.35%</b>	<b>31.54%</b>	<b>50.85%</b>	<b>39.31%</b>
2013-2022	Capital Return	£131,743	£262,795	£82,845	£103,847	£197,269	£93,346	£155,700
	Total Return	£188,258	£332,978	£124,967	£152,931	£260,618	£138,949	£211,951
	Income produced	£45,365	£45,331	£42,996	£42,860	£45,348	£42,928	£44,379.99
	<b>Inc - % of profit</b>	<b>51.40%</b>	<b>19.46%</b>	<b>172.21%</b>	<b>80.97%</b>	<b>28.23%</b>	<b>110.22%</b>	<b>39.64%</b>

£100,000 invested, Year ending 31/12, Gross income reinvested

# Auto ISA

	Equity (50/50)		Fixed Interest (50/50)		Mixed Investment 30/30/20/20	
	Years until ISA		Years until ISA		Years until ISA	
	wrap complete	Taxable Gains	wrap complete	Taxable Gains	wrap complete	Taxable Gains
2000						
2001						
2002						
2003						
2004						
2005						
2006						
2007						
2008						
2009						
2010						
2011						
2012						
2013						
2014						
2015						
2016						
2017						
2018						

*£100,000 invested, Capital Return only, 19 periods starting 2000, AEA assumed to be £3,000*

# Auto ISA

	Equity (50/50)		Fixed Interest (50/50)		Mixed Investment 30/30/20/20	
	Years until ISA		Years until ISA		Years until ISA	
	wrap complete	Taxable Gains	wrap complete	Taxable Gains	wrap complete	Taxable Gains
2000	4	0	6	0	5	0
2001	4	0	6	0	5	0
2002	5	0	5	0	5	0
2003	7	6	5	0	7	3
2004	7	4	5	0	6	2
2005	6	3	5	0	6	0
2006	6	0	5	0	5	0
2007	5	0	6	0	5	0
2008	5	0	6	0	5	0
2009	8	6	6	0	7	4
2010	7	3	6	0	6	3
2011	6	2	6	0	6	0
2012	8	6	6	0	7	5
2013	8	6	6	0	7	3
2014	7	4	6	0	6	4
2015	7	5	6	0	6	3
2016	7	5	6	1	7	4
2017	6	0	5	0	6	0
2018	5	0	5	0	5	0

12 of 19

2 of 19

9 of 19

*£100,000 invested, Capital Return only, 19 periods starting 2000, AEA assumed to be £3,000*



# Recently

2021	Equity			Fixed Interest			Mixed
	UK	Global	50/50	UK	Global	50/50	30/30/20/20
	Capital Value	£114,550	£121,250	£117,900	£93,710	£95,270	£94,490
Gain	£14,550	£21,250	£17,900	-£6,290	-£4,730	-£5,510	£8,536
Income Received	£3,770	£2,230	£3,000	£3,020	£6,790	£4,905	£3,762
Profit (where income is tax free)	£18,320	£23,480	£20,900	-£3,270	£2,060	-£605	£12,298

2022	Equity			Fixed Interest			Mixed
	UK	Global	50/50	UK	Global	50/50	30/30/20/20
	Capital Value	£96,840	£90,680	£93,760	£77,210	£90,850	£84,030
Gain	-£3,160	-£9,320	-£6,240	-£22,790	-£9,150	-£15,970	-£10,132
Income Received	£3,500	£1,950	£2,725	£2,910	£2,950	£2,930	£2,807
Profit (where income is tax free)	£340	-£7,370	-£3,515	-£19,880	-£6,200	-£13,040	-£7,325



# Tax Wrapper Comparison Tool



# Analysis required?



Smoothing  
/  
Guarantees

Lifetime  
Gifting

Simplicity

Savings  
Allowances  
on Exit

# Tax Wrapper Comparison Tool

built by M&G

Tax Year 2022/23

Invested Amount

Year of encashment (5 to 10 only)

Reset

Investment Yields

Savings income

Dividend Return

Capital Gain

Additional Cost for Bond Wrapper

Onshore Bond

Internal Tax Rate

Existing income

Non Savings Non Dividend

Savings

Dividend

Increase assumption per annum

Expected Income year of encashment

Non Savings Non Dividend

Savings

Dividend

## Taxation over Term

	Collectives	Onshore	Offshore
<b>Savings Income</b>			
Amount	£0	£0	£0
Tax	£0	£0	£0
<b>Dividend Income</b>			
Amount	£109,165	£110,456	£114,710
Tax	£31,519	£0	£0
<b>Capital Gain</b>			
Amount	£33,000	£110,456	£114,710
Tax	N/A	£22,091	£0

## Encashment Values

	Collectives	Onshore	Offshore
Surrender Value	£386,811	£392,901	£423,227
Gain (Cumulative)	£79,165	£192,901	£223,227
Slice	N/A	£19,290	£22,323
Tax payable	£13,643	£2,514	£47,159
Net return	£373,168	£390,387	£376,067

## Key Assumptions

### Cells with red tags contain further information

The tool runs in tax years from 6 April to 5 April inclusive.

The CGT allowance in year one is £6,000, thereafter this is £3,000.

The Dividend Nil Rate in year one is £1,000, thereafter this is £500.

The CGT annual exempt amount is used each year (bed and breakfast rules avoided).

Net investment income is reinvested.

UK rates of income tax apply.

## Available Bands and Allowances in year of encashment (prior to investments being surrendered)

	Collectives	Onshore	Offshore
Personal Allowance	N/A	£0	£0
Starter Rate for Savings	N/A	£0	£0
Personal Savings Allowance	N/A	£1,000	£1,000
Basic Rate	£15,899	£30,270	£30,270
Higher Rate	N/A	£87,440	£87,440
CGT Allowance	£3,000	N/A	N/A

		Year									
		1	2	3	4	5	6	7	8	9	10
Client Income	Non Savings, Non Dividend	£60,000.00	£60,000.00	£60,000.00	£60,000.00	£60,000.00	£60,000.00	£60,000.00	£60,000.00	£60,000.00	£20,000.00
	Existing Savings	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
	Existing Dividend	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
	New Savings	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
	New Dividend	£8,000.00	£8,545.50	£9,120.53	£9,733.79	£10,387.84	£11,085.38	£11,829.31	£12,622.71	£13,468.87	£14,371.30
	<b>Total</b>	<b>£68,000.00</b>	<b>£68,545.50</b>	<b>£69,120.53</b>	<b>£69,733.79</b>	<b>£70,387.84</b>	<b>£71,085.38</b>	<b>£71,829.31</b>	<b>£72,622.71</b>	<b>£73,468.87</b>	<b>£34,371.30</b>

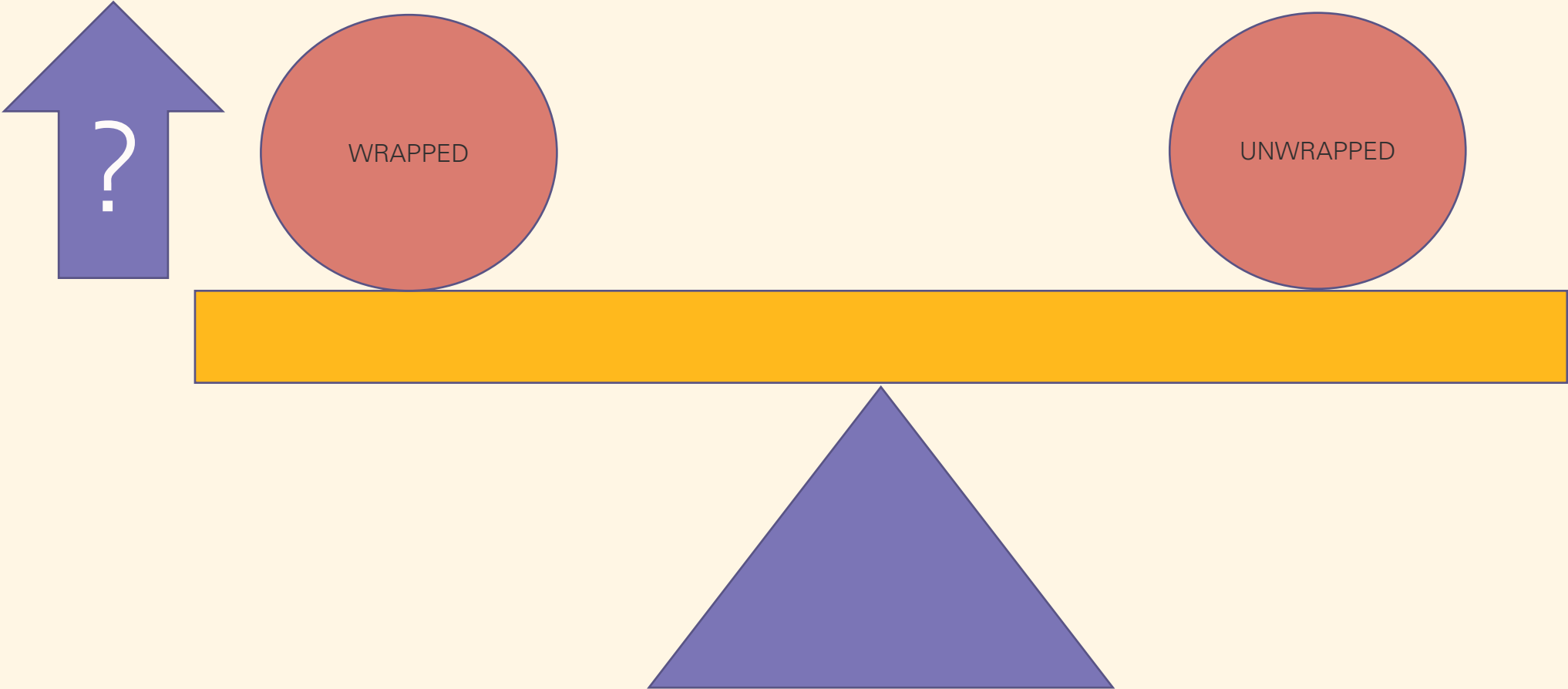
Collectives	Starting Value	£200,000.00	£213,637.50	£228,013.14	£243,344.77	£259,695.94	£277,134.48	£295,732.67	£315,567.64	£336,721.64	£359,282.38
	Fund plus growth (no income reinvested)	£208,000.00	£222,183.00	£237,133.67	£253,078.56	£270,083.78	£288,219.85	£307,561.97	£328,190.35	£350,190.50	£373,653.67
	Gain	£8,000.00	£8,545.50	£9,120.53	£9,733.79	£10,387.84	£11,085.38	£11,829.31	£12,622.71	£13,468.87	£14,371.30
	AEA for year	£6,000.00	£3,000.00	£3,000.00	£3,000.00	£3,000.00	£3,000.00	£3,000.00	£3,000.00	£3,000.00	£3,000.00
	Surrender to realise gains up to the AEA	£156,000.00	£63,206.96	£42,685.70	£32,446.22	£26,317.41	£22,243.17	£19,342.57	£17,175.23	£15,496.55	£14,159.77
	AEA used	£6,000.00	£3,000.00	£3,000.00	£3,000.00	£3,000.00	£3,000.00	£3,000.00	£3,000.00	£3,000.00	£3,000.00
	Carried Gain	£2,000.00	£7,545.50	£13,666.03	£20,399.82	£27,787.65	£35,873.03	£44,702.34	£54,325.05	£64,793.91	£76,165.21
	Net income to be reinvested	£5,637.50	£5,830.14	£6,211.10	£6,617.39	£7,050.69	£7,512.81	£8,005.67	£8,531.29	£9,091.87	£13,157.56
	Closing Value	£213,637.50	£228,013.14	£243,344.77	£259,695.94	£277,134.48	£295,732.67	£315,567.64	£336,721.64	£359,282.38	£386,811.23

Onshore bond	Starting Value	£200,000.00	£213,971.20	£228,918.37	£244,909.69	£262,018.11	£280,321.64	£299,903.79	£320,853.87	£343,267.44	£367,246.73
	Internal Taxation	£1,600.00	£1,711.77	£1,831.35	£1,959.28	£2,096.14	£2,242.57	£2,399.23	£2,566.83	£2,746.14	£2,937.97
	Closing Value	£213,971.20	£228,918.37	£244,909.69	£262,018.11	£280,321.64	£299,903.79	£320,853.87	£343,267.44	£367,246.73	£392,901.12
Internal Tax Rate 10.00%	Gain	£13,971.20	£28,918.37	£44,909.69	£62,018.11	£80,321.64	£99,903.79	£120,853.87	£143,267.44	£167,246.73	£192,901.12
	Slice	£13,971.20	£14,459.19	£14,969.90	£15,504.53	£16,064.33	£16,650.63	£17,264.84	£17,908.43	£18,582.97	£19,290.11

Offshore Bond	Starting Value	£200,000.00	£215,568.00	£232,347.81	£250,433.77	£269,927.53	£290,938.69	£313,585.36	£337,994.84	£364,304.36	£392,661.81
	Closing Value	£215,568.00	£232,347.81	£250,433.77	£269,927.53	£290,938.69	£313,585.36	£337,994.84	£364,304.36	£392,661.81	£423,226.61
	Gain	£15,568.00	£32,347.81	£50,433.77	£69,927.53	£90,938.69	£113,585.36	£137,994.84	£164,304.36	£192,661.81	£223,226.61
	Slice	£15,568.00	£16,173.91	£16,811.26	£17,481.88	£18,187.74	£18,930.89	£19,713.55	£20,538.05	£21,406.87	£22,322.66



# Autumn Statement



# Learning Objectives

By the end of this session, you will be able to:

Describe the Income Tax and Capital Gains Tax treatment of directly held investments

Evaluate the benefits of holding investments indirectly through an insurance bond wrapper

# QUESTION TIME





# Support



Articles



Videos



Tools &  
Calculators



Ask the Techs

# Thanks for your time

Get in touch with your usual contact if you need further help.





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