

Savings, investments and pensions tax

When it comes to saving and investing it pays to know how tax affects your returns and to make the most of allowances. Here we outline some of the key facts you need to know.

ISAs How much can I save in an ISA?

From 6 April 2011 the ISA annual allowance (for over 18s) is:

- For stocks and shares ISAs: £10,680
- For cash ISAs: £5,340

Junior ISAs

In the 2011 Budget the government confirmed it would introduce a Junior ISA, available from autumn 2011.



Stamp Duty Tax

Stamp duty is charged on shares invested in regardless of whether you are investing in an ISA.

On company shares 0% stamp duty is charged up to £1,000 and 0.50% on investments above £1,000. This does not apply to new share issues. Investing through a fund – known as an open ended investment company – the fund manager pays this and passes on the charge to investors.

It is known as stamp duty reserve tax (SDRT) for electronic transactions.

Dividends

Dividends from shares automatically have a 10% tax credit deducted which cannot be reclaimed for stocks and shares ISA investments. See page 2 for more information on dividend tax.

Non-ISA savings and investments

For savings and investments outside of your ISA allowance, income tax is charged on the interest or income.

Basic rate taxpayers (people earning up to £35,000 for 2011/12)

20% (normally automatically deducted from non-ISA savings)

Higher rate taxpayers (£35,000 to £150,000 annual income)

40% (the difference from the 20% automatically deducted from savings is owed)

Additional rate taxpayers (above £150,000 annual income)

50% (the difference from the 20% automatically deducted from savings is owed)

See page 2 for how dividend tax and capital gains tax may affect investments and how to make the most of your pension ➔

Non-ISA savings and investments

Dividend tax

Investing in stocks and shares mean you may receive dividend income from the shares invested in. All dividends are taxed the same way whether you hold shares directly or through a fund.

A 10% 'tax credit' is automatically deducted from share dividends.

From 6 April 2004 ISA investors were no longer able to reclaim the 10% dividend 'tax credit'.

Basic rate taxpayers	10% 'tax credit' automatically deducted
Higher rate taxpayers	32.5% – 10% 'tax credit' = 22.5% deducted on tax return
Additional rate taxpayers	42.5% – 10% tax credit = 32.5% deducted on tax return

Capital Gains Tax

If you sell out of a fund or sell shares and make a total 'gain' or profit above a certain level you may need to pay capital gains tax (CGT).

The annual exemption amount for 2011/12 is £10,600.

This means no tax will be charged on on-off profits in a tax year below £10,600.

After reliefs are considered, basic rate tax CGT is charged at 18% and above basic rate at 28%.



Pensions

How much can I save into my pension before tax?

- The tax-free annual pension savings allowance: £50,000
- Higher and additional rate taxpayers can claim tax relief above the 20% basic rate
- The Lifetime Allowance – the total value of pension savings before any tax charges apply: £1.5million

Tax on pension income

Up to 25% of your pension can be taken as a lump sum tax-free, within the lifetime allowance

Income tax is charged on pension income such as annuities or income drawdown, including state pension

You do not pay any national insurance contributions when you are retired

The personal allowance – earnings allowed before tax is charged – is: £9,940 for 65–74 year olds and £10,090 for people aged 75 and over

If annual income in retirement exceeds £24,000, the personal allowance is reduced by £1 for every £2 extra earned, e.g. by half the amount of extra income. The personal allowance in retirement will not fall below the standard personal allowance, unless your income exceeds £100,000

The pension allowance

If a higher rate taxpayer (40% tax rate) makes a net payment (before tax is taken on their income) of £16,000, HMRC contributes £4,000 automatically, and a further £4,000 can be claimed back via a tax return. This means the cost of making a £20,000 pension contribution is just £12,000.

Tax details accurate from 6 April 2011 but all subject to change