



TAX EFFICIENT PORTFOLIO MANAGEMENT

To help our clients achieve their financial objectives we seek to optimise investment returns by sheltering proceeds from tax within tax wrappers and utilising often overlooked tax allowances. Some of the strategies we employ can be simple, whilst some can be complex (requiring the input of a legal advisers and accountants) all however are designed to increase the wealth of our clients and their families.

With regards to investing, each portfolio we create is designed to fulfil a specific set of financial objectives and investment requirements. The tax efficient portfolio management strategy described here forms our core investment proposition and despite being simple and effective, is widely overlooked by many investors.

Our portfolios are constructed using collective investments because they represent a flexible and relatively cheap way to invest in the stock market; in addition their structures carry attractions for tax-paying investors, in that there is no personal liability to tax on gains arising within the investment. It is only when the investment is sold that a capital gains tax liability might arise. By comparison to managing a direct equity portfolio this facilitates active management, since the investment manager is able to carry out disposals within the fund without the constraining influences of capital gains tax considerations.

It is important to remember that it is not the investment asset that is taxed, rather it is the return which the asset produces. There are four types of fundamental investment return; interest, dividend, rent and capital gain, thus, the starting point for any tax strategy is to examine the investment and ascertain the investment return it will produce. For example, shares may return both dividends and capital growth and corporate bonds will return interest.

Interest, dividends and rent are all subject to income tax in the tax year in which they are paid and the rate of income tax will be at the investor's highest marginal rate of between 0% and 40%. By contrast the timing of a capital gain can be controlled by disposing of assets at a time to suit the investor, who can also benefit from the annual capital gains tax exemption (£10,100 for the 2009/10 tax year). If a capital gain (which can be offset against capital losses) exceeds the annual exemption the rate of tax payable is 18%. From a taxation perspective our preference is for investment structures that create capital gain.

The Individual Savings Account (ISA) is a tax wrapper that shields investment return from personal taxation and it enables certain withholding taxes to be reclaimed by the ISA plan manager. Rather than holding all portfolio assets directly we recommend usage of the ISA. In order to make maximum advantage of the allowance we select investments with the highest potential tax saving and hold them through the ISA.

In isolation the tax savings from a single year's ISA contribution (£10,200 in the 2009/10 tax year) are relatively small, therefore in order to maximise tax savings our tax efficient portfolio management strategy involves revisiting our client's investment portfolios in each tax year to utilise the new allowance. To this end we seek to realise tax free investment gains by selling existing portfolio holdings, within the annual capital gains tax exemption, to reinvest the proceeds back into the portfolio through the new tax year ISA allowance, this practice is known as a 'bed & ISA'. By repeating the process in each new tax year, we can turn a tax efficient portfolio into one that is completely free of all personal taxation.