

INVESTMENT AND SAVINGS INCOME

Savings

As in Ireland, Bank and Building Societies pay interest net of standard rate tax (20%). Unlike in Ireland, the tax credit on interest can be reclaimed under the self assessment system if there is no ultimate liability. This applies only to persons over 65 in Ireland.

In Ireland, the tax on savings is at the standard rate only irrespective of whether the individual pays higher rate tax so that the standard rate deduction satisfies liability entirely. In the United Kingdom however, the tax deduction at 20% may or may not satisfy full tax liability. The individual's total income will determine if the higher rates apply.

The savings income included in the tax return is the gross amount i.e. the amount before deduction of income tax. When computing the tax liability a credit is given for the tax deduced by the Bank or Building Society.

Dividend income is income received from companies. It is deemed to be received net of a notional tax credit. Therefore dividend income received must be grossed up by (100 divided by 90). The purpose is to mitigate to some extent the double taxation aspect of receiving dividends from companies, which have already been taxed.

The company does not in fact pay any tax to HMRC. There was formerly Advance Corporation Tax and actual deduction system in England and Wales. This was abolished at the start of this decade. However, Ireland introduced a dividend withholding tax which is an actual deduction of standard rate tax, and an actual credit.

Dividend Income

The rates applicable to dividends are the starting rate 10% and the higher rate above £34,800 (32.5%). Therefore the effect of this is that for basic rate tax payers the notional credit will satisfy their liabilities but higher rate tax payers must pay their additional liability as part of their self assessment return.

Tax Efficient Products

There are a number of tax free saving products in the United Kingdom, some of which have a direct equivalent in Ireland and some of which do not.

An individual savings account (an ISA) is the very common form of tax efficient investment. It can be opened by any individual, 16 or over, who is resident and ordinarily resident in the UK. Income is received free of income tax. Disposals of investments within an ISA are free of Capital Gains Tax. There are certain conditions and limitations.

An ISA can have cash or cash like equity products. It can also be stock, shares and insurance products. Investments in life assurance policies, unit trusts, and open ended investment companies qualify. Investments in unlisted companies do not qualify.

There is an annual subscription limit of £7,000 of which £3,000 may go into the cash component. Husbands and wives each have their own limit. There is a choice of providers and account formats.

As in Ireland, National Savings Certificates and similar government back products are within certain limits.

This Guide is intended as an overview and broad outline of the matters covered in it. Its purpose is to inform and raise awareness. We are happy to offer specific legal advice on particular circumstances.

This Guide should not be relied on as a substitute for comprehensive legal advice with reference to the particular circumstances.

While we have taken due care in the preparation of this publication, we do not accept legal liability as a result of any reliance placed on anything in this Guide. The reader should rely only on specific legal or taxation advice.

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