Article topic: Financial Management

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A one-off opportunity

From 6 April 2010, income generating trusts will be taxed at 50%, so trustees need to consider now how to hold their investments.

Make a 10% saving

If a trust holds an investment bond, then growth accrued to date will be taxed at 50% where encashment occurs after 5 April 2010. It may, therefore, be better from a tax point of view to encash now, but you will need to consider the implications of disposing of the underlying investments. At the very least, you can rebase the investment bond before April 2010 so that accrued growth is only taxed at 40%, not 50%.

In most cases you will need to consider the tax position of the settlor of the trust before making any decision as typically gains on life assurance policies are taxable on the settlor at their marginal rate of tax. A form of “top slicing relief” is available to reduce the tax payable on gains where the settlor is not normally a higher rate taxpayer. This could mean that the one off tax savings are as high as 30%.

Better tax wrappers

With the Capital Gains Tax rate for non-business assets at an all time low of 18%, there may be better tax wrappers for trustees to utilise to hold their investments. For example, capital growth on direct equities, unit trusts, Open Ended Investment Companies or specialist structured investments is only taxable at 18%.

Take action now

If you are a trustee, you have a duty to the beneficiaries of the trust to review the tax position of the investments and take advice on the best action. You should certainly consider rebasing your investment bonds before 5 April 2010 as this is a one off tax saving opportunity. It should also be remembered that the same principles apply to individuals whose incomes exceed £150,000 and will be subject to the 50% tax in the future.

For more information on personal tax planning issues, please contact a member of the Financial Management team, or visit our website.