

# Tax Free Savings

We all like to pay as little tax as possible and here are some tax efficient ways to save money (and tax!). If you do not want the tax saved for yourself then you can always make a gift to a charity and possibly save even more tax.

## Individual savings accounts (ISAs)

ISAs allow you to receive income and capital growth free of tax. There are limits on how much you can invest in an ISA. The investment can be made as one lump sum into a maxi ISA or into up to three mini ISAs. A maxi ISA can be all equity or split into 3 components (cash, insurance and equities). The components apply to a mini ISA.

It is possible to draw income at any time from an ISA and capital can be withdrawn without a loss of tax free status, although you can only pay the capital back in to the same provider if you have some of that year's investment limit still available. You can also transfer between providers but make sure that the costs don't outweigh the benefits.

ISAs replaced TESSAs and you can no longer open a TESSA account. Any TESSAs still open will carry on as normal and once it is five years old you can roll over the capital into a follow on TESSA-only ISA to maintain the tax free status of the income.

## National Savings Certificates

National Savings fixed-rate and index-linked certificates pay their return free of tax. The rates are not always as competitive and so they may only be beneficial to a higher rate taxpayer. There are penalties for early encashment so it is important to be sure that you will not need the funds before the end of the term.

## Premium Bonds

Premium Bond prizes are free of tax and the level of prizes means the average return is approximately 4% free of tax, equivalent to 6.7% for a higher rate taxpayer. The possibility of a £1m jackpot also exists. You can cash in the bonds you buy and so it is effectively a lottery but without the loss of your stake.

There are many ways of investing your money and everyone has a different risk profile because of their different needs and circumstances. It is important to seek professional advice before making an investment in order to optimize your savings.

Remember: Past performance is no guide to future performance – unit trust and equity prices may fall as well as rise.

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