# ALTERNATIVE WAYS TO HOLD INVESTMENTS

A look at alternative ways to hold stocks and shares. Read on to find out more about the various options.


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**Personal Portfolio**
As an individual holding a portfolio of investments, you pay tax at 20% on the investment income as it arises with no tax relief for any expenses incurred such as portfolio management or accountancy fees.

However, it is straightforward to administer, relatively cheap and your income is instantly accessible.

This is therefore suitable for those with smaller portfolios and for those who prefer to keep things simple and flexible.

**Investment Company**
Companies pay Guernsey income tax on investment income at the company standard rate of 0%.

This means that if the company receives its income gross (or taxed at a rate of less than 20%), it enables the deferral of tax until such time as the income is physically paid out to the shareholder. This gives a cashflow advantage enabling the deferred tax sums themselves to be re-invested.

Company management expenses and investment management fees are allowable expenses for tax purposes. These costs incurred by the company are therefore deducted and only the net income after expenses is taxable.

# ALTERNATIVE WAYS TO HOLD INVESTMENTS (CONT'D)

Only income that is taxable is taxed when paid out as a dividend. Any dividend funded out of capital gains, for example, is not taxed. Dividends paid from income received with Guernsey or foreign tax withheld only require additional tax to be paid to top up to 20%.

One of the potential ways that the company's investments can be funded is by way of a loan from the shareholder and this is not taxed when repaid. Therefore, if a regular income stream is desired, then a gradual repayment of the loan can replace dividends until the loan has been fully repaid. This can therefore further defer the payment of tax as dividends would not be paid for some time.

Additional expenses are incurred when you use a company to hold your investments. These include incorporation costs, annual company filing fees and accountancy fees to prepare accounts and submit tax returns. The additional costs should therefore be weighed up against the tax relief on expenses that would be incurred anyway and other benefits.

This is suitable for those with larger portfolios and those who would like to benefit from tax deferral on the income.

**Investment Bond**

An alternative to holding your investments in a company is to wrap them in an investment bond. Known as a Single Premium Life Assurance Bond ("SPLAB"), it is a life policy. The redemption value of the policy is determined by the value of the investments held within.

You can withdraw funds at any time but if you leave the policy untouched for 10 years, no tax is payable on the redemption. If, however, withdrawals are made in the first 10 years then the increase in value, effectively including capital gains, is all treated as income and a proportion of what is taken out becomes taxable at that time (including withdrawals after the 10-year anniversary). No tax liability arises on any death benefit.

This is suitable for those with portfolios of any size but who are prepared to lock the capital and income away for the long term.

**Accumulation Funds**

If you do not require a regular income stream, accumulation funds can provide a good way of deferring tax on your investment income. They are collective investment schemes that roll up income within the fund rather than paying it out to investors thus increasing the value of the units held. The income is effectively received when the units are sold.

A calculation is performed to work out how much of the sale proceeds is made up of income and tax is paid on that amount. This calculation can be difficult, particularly if the units have been held for a long period of time or if the underlying investments themselves accumulate income. So, in practice, an estimate of the income is often acceptable where the proceeds are modest.

Note that the tax rules are different if the investor has the choice of whether to receive distributions or accumulate them. In this case, distributions are taxed as if they are always paid in cash.

This is suitable for those with portfolios of any size but who are prepared to lock the capital and income away for the medium term.

This article is intended to provide a general overview of the matters to which it relates.

**Questions? If you have questions on any of the above, please contact us.**

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