Neptune
Tax & Accounts

Holding Investments & Guernsey Tax

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 fees or accountancy fees.

It is straight forward to administer, relatively cheap to run and income can be accessed instantly.

A simple personal portfolio is suitable for those with modest amounts to invest and for those who prefer to keep things simple and flexible.

Investment bonds and accumulation funds (see below) could form part of the investment strategy.

Investment Bonds

Sometimes known as a Single Premium Life Assurance Bond, an investment bond is a life policy that holds investments where the redemption or cash-in value is determined by the value of the investments held within it.

It is designed to pass on wealth to the policy holder's heirs and no tax liability arises on death benefits paid out but also has the flexibility to allow funds to be withdrawn during their lifetime.

You can withdraw funds at any time but, if you leave the policy untouched for 10 years, no tax is payable when funds are taken out.

If, however, any withdrawals are made in the first 10 years then the increase in value (effectively including capital gains) is treated as income and a proportion of what is taken out becomes taxable.

An investment bond is suitable for those with sufficient other income and who are prepared to lock capital and income away for the long term with a view to passing some or all the value on to their heirs on death.

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 tricky, particularly if the units have been held for a long period of time or if the underlying investments themselves accumulate income.

In practice, an estimate of the income may be acceptable to the Revenue Service if the proceeds are not too material.

Note that the tax rules are different if the investor has a choice as to whether to receive distributions or accumulate them. In this case, distributions are taxed whether they are paid out or not.

If tax is paid on accumulated income year on year as it accumulates, the increase in value on disposal over what was invested would be treated wholly as a non-taxable capital gain.

Accumulation funds may be suitable for investors with portfolios of any size but who are prepared to lock the capital and income away for the medium term. They could be used as a part of a mixed portfolio to defer receiving some taxable income.

Good management and recording are essential so that the investments are correctly identified, tracked through time and income properly calculated and reported.

Investment Companies

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

If the company receives its income gross (or taxed at a rate of less than 20%), this enables the deferral of tax until the income is actually paid out to the shareholder.

Income received with Guernsey or foreign tax withheld retains its tax credits so that, when income is paid out to the shareholder, the tax credits can be claimed. Guernsey withholding tax only applies if the tax credits amount to less than 20% and then only to bring the total Guernsey and foreign tax up to 20%.

Guernsey tax should always be deducted at source such that no further tax is payable directly by the shareholder.

If the shareholder is classed as non-employed for Social Security purposes, there will be contributions payable on the gross income paid out in the year.

Company management expenses including investment management fees (except those relating to capital such as custody fees) are allowable for income tax purposes. Such costs that are incurred by the company are therefore deducted from the available income and only the net income after expenses is taxable when it is distributed.

The biggest drawback of using an investment company is that there are additional costs involved to incorporate and run the company such as higher accountancy fees and annual filing fees. The additional costs should therefore be weighed up against the benefits.

The company's assets can be funded by way of a loan from the shareholder, and this can be interest free and repayable on demand. Capital repayments to the shareholder are not taxable income in the shareholder's hands. There is no reason why loan repayments cannot be funded out of income received by the company.

Note, however, that the income would remain in the company's income pools and would effectively be distributed when future dividends are paid, even if those dividends are funded from capital.

The ability to control the amount and timing of when income is drawn can help to manage tax charges and Social Security contributions.

For example, when total income exceeds the Withdrawal of Personal Allowances threshold (which is £82,500 in 2025), personal allowances are eroded.

If the shareholder does not need more than £82,500 of gross income in 2025, they may decide to restrict their total income to below that level. This ensures they get the full benefit of their allowances and leaves the excess to be drawn in a future year which may be after retirement when employment or self-employment income has ceased, or the Social Security contribution rates are lower.

When income is retained within the company, it remains untaxed and therefore boosts the funds that can be re-invested for growth by up to a quarter.

An investment company is most suited to those with large portfolios to justify the costs of running a company.

Joe Waterman BSc CTA ACA
Director
Neptune Tax & Accounts
07839 258358
joe@neptune.co.gg
neptune.co.gg

© Neptune Tax Limited Nov 2024. This factsheet is for general information only. Information presented is correct at the time of writing.