LEXO
for the intelligent investor

PENSION | ISA | GIA

Which is the right investment wrapper for me?

Am I eligible?

How much tax will I pay?

Is there a maximum yearly contribution?

Deciding on an investment wrapper can be tricky thanks to the different rules associated with each of them.

There are three to choose from – Pensions, ISAs or General Investment Accounts (GIAs) – each offering distinct benefits and drawbacks depending on where you are in life and why you're investing in the first place.

The key is to match the benefits of the wrapper with your investment goals, including when you want to have access to the money.

This guide will show you the key differences between the wrappers, followed by a handy comparison table to make your decision easier.

Eligibility and contribution limits

Who can open an account? and how much?

GIA

A GIA is a general account which can be owned by anyone over the age of 18. A GIA can also be held in trust, which provides a further layer of flexibility.

There are no restrictions on how much can be invested in a GIA. For the most part, GIAs are used by investors who have maximised their annual ISA allowance.

ISA

An ISA is for any UK resident (or Crown employee or their spouse or civil partner) aged 18 or over. You can only have one ISA provider in any one tax year, though you can transfer funds from an existing ISA to a new provider.

Because of the tax efficiency of ISAs, there are restrictions on how much you can pay into them annually, this limit is £20,000 per person.

PENSION

A pension can be held by anyone aged 18 years or older, or opened by an adult on behalf of a new-born baby or child.

Pensions, like ISAs, are also tax efficient, so there are limits on how much you can pay into them. The amounts of the limits are complex and vary widely from person to person:

Up to 100% of your salary can be paid into a pension, up to a limit of £60,000pa (this is called your Annual Allowance).

However, the Annual Allowance may be reduced for high earners if the value of:

- All income on which you pay income tax
- AND the value of any employer pension contributions
- AND any pension contributions deducted from your gross earnings, less certain allowances

exceeds £260,000.

The amount of the reduction depends on your total taxable income for that year. For every £2 of taxable income above £260,000, your Annual Allowance will reduce by £1, subject to a minimum Annual Allowance of £10,000.

If the value of all income on which you pay income tax, less any pension contributions you pay from taxed income (for example, to a personal pension), is under £200,000 then the reduced Annual Allowance will not apply. When calculating your total taxable income for these purposes you will need to include the value of any pension contributions arising from a salary sacrifice agreement entered into after 8th July 2015.

Finally, if you have no income, you can still fund £3,600pa gross or £2,880 net in a pension.

If you held a pension previously, you can also carry forward any unused allowances from the previous three years, but only to fund up to a limit of your income. This is not available if you have not held a pension previously.

TAX

How much will I pay?

GIA

You are liable to pay capital gains tax (at 10% or 20%) on any gains you make after you have deducted your capital gains tax allowance (which for 23/24 is £6,000, reducing to £3,000 in 24/25).

Any income (dividends or interest) which is earnt is also taxable after your allowances. Investments held with Lexo pay dividend income, which is liable to dividend tax (8.75%, 33.75% or 39.35%) after your dividend allowance (£1,000 in 23/4 reducing to £500 in 24/25).

Interest payments are liable to income tax (20%, 40% or 45%) after your savings allowance (that's £1,000 for basic rate tax payers, £500 for higher rate tax payers or nil for additional rate tax payers).

ISA

The money held within an ISA grows tax-free; and when you take the benefits, either as capital or as an income, they are paid taxfree. ISAs therefore receive no tax relief or benefit on any contributions.

PERSONAL PENSION PLANS (PPP)

Pensions receive tax relief, which means income tax at 20% is automatically added to your personal contributions. This effectively is the income tax you would have paid on the money, although technically you don't always need to pay tax to fund a pension.

If you are a higher rate (40%) tax payer, or an additional rate (45%) tax payer, you will need to claim from HMRC the additional 20% or 25% respectively. This is done via letter, or by your tax return. Lexo can provide you with a template letter.

Pension funds grow tax-free, like an ISA. When you draw your pension from age 55 onwards, either as a lump sum or an income, you will receive a tax-free portion – usually 25% - with the remainder taxable at your highest marginal rate at the time. That could be 0%, 20%, 40% or 45%.

The state pension age is increasing and it's set to reach 67 by 2028. The present age at which you can access your private pensions is 55, rising to 57 by 2028. The UK doesn't have a default retirement age, so you can choose when to retire.

COMPARING WRAPPERS AT A GLANCE

	GIA	ISA	PENSION
Eligibility	Aged 18 or over; a parent or grandparent can take out a GIA on behalf of a child	Aged 18 or over	Aged 18 or over; a parent or grandparent can take out a pension on behalf of a child
Contribution Limit	No maximum limit on contributions or lifetime value	Maximum contribution of £20,000 a year, with no lifetime limit	Maximum contribution of £60,000 a year (tapered for those with high incomes). Individual personal contributions must not exceed relevant earnings or £3,600pa
Governement top-up/tax-relief	None	None	Income tax relief on every personal contribution at individual's marginal rate of income tax. Basic rate tax relief is given at source – HMRC pay this to the provider; extra relief is via a claim
Growth	Potentially taxable fund which can be invested in a variety of ways – usually cash, equity funds, fixed interest funds and commercial property funds	Tax-free fund which can be invested in a variety of ways – usually cash, equity funds, fixed interest funds and commercial property funds	Tax-free fund which can be invested in a variety of ways – usually cash, equity funds, fixed interest funds and commercial property funds
Tax	Growth is all potentially liable to capital gains tax (CGT) at 10%, or 20% after the use of the CGT Allowance of £6,000 (2023/4). Dividends are liable to dividend tax after the dividend allowance of £2,000 at 8.75%, 33.75% or 39.35%. Interest is taxable at 20%, 40% or 45% after the Savings Allowance of £1,000 (BRT), £500 (HRT) or £0 (ART)	Contributions and growth are tax-free. All withdrawals are also tax-free	Contributions and growth are tax-free. On withdrawal, 25% can be taken as a tax-free lump sum; the remainder is likely to be subject to income tax depending on how it is taken
Flexibility	Accessible at any time	Accessible at any time	Can't usually be accessed until age 55 at the earliest (increasing to age 57 from 2028), otherwise penalties could apply
Inheritance Tax	The full value of the GIA is included in the deceased's estate. The GIA could be written into trust for potential planning options	The full value of the ISA is included in the deceased's estate. The surviving spouse will inherit the deceased's ISA value as an allowance to use themselves if they wish	The value of the pension account is not included in a taxable estate for inheritance tax purposes. Pension is paid tax-free to the beneficiaries on death if death occurs prior to age 75, or the beneficiaries pay income tax on the benefits if death occurred after age 75

Which wrapper is best for you?

The first question to ask is: when do you want access to the money?

If it's for retirement then opt for a pension first, then an ISA, then a GIA. This is because the growth on pension tax relief is very advantageous – and by tying up the money until you are at least 55, you are protecting your investments for the long-term.

If you need access to the money before the age of 55 then opt for an ISA, then a GIA. Only consider a pension for money you won't want access to until you've finally retired.

What next?

Choosing a wrapper is one of three major decisions to make on your investment strategy. The clearer you can be with these decisions, the better your investment experience is likely to be. The other two considerations to focus on are:

Term of Investment

How long do you plan to have your capital committed: when do you plan to access the capital or take an income from your investment?

The longer the timeframe, the more enjoyable your experience is likely to be. We suggest you look at a minimum of five years, and this means a rolling five years once you have invested.

Acceptable risk

The level of risk you're prepared to accept with your capital is typically defined by how much your account could fall in value before you begin to feel uncomfortable.

When you think of this try to put it into monetary terms to get the true picture. For example, if you had £100,000 to invest over the long-term, a fall of 25% may seem acceptable. But when you consider this is £25,000 and your account value is now £75,000, it may make you uncomfortable.

All portfolios fall in value at some stage of their lifecycle – by how much depends on your level of investment aggression – so deciding your comfort zone is essential.

These two decisions on term of investment and acceptable risk are often related, with longer-term investments reducing the impact of short-term volatility.

Investing in one or more of these wrappers with Lexo is secure, straightforward and takes minutes. Simply tell us about your investment goals and start making your money work harder for you.

visit lexo.co.uk or contact us at ask@lexo.co.uk