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Investments **Returns**

Tax structure key for investment strategies

There are ways of improving your net return on investments, says **David O'Shea** of Quintas

INVESTORS experiencing losses should offset them against current and future profits by choosing the optimal tax structure. An efficient tax treatment is fundamental to a sound investment strategy and could allow investors to turn losses to their advantage.

One of the most used (and abused) of investment declarations is that "90% of investing results in losses". It is an oft-used statement to warn investors of the risks and potential losses of investing. While it is misleading as a statistic — ie it doesn't tell us the amount of money made from the 10% of investments or the amount lost by 90% of investments, it does point to one undeniable fact — all investors, at some stage, will lose money from investing.

A more common statement is, "The only certainties in life are death and taxes". Now, as a statistic this is much more reliable. For investors the world over know that if they make investment returns they will pay taxes.

Put together, what both statements mean is that you will make losses on investments and that you will pay taxes on profits. By combining these certainties of investment losses and taxes investors can create an investment strategy that will result in improved returns.

Any investment strategy begins with the development of a good idea which relates to current economic and market conditions. But a good idea constitutes only the first part of the investment strategy. The far more important element is risk control. Risk control means employing an approach which minimises losses. Good ideas might allow us to make more gains than losses, but it is risk control which ensures we maximise the investment gains available.

If we know that when it comes to investing, we will lose money, some of the time and will pay tax all of the times we make profit, then we should look at some way to minimise the taxes we pay. Put simply, we must make tax consideration a key part of our investment strategy.

We can do this by choosing the most appropriate and tax efficient vehicle when making investment decisions.

In Ireland we are faced with different tax treatments for different investments. Consider the major categories of tax facing an Irish investor:

You will make losses on investments and that you will pay taxes on profits. These certainties can inform a better investment strategy.

DEPOSIT INTEREST RETENTION TAX (DIRT)

This is tax levied on deposit and deposit based investments. It is currently levied at 27%. Bank deposits and most tracker bonds are liable for DIRT.

INCOME TAX

This is tax levied on any dividend, coupon or interim payment made during the lifetime of an investment. It is currently levied at investors' income tax rate (20% or 41%). Dividends from shares and coupons from bonds are liable for Income Tax.

EXIT TAX

This is tax levied on profits made on saving and most fund investments. It is currently levied at 30%. Life Company funds and many saving products are liable for Exit Tax.

CAPITAL GAINS TAX

This is tax levied on capital gains made on investments, usually payable on disposal of an asset. It is currently levied at 25%. Sales of shares, bonds and property are liable for CGT.

The one factor which differentiates these tax treatments is that losses from investments which are liable for CGT, can be offset against any profits from any other investment liable for CGT. In addition, these losses can be carried forward indefinitely. So, for example, a CGT loss on AIB shares realised in 2006 can offset against a capital gain realised on a property disposal in 2010. This can significantly improve the net return to investors.

Losses made on investments liable for DIRT or Exit Tax are not allowable against gains made on investments with the same tax consideration. Once losses are realised there is no further recourse for investors.

What this also means for individuals and companies is that they should consider capital losses already incurred and how they may be used to offset tax on future gains. Many companies with capital losses might be advised to consider an investment liable for CGT against which they can offset previous losses rather than simply placing money on deposit which is liable for DIRT and allows no such offset.

A sound investment strategy should result in investor returns, and efficient tax management can help improve these returns: Making losses is not a rare event, in fact like death and taxes we can say with certainty that all investors at some stage will suffer losses.

This means it is something we can and should plan for by choosing investments which allows for tax offset. Once you have generated that good idea, don't waste it by choosing an inefficient investment vehicle. Maximise your investment returns by making tax consideration part of your investment strategy.

David O'Shea is investment director at Quintas. For further information on Quintas wealth management, please visit www.quintas.ie