England Investing Taxes

Disclaimer:
I am not a qualified tax advisor; I am simply sharing my understanding of the tax rules. Neither does this brief overview cover every individual situation. I would always recommend visiting the HMRC website for the latest and most accurate information or speaking to a qualified tax advisor.

ISA Accounts
Stocks and Shares ISA's are simply a normal Investing account but within a tax-free wrapper. You do not have to pay any UK capital gains tax on profits made within an ISA or UK income tax on dividends received within an ISA. You can contribute up to £20,000 per tax year into a single ISA or split £20,000 across the 4 different kinds, Stocks and Shares ISA, Lifetime ISA, Innovative Finance ISA and Cash ISA. You can only contribute to one of each kind of ISA in any tax year though. For example, you can't put £18,000 into a stocks and shares ISA with Hargreaves Lansdown and £2,000 into a stocks and shares ISA with Trading 212 in the same tax year. However, you could contribute £18,000 to a stocks and shares ISA and contribute £2,000 to a Lifetime ISA or Cash ISA. Each new tax year you can contribute an additional £20,000 with your existing provider or a new provider. There are no restrictions on how large your stocks and shares ISA can grow to; only how much you can contribute each tax year. There are no restrictions on withdrawals from a stocks and shares ISA, you could withdraw some or all of the money at any time. However, once you've taken it out, it would count as new money against your £20,000 limit if you wanted to pay it back in, unless it is a flexible ISA. If you contributed £10,000, withdrew £5,000 and then paid £5,000 back in, it would count as £15,000 contributed. Trading 212 is not a flexible ISA and the only popular company that I'm aware of that is flexible is IG.

Money deposited into an ISA should have already been taxed. Strictly speaking, the deposit of free shares or any other bonuses are liable to income tax though, see details in the general investment account section. Free shares and bonuses will also count towards your £20,000 deposit limit. All profits from sales and dividends received are completely tax-free within an ISA account. There is no tax applicable when you withdraw cash from an ISA.
https://www.gov.uk/individual-savings-accounts/how-isas-work

SIPP Accounts
Each tax year up to £40,000 or 100% of your income, whichever is the lower, can be contributed into your pensions. There are no restrictions on how many pensions you can contribute to, but the limit is split between them. The limit includes any contributions made by your employer and any tax relief received. Money deposited into a SIPP will have any income tax you originally paid, refunded to you. If you are a taxpayer you will get 25% added by HMRC, representing the 20% tax you paid. You will not receive tax relief for payments made by your employer or deducted before tax. If you are a higher rate taxpayer, you can claim back a further 20% tax relief up to the amount of any income you have paid 40% tax on. If you are an additional rate taxpayer, you can claim back a further 25% tax relief up to the amount of any income you have paid 45% tax on. The additional tax relief would be claimed through self-assessment and this will be paid out to you, not added to your pension. Unused allowance may be carried forward and you may be able to use unused allowance from the previous 3 tax years. You cannot access a pension until you reach a certain age, currently 55 and changing to 57 in 2028.
https://www.gov.uk/guidance/check-if-you-have-unused-annual-allowances-on-your-pension-savings
https://www.gov.uk/personal-pensions-your-rights/how-you-can-take-pension

All profits from sales and dividends received are completely tax-free within a SIPP account. Income tax is applicable to all withdrawals from a SIPP. You can withdraw 25% tax-free as a lump sum or withdraw multiple smaller amounts all of which will be 25% tax-free.
https://www.gov.uk/tax-on-your-private-pension/pension-tax-relief

General Investment Accounts
Five types of tax are applicable to general investment accounts. Income Tax, Dividend Income Tax, Interest Income Tax, Property Income Tax and Capital Gains Tax.

Income Tax
Free shares, cash bonuses, crypto bonuses and most freebies, are classed as income and subject to income tax at your normal income tax rate. There is an annual tax-free allowance of £1,000 for self-employment called a trading allowance and I believe these types of income can reasonably be counted against that allowance before you need to declare or pay tax.

Dividend Income Tax
Dividends are classed as income and subject to income tax at a rate dependant on your income tax band. Basic rate taxpayers 7.5%, higher rate taxpayers 32.5% and additional rate taxpayers 38.1%. Dividends are still taxable in accumulating funds/ETFs where they are not actually paid out. There is an annual tax-free allowance of £2,000 before you need to declare or pay tax.

Interest Income Tax
Interest from savings accounts or bonds is subject to interest income tax at a rate dependant on your standard income tax. Interest is still taxable in accumulating funds/ETFs where they are not paid out. There is an annual tax-free allowance depending on your income tax band. Basic rate taxpayers £1,000, higher rate taxpayers £500 and zero for additional rate taxpayers before you need to declare or pay tax.

Property Income Tax
Rental income or property income distributions from real estate investment trusts are subject to income tax at your normal income tax rate. For real estate investment trusts you need to check the distributions you receive because some may be property income distributions, and some may be dividends. Dividends are still taxable in accumulating funds/ETFs where they are not paid out. There is an annual tax-free allowance of £1,000 before you need to declare or pay tax.
https://www.gov.uk/income-tax-rates

Capital Gains Tax
Whenever you dispose of an asset it is a capital gains tax event. Disposals include selling shares, exchanging cryptocurrency for fiat, or exchanging crypto for crypto. The gain/loss must be calculated in GBP immediately at the time of disposal, not in bulk later. Staking and lending cryptocurrency is a grey area regarding capital gains tax. Depending on the specific terms and conditions of the DeFi platform, they may take beneficial ownership which would then constitute a disposal. HMRC states, "Where, under their terms and conditions, a DeFi lending platform is allowed to deal as it wishes with the tokens received as collateral, this will be a strong indicator that the DeFi lending platform has acquired the beneficial ownership of those tokens". You only pay capital gains tax on your net gain. Your net gain should be calculated annually as all gains minus all losses. Your unused allowance cannot be carried forward to the next tax year, but losses can be if you declare them. There is an annual tax-free allowance of £12,300. You do not need to declare capital gains if you are below that limit unless **both** of the following apply. 1) The total value of the assets sold was more than £49,200 (4 times the allowance) **and** 2) you're already registered for self-assessment. If only one of those two points applies to you, you do not need to declare.
https://www.gov.uk/hmrc-internal-manuals/capital-gains-manual/cg51560

For capital gains tax there are some special rules around the accumulation and disposal of the same asset. For example, if you buy the same shares or cryptocurrency multiple times at different prices, you can pool these together at one average cost and use that average cost in your capital gains calculations when you sell. For example, if you but 100 shares at 100p and 100 shares at 120p in the same company, you can consider the average cost as 110p. It gets more complicated though if you are continually buying and selling the same asset because you can't pool them, you will have to apply an order of disposal. That entails each individual sale being linked to a particular purchase and each individual sale being taxable. Another rule is that a disposal is disregarded if you repurchase the same asset within 30 days of the disposal. For example, if you sell your holding of Amazon or Bitcoin but then purchase again within 30 days, HMRC will not consider the disposal for capital gains tax purposes, they will just consider it continual ownership of those assets and the original costs will be the base for capital gains tax. They will apply capital gains tax to your final disposal based upon the original cost and apply capital gains tax to the purchases and disposals in-between. This rule exists so that you can't simply crystalise your gains in one tax year and then buy back exactly the same asset in the next tax year. Again, this gets extremely complicated if you are continually buying and selling the same asset because you can't pool them. More information can be found on the HMRC website because this is intended to be a brief overview only.
https://www.gov.uk/tax-sell-shares/work-out-your-gain

	Basic Rate Taxpayer		Higher Rate Taxpayer		Additional Rate Taxpayer	
	Tax-Free Allowance	Tax Rate	Tax-Free Allowance	Tax Rate	Tax-Free Allowance	Tax Rate
Income Tax (Trading Allowance)	£1,000	20%	£1,000	40%	£1,000	45%
Dividend Income Tax	£2,000	8.75%	£2,000	33.75%	£2,000	39.35%
Interest Income Tax	£1,000	20%	£500	40%	£0	45%
Property Income Tax	£1,000	20%	£1,000	40%	£1,000	45%
Capital Gains Tax (Excluding Residential Property)	£12,300	10%	£12,300	20%	£12,300	20%

Notes:

All information is generic and assumes a standard employment income over the personal allowance and no other income or gains.

The tax year runs from 6th April to 5th April each year. From the end of the tax year, you have until the end of September (usually 4th or 5th October is the actual date but end of September is safe) to register for self-assessment if you need to. You then have until 31st January to submit the self-assessment online and pay any tax due.

International withholding tax on dividends will still occur even within ISA and SIPP accounts. ISA and SIPP wrappers only protect you from UK taxes. For example, there is 30% withholding tax on dividends from the US which can be reduced to 15% by completing a W-8BEN form.

Any income received, or gain realised in a different currency must be valued in GBP at the time of receipt. You cannot simply calculate the exchange rate once at the end of the year.

Some Common Scenarios:

I’ve received a free share in my ISA.
    This counts as income in this tax year and counts as an ISA contribution.

I’ve received a free share in my general investment account.
    This counts as income in this tax year and capital gains tax will be applicable on disposal.

I’ve made a net gain of £18,000 in my ISA this tax year and received £3,000 in dividends.
    No taxes are applicable.

I’ve made a net gain of £18,000 in my general investment account this tax year and received £3,000 in dividends.
    Capital gains tax is due on £5,700 and dividend income tax is due on £1,000.

I’ve made a net gain of £18,000 in my general investment account this tax year, but I haven’t withdrawn the cash from my account yet.
    Capital gains tax becomes applicable at the point you realise the gain, not when you withdraw the cash. Capital gains tax is due on £5,700.

I’m £15,000 up in my general investment account this tax year but I haven’t sold the shares yet.
    No taxes are applicable until the gains are realised, so when you sell at a profit.

My net realised gain so far this tax year is £12,000 in my general investment account but I’m also £5,000 up on my current holdings.
    At the moment no tax is due because your realised gain is below the £12,300 allowance.

I’ve received £3,000 in dividends in my general investment account this tax year, but I am way below the £12,300 capital gains allowance.
    Dividend income tax and capital gains tax are totally separate, dividend income tax is due £1,000.