**Unit 2: Interest Bearing Assets Part 1**

[**https://quizlet.com/gb/867820901/unit-2-interest-bearing-assets-part-1-flash-cards/?i=24ef59&x=1jqt**](https://quizlet.com/gb/867820901/unit-2-interest-bearing-assets-part-1-flash-cards/?i=24ef59&x=1jqt)

**5 Asset Classes**

* Cash
* Fixed interest
* Equities
* Property
* Alternatives

**Characteristics of Cash**

Interest Bearing

No Capital growth – No CGT

Capital Secure – No investment risk.

Liquid

**Interest payments in Islam**

Allocation of interest **(Riba)** – prohibited

Not equitable form of transaction.

**Banks v Building Societies**

Both covered by FSCS

BS may have better interest – mutual

**Risks with Cash**

Default: if not covered by FSCS

Inflation

Interest fluctuation

Re-investment

**FSCS Coverage**

85K per person per banking license

**FSCS: Which areas not covered?**

Channel Islands

Isle of Man

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**Income Tax for Cash Accounts**

Savings Income

Paid Gross

**PSA Basic Rate Taxpayer**

£1000: 20% Above

**PSA Higher Rate Taxpayer**

£500: 40% Above

**PSA Additional Rate Taxpayer**

Zero: 45% on all

**CGT for Cash Accounts**

N/A

**IHT for Cash Accounts**

Included in estate.

**Income Tax / CGT on ISAs**

None within wrapper.

**IHT for ISAs**

No direct benefit – forms part of estate

Additional Permitted Subscription (APS) - for surviving spouse/ partner

**Additional Permitted Subscription (APS)**

Increases survivors ISA allowance by value of deceased’s ISA amount.

If had 50k in savings - survivors allowance would increase by 50k on top of existing 20k.

**Who receives Additional Permitted Subscription (APS)**

Surviving spouse or registered civil partner

**What is the Value of Additional Permitted Subscription (APS)**

Higher of the following:

Death

Completion of estate

Account closure

3rd anniversary of death.

**Flexible ISAs**

Can replace money you withdraw within same tax year.

If had 56k in ISA and withdraw 4k, can then add 24k.

**Can ISAs be joint or held in trust?**

No.

**ISAs and UK residency**

Investing: Must be UK resident.

Dis-investing: Can be overseas.

**Adult Cash ISA Rules**

16+

Might be subject to £100 ‘Parental Settlement Rule’.

**JISA Rules**

0-18

Can’t be in a Child Trust Fund

NOT subject to £100 ‘Parental Settlement Rule’.

**What can you put in a Cash ISA?**

Money Market Investment Funds in Unit Trusts/ OEICs

Products that protect 95% of capital over 5 years.

**ISA Limits if 16 or 17**

9K into JISA (any type) & 20k in adult cash ISA

29k total

**JISA: Who is in charge?**

Can manage 16+

But cant withdraw until 18.

**What if have existing Child Trust Fund?**

Leave it until 18 (same rules as JISA)

Transfer to JISA

CANT transfer from CTF > JISA

**Parental Settlement Rule: Purpose**

Prevent parents diverting money to 16/17 year olds child’s Adult ISA to avoid paying tax.

**Parental Settlement Rule: Tax**

If income (interest) exceeds £100 in tax year – ALL taxable to parent.

If interest is £150 - £150 taxable to parent.

**When does Parental Settlement Rule apply?**

Child must be 16-17 & unmarried.

Parent supply money- grandparents/ uncles DON’T apply.

Adult Cash ISA

**What accounts do Parental Settlement Rule apply to?**

Adult ISAs if child is 16/17.

**LISA Age Rules**

Open 18-40

Can contribute to 50.

**LISA Purpose**

1st home or anything from aged 60.

**LISA Penalties.**

25% of full amount

Penalty > Bonus because include previous bonuses.

**LISA: Can you previously have owned a property?**

No.

Can’t have owned a house in single/ joint name anywhere in world.

This applies if they inherit a property and sell it immediately.

**LISA: What if inherit a property?**

Would count as ‘owning’ a property

Therefore cant use to buy house.

**LISA Max PP**

450k

**H2B: Are they still usable?**

Closed to new applicants.

But current ones can used to 2029.

**H2B Key Points**

25% up to £12,000 (£3000 Bonus)

Max contribution £200 a month.

Bonus at completion – not exchange. (Can use saved money for deposit but no bonus)

**H2B Max PP**

£250,000

£450,000 in London

**Can you have both a H2B and Lifetime ISA?**

Yes- but can only use bonus from one for new house.

**Notice Accounts (Restricted)**

Higher interest (often variable)

But must give 30-90 days notice to withdraw.

**Notice Account Penalty Formula**

Balance x Interest Rate x (Days/365 )

10,000 x 4% x (90/365) = £98

**Term Deposit Accounts**

‘Fixed Term Bonds’

Higher interest but locked away for longer.

Often need higher minimum balance.

**Term Deposit Accounts : Common name**

Fixed Term Bonds

**Term Deposit Account: Risks**

Generally fixed so no interest rate risk.

But Re-investment risk.

**Structured deposits**

Form of structured product

Return normally index linked – FTSE 100 etc.

If index > more interest.

If index > no interest.

**Structured deposits: Counter-Party risk?**

No as bank generally covered by FSCS.

**Foreign Currency Accounts: Issues**

Higher minimum balance

Currency Risk

**Foreign Currency Accounts: Benefits**

Diversify

Hedge returns

Foreign property/ family overseas

**Offshore deposits**

Can be denominated in Sterling or host currency.

Savers chasing better returns.

Not covered by FSCS

**NSI Premium Bonds**

Tax Free

£25- 50,000 PP

**NSI Children’s Bonds**

Tax Free

5 year term

Can renew until child is 16.

No new accounts.

**NSI Savings Certificates**

Tax Free

3-5 year terms – similar to fixed term bond.

No new accounts.

**NSI Green Bonds**

Taxable

3 Year Fixed

£100- 100k.

**NSI Guaranteed Growth & Income Bonds**

Taxable

1 Year fixed.

No access to cash during term.

**NSI Income Bonds**

Taxable

Variable Rate

£500- 1m

**NSI Direct Saver**

Taxable

Variable Rate

£1 -2m

**Investment Account**

Taxable

Variable Rate

£20 -1m

**Money Market: Direct v Indirect**

Direct: T-Bills, Commercial Bills, Certificates of Deposit.

Indirect: Money-Market Funds.

**Money Market: Purpose for investors**

Mainly used by large financial institutions

Provide return – liquid asset.

**Money Market: Benefit for borrowers**

Can borrow short periods at low interest rates

**Money Market: Secondary market**

If investor wants money back immediately can trade the ‘loan’ to another party.

**Money Market: Individuals**

Minimum amounts prevent most individuals from investing directly - T-bills etc

But can access money market funds.

**Treasury Bills (T-Bills)**

Issued by Treasury debt MGMT Office

Short term loans to government

Usually 91 days – can be 28,63,182

**How do you buy a T-Bill?**

Have to buy through a Primary Participant

Minimum 500k

**Treasury/Commercial Bills: Sold at Discount**

Investor pays less than face value.

Pay £99 for £100 Bill.

Get back £100.

**Commercial Bills**

Very similar to Bills

Issued by companies with strong credit ratings

Often higher yield

**Certificate of Deposit (CD)**

Short term time deposit/ fixed term bond (months)

Issued by banks/BS – interest linked to their credit rating.

Can be traded on secondary market.

**Certificate of Deposit – Interest rate**

Interest lower due to higher liquidly

**Certificate of Deposit: Purpose**

Issued by Banks/BS for short term borrowing – day to day activities.

**Are T-Bills covered by FSCS?**

No but government backed anyway.

**Benefits of Money Market Funds as opposed to Direct Investment**

More diversified – fund of funds (less specific risk)

Lower barrier to entry

**Short Term MMFs**

Lower Risk

CNAV, LNAV, VNAV

**WAM**

Weighted Average Maturity

Interest rate risk

Lower = better

**WAL**

Weighted Average Life

Credit Risk

Lower = better

**WAM Limits**

Short Term MMF: 60 Days

Standard MMF: 6 Months

**WAL Limits**

Short Term MMF: 120 Days

Standard MMF: 12 Months