Financial Planning infobyte

scruttonbland
financial advisers accountants insurance brokers business partners

Safe tax avoidance

"No man in the country is under the smallest obligation, moral or other, so to arrange his legal relations to his business or property as to enable the Inland Revenue to put the largest possible shovel in his stores. The Inland Revenue is not slow, and quite rightly, to take every advantage which is open to it under the Taxing Statutes for the purposes of depleting the taxpayer's pocket. And the taxpayer is in like manner entitled to be astute to prevent, so far as he honestly can, the depletion of his means by the Inland Revenue".

So said Scottish judge Lord Clyde in 1929. Unfortunately the distinction between tax avoidance and tax evasion is no longer so clear cut, and if the extended powers of the Revenue were not deterrent enough against deviation from the straight and narrow, perceived offenders are now also being judged publicly against the benchmark of morality.

There are, however, a number of ways of reducing tax bills which will not offend either the authorities or the public:

- In 2012/13 UK adults can invest up to £11,280 into an ISA of which £5,640 can be allocated to a cash account. ISAs offer freedom from tax on interest and dividends and exemption from capital gains tax on realisation. In addition, adults can invest up to £3,600 in Junior ISAs for children. These enjoy similar tax benefits and the funds can be accessed by the children when they reach the age of 18.
- Venture Capital Trusts and Enterprise Investment Schemes have traditionally provided access only to higher-risk investments, but some lower risk funds are now available whose objective is to return the capital originally invested after a defined number of years. Up to £200,000 may be invested in a VCT each tax year with income tax relief of up to 30%, provided that the investment is held for five years. Up to £1m may be invested in EIS each tax year, again with 30% income tax relief.
- Some offshore deposit accounts provide a means of deferring tax by accumulating interest until the account is closed. This can be of particular interest to investors who expect to be paying tax at a lower rate after retirement.
- Personal pension contributions, up to the value of the annual allowance (usually £50,000) are still eligible for tax relief at the investor's highest rate. The invested funds enjoy a tax-privileged environment; and a significant proportion of the accumulated total (usually 25%) can be drawn in the form of tax-free cash. For investors whose income is between £100,000 and £116,210 a pension contribution can also serve to restore the value of the personal allowance which would otherwise be lost.
- Employees, even of companies of which they are the owners, can benefit from agreeing formally to sacrifice salary or bonus and arrange for their employer to pay the amount sacrificed as a contribution to their pension. This will legitimately avoid both income tax and employer's and employee's National Insurance contributions, and employers are usually willing to top up the contribution by the amount of their NI saving.
- Business trading losses incurred by sole traders or partners can be set against personal income received in the same year or the preceding year. Loss relief can also be claimed against capital gains tax.

Care Fees Update

The Government has unveiled its proposals for reforming the funding of care in England and Wales.

So as to avoid the need for elderly people to sell their homes during their lifetime to fund the cost of nursing or care homes, the scheme provides for Local Authorities to make loans which will be repaid, together with interest, from the proceeds of property sales after the death of the homeowner.

The scheme, which will come into operation in April 2015, will be means-tested, and those with the means to do so will be required to contribute towards the cost (the details have yet to be announced). Individuals will also be required to pay the cost of food and drink.

Pensions Auto-Enrolment

The first stages of the Government's plan to encourage workplace pension savings by means of "auto-enrolment" into the NEST (National Employment Savings Trust) or other approved schemes will come into force in October 2012.

These schemes are intended as a vehicle for lower earners who don't have access to a good company pension arrangement, and the term "auto-enrolment" has been adopted so as to make clear that employees will be automatically included unless they opt out.

There are a number of "staging dates" between 2012 and 2018 by which firms will be required to engage in the enrolment process, starting with the largest. The Pensions Regulator will write to all employers around 12 months before their own staging date

All employees between the ages of 22 and State pension age whose earnings exceed the personal tax allowance will need to be enrolled, and other staff must be notified of their right to join. Minimum and maximum contribution limits will vary depending whether the scheme is based on defined benefits or defined contributions.

In order to make the scheme even more attractive, the Government is currently considering ways of providing a safety net, to protect scheme members from stock market falls which could undermine the value of their savings.

August 2012

820 The Crescent, Colchester Business Park, Colchester, Essex CO4 9YQ t: 01206 838400 f: 01206 838401
Sanderson House, Museum Street, Ipswich, Suffolk IP1 1HE t: 01473 259201 f: 01473 281779