Offshore shenanigans

Politicians are inevitably exposed to public scrutiny and times have changed since a Chancellor of the Exchequer, none other than Winston Churchill, was able to run up massive debts and unpaid bills without public knowledge or censure. The eternal truth however, was expressed in the words of the press Baron Lord Northcliffe, "*news is what somebody somewhere wants to suppress*".

The Government and HM Revenue & Customs have become increasingly vigilant over recent years in relation to what they regard as unacceptable ways of minimising tax, and some of the schemes which are now coming under scrutiny were acceptable in their time. Much water has flowed under the bridge since 1929, when Lord Justice General Lord Clyde said in a judgment *"No man in the country is under the smallest obligation, moral or other, 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."*

So what are we to make of the recent exposures of Panamanian tax-based investment schemes and press headlines about the legitimacy of lifetime gifts?

Schemes based in obscure third world locations have always been suspect and should be shunned in the same way as Polish property schemes and investments promoted by advertisements featuring scantily-clad girls and bottles of champagne. Equally, the *caveat emptor* warning shines brightly over schemes such as those promoted by fraudster Bernie Cornfeld in the 1970s, using the slogan "*Why work for money when you can make money?"* The old mantra applies that if it seems too good to be true, it probably is.

As regards lifetime gifts, which become free of Inheritance Tax after seven years, these have been permitted by the UK tax laws for decades, and the only reason they have become press headlines is that they have benefited a Prime Minister. So what?!

Clients taking advice from FCA-regulated independent financial advisers have no cause for concern – particularly if the advisers are members of SIFA (Solicitors Independent Financial Advice). Offensive tax schemes are invariably created by accountants or foreign law firms, to whom only the mega-rich would refer for advice. IFAs are under strict control by the Financial Conduct Authority and would be unable to obtain the mandatory professional indemnity insurance if they were to over-step the mark.

The closest most IFAs are ever likely to get to offshore activity is to recommend offshore investment bonds, which are simply a variant of the onshore bond, but based in a jurisdiction with a different tax regime from the UK, which has disadvantages as well as advantages. Bonds marketed by providers with household names are 100% respectable and, again, have been in popular use for decades.

The Government is keen to encourage people to save and invest, and has specifically created a range of tax-efficient schemes for this purpose, the most valuable of these being pensions, with ISAs following closely behind. There is ample scope for returns to be made by sticking to the straight and narrow.

Pension allowance taper

In 2013, when the US central bank was again deliberating over whether to reduce or taper its support for financial markets, the markets had what was termed a 'taper tantrum'. Now it is the turn of higher-earning pension investors to have their own taper tantrum.

With effect from 6 April 2016, those earning more than £150,000 per year have been subject to new restrictions on the availability of tax relief on pension contributions, whereby for every £2 of income over £150,000 the annual pension allowance reduces by £1. The result is that for those earning £210,000 or more, the allowance reduces to just £10,000.

In response some employees are asking their employers to pay them cash in lieu of making pension contributions.

Planning for gains, not income

Again with effect from 6 April 2016, the rate of Capital Gains Tax has been reduced from 28% to 20% for most gains made by higher and additional rate taxpayers. Trusts, generally, now also pay 20%, while the rate for other taxpayers has reduced from 18% to 10%. Meanwhile, the annual tax-free gains allowance remains at £11,100.

In recent years, reductions in interest rates have caused investors to chase income, but now they might alternatively take a 'total return' view, in the same way as pension income drawdown investors.

Smaller Premium Bond 'prizes'

In line with declines in interest rates generally, the average return on holdings of premium bonds is to be reduced in June 2016 from 1.35% to 1.25%. The odds of winning will then be 30,000 to 1, compared with 26,000 to 1 at present.

The monthly draw will continue to include two jackpot 'prizes' of £1 million but the level of other payouts will be re-balanced so that the number of payments to bond-holders of £50 and £100 to holders will increase, while the number worth £500 or more will decrease.

The tax-free returns and guaranteed security of premium bonds make them a perennial favourite with investors and average returns are broadly competitive.

If you would like to discuss any of these matters further please contact:

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