VINTAGE
FINANCIAL

**September 2014 Update**

## Tax efficiency versus risk

One of the main objectives of the Finance Act 2014 is to clamp down on tax avoidance. The Government's declaration of intent to those who sail too close to the wind is to "*change the economics of entering into tax avoidance schemes, and to change the behaviours of taxpayers and promoters in relation to tax avoidance*".

HM Revenue and Customs has published a list of over 1,000 schemes which it regards as unacceptable and over the next 20 months it will be sending out to investors in these schemes "accelerated payment notices", demanding immediate repayment of the tax which it is contended has been avoided.

So the principle which is being adopted by HMRC is "guilty until proved innocent" – a radical departure from the long-established assumption that the onus would be on the taxman to prove wrongdoing. Some of the schemes affected may have been launched up to 10 years ago and the investors may already have exited, so it is also a departure from the principle that tax changes should not be retrospective.

The 10-year potential clawback period is explained by the fact that in 2004 legislation was introduced requiring promoters of tax mitigation schemes to disclose these to the Revenue under 'Dotas', the disclosure of tax avoidance schemes. This enabled HMRC to challenge schemes which it regarded as particularly aggressive.

The Law Society has remonstrated at the injustice of the Government and HMRC declaring to be illegal arrangements which were perfectly legal at the time they were made, and there may be some schemes which will escape the cull. What is clear, however, is that both scheme promoters and investors will in future be playing safe, and sticking to established types of scheme, particularly the following:

### *Discounted gift trust*

This is a popular and long-standing scheme for reducing inheritance tax. A sum of money is invested in an Investment Bond which is held in trust, usually for the benefit of family members. The aim is to provide for the beneficiaries while enabling the settlor to receive an income of up to 5% p.a. from the investment without incurring any immediate income tax.

Taking account of the effect on the value of the gift of the level of income likely to be drawn and the age and sex and state of health of the settlor, HMRC agree to reduce the value of the gift for the purposes of inheritance tax (though if the settlor lived for seven years there would be no tax to pay anyway).

These plans may be appropriate for people with excess capital but who do require income.

### *Gift and Loan trust*

This equally longstanding type of scheme enables the settlor to enjoy continued access to the sum gifted. It involves setting up a trust with a nominal investment, then making a more substantial loan to the trust, which is invested in an Investment Bond. The value of the loan remains in the estate of the settlor but any growth on the investment will fall outside the estate for the purposes of inheritance tax, and the settlor may make withdrawals from the loan up to 5% p.a. to provide an income.

***Pensions***

Pensions provide a range of tax benefits, starting with relief from income tax at the investor's highest marginal rate (though this could be set to change!), continuing with the investment of contributions in a tax-advantaged fund and finishing with the tax-free withdrawal of 25% of the accumulated benefits after age 55. There are also inheritance tax breaks, and if the investor dies before drawing benefits, his or her spouse or civil partner can receive the entire fund free of all taxes.

***ISAs***

ISAs provide access to tax-efficient cash or share investments and withdrawals are exempt from income tax and capital gains tax.

The annual investment limit has this year been increased to £15,000, and investments of up to £4,000 p.a. can be made into Junior ISAs on behalf of children. Children aged between 16 and 18 can also hold a full (senior) ISA, which means that £38,000 per child could be invested in ISAs over a two year period.

***Business Property relief***

Business Property Relief was introduced in 1997 to enable business owners to pass their businesses to their successors without having to pay inheritance tax. More recently, collective schemes have been set up which invest in eligible businesses and enable the investors legitimately to avoid IHT subject to a holding period of just 2 years. This gives BPR schemes a marked advantage over other forms of gifting, which only become effective after a period of 7 years.

As a result of the Finance Act 2014, BPR schemes can now be held In ISAs though, because they invest in smaller companies, they do represent a higher risk.

***VCT and EIS***

Also investing in smaller companies are Venture Capital Trusts and Enterprise Investment Schemes. These provide 30% tax relief on contributions and have gained additional appeal since the cap on pension contributions was reduced. VCTs provide tax-free income and gains, while EIS offer exemption from gains tax after three years but may be difficult to sell.


**Vintage Financial**

Tel: 020 83713111
Email: info@vintagefinancial.co.uk
Web: www.vintagefinancial.co.uk

@Vintage_Wealth

Vintage Financial Limited is authorised and regulated by the Financial Conduct Authority. FCA Number 190612. Registered Office 5-7 Cranwood Street, London, EC1V 9EE. Registered in England and Wales. Company Number 03806321.Please note - The information contained within this communication does not constitute financial advice and is provided for general information purposes only. Vintage Financial Limited shall not be held liable for any technical, editorial, typographical or other errors or omissions within the content of this communication. The advising on and arranging of occupational pension schemes is not regulated by the FCA. Arranging group personal pensions and group stakeholder schemes may be deemed to be a regulated activity. t. No responsibility can be accepted for the accuracy of the information in this newsletter and no action should be taken in reliance on it without advice. Please remember that past performance is not necessarily a guide to future returns. The value of units and the income from them may fall, as well as rise. Investors may not get back the amount originally invested.