TIP OF THE MONTH - TAX SHELTERS

Did you pay too much tax last year? Do you plan to pay too much this year?

Politicians and HMRC sometimes confuse legitimate tax avoidance with illegal tax evasion. Somehow, there is a line where the definitions blur and merge, but we do not go there and you shouldn't either. The "tax shelters" we have in mind are government sponsored where they want you to save tax, and it is surprising how easy saving tax can be.

Pensions are the best example we know (ask for our flyer "Pensions Magic") where HMRC add 20% to contributions, sometimes when you do not ever pay tax! They are quite happy to allow relief at 40% or even 50%. Are pensions risky? That depends where you invest, risk (and reward) may appeal to you but if not how about a "cash fund"? This does not sound risky because it isn't.

Self-invested Pensions are a great way to easily invest in assets you understand - specific shares or commercial property, for example.

EIS (and its new and even more generous relation SEIS) give you a refund of 30% of the investment in a small unquoted company back plus you can "shelter" capital gains (and pay nothing on gains on the EIS itself).

VCTs work in a similar way, as quoted companies which invest in a number of small, unquoted companies. With these there's no sheltering existing gains, but dividend income and capital gains are both exempt.

ISAs move your savings or investments into a tax-free envelope that is readily accessible and can be as risky or as conservative as you like.

Putting money into a Self Invested Pension (gain tax relief) and then perhaps buying your own premises (releasing cash) and renting if back to the business (generating a business expense) can yield some very substantial benefits in a particularly transparent, revenue-approved way.

What about "mixing" two reliefs? If you invest in a VCT or an EIS (or, probably, one of the new-style SEISs subject to budgetary consent) then you will get 30% income relief on your investment. To give an example, £40,000 of investment into a VCT would generate £12,000 of income tax relief, leaving a net cost of £28,000. If you wait for 5 years (the EIS term is shorter) and then invest into your own SIPP THAT investment is "grossed up" at basic rate to £50,000 and as a 40% taxpayer you would get a further £10,000 relief.

You now have a £50,000 SIPP for a cost of £18,000. If the VCT had gone up, the gain is exempt (immediately)… with the EIS variant there is also the potential for relief for losses. Of course VCTs and EISs can be quite volatile, but the latter offers IHT relief and exempt dividends, and there is a somewhat restricted market which lends some liquidity.

So, Andorra for skiing, the Bahamas for water sports, the Isle of Mann for motorcycle racing, Jersey for a break from all that sport and Mclean Reid for good, honest tax avoidance that really works!