

HOW TO BUILD UP YOUR OWN TAX HAVEN WITHOUT BREAKING ANY RULES

Creating your own “mini-tax haven” does not mean that you have to break any rules or follow the super-rich and hide money offshore. There are now numerous ways to build long-term wealth in the UK without either falling foul of the taxman or incurring unwelcome tax charges. Some of the main options include:-

1. The Tax-Friendly ISA

The easiest way to build tax-free long-term wealth is by using an individual savings account or ISA.

Currently, you can invest a maximum of £15,240 in an ISA for the tax year that started on 6th April. Any gains you make from investing will be tax-free and when you come to withdraw any proceeds, there will be no tax to pay (unlike a pension where withdrawals are subject to income tax).

Money can be invested into a fund or portfolio of shares. Alternatively, it can be saved into a cash-based ISA or even a new style peer to peer lender that pays a superior rate of interest – but this is not risk free.

Although the cap on the annual allowances mean super-wealth cannot be built quickly, over time and investing within the right funds can build up a very nice sum. Couples can also double up, investing £30,480 between them in the current tax year whilst £4,080 per tax year can be invested on behalf of a child in the junior ISA.

2. Investing in Shares

Investing via an ISA shields your holdings from further tax – on gains or dividend income. However, you can still invest outside of an ISA – and protect parts of any portfolio from tax.

Indeed, recent changes mean investing tax efficiently without using an ISA has become easier.

Everyone can crystalize capital gains on investments of £11,100 in the current tax year without incurring any capital gains tax charge.

Also, the first £5,000 of income from company dividends in the current tax year is now not subject to further tax. This is on top of the new personal savings allowance that allows basic rate tax payers to earn £1,000 of savings income tax-free in the current tax year. For higher rate taxpayers, the allowance is reduced to £500. Prudence is finally being rewarded.

3. Your Home

Owning a property has been one of the sure-fire ways to build long-term wealth

Data from website Zoopla indicates that there are now more than 600,000 property millionaires in Britain. Last year alone, nearly 76,000 new property millionaires were created. More than half of the millionaires live in London.

4. Higher Risk Investments

Both Venture Capital Trust and Enterprise Investment Schemes offer attractive tax breaks to investors. They do so because such schemes are primarily designed to provide funding to fledging businesses – future success stories. As a result they are high risk.

For investors committing money to a new trust, income tax relief of 30% is granted – meaning a £10,000 investment cost £7,000. Any resulting dividends are free of tax. Any gains are free from capital gains tax after five years.

The tax breaks on Enterprise Investment Schemes are even more generous – on the grounds they are riskier. These schemes are based on one business rather than a portfolio of businesses as with a venture capital trust.

Tax relief of 30% is available whilst any profits are free from capital gains tax after just three years. As always, we would recommend independent financial advice is sought.

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