

## **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 saving account or ISA.

Currently, you can invest a maximum of £20,000 in an ISA for the tax year that started on 6<sup>th</sup> 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 £40,000 between them in the current tax year, whilst £4,128 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 crystallize capital gains on investments of £11,300 in the current tax year without incurring any Capital Gains Tax charge.

Also, the first £5,000 of income from company dividends in the currently is not subject to further tax. This is on top of the 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 tax payers, the allowance is reduced to £500. Prudence is being rewarded.

### **3. Your Home**

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

Santander predicts that by 2030 there will be more than 1.6 million homes in the UK, worth more than £1 million.

### **4. Higher Risk Investments**

Both Venture Capital Trusts and Enterprise Investment Schemes offer attractive tax breaks to investors. They do so because such schemes are primarily designed to provide funding to fledgling 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 costs £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 that independent financial advice is sought.

**This newsletter is for general information only and is not intended to be advice for any specific person. You are recommended to seek competent, professional advice before taking or refraining from taking any action on the basis of the content of this publication.**