TAX YEAR END PLANNING

MARCH 2008

Phoros Accountancy focuses solely on advising our clients on the tax, legal and regulatory matters. We are happy to support your existing IFA, or can introduce you to firms, whom we have used personally and or are known to some of our clients.

With such a large proportion of our clients being UK tax resident, but non-UK domiciled, or expecting to cease UK residence at some point in the future, it is all the more important that correct tax advice is obtained before transacting a UK tax centric retail product.

The following points are brief, but with so much uncertainty in the approach to the Budget, and so little time post Budget and pre tax-year end, we felt our clients would find it helpful to have some pointers towards the areas that need to be addressed over the next fortnight.

A further technical note will be issued shortly. This will cover inheritance tax planning, the use of trusts and foundations, carried interest, overseas income and gains, the £30,000 levy, LLPs and agricultural losses.

Self Invested Personal Pensions – SIPPs

The most flexible form of investing for your future income needs. Tax relief is available on personal contributions at your highest marginal rate, there is virtual tax free growth on the fund itself and, when benefits are drawn, 25% of the fund can be taken as a tax free cash lump sum.

The main disadvantage is that the remainder of the fund must be taken as income and is taxable at your highest rate. However, it is possible to transfer to a Qualifying Recognised Overseas Pension Scheme (QROPS) then benefits are taxable in the jurisdiction where they are taken. Transferring to a QROPS is often a complex area, and requires experienced cross border advice.

Many clients are taking advantage of "salary sacrifice" whereby they give up the right to income, for instance a bonus payment, in favour of a pension contribution from their employer for the equivalent amount. This works for both parties on tax and national insurance saving.

The maximum contribution for the current tax-year is £225,000, which will attract tax relief to a maximum of £90,000. This allowance must be used by the 5th April, or it will be lost.

There is a one off opportunity to make two contributions within one tax year, up to the maximum allowable. For example, we can create an input period that finishes on the 31st of March and start a new period as at the 1st of April. The second input period would be tested against the 2008/09 contribution allowance but relievable against earnings in 2007/08.

Individual Savings Accounts – ISAs

n the 2007/08 tax year, there are two types of ISA available to investors; the Maxi ISA for which the limit is £7,000 in stocks and shares, and the Mini ISA for which the limit is £3,000 in cash and £4,000 in stocks and shares. UK resident individuals aged 18 or over can invest in one Maxi ISA or two Mini ISAs each year.

From 6 April 2008 the rules for ISAs will be simplified and there will no longer be the distinction between Mini and Maxi ISAs. The investment limit will be raised to £7,200, of which £3,600 can be held in cash. Investors will also be able to switch cash only ISAs into equity investments.

Enterprise Investment Schemes - EIS

This is a government scheme that provides a range of tax reliefs for investors who subscribe for qualifying shares in qualifying companies. There are currently five separate EIS tax reliefs:

Income Tax Relief – The shares in the qualifying company must be held for three years but investors can reduce their tax liability by an amount equivalent to 20% of the amount invested subject to a maximum of £400,000 per investor. An Investor cannot, however, have more than a 30% interest in the company.

CGT Deferral Relief – Tax on gains realised on a different asset can be deferred indefinitely and is unlimited. Furthermore, there is no restriction on the percentage interest held in the company.

CGT Exempt – No CGT is payable on disposal of the shares after three years.

Loss Relief – If EIS shares are disposed of at any time at a loss this can be offset against capital gains and income tax in the year of disposal or the previous year. This has the net effect of limiting the investment exposure to 48p in the £ for a higher rate tax payer.

Inheritance Tax Exemption – EIS investments are generally exempt from IHT after two years of holding the shares.

EIS investments are only appropriate for clients willing to include some high risk investments in their portfolio.

Venture Capital Trusts

A further government introduced scheme to encourage investors to gain exposure to small higher risk trading companies whose shares are not listed on a recognised stock exchange. They are similar to investment trusts, in that, the VCTs themselves are quoted on the London Stock Exchange and provide the opportunity to spread the risk over a number of companies. A maximum of £200,000 can be invested for each investor during a tax year. Again, they offer a series of reliefs:

Dividend Relief – exemption from income tax on dividends from the ordinary shares within the VCT.

Income Tax Relief – investors can obtain relief against all income tax paid at the rate of 30% of the amount subscribed for all new ordinary shares purchased in the VCT. The shares must, however, be held for a period of five years beginning with the date of their issue.

Disposal Relief – no CGT is payable on gains provided the shares are held for a five year period.

Onshore/Offshore Single Premium Insurance Bonds

There have been several changes to insurance bonds and their tax treatment announced in the budget and importantly how they affect both UK tax residents and non domiciled individuals.

The closure of offshore income accounts in favour of reinvestment in to an offshore bond and then using the 5% withdrawal facility before 05/03/08 should be considered by some non-UK domiciled clients.

There is much discussion around the advantages, or lack of them, to investing directly in collectives rather than a bond wrapper. Is the investment primarily for growth or income? The tax paid within the onshore bond by the life fund cannot be reclaimed by UK tax residents. Insurance bonds certainly have an important role to play, but the experience of Phoros in advising our clients on their tax implications, is that they are by no means suitable for everyone. Furthermore some of the rationale for insurance bonds made by IFA's post domicile announcements are no longer relevant, following certain concessions in the Budget. Again, anyone considering such an investment, particularly those who are either non-UK domiciled, or expect to become non-UK tax resident, should take detailed tax advice.

There is then the matter of which offshore jurisdiction should the bond be issued under. In particular, an assessment should be made of both the counterparty credit risk, and the regulatory protection offered by specific jurisdictions. Some firms offer the flexibility of transferring from a UK compliant insurance bond, to a similar vehicle, compliant for another jurisdiction. Broadly speaking this flexibility should be welcomed, but care needs to be taken. Such a "transfer" may trigger a disposal in the UK and subsequent tax charge.

BULLETIN

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About Phoros:

Phoros operates from offices in London, the Channel Islands, Milan and Madrid, is active in the French and Australian tax market, and has recently launched a US tax desk from London. The US desk provides mainly US tax compliance – IRS returns.

85% of Phoros Private Clients are non-UK domiciled, with a further 8% being UK domiciles married to a non-UK domicile. All of our Private Clients work for Financial Services firms. In terms of institutional work we represent over fifty hedge fund and private equity firms with those firms operating across fourteen jurisdictions.

Our experience enables us to comment objectively on the tax, legal and regulatory matters, with many of our staff dual, and occasionally tri-qualified.

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Phoros Accountancy is uniquely positioned to service the demands of the internationally focused Financial Services professional.

Our tax and accountancy services range from the completion of a plain vanilla UK tax return for UK tax residents through to bespoke tax advisory work for a wide range of overseas tax jurisdictions including Australia, France, Italy, Spain and Germany.

Phoros provides bespoke tax, trust, and remuneration planning for financial services firms and their staff through independent offices in London, Jersey, Milan and Madrid.

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