

# INVESTMENT WORKSHOP DEALERS' GROUP

Tax – Efficient Investments

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# Content

- **Individuals**
  - Tax Free Investments
  - Tax- efficient Investments
  - Tax – Reducing Investments
  - Tax Deferred Investments
  - Making Use of Your Allowances

# Content

- **Trusts**
  - Tax Planning for Trusts/IHT
  - Trust Investments
- **Businesses**
  - Business Investments
  - Tax Reduction
  - Making use of Allowances

# Year-End Tax Planning

- Year- end tax planning
- For individuals – April 5<sup>th</sup> 2010
- Begin Planning now
- Tax-reducing investments can reduce payments on account
- Can get tax back from the previous tax year
- Part of financial planning

# Tax Planning

- Sir Winston Churchill: "There is no such thing as a good tax."
- John Maynard Keynes: "The avoidance of taxes is the only intellectual pursuit that carries any reward."
- Mark Twain: "The only difference between a taxman and a taxidermist is that the taxidermist leaves the skin."

# Financial Planning

- Financial Planning with investments
- Role of Investments in Financial Planning

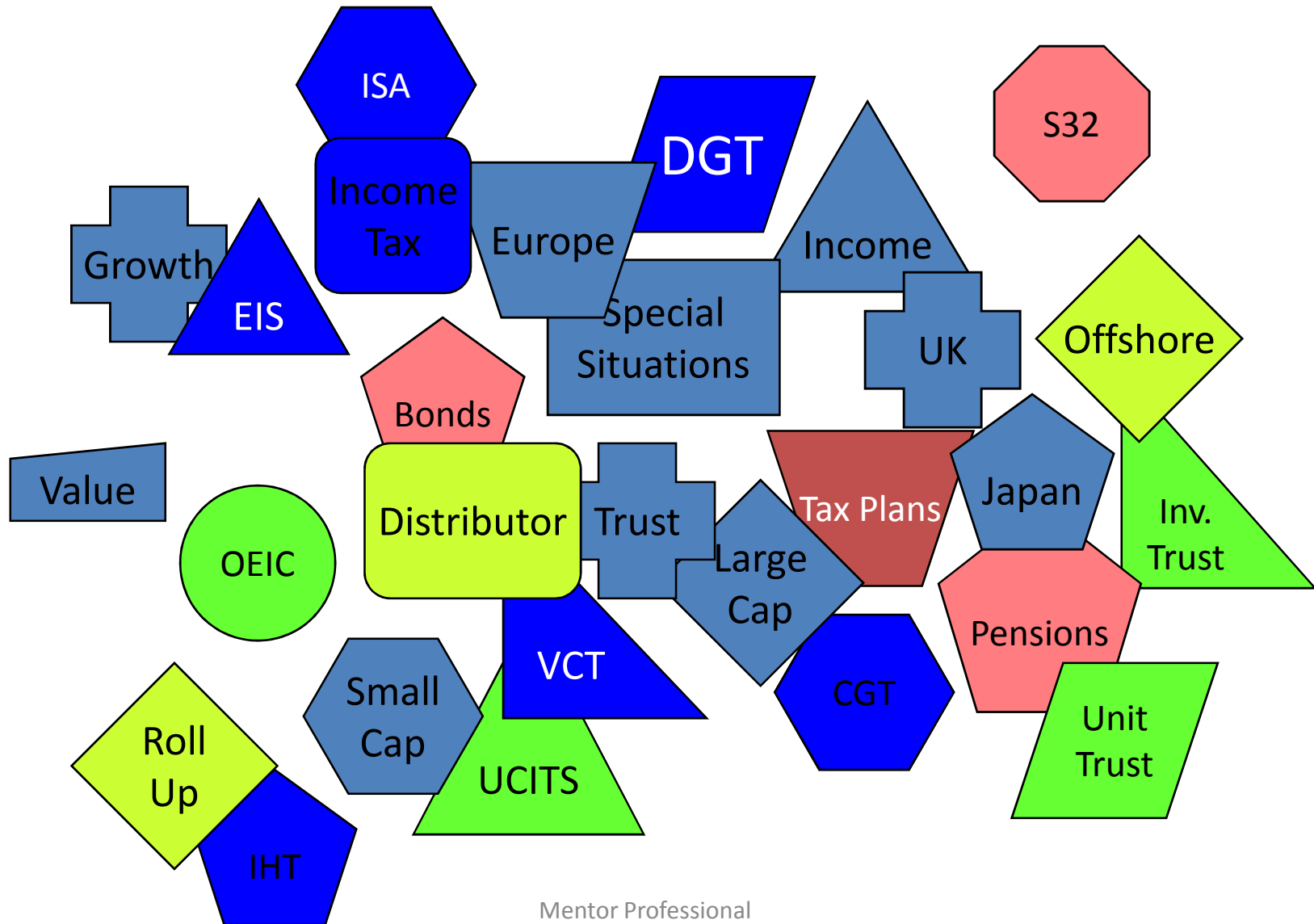
# Financial Planning

*... the process of meeting life goals through the proper management of your finances ...*

## Financial Planner

*... helps his or her clients define, review and attain their financial objectives, with less risk and cost than if they attempted it themselves.*

# The Pieces



# Benefits of a Financial Plan

- Increase the probability of achieving your objectives
- Reduce the risk of failure
- Reduce the costs and taxes
- Enables you to sleep at night

# ASSET ALLOCATION

What mix of investments do I need to maximise my chances of achieving my objectives with the minimum of risk?

# STRUCTURE

How can I best arrange my assets to minimise the impact of taxation?

# Objectives

Growth	Income
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Asset Allocation to control risk

Cash	Bonds	Equities	Property
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Structure optimised to control tax liabilities

DGT	ISA	Trust	Pension	Onshore	Offshore
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Portfolio of investment funds aligned to meet objectives

Growth	Value	Large Cap	Small Cap	UK	International
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# INVESTMENT PLANNING

Investment Planning is one aspect of Financial Planning. Investments should be 'fit for purpose' and within your risk profiling and objectives



# Goals

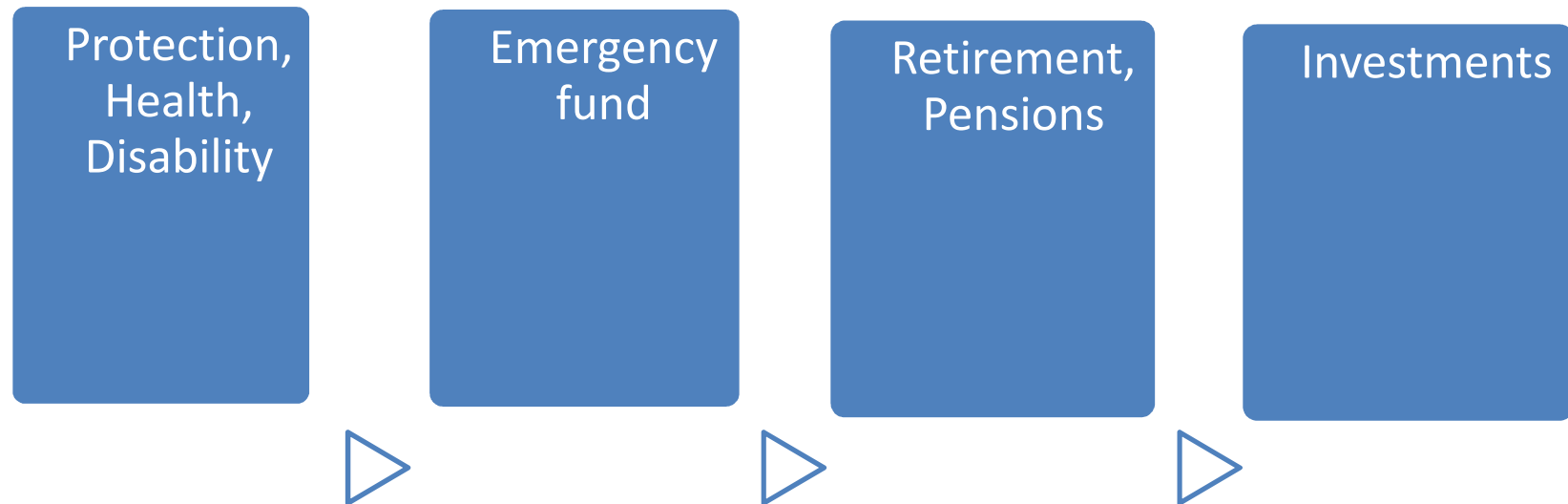
- Wealth Creation (Accumulation)
- Asset Protection (Preservation)
- Wealth Management (Conservation)
- Wealth Distribution
  - For you
  - For family members
  - For third parties



# Investment Risk

- Risk is subjective
- Risk of loss of capital and income
- Risk profiling changes over your lifetime
- Never make investments for tax reasons only
- Always consider the small print and be aware of investment risks

# 4 Pillar Philosophy



# Role of Investments

- Growth
- Income
- Satisfy Objectives
- Tax reduction
  
- Plain vanilla or wrapper?

# 2009/10 Personal Allowances

- **Personal Allowances – Income Tax**
- 
- Under age 65 : £6,475
- Age 65 -74: £9,490
- Age 75 and over: £9,640

These allowances reduce taxable income

- Personal Allowances that reduce tax
- Married couples allowance (MCA)  
Only now if age 75 and over: £696.50

# Individual Tax Rates

- Basic rate taxpayers: Up to £37,400
- The savings rate is 20%.
- Dividend ordinary rate: 10%
- Above £37,400  
Higher rate 40% (rises to 50% in 2010/11)
- Dividend upper rate: 32.5% (rises to 42.5% in 2010/2011)

# Capital Gains Tax

- Annual exempt amount
- Per person: £10,100
- Trustees: £5,050
- (divided up to 5 trusts)
- Tax is a flat rate of 18%
- Companies taxed as additional income, with no exemption

# From 2010/2011

- From 6.4.2010
- Personal allowance restricted for individuals with a net adjusted income of £100,000+
- Tapers to nil
- Effective tax rate becomes 60% between £100,000 and £112,950.

# From 2011/2012

- From 6.4.2011 – if income above £180,000 – tax relief on pension contributions is at the basic rate of 20%.

# Tax Free Investments

- These are investments that grow tax free or mature tax free
- Some have a tax free element
- Some come from tax free sources

# Tax Free Investments

- **Isa's**
- **National savings**
- **Friendly Society Policies**
- **MIPS and endowment policies**
- **Child's Trust Fund**
- **Forestry Investments**
- **Pensions**
- **Spread bets/FX trades**
- **Annuities**
- **Rent a Room relief**
- **SAYE**
- **Approved Employee Share Option Schemes**
- **Redundancy Payments – for investment**

# ISA Investments

- Lump sum or regular savings
- Stocks and shares ISA – whole £7,200 (£10,200 if age over 50 by 5.4.2010); or
- £3,600 cash ISA (£5,100 if over 50 by 5.4.2010); and
- £3,600 stocks and shares (£5,100 if over 50)
- Age 18, unless cash ISA age 16

# National Savings

- Savings Certificates pay tax free interest
- Fixed interest and index - linked
- Premium bonds pay tax free
- Children's Bonus Bond pays tax free

# Friendly Society Policies

- 10 year term minimum
- Proceeds tax free
- Restricted to £25 pm or £250 pa each person
- No minimum age – max age is 80
- Investment fund, usually with profits, is exempt from CGT, corporation and income taxes

# MIPs

- Monthly investment plans – making a comeback – unit-linked life assurance
- 10 year term – but can have tax free after 7.5 years
- Proceeds tax free (life office taxed on internal funds)
- Age 12 to 80

# Compare MIP to Unit Trust, OEIC, Pension

- See workbook notes p.8
- MIP could be useful for high income earners (50% taxpayers in 2010/11 where they have tax restrictions on pension contributions and relief, and ISA allowances maximised).

# Endowments

- Low risk investment medium
- 10 years tax free
- With profits or unit-linked
- CGT, corporation tax on life companies' funds
- Age 12 – 75
- 2<sup>nd</sup> hand policies (TEPS) subject to CGT
- Endowments have fallen out of favour, but have a place in the investment spectrum

# CTFs

- Child Trust Funds (CTF)
- Born after 1.9.2002 - £250
- £500 if parents earn less than £15,575 pa
- Age 7 – further payment
- Tax free returns
- Can add up to £1,200 pa
- Encash from age 18

# Forestry/Woodlands

- Long term investment – 10 years+
- Direct – BPR relief from IHT
- No income tax on harvested timber
- No loss relief
- SDLT payable on newly purchased woodlands
- No CGT on growth of timber crop
- Low risk asset backed – returns around 7%
- Collective investments – different tax structure

# Pensions

- Contributions increased by HMRC at 20%
- Grows tax free
- Part matures tax free – 25%+ (PCLS)
- Pension or income taxable
- No entry age – age 75
- Higher rate tax relief at 20%
- Do not need earnings to invest

# Pension Strategies

- Pensions for retirement
- Pensions as investments
- Give yourself a pension and pay school fees (or other outgoings), with HMRC help
- Pay contributions – take tax free cash (which includes HMRC portion) – guaranteed returns of over 25% each year you do it.
- HR taxpayers get additional relief( return)
- Do not recycle tax free cash

# Pension Strategy 1

- Assume 40% taxpayer. Single Premium Pension contributions are £60,000 p.a. (and earnings under £150,000 p.a.).

Contribution	With HMRC Uplift	25% Tax free Cash	Balance of Fund deferred	Tax relief at 20%	Balance for School fees
60,000	75,000	18,750	56,250	15,000	33,750

- Net cost to taxpayer: £60,000 - £33,750 = £26,250 for benefit of £87,000.(each year you do it).
- Plus corporation tax deduction of £60,000 (if salary)

# Pension Strategy 2

- Pays £15,000 in school fees per annum for 6 years. Total: £90,000. Takes loan for school fees and uses pension investment to repay the loan at the end of the term. His Pension contribution is £25,000 p.a. Higher rate taxpayer. Contributes for ten years.
- Interest on loan met in part from tax relief

# Pension Strategy 2

Pension  
Strategy  
Pays School  
Fees and  
Gives  
Pension

Contribution	With HMRC Uplift	Fund Growth at 5% pa	Tax free cash at 25%	Pension pa.	Tax relief at 20%
25,000	31,250				6,250
25,000	31,250				6,250
25,000	31,250				6,250
25,000	31,250				6,250
25,000	31,250				6,250
25,000	31,250				6,250
25,000	31,250				6,250
25,000	31,250				6,250
25,000	31,250				6,250
25,000	31,250				6,250
25,000	31,250				6,250
<b>Total</b>	<b>312,500</b>	<b>403,624</b>	<b>100,906</b>	<b>19,676</b>	<b>62,500</b>

# Pension Strategy 2

- Takes tax free cash at end of 10 years to repay loan
- Net cost: £20,000 (after tax relief) p.a. But plus loan interest
- School fees paid, loan paid off, tax free
- Pension fund of £19,676 p.a.

# Pension Strategy 3

- Using pensions as investments for a guaranteed return.
- Make single premium contributions and get HMRC uplift.
- Take 25% tax free cash
- Defer or annuitise balance of fund
- Suits low risk clients

# Pension Strategy 3

Contribution	HMRC Uplift	Total Contribution	Tax free cash	Balance Fund	Income
2,880	720	3,600	900	2700	189 p.a.

Assumes a 60 year old with an annuity rate of 7% for income for life.

If a basic rate taxpayer the net cost after tax free cash is £1,980, a 9.5% guaranteed return on the net investment made. + the tax free cash, another 25% guaranteed return if you take it.

If a higher rate taxpayer, an additional 20% x £2,880 = £576 may be reclaimed. Net cost is then £1,404.

The investment return on capital net cost then rises to 13.46% guaranteed, per annum for life. + the tax free cash, another 25% guaranteed return if you take it.

A 65 year old can expect an annuity rate of up to 8%

A 74 year old can expect an annuity rate of up to 11%

# SIPP/SSAS

- Commercial Property
- In specie transfers – even from connected parties
- Goes in as contribution + HMRC uplift
- Assets grow tax free. Rental income is tax free.  
No CGT when asset sold from pension fund.
- 25% tax free cash
- Loans to employer of 50% of scheme assets value

# Forex/Spread Bets

- Trades made from own name bank account
- Free of income tax, capital gains tax
- High Risk strategies
- Some managed funds on your behalf

# Annuities

- PLA or IA streams income and capital back to you
- Capital element is not taxable
- 20% tax deducted at source
- Annuity exhausted at end of term
- Some may be capital protected – temporary annuities
- Fund back to back arrangements (to trust) to reduce estate capital and IHT

# Other Tax Free Allowances

- Rent a room relief - £4,250
- SAYE – savings accounts linked to share option schemes are tax free
- Approved Employee Share Option schemes – exercise price over value at grant of option tax free
- Redundancy payments - £30,000 tax free

# Tax-Reducing Investments

- Tax-reducing investments are those investments that actually reduce tax payable. This could be reducing an actual tax bill or reducing taxable income.
- **Venture Capital Trusts - VCTs**
- **Enterprise Investment Schemes - EIS**
- **Enterprise Zone Investments – EZ's**
- **Pension Fund Contributions**

# Venture Capital Trusts

- Invest £200,000 per person
- 30% tax relief
- Income is tax free
- No CGT
- Hold for 5 years
- Minimum age 18
- High risk as unquoted companies and AIM stocks
- Tax payable £30,000. Invest £100,000. Tax bill Nil

# EIS- Enterprise Investment Scheme

- Invest up to £500,000 per person
- 20% tax relief
- Hold for 3 years
- Carry back 100% of tax relief to previous tax year
- Dividends taxable
- IHT relief after 2 years
- Loss reliefs
- Defer any amount of gain
- No CGT on gains
- No age limits
- Individuals and trusts (no income tax relief for trusts)
- High risk, but some capital protected
- Tax liability £20,000. Invest £100,000. Tax bill nil

# Enterprise Zone Investments

- Limited, usually syndicated
- Buildings element deductible - Land element not deductible
- Reduces taxable income at marginal rates
- Recourse, and limited recourse loans
- Could be high risk. Cash calls if rental voids.
- Taxable income say £150,000. EZ investment £100,000 of which £98,000 qualifies. Reduces taxable income to £52,000.

# Pension Fund Contributions

- Basic rate taxpayers – contributions expand the nil rate band
- Higher rate – tax relief at difference between basic rate and higher rate bands. (50% tax rate next year)
- HMRC uplifts
- Salary sacrifice
- FA 2009 restricts higher rate relief for earnings above £150,000 in 2011/2012
- Wider definition than pension earnings
- At £180,000 tax relief at basic rate. Tapered £150,000 to £180,000
- Anti-forestalling provisions and regular or irregular contributions, and £20,000 and £30,000 limits
- Combine losing the personal allowance at £100,000 from 6.4.2010
- Pension contributions can reduce overall taxable income for the new regime, as well as tax paid

# If Income is £170,000

If income is £170,000

Tax is: 20% x £37,400	£7,480
40% x £112,600	£45,040
50% x £20,000	<u>£10,000</u>
Total	<u>£62,520</u>

Marginal rates:

- £100,000 to £112,950 - 60% effective rate
- £112,951 - £149,999 - 40% effective rate
- £150,000 + - 50% effective rate

# Tax Deferred Investments

- Investment Bonds – 5% cumulative tax deferred withdrawals
- Subject to income tax
- Basic rate taxpayer – no further tax to pay
- Higher rate – at the higher rate difference
- Top slicing
- Advantages of investment bonds
- Disadvantages

# Investment Bonds

- Comparisons to OEICs and Unit Trusts which have a lower tax regime (CGT at 18%, CGT personal exemptions at £10,100 each); divs/income taxed at 32.5%.
- Offshore bonds – gains rolled up. Gains taxed at 20/40/50% 2011.
- Distinction between withdrawals and surrenders
- Timing issues
- Make sure with trusts that beneficiaries are appointed to capital

# Deposit Accounts

- Some deposit accounts offer deferred interest
- Not structured deposits – term deposits
- Capital guaranteed and in own name
- Pays at maturity (14% pa if growth) or interest (12% pa) – 6 year term
- Swaps income stream with say Barclays or HSBC + indice chosen
- Company can choose to mature the deposit and make pension contributions to reduce tax.
- Example: Zurich Bank AA rated

# Capital Gains Investments

- Tax efficiency through using investments that produce capital gains.
- For individuals and trusts the tax rate for capital gains is 18%. This is a flat rate of tax.
- Individuals each have a CGT exemption of £10,100 in 2009/10.
- Trusts have an exemption of half that rate of £5,050 (split between up to 5 trusts).
- Many investments provide for capital gains as opposed to taxable income. A married couple could have £20,200 in this tax year as tax free 'income' from capital gains.

# Shares

- Growth in capital values and investment income.
- Age 18
- CGT if gains on shares at 18%
- Personal CGT allowance of £10,100 each
- Dividends received are grossed up by a tax credit equal to 1/9<sup>th</sup> (eg dividend £90, grossed up by £10 to make £100 taxable dividend)
- Tax credit offset against tax liability on dividend, so BR taxpayers pay no tax; HR pay at 22.5%. From 2011 higher dividend rate rises to 42.5%, so HR taxpayers will pay 32.5%.

# American Life Settlements

- Non correlated investment – seen as a new asset class
- Possibly not as non-correlated as at first thought
- Purchasing a 2<sup>nd</sup> hand life policy on someone age 80+ usually, who is terminally ill.
- 77% of people die on time
- Life settlement funds provide growth or income. Returns usually 8-10% p.a.
- Distributor and non distributor funds
- US withholding taxes on proceeds

# Year-End Tax Planning

- Making Use of your Allowances

You may have taxable investments, however your personal allowances would render all or part of them tax free.

- Personal Allowances
- Under age 65: £6,475
- 65 -74: £9,490
- 75 and over: £9,640
- Age related allowances are progressively withdrawn if taxable income exceeds £22,900.

# CGT Allowance

- Capital Gains Tax Allowance: £10,100 per person. Trusts have an exemption of £5,050.
- Income (growth) can be taken free of taxes at up to this amount. Check investments for capital gains and possibly dispose of enough to satisfy this allowance. Some growth investments can be used to provide annual income in this way.
- Capital Gains are taxed at a rate of 18%. However, if in the last 3 years you have paid CGT at 40%, then investing into an EIS to defer CGT will also return the tax paid at 40%. Once the event is crystallised, the investment can be sold (eg AIM Shares) and tax paid at 18%.

# Be More Efficient

- Claim back tax credits
- Claim back savings tax
- Be smart with your spouse/civil partner – transfer assets

# PERSONAL INVESTMENTS

- *Tax efficient means the investment itself can reduce tax*
- Combination of tax free and tax efficient is even better
- The challenge- Can a person earning £150,000 not pay any tax at all?

# Reduce Your Tax Bill to Nil

- There are legitimate ways to reduce your tax bill. All require expenditure, usually by investing. Assume the client has sufficient investment monies and a higher risk profile. He is age under 65, and married. He has an IHT liability. The tax year is 2009/10.

Taxable Income	£150,000
Less personal allowance	6,475
Taxable	143,525
Tax Payable	
At 20%: £7,480	
At 40%: £42,450	<u>£49,930</u>
Less Pension contribution £24,650 at 20%	4,930
Less VCT contribution £100,000 x 30%	30,000
Less EIS contribution £75,000 x 20%	<u>15,000</u>
<b>Tax Bill</b>	<b>£0</b>

# Reduce Tax Bill to Nil

- Cost: £175,000 invested and £24,650 pension investment: £199,650
- Net cost: £149,720
- Could further reduce net cost by taking 25% tax free cash. (of his contribution plus the HMRC uplift).
- The EIS contribution could be backdated to the previous tax year for tax relief then. It also reduces IHT liability by £30,000 IHT after 2 years.

# Tax Reduction in 2010/11

If the tax year is 2010/11

Assume his income increases to £170,000

He loses his personal allowance for earnings over £100,000

He would be capped on his pension contribution at the current level of £24,650 p.a.

- |  |               |
|--|---------------|
| • Taxable Income   | £170,000      |
| • Tax: Payable   |               |
| • At 20% x £37,400   | 7,480         |
| • £112,600 x 40%   | 45,040        |
| • £20,000 x 50%  | <u>10,000</u> |
| • Total Tax  | <u>62,520</u> |
| •  |               |
| • Less Pension contribution £24,650 at say 30%   | 7,395         |
| • Less VCT contribution £100,000 x 30%   | 30,000        |
| • Less EIS contribution £75,000 x 20%  | <u>15,000</u> |
| • Tax to pay   | 9,825         |
| •  |               |
| • This tax liability could still be decreased to £0 through additional tax reducing investin.g |               |

# PLANNING WITH TAX SHELTERS

- Can defer capital gains tax (forever)
- Can reduce income tax –be careful as some investments require taxable income
- Tax Planning around the business
- Tax Planning around the person
- Don't be the one whose accountant says 'pay the tax'

# Using EZ Investments

- If EZ investments are used, these reduce taxable income, not tax directly. This strategy could be more risky, if using limited recourse loans to fund the investment – however, if there is a shortfall in available investment cash, this could be a useful strategy:

• Taxable Income	£150,000
• Personal allowance	6,475
• Less EZ investment say [145,048] [qualifying expenditure]	<u>£143,525</u>
• Taxable income	£0
• Tax to pay	£0

# EZ Investment

Cost if using limited recourse loan:

Investor cost: £62,806

Loan: £82,242

Total: £143,048

- Tax payable before investment: £49,930
- Investor net cost: £12,876 + loan interest + deferred loan payment
- [loan interest and repayment targeted from investment]
- Plus investment of £145,048.

# Personal Financial Planning Strategies

- Tax can be reduced, but cash outlay required
- Do not make investments for tax reasons – general rule
- Usually require high risk profile for tax reducing investments
- Weigh up all factors – safety and security
- Asset allocation, client risk profiling

# Trusts and Investments

- Changing investment landscape
- New penal taxation from 6.4.2010
- Tax on income to be 50%
- On dividends will be 42.5%
- £1,000 basic rate level for trusts
- Effect: reduce cash flows and income payments for beneficiaries

# Trust Tax

<b>• The Current and Proposed Trust Tax Position</b>	<b>2009/10</b>	<b>2010/2011</b>
• Tax on income and interest	40%	50%
• Tax on dividends	32.5%	42.5%
• Standard trust rate on first £1,000 varies ave.	20%	20%
• Capital Gains Tax	18%	18%
• Trust exemption Capital Gains Tax (apportioned to up to 5 trusts)	£5,050	u/k
• Inheritance Tax rate	40%	40%
• Lifetime rate for CLTs over nil rate band	20%	20%
• Nil rate band	£325,000	£350,000

# Taxable Beneficiaries

## Individual Personal Allowances if a beneficiary is taxable

- To age 65 £6,475
  - 65-74 £9,490
  - 75 + £9,640
  - Age allowance income limit £22,900`
  - CGT allowance £10,100
- Progressively lose these allowances on income over £100,000*

# Trusts

- Challenge for income remains great – tax changes will affect interest and dividend income
- Tax efficiency drivers
  - Shift to investments that defer tax
  - Shift from income to dividend bearing investments
  - Use of investment bonds
  - Take growth as income – CGT allowance and lower tax
  - Plan around individuals – lower rates
  - Possible higher risk investments – risk profiling

# Trust Mandates and instructions

- Policy Statement and Guidelines essential
- Trustee Act 2000
- Suitability and diversification; tax
- Review all trusts - includes pension fund investments
- Investment compliance most important
- Role of the financial planner

# Payment of Tax – Discretionary Trusts

- This is a complicated area and depends on how the trust was set up, and what sort of trust it is. The trustees are liable for tax on income at the tax rate of 40% 2009/10 and 50% in the tax year 2010/2011, and dividends at 32.5% (09/10) and 42.5% in 2010/11. In certain circumstances, the beneficiary's tax rates can be used, and tax reclaimed from the trustees. Certainly income and dividends accumulated in a trust will be taxed at the trust rate first, before being paid to beneficiaries. Capital gains are taxed at 18%.

# Trust Investment and Tax Strategy

- Investment strategy must be aligned with overall tax strategy to create cash flow efficiency.
- Taxation will reduce cash flows by 32.5% to 40% now and 42.5% to 50% in the next tax year. The investment process must be managed properly at all times, not only from inception, and regular reviews should flag up issues that need addressing. It is therefore most important that the structure of investments is properly planned to avoid long-term cash flows and cash reduction.

# Liquidity Issues - Key

- Trust income commitments for beneficiaries and life tenants – be they single payments or regular payments.
  - Appointing capital to beneficiaries where required to do so
  - Making investments
  - Purchases such as fixed property
  - Trust running costs and disbursements
  - Tax to pay; stamp duties etc.
  - Fees to advisers
- 
- Trust liquidity is crucial for all trusts. Money will be required at different periods for any of the reasons above.

# Trusts and IHT

- IHT exemptions
- Write policies in trust
- Pension death benefits
- Gift surplus income
- Gifts to trust
- Trust investments – DGT's, investment bonds, EIS to defer CGT, collectives.

# Discounted Gift Trusts

- Single Premium Investment Bond
- Qualifies for immediate IHT relief on part of investment; balance a PET and falls out of estate after 7 years
- Must take income
- Discount agreed after underwriting
- Loan and Gift Trusts

# Businesses

- Businesses can make investments.
- Companies – tax relievable investments
- Corporate venturing scheme- current legislation ends 31.3.2010. Invest into a qualifying company
  - 20% relief against corporation tax
  - Deferral relief on gains; loss reliefs

# Businesses

- Pension fund contributions – deductible to the company
- 100% of salary up to £245,000 in 2009/10
- Salary sacrifice
- Using a pension scheme as a bank (SIPP/SSAS)
- Deferred income deposit investments
- Entrepreneur's relief – effective CGT rate of 10% on first £1 million of capital gains
- Sharesave – save up to £250 pm and buy shares at a discount to market price – tax free

# Businesses

## Dividends

- If a basic rate taxpayer, no further tax liability.
- Higher rate taxpayer pays at the dividend upper rate of 32.5%.
- Compare taking dividends to taking a bonus or making a pension contribution.

## Capital Allowances

- Capital allowances reduce tax payable. These are available on plant and machinery at up to 100%; there are writing down allowances at 10 -20% (on cars it was 25%, now 20%.) There is a new annual investment allowance of £50,000.

# Year –End Tax Planning

- All businesses look to reduce tax, cut costs and increase profits
- Basic planning opportunities
- Most involve expenditure

# EZ Investments

- A business can make an EZ investment
- Invest in commercial property
- Investment can be geared with limited recourse loans
- Reduces taxable income
- Unlimited as to amount
- 90% + deductible
- Most EZ's are syndicated

# Salary Sacrifice

- Acceptable to sacrifice salary so that pension contributions are made pre-tax.
- Salary Before £24,200/ After 23,840
- Equivalent Net Contribution p.m. £30 (£360 p.a.)
- Gross Employee Contribution £39.30
- Tax Saving Employee £6
- EE NI savings £3.30
- ER NI Savings £3.84
- Total Pension Contribution £43.14 per month
- Plus ER contribution at 0% £0
- **Total contribution £43.14 per month**

# Director's Loan Account

- Director may have a loan account (he is owed money by the company). This falls into his estate for IHT.
- Company can repay this and borrow on commercial terms. Interest payments deductible to the company.
- Invest, use for education fees, or to shelter from IHT.

# Profit Extraction

- Numerous ways to extract profit from the business.
- Some traditional (pension contributions, employee benefits).
- Others require creative tax planning – such as EFRBS – employer financed retirement benefit schemes.
- Or simply plan around the employee – use of EIS, VCTs, EZT's Pension Contributions to reduce tax.

# Further Planning

- Director's loan account redemption plans. Loan accounts subject to IHT. Replace with working capital loans and use IHT protected investments.
- Partners' capital accounts do qualify for BPR mostly. Can extract partner capital.
- Change emphasis to retirement planning away from mere pension funding. There are asset protected EIS plans and VCTs create a tax free lump sum and relief reliefs.
- Remuneration planning is key. e.g. Company cars now have no tax limit (was capped at £80,000 value).

# What Have We Learned?

- Marathon session!
- Investments that are tax free, tax reducing and tax deferred.
- Some year-end tax planning tips
- How to relate investments to financial planning
- An understanding of taxation implications of investments for clients

# CPD

- If you require a CPD certificate, enter that on the feedback sheet
- If you wish to have details of who is offering EIS,VCT, EZ, Life Settlements and other investments, enter that on the feedback sheet.
- Any queries enter on the feedback sheet.

# Contact Details

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