ADVIES
VANTAGE

Tax Planning for Executives

Glossary

INDIVIDUAL SAVINGS ACCOUNTS

- Under current UK tax rules, all ISA investments are free of personal income and capital gains tax.
- As of October 2009 those aged over 50 can contribute a total of £10,200 per annum into ISA's
- As of April 2010, all investors can contribute £10,200 per annum into ISA's
- Any profit produced by the investment is not liable to income or capital gains tax
- Investments can be made by utilising either a cash ISA product and an Equity ISA product (50/50 split), or completely into an Equity ISA product (100%)
- You must be a UK tax payer in the year you subscribe to an ISA
- Value of shares can go down as well as up and you may not get back the full amount invested

PENSIONS

- Investing into pension schemes offers immediate tax relief on any contributions, and can be used to offset tax liabilities.
- 20% upfront tax relief
- Further 20% tax relief for higher rate tax earners can be claimed at the end of the tax year via your tax return
- Those paying higher rate taxes, earning up to £150,000 can invest an amount equalling their salary into pensions each year with tax relief of 40%
- Those earning over £150,000 per annum can contribute £20,000 per annum at higher rate tax relief
- A pension must be seen as a long term investment. Payments made to the plan are not accessible until the benefits are taken from the plan
- The return on a pension can be less than the amount paid into the policy. Investing into pension funds does hold a risk and fund prices can go down as well as up.

VENTURE CAPITAL TRUSTS (VCT'S)

- The Government encourages investment into VCTs by offering investors a series of tax benefits. The tax benefits provided by VCTs offer you an upfront Government-subsidised return, along with additional tax benefits over time
- Upfront income tax relief of 30% on up to £200,000 invested per tax year if the shares are retained for five years
- Tax-free dividends
- Tax-free capital gains when you sell your shares
- You should consider an investment in this product as a long-term investment
- The value of shares can go down as well as up and you may not get back the full amount invested
- Investing into an VCT may result in a lack of liquidity

ENTERPRISE INVESTMENT SCHEMES (EIS'S)

- Enterprise Investment Schemes (EIS) are one of the most tax-efficient investment products available to UK investors
- Enterprise Investment Schemes offer multiple tax benefits
- 20% upfront income tax relief: Investors receive tax relief of 20% of the amount invested, up to £500,000 per year, against their income tax bill for this year (or the last tax year, if you choose)
- 100% capital gains tax deferral
- 100% inheritance tax exemption after two years
- All capital gains are tax-free. You should consider an investment in this product as a long-term investment
- The value of shares can go down as well as up and you may not get back the full amount invested
- Investing into an EIS may result in a lack of liquidity

WILLS

Effective Will writing can dramatically reduce your tax liabilities, especially in relation to Inheritance Tax. Inheritance Tax is a complex subject, and if you have a potentially large estate or any concerns regarding your tax liability then please contact us.

ADVIES VANTAGE

ADVIES
VANTAGE

1 Cornhill, London EC3V 3ND
T +44 (0) 20 7743 6050
F +44 (0) 20 7743 6556
info@advies.co.uk
www.advies.co.uk

ADVIES VANTAGE

INTRODUCTION

Based in the City of London, Advies Private Clients LLP are Independent Financial Advisors. Advies offer a contemporary, forward thinking service to both personal and corporate clients, providing intuitive and transparent solutions.

Advies Vantage has developed as a brand within the Advies Group, offering a Wealth Management consultancy service, structured to specifically meet the goals of executive clients.

This document provides an insight into the potential tax liabilities facing higher earners and examples of potential solutions that are available.

CONTENTS

A Tax Storm is Brewing	Page 3
The Road Ahead	Page 4
What Direction Now?	Page 5
Making Headway	Page 6
What's Over the Horizon?	Page 7
Guiding You Through the Maelstrom	Page 8
Important Information	Page 9
Glossary	Page 10

A Tax Storm is Brewing

The UK Tax landscape for higher earners is undergoing substantial change; however the three main direct taxes levied against individuals remain the same.

INCOME TAX

Paying income tax is an inevitable consequence of earning or being in receipt of an income, however the effective rate of tax should not be taken for granted. As illustrated in Figure 1, more tax is paid by higher earners, however the effective rate of income tax that higher earners are subject to is set to increase considerably. For example those earning £200,000 will suffer approximately £7,600 of additional tax per annum as a result of the combination of an increased tax rate of 50% and the reduction of your personal allowance.

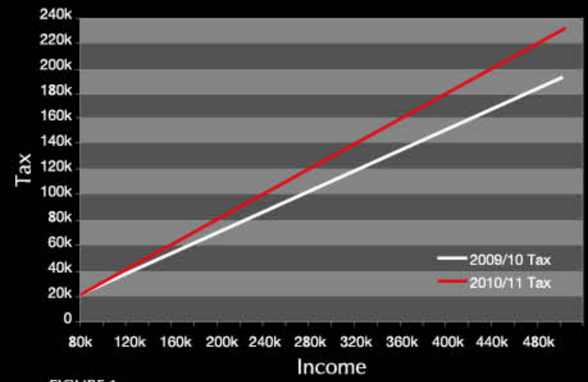

FIGURE 1:
2009/2010 Tax based upon 40% taxation and maintaining personal allowance
2010/2011 Tax based upon 40% tax rate to £150k, increasing to 50% post £150k income and the reduction of the personal allowance

CAPITAL GAINS TAX

Capital Gains Tax (CGT) can often result in individuals having a significant tax liability, particularly if the gains are property or business related. CGT often reduces the flexibility of a given investment, potentially restricting crystallization of an asset.

INHERITANCE TAX

Many peoples asset value far exceeds the current nil rate band (NRB), resulting in significant Inheritance Tax. This fact can be amplified by the value of an estate appreciating at an accelerated rate relative to the NRB.

As outlined in the following case study, there is the potential to make significant savings across the three main taxes outlined.

ADVIES VANTAGE

JONATHAN MOORE - A CASE STUDY

Jonathan is 50 years old and is married with 2 children. Jonathan is liable to significant amounts of tax and is looking to reduce his liabilities.

The tables below outline the assumptions we have used in regards to our case study of Jonathan:

THE CASE STUDY

INCOME TAX - **See page 5**
Earnings £150,000
Current Savings £40,000
Capital for Investment £100,000

CAPITAL GAINS TAX - **See page 6**
Capital Gain (2007) £100,000
CGT Annual Exemption £9,200

INHERITANCE TAX - **See page 7**
Estate (excluding insurance) £2,250,000
Life Insurance £1,000,000
Current Investment £250,000
(investment held for 2+ years)

The Road Ahead

The Advies Vantage service will help you to recognise the options available to you whatever your financial goal.

Income Tax - Which Direction Now?

The cast study opposite shows the benefits of tax planning. In the example, a considerable saving was achieved through implementing recognised tax structures.

INCOME TAX

A Case study WITHOUT Tax Planning:

	£'s	Return	Tax
Earnings	£150,000		£49,930
Cash Savings*	£40,000	5%**	£800
ISA	£0	0%	
Pension	£0	0%	
Investment	£100,000	5%**	£0
EIS	£0	0%	
VCT	£0	0%	
Total	£290,000		
TAX PAID			£50,730
% of EARNINGS			33.38%

**This rate may not be available in the current financial climate particularly without a minimum notice or tie-in period. **Return Based upon Cash Investment (Rate Available June 2008 - Money Facts). All figures used based upon tax from April 2010*

VERSUS

A Case study WITH Planning:

	£'s	Return	Tax
Earnings	£150,000		£49,930
Cash Savings	£9,800	5%	£196
ISA	£10,200	5%	£0
Pension†	£20,000	5%††	-£8,000
Investment	£0	0%	£0
EIS†††	£50,000	3%	-£10,000
VCT†††	£50,000	3%	-£15,000
Total	£290,000		
TAX PAID			£17,126
% of EARNINGS		11.05%	

†Pension is a Gross payment.
††Return not inclusive of full tax relief.
†††Investment monies used for EIS and VCT.

Capital Gains Tax (CGT) Making Headway

In our case study we highlight the benefits of efficient tax planning. Using only HMRC recognised structures, the clients CGT liability is significantly reduced.

CAPITAL GAINS TAX

A Case study WITHOUT Tax Planning:

	£'s
Gain Realised in 2007	£100,000
CGT Annual Exemption	-£9,200
Net Gain	£90,800
CGT PAID (40%)	£36,320

VERSUS

A Case study WITH Tax Planning:

	£'s
Gain Realised in 2007	£100,000
CGT Paid (due for 2007)	£36,320
Gain Reinvested into EIS	-£100,000
CGT Reclaimed (via EIS)	£36,320
CGT paid 2012 @ 18%	
Gain Deferred	£100,000
CGT Annual Exemption	£10,100
Net Gain	£89,900
CGT PAID (18%)	£16,182

Inheritance Tax (IHT)
What's over the Horizon?

The value of your financial legacy can be significantly eroded by IHT. The case study however, illustrates how the liability upon the beneficiaries has been reduced by £500,000.

INHERITANCE TAX

A Case study WITHOUT Tax Planning:

	Value of Estate
Assets	£2,250,000
Insurance	£1,000,000
Investment	£250,000
Total Estate	**£3,500,000**
2 x Nil Rate Band*	-£650,000
Taxable Estate	£2,850,000
TAX PAYABLE	£1,140,000
BENEFICIARIES RECIEVE	£2,360,000

*Nil Rate Band £325,000 September 2009

VERSUS

A Case study WITH Tax Planning:

	Value of Estate
Assets	£2,250,000
Insurance written in Trust	£1,000,000
Investment used for EIS	£250,000
Total Estate	**£3,500,000**
2 x Nil Rate Band	-£650,000
Insurance written in Trust	-£1,000,000
Investment used for EIS*	-£250,000
Taxable Estate	£1,600,000
TAX PAYABLE	£640,000
BENEFICIARIES RECIEVE	£2,860,000

*Subject to holding EIS for 3 years

FINANCIAL PLANNING
THE POTENTIAL SOLUTION?

There are many financial initiatives that are available to reduce your tax liabilities, the mechanisms used in the Jonathan Moore Case Study are but a few. However more importantly, all of those used in the case study are recognised and accepted by Her Majesty's Revenue and Customs (HMRC).

In reality the best results are attained by financial planning. A well constructed approach can help to maximise your wealth, not least through tax mitigation, as illustrated in the case study. Your financial circumstances will vary greatly throughout your financial lifetime and will require nurturing over the long term to maximise results.

At Advies we are advocates of bespoke financial consulting. We aim to deliver results through proactive management, offering tailor made solutions to clients needs.

To arrange a private consultation with ***ADVIES*** please use the details below or speak to your referee:

Address: 1 Cornhill, London, EC3V 3ND
Telephone: 0207 743 6050
Email: info@advies.co.uk

Please note that any information provided below offers only potential solutions to certain scenarios and does not constitute specific investment advice. For specialist financial advice, specific to your own personal circumstances please contact a member of Advies Private Clients LLP.

Important Information

The scenarios in this publication are for illustrative purposes only and may not be relied upon as specific investment advice for any individual's circumstances.

The content of this publication is based upon our understanding of the current HM Revenue & Customs interpretation of tax rules and regulations, which may change at any time.

We recommend that any potential investor seeks financial advice from an appropriately authorised person as to whether a particular investment is suitable for them.

If this document is passed to any other person, you must ensure that you have taken responsibility for it under the financial promotions rules and identified yourself as the issuer. Advies Private Clients LLP is a trading style of Blueprint Financial Distribution Ltd, which is authorised and regulated by the Financial Services Authority. Our FSA authorisation number is 426317. We are registered in England and Wales Number 5186737.

RISKS

Please note that past performance is no guide to future performance.

The value of an investment may go down as well as up and an investor may not get back the full amount invested.

Should you choose to cancel an investment within the cooling-off notice, depending on market movement you may not receive a full return of your original investment.

Subscription into an EIS and a VCT are dependent on securing the investment in a timely manner before the maximum subscription limit for the scheme/trust is reached.

Investments into a VCT must be retained for a minimum of five years in order to retain the upfront income tax relief and EIS investments must be retained for a minimum of three years in order to retain the upfront income tax relief.

The market for VCT or EIS investments may be limited and it could be difficult for an investor to realise their holding. A VCT or EIS investment should be regarded as a long-term investment.

TAX

The tax reliefs available from an investment in a VCT or EIS are dependent on the VCT or EIS receiving and maintaining HM Revenue & Customs approval.

Investments made by you will be into companies which we reasonably believe to be qualifying investments (under the relevant rules) at the time of investment but we are not able to make any guarantee of their ongoing qualifying status.